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TREASURY DEPARTMENT

TREASURY DEPARTMENT
Washington

FOR IMMEDIATE RELEASE,
Wednesday, June 10, 1942.

Press Service
No. 32-0

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 30, 1942, inclusive, as follows:

Products of Philippine Islands	:	Established Quota	:	Unit of	:	Imports as of
	:	Period	:	Quantity	:	Quantity : May 30, 1942
Coconut oil		Calendar year		448,000,000		Pound 31,149,515
Refined sugars		Calendar year		112,000,000)		Pound 2,346,712
)		
)		
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 210,675

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,
Wednesday, June 10, 1942.

Press Service
No. 32-1

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 30, 1942, inclusive, as follows:

Commodity	: <u>Established Quota</u> :	Unit of	: Imports as of
	: Period & Country : Quantity :	Quantity	: May 30, 1942.
Cattle less than 200 pounds each	Calendar year	100,000	Head 39,111
Cattle, 700 pounds or more each (other than dairy cows)	Quarter year from April 1, 1942		
	Canada	51,720	" 49,447
	Other countries	8,280	" (Tariff rate quota filled)
Whole milk, fresh or sour	Calendar year	3,000,000	Gallon 1,965
Cream, fresh or sour	Calendar year	1,500,000	Gallon 429
Fish, fresh or frozen filleted, etc., cod, haddock, hake, pollock, cusk and rosefish	Calendar year	15,000,000	Pound 4,250,471
White or Irish potatoes Certified seed	12 months from Sept. 15, 1941	90,000,000	Pound 33,004,274
	Other	12 months from Sept. 15, 1941	60,000,000 Pound 1,247,939
Cuban filler tobacco, unstemmed or stemmed (other than cigarette leaf tobacco), and scrap tobacco	Calendar year	22,000,000	Pound (Unstemmed equivalent) 9,214,925
Red Cedar Shingles	Calendar year	2,617,111	Square 1,438,498
Silver or black foxes, furs, and articles: Foxes valued under \$250 ea. and whole furs and skins	Period - May - Nov. 1942.		
	All countries	41,774	Number 14,079
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 30, 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	291,865,057
	Netherlands	630,097,196	"	226,027,106
	Colombia	94,662,490	"	84,750,183
	Other countries	150,868,343	"	(Import quota filled)
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

TREASURY DEPARTMENT
Washington

FOR IMMEDIATE RELEASE,
Wednesday, June 10, 1942.

Press Service
No. 32-2

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 30, 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		:Staple length 1-1/8" or	
	: than 1-1/8"		:more but less than 1-11/16"	
	: Imports Sept.		: Imports Sept.	
	: Established : 20, 1941, to	: Established : 20,1941, to		
	: Quota : May 30, 1942	: Quota : May 30, 1942		
Egypt and the Anglo-				
Egyptian Sudan	783,816	-	43,451,566	31,136,080
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	6
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	33,192,563

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 30, 1942:	: Established : 33-1/3% of : Total Quota	Imports Sept. 20, 1941, to May 30, 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.

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 17, 1942, and will mature September 16, 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 15, 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 17, 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
Bureau of Internal Revenue
Washington

FOR IMMEDIATE RELEASE,
Friday, June 12, 1942.

Press Service
No. 32-4

Commissioner of Internal Revenue Guy T. Helvering announced today that, as the result of the War Bond drive which has been under way since June 1, the employees of the Bureau of Internal Revenue, both in Washington and the field, have authorized the allotment from their salaries of an amount in excess of 10 percent of their gross pay.

At the close of business on June 10, 26,197 employees representing 90 percent of the total personnel of the Bureau of Internal Revenue had allotted \$6,853,121.04 from their annual compensation for the purchase of War Savings Bonds. The quota for the Bureau was \$6,665,146.

TREASURY DEPARTMENT
Washington

FOR RELEASE, MORNING NEWSPAPERS,
Monday, June 15, 1942.
6/12/42

Press Service
No. 32-5

(The following address by Assistant Secretary of the Treasury John L. Sullivan, before the United Nations Flag Day rally in Chicago, Illinois, is scheduled for delivery at 2 p.m., Central War Time, Sunday, June 14, 1942, and is for release at that time.)

I am very happy to join with you folks today in celebrating Flag Day, and United Nations Day and in paying tribute to those gallant Americans who in distant lands are fighting under the leadership of one we honor today -- General Douglas MacArthur. It was a stroke of genius to combine Flag Day and United Nations Day. I believe the same spirit out of which Flag Day arose and which made of America a home of Liberty and a fortress of Freedom exists again today. That spirit is casting its influence over the widened horizons of a shrinking world. It gives promise to the United Nations and to all men of good will of an era of liberty, peace, and progress.

One hundred sixty-five years ago today, on the 14th of June, 1777, the Continental Congress selected as the banner of this new Republic the first model of that flag we love so well. That flag has since become for all the world the symbol of justice and fair play. Pause a moment and consider the gallantry and the faith of the men and women who made the Stars and Stripes possible. Thirteen handfuls of pioneers in isolated outposts. They didn't know each other very well; they had never relied on each other very much. Each colony had its own government, its own militia, its own special problems and interests. Communication among them hardly existed, and transportation was most difficult. It took ten days to make the journey from Boston to Philadelphia that we now make by plane in an hour and a half. Then the journey from New Hampshire to Georgia took ten times as long as it takes today to fly to Australia and back. The colonists were a band of friendly strangers, facing the armed might of a great military power. They were impoverished in all save the spirit and the courage to seek a pattern of life never before known and to establish a land where mankind could live truly free and truly equal.

We know what they suffered, from Lexington through Yorktown. We remember their hunger, their misery, their gallant deaths. We now know the value of every sacrifice they made, for they established Democracy in a land where it could and did achieve Freedom, Liberty and Equality. And this great nation today is

a monument to those valiant men and women, men and women who really believed in the brotherhood of man. They saw a vision of a better life and they dared to die to make that dream come true.

Today the civilized world faces the same opportunity America faced 165 years ago. True, it is composed of geographically isolated nations, of differing races and creeds and tongues. But in terms of transportation and communication all the nations of the earth are closer to each other today than the thirteen colonies were. And during the last few years America, yes, and Britain and Russia and China and a host of conquered nations have learned a lesson it took America eighty years to learn. Eighty-five years ago this week, speaking in Springfield, Abraham Lincoln declared that this nation could not endure half slave and half free. Today you and I and thoughtful people all over the world know that civilization itself cannot endure in a world half slave and half free. We know that on this shrinking globe the dwelling place of Freedom is the world itself. We know now that if Freedom is endangered anywhere it is in peril everywhere. We know that what the Chinese do today to the Japs in Chekiang, or the British do to Romell in Lybia, or the Russians do to the Nazis at Kharkov will have a more direct and a more immediate effect on all of us than the Battle of Bunker Hill had on the Colonists of Virginia and the Carolinas. At long last we have learned how false is the security of isolation.

And so it is that America and the twenty-six other United Nations whose flags fly above you today have joined together, just as the thirteen colonies did, in a campaign of mutual helpfulness to defend our common liberties.

Here's what we propose to do:

We propose to preserve for ourselves and our children the freedom and the opportunity which we Americans have created in this nation.

We propose to help the nations allied with us to defend their threatened independence.

And we propose to restore the liberty which has been trampled and defiled and stolen from the lands of our ancestors-- to bring freedom again to the people of Holland and Belgium-- Poland and Norway and Denmark -- to China and France and Czechoslovakia -- to Greece, and the Ukraine, -- to Albania and Yugoslavia -- to all the beaten and broken but unconquered countries.

And here's how we Americans propose to do this:

We will build and man a Navy that will sink our enemies' ships beneath all of the seven seas.

We will build and man an air force that will sweep the world's skies clear.

We will man and equip armies that will crush the Nazis and Japs in Europe and Asia and Africa or wherever we have to chase them.

We will smash their war machines until there isn't enough left to sell for junk.

We will crush them so completely that they will never again dare to lift their hands against the free American people.

That is our plan for overwhelming the enemies of our nation and of all free people, and these are the ways we will accomplish that plan.

Every man who is fit and of an age to fight must fight. The Navy is asking Chicago for 10,000 volunteers. The Navy will get them. The Army Air Force is calling for men to fly its planes, and to service them, and to do ground work that will release flyers and fighters for active service. These are opportunities for those of us who are young enough and fit enough for active service, to do our part in this common struggle.

Many of us who cannot actually fight can still serve actively and vitally by making the weapons of our victory -- the tanks and planes, the guns and ships, that will outshoot and overpower the enemy. They also serve who make the steel, and tend the lathes, and assemble the sinews of war. As new millions of citizens join the armed forces, as new munitions plants swing into production, millions more of our women and middle-aged men will find this their way of serving America. And this work must go forward without delay or interruption, as faithfully and continuously as the soldiers and sailors themselves serve.

And finally, all the rest of us, the millions of the civilian population, every man, woman and child, can and must serve the nation by lending our dollars. We must enlist them in our country's war effort -- every last dollar we can spare -- and many a dollar that we cannot spare.

We must enlist those dollars to buy the tanks and planes and guns to batter our enemies -- dollars for ships -- dollars to feed and clothe and pay our soldiers and sailors -- dollars, billions of them to get our war effort into high gear and to keep it rolling in high gear.

The nation demands of its sailors and soldiers one hundred percent of all they have, even unto their very lives. The nation expects of the workers in its shipyards and munitions factories one hundred percent of their work and ability. Now the nation is asking of its people -- all its people -- that they set aside at least ten percent of all their income to pay for the things needed to wage this war to a successful finish. It asks at least a dime out of every dollar -- a dollar out of every ten, to buy the War Bonds that will buy the planes and guns and tanks and ships our fighting men must have.

Our record of War Bond purchases is a record to be proud of. But good as it is, it is not yet good enough. Our national production for war has grown so greatly and so fast that our war expenditures now amount to four billion dollars a month. A large part of that staggering amount must be raised by War Bond purchases -- purchases every pay day by you and me, and every loyal American. We must literally buy Bonds until it hurts. We -- you and I -- must provide the money to win this war. You know that there's no sense in building a bridge three-fourths of the way across a river. We must build this Bridge of Bonds all the way across, to carry our men and our weapons to victory.

To do this will mean buying Bonds first -- bonds instead of luxuries; bonds instead of vacations; bonds instead of pleasures; bonds instead of scores of the things we Americans have been used to buying. And I ask you to remember, when you start to buy some article which you do not really need, that you are actually depriving a soldier or sailor or aviator, of that much equipment or arms or ammunition -- or some civilian war worker of an article which might have made him or her a more productive worker for our common cause.

Money which you invest in War Bonds is not money spent but money saved. The bonds you buy are the finest, strongest securities in the world. They are backed with the entire resources and strength of the United States Government. They increase in value as you hold them so that when they come to maturity you will receive \$4 back for every \$3 you spent for them.

In the meanwhile you cannot lose a penny -- because United States War Savings Bonds have a guaranteed value, at all times, of at least the full price you paid for them.

And all the time they give you an ever-increasing fund of savings to fall back upon when you need it, and to plan a secure future for your family.

The people of Chicago and of Illinois are to be congratulated upon their splendid response to our War Savings Bonds appeal. Your record ranks high among the cities and states of the nation. But the fact remains that more -- far more War Bonds must be purchased and at a greatly accelerated pace. I am

confident that the Treasury can rely upon you. You know what is at stake. You know that no one can place a price tag on the freedom of speech. You know that no sum is too great to pay for freedom of worship. You know that freedom from want and freedom from fear are beyond evaluation. And I know you will scrimp and save to protect those priceless freedoms.

This will be a hard war. It may be a long war. No one can foretell just when or how it will end. But of this much I am sure: Whether it lasts one year or five, those years will see America at her best. There is a spirit abroad in this land today that lifts men and women above themselves. Literally millions of our people who have never before shown any great interest in public affairs or the activities of their own communities are today willingly and proudly giving their time and work to a gallant purpose. They are taking first aid courses, they are selling War Bonds, they are training in hospitals as nurses aides, they are driving trucks and ambulances. They are sitting up half the night every night as airplane spotters and wardens. Without pay they are doing the hard, dirty, thankless jobs that this new kind of war inflicts upon a people. And for most of them these thankless jobs have become the most important thing in their lives.

Here in Chicago as everywhere in the country, it is an inspiration to see how our people have rallied to those unaccustomed tasks and how well they are doing them. It is a convincing demonstration of democracy at work, and it carries with it a promise of great things for the future. These millions of new unselfish public servants must not lose their interest in public affairs and retire into their former seclusion when this war ends. I don't think they will. I think this awakening of the democratic processes will mean a revitalized America. So too will the voice of these millions be heard at the peace tables.

All of us in America today would gladly give our lives to prevent a repetition of what we are now going through. A single generation that knew not only Chateau Thierry, Belleau Woods, Soissons and the Argonne but also knew Pearl Harbor, Bataan, Wake and Guam -- we know what war means -- and we know the misery that follows a war. We don't shrink from war. But we do recoil from the stupidity of a bungling peace that begets more wars and breeds more misery. I think I speak the mind of the United Nations and I know I speak the mind of America when I say that this war must end with a just and enduring peace. It must not happen again. This nation and our allies must build a world of international peace and progress that will endure for generations. To this we dedicate ourselves today. This we shall achieve, God willing, under the leadership of one of the greatest friends and leaders humanity has ever known -- Franklin Delano Roosevelt.

Statement by Randolph E. Paul, Tax Adviser to the
Secretary of the Treasury, before the Ways and
Means Committee of the House of Representatives
on the taxation of life insurance companies
June 12, 1942.

The plan for the taxation of life insurance companies that is outlined in this statement differs from the plan that I proposed in my statement of March 3. We have been assured that it has the active support and approval of the two national associations of the life insurance industry, the Association of Life Insurance Presidents, and the American Life Convention, as well as of independent companies that are not members of these two associations. It also has the approval of Mr. Stam of the Staff of the Joint Committee. The Treasury feels that its original plan, arrived at after long and careful consideration of the problem, is sound and equitable. At the same time, in view of the unanimous representations of the industry, the Treasury would not object to the acceptance of the modified proposal as a tentative solution of the problem of the taxation of the life insurance industry.

In order to clarify the basic issues involved in deciding on the proper method of taxing life insurance companies, I should like to discuss first, the present situation with respect to the taxation of life insurance companies, second, the original Treasury proposal, third, the plan proposed by the industry.

1. The taxation of life insurance companies under existing law

Life insurance companies of the United States have combined assets of over \$30 billion, an annual premium income of about \$4 billion, and an annual investment income of about \$1 billion. In 1940, this important segment of our economy paid a total corporation tax of only \$738,000 or less than 1/10 of 1 percent of investment income. None of the 25 largest life insurance companies paid any tax at all in 1938 or 1939. In 1940 only one of the 25 largest companies paid a tax and its tax amounted to only \$21,000. Of the almost 700 life insurance companies that filed income tax returns for 1940, only 139 paid any tax, and these paid only an average of \$5,300 per company.

There are two main reasons why life insurance companies have paid virtually no tax in recent years.

First, under existing law, which taxes only investment income, the companies are allowed an extremely liberal deduction for earnings needed to maintain reserves. This deduction is computed at the rate of 3-3/4 percent of the mean of the reserves required by law (in a few cases, at

an even higher rate), although the average rate of interest earned by all life insurance companies is less than 3-1/2 percent, and the average rate of interest assumed in computing reserves is about 3-1/4 percent.

Second, under existing law, life insurance companies are in effect allowed to deduct part of their tax-exempt interest twice. The total amount of tax-exempt interest is excluded from the gross investment income. The remaining, taxable part of the gross investment income is then reduced by the allowance for earnings on reserves, computed at 3-3/4 percent of the mean of the legal reserves. Part of the earnings on reserves are derived from tax-exempt interest; yet the whole allowance for reserve earnings is deducted from taxable investment income. That part of tax-exempt interest used to maintain reserves is therefore deducted twice, once by the exclusion of tax-exempt interest from the tax base, and a second time as part of the reserve earnings deduction.

2. The original Treasury proposal

In my statement before your Committee on March 3, I outlined a proposed tax base for life insurance companies that would eliminate these defects in the present law, at the same time that it retained the principle of taxing only investment income.

The tax base proposed in my March 3 statement eliminated the double deduction of tax-exempt interest by disallowing that percentage of the reserve earnings deduction which tax-exempt interest bears to the excess of investment income over other deductions. (See Appendix 1, Example 1.)

It reduced the reserve earnings deduction by substituting for the present interest rate of 3-3/4 percent a weighted average of 3-1/4 percent and the actual rate of interest assumed by the company in computing its reserves. The average was computed by giving a weight of 65 percent to the 3-1/4 percent rate and a weight of 35 percent to the actual assumption rate. In this way, the reserve earnings deduction was made fair and equitable among companies, so that two companies with the same volume of business and the same investment income would pay approximately the same tax, regardless of how they compute their reserves. (See Appendix 1, Examples 2 and 3.)

In addition to these major changes in the tax base the Treasury's original proposal included three minor changes designed to relieve inequities and hardships that might otherwise have arisen: (1) All interest paid on all supplementary contracts not involving life, health, or accident contingencies, such as a contract to pay the insurance benefit in 10 annual instalments, is allowed as a deduction. At present, a

deduction is allowed only for interest on contracts in which the manner of payment is elected by the beneficiary and, for mutual companies, only for interest at the rate guaranteed in the contract.

(2) Reserves computed on the preliminary term plan, a plan which is used primarily by the smaller and younger companies and which gives a smaller reserve than the plan commonly used, are increased by 7 percent in computing the reserve earnings deduction. This put these reserves on the same basis as other reserves. (3) The limit on investment expenses, other than specific real estate expenses, that is now imposed if any of the expenses are computed by allocating expenses between investment and other activities is made somewhat more generous. The present limit of $1/4$ of 1 percent of invested assets is replaced by a sliding scale limit of $1/4$ of 1 percent plus $1/4$ of the excess, if any, of the rate of interest actually earned over $3-3/4$ percent. (For a more detailed statement of the original Treasury proposal, see Appendix 2.)

3. The industry plan

In preparing these recommendations, the Treasury held numerous conferences with representatives of the principal organizations of life insurance companies as well as with representatives of many individual companies. The views expressed by them were given every practicable consideration in the development of these proposals.

We have been informed by representatives of the insurance industry that the proposed elimination of the double deduction for tax-exempt interest, and the proposed change in the limit on investment expenses are entirely acceptable. Further, the industry accepts the original formula proposed by the Treasury as a method of determining the aggregate tax liability for all insurance companies combined. It does not, however, accept the original Treasury proposal as a method for determining the tax liability of each company separately. The industry therefore proposes that the Treasury formula be used to determine the aggregate tax base of all companies combined; but that a different method be used to distribute the total tax among the insurance companies.

The industry proposal is that a single new deduction (to be called a "reserve and other policy liability deduction") be substituted for the present reserve earnings deduction, the deduction for interest paid on supplementary contracts, and the deduction for deferred dividends. This new deduction would be a flat percentage of net investment income after deducting tax-exempt interest, the percentage to be the same for all companies. This percentage would be determined in such a way as to give the same aggregate deductions for all companies as under the original

Treasury proposal described above. For example, for 1941, the aggregate deductions of all companies under the original Treasury proposal for reserve earnings, interest on supplementary contracts, and deferred dividends amount to approximately 93 percent of the aggregate net investment income after deducting tax-exempt interest. Consequently for the taxable year 1942, each company would be allowed a deduction of 93 percent of its net investment income after deducting tax-exempt interest.^{1/} For subsequent taxable years, the corresponding percentage would be determined by the Secretary of the Treasury.

In summary, under the industry plan, each company's tax base would equal investment income less investment expenses less tax-exempt interest less a flat percentage of the remainder, the percentage to be based on the aggregate deductions of the industry under the Treasury formula. (See Appendix 1, Example 4.)

This statement covers the basic problem of the general method to be used in taxing life insurance companies. Some subsidiary problems remain. We are ready to outline these at the Committee's convenience.

^{1/} The 93 percent is based on preliminary figures and is subject to revision on the basis of a more complete analysis of 1941 data.

Appendix 1 - Examples of proposed changes in the
taxation of life insurance companies

Example 1 - Double deduction of tax-exempt interest
under present law and original Treasury
proposal

1. Investment income	\$4,000,000
2. Expenses, interest paid, and other deductions	500,000
3. Investment income after deductions (Item 1 less item 2)	3,500,000
4. Exempt interest	700,000
5. Percentage of exempt interest to investment income after deductions	20%

Present law

6. Reserve earnings deduction	3,375,000 <u>1/</u>
7. Normal tax net income (Item 3 less items 4 and 6)	-575,000

Treasury proposal 2/

8. Reserve earnings deduction	\$3,375,000
9. Portion thereof from exempt income (Item 8 times item 5)	<u>675,000</u>
10. Reserve earnings deduction (Item 8 less item 9)	2,700,000
11. Normal tax net income (Item 3 less items 4 and 10)	100,000

1/ 3-3/4 percent of mean of legal reserves, assumed to be \$90,000,000.

2/ This example illustrates solely the Treasury proposal for the elimination of the double-deduction of tax-exempt interest. Consequently, the reserve earnings deduction has been kept the same as under the present law. Example 2 illustrates the Treasury's proposed change in the reserve earnings deduction.

Example 2 - Computation of reserve earnings deduction
under present law and original Treasury
proposal

	<u>Company A</u>	<u>Company B</u>
1. Rate of interest assumed in computing reserves	3%	3 $\frac{1}{2}$ %
2. Assets	\$100,000,000	\$100,000,000
3. Legal reserves	90,000,000	85,281,000
4. Surplus	10,000,000	14,719,000

Present law

5. Reserve earnings deduction (3-3/4% of item 3)	\$ 3,375,000	\$ 3,198,038
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Treasury proposal

6. 65% of 3-1/4%	2.1125%	2.1125%
7. 35% of actual rate assumed (35% of item 1)	1.05	1.225
8. Reserve earnings rate (item 6 plus item 7)	3.1625	3.3375
9. Reserve earnings deduction (item 8 times item 3)	\$ 2,846,250	\$ 2,846,253

Example 3 - Computation of tax under present
law and original Treasury proposal

	<u>Company A (3%)</u>	<u>Company B (3$\frac{1}{2}$%)</u>
1. Investment income	\$4,000,000	\$ 4,000,000
2. Expenses, interest paid, and other deductions	<u>500,000</u>	<u>500,000</u>
3. Investment income after deductions (Item 1 less item 2)	\$3,500,000	\$ 3,500,000
4. Exempt interest	\$ 700,000	\$ 700,000
5. Percentage of exempt interest to investment income after deductions (Item 4 divided by item 3)	20%	20%
<u>Present law</u>		
6. Reserve earnings deduction (See item 5 of Example 2)	\$3,375,000	\$ 3,198,038
7. Normal tax net income (Item 3 less items 4 and 6)	-575,000	-398,038
<u>Treasury proposal</u>		
8. Reserve earnings (See item 9 of Example 2)	\$2,846,250	\$ 2,846,253
9. Portion thereof from exempt income (Item 8 multiplied by item 5)	<u>569,250</u>	<u>569,251</u>
10. Reserve earnings deduction (Item 8 less item 9)	\$2,277,000	\$ 2,277,002
11. Normal tax net income (Item 3 less items 4 and 10)	\$ 523,000	\$ 522,998

Example 4 - Computation of tax under the
Industry proposal

1. Investment income	\$4,000,000
2. Investment expenses	200,000
3. Exempt interest	<u>700,000</u>
4. Taxable net investment income (Item 1 less items 2 and 3)	3,100,000
5. Reserve and other policy liability deduction (93% of item 4) <u>1/</u>	<u>2,883,000</u>
6. Tax base (Item 4 less item 5)	217,000

1/ Determined on the basis of the aggregate deductions and aggregate investment income of all companies under the original Treasury formula. Ninety-three percent is the percentage to be used for the taxable year 1942. For subsequent years, the percentage is to be determined by the Secretary of the Treasury.

Appendix 2 - Original Treasury proposal

Suggested tax base for life insurance companies
Investment income only

The tax base shall be:

- (1) Investment income
 - less (2) Investment expenses
 - less (3) Interest paid, including all interest paid (whether or not guaranteed) on all contracts not involving life, health, or accident contingencies, regardless of the manner in which the method of payment was selected
 - less (4) 2 percent of reserves for deferred dividends
 - less (5) 85 percent of dividends received from domestic corporations
 - less (6) Tax-exempt interest
 - less (7) Reserve earnings deduction
- (1) Investment income shall be gross receipts from interest, dividends, rents, royalties, leases, etc., plus capital gains 1/ and less capital losses on assets acquired subsequent to December 31, 1941, less real estate expenses, real estate taxes, and depreciation on property held as an investment. Capital losses are to be allowed in full against other income if attributable to sales or exchanges of bonds or other evidences of indebtedness, the capital loss to be measured by the purchase price (or amortized value if the Committee should adopt the Treasury's recommendation with respect to amortization) and the selling price. Losses from other types of capital assets will be allowed only to the extent of capital gains.
- (2) Investment expenses shall be allowed in full if completely segregated; but if any general expenses are included in or apportioned to investment expenses, the amount allowed in addition to specific expenses allowed under (1) shall not exceed $\frac{1}{4}$ percent of invested assets, plus $\frac{1}{4}$ of the amount by which investment income exceeds $3\frac{3}{4}$ percent of invested assets.

1/ The House Ways and Means Committee has tentatively approved a maximum rate of 25 percent on net capital gains realized by corporations on assets held more than 15 months. If this provision is enacted, the final computation of the tax will be made by deducting such gains from the base as here defined, applying a 25-percent rate to such gains, and the regular normal and surtax rates to the balance.

(7) The reserve earnings deduction shall be the product of (a) the mean of the adjusted legal reserves at the beginning and end of the taxable year, (b) the reserve earnings rate, and (c) the ratio of (i) investment income, less investment expenses, less interest paid, less 85 percent of dividends received from domestic corporations, less 2 percent of reserves for deferred dividends, less tax-exempt interest to (ii) investment income less investment expenses, less interest paid, less 2 percent of reserves for deferred dividends.

(a) The adjusted legal reserves shall be the legal reserves plus 7 percent of the legal reserves that are computed on a preliminary term basis.

(b) The reserve earnings rate shall be a weighted average of (i) $3\frac{1}{4}$ percent, and (ii) the weighted average rate of interest assumed in computing the various reserves, each rate of interest being weighted by the mean of the adjusted legal reserves computed at that rate at the beginning and end of the year. Item (i) shall be weighted 65 percent; item (ii), 35 percent.

This formula will have to be applied twice, first, to compute normal tax, second, to compute the surtax; the term "tax-exempt interest" being given the appropriate interpretation in each case.

TREASURY DEPARTMENT
Washington

FOR IMMEDIATE RELEASE,
Monday, June 15, 1942.

Press Service
No. 32-7

Market transactions in Government securities for Treasury investment and other accounts in May, 1942, resulted in net purchases of \$16,525, Secretary Morgenthau announced today.

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Statement by Randolph E. Paul,
Tax Adviser to the Secretary of the Treasury,
before the Ways and Means Committee of the House of Representa-
tives, on inventory reserves

JUN 15 1947

The enactment of high corporate tax rates necessitated by the war makes the correct determination of the income to which these rates are applied of fundamental importance. Under the present treatment of inventories for tax purposes, in periods of rising prices taxable income may include profits that result merely from the increase in the value of the inventory on hand. Such profits are not available for the payment of taxes and may be wiped out by subsequent price declines.

The first-in first-out method of accounting for inventories, required under present law for most taxpayers, can result in the inclusion of inventory profits in taxable income. As long as prices do not change this method gives satisfactory results. If a taxpayer has on hand the same amount of goods at the end as at the beginning of the year and prices paid for his goods do not change, it makes no difference whether in computing his income he takes as the cost of the stock he sells the cost of the units he had on hand at the beginning of the year or the cost of the units he purchased during the year. However, if he pays a higher price for goods purchased during the year than he paid for goods on hand at the beginning of the year, the method of inventory valuation becomes important. If he considers that the particular item sold came from the inventory on hand at the beginning of the year, he will compute his profit by deducting from the price at which he sold the item, the value at which it was carried in his beginning inventory. If prices are rising, this procedure will result in a larger book profit than if income is computed by deducting from the selling price the price paid for goods purchased during the year. If the same physical inventory is maintained, this higher apparent profit will not be available for the payment of taxes and dividends since a larger sum will have to be spent in replacing the goods sold than was deducted in computing profits.

Congress has already recognized the importance of this problem by granting taxpayers permission to use the elective, last-in first-out method of valuing inventories. This method in general excludes book profits on inventories from taxable income. However, many taxpayers are unable to use the last-in first-out method, particularly taxpayers whose inventory consists of a large number of different products rather than a few homogeneous products.

The Treasury believes that during the uncertainties of the war period all taxpayers, and not only those who are able to use the last-in first-out method, should be safeguarded against the inclusion of book inventory profit in taxable income.

The problem of fluctuating inventory values would be more serious were it not for the price ceilings recently imposed. To the extent that price ceilings are effective in keeping prices at their present level, future book profits on inventories will be absent. However, even with effective price ceilings, certain problems still remain.

A substantial price rise took place before price ceilings were imposed. From January, 1941, to March, 1942, wholesale prices rose on the average by 21 percent and many individual prices showed substantially larger increases. Some of the resulting inventory profits were reflected in the 1941 tax returns; the rest will appear in the tax returns for 1942. In addition, some commodities are exempt from the price ceilings and readjustments may be made with respect to other commodities. Moreover, substantial price rises may occur after the end of the war when the ceilings may be relaxed. By providing for these contingencies now, Congress can give taxpayers the assurance that an attempt is being made to impose the heavier taxes occasioned by the war in a fair and equitable manner. Taxpayers will then be able to adjust their inventory policy to the needs of the war program without regard to tax considerations.

The Treasury therefore proposes that taxpayers be permitted to establish temporary reserves for possible future inventory losses, these reserves to be deductible in computing taxable income. The maximum amount to be added to the reserve in a year of rising prices, and hence to be deductible in computing income for that year, will be equal to the approximate amount by which price inflation has increased the value of the basic inventory during the year. Similarly, in a year of declining prices, the taxpayer would be required to subtract from his reserve, and hence to include in his income, the approximate amount by which price deflation has reduced the value of his basic inventory during the year. (An example of the operation of the reserve is attached.)

Period to be covered

Under the plan proposed taxpayers would be permitted to set up reserves for the period beginning January 1, 1941, and ending five years after the close of the war. It is proposed that the

reserve be applied retroactively to 1941 because of the substantial price increases which occurred in that year. Similarly, the reserve should remain in effect long enough after the war to include post-war adjustments. Taxpayers would not necessarily be required to begin with 1941; they could start at any time.

Taxpayers eligible to use reserves

The use of reserves would be permitted to all taxpayers with inventories of real goods, as distinguished from the portfolios of financial institutions. Taxpayers would be permitted to use the reserves for inventories not valued under the elective, last-in first-out, method.

Inventories to be covered by the reserve

The taxpayer would not be required to use the reserve method for his whole inventory. He would be allowed to elect the reserve method for selected parts of his inventory, provided that they are clearly identifiable. The election, once made, could be revised only with the approval of the Commissioner of Internal Revenue.

Additions to and subtractions from the reserve

When prices rise, taxpayers would be permitted to add to the reserve the approximate inventory profits. If, however, a taxpayer did not desire to credit the reserve with the full amount allowable, he would be permitted to credit the reserve with a smaller amount, or he could refrain from taking any portion of the credit to which he was entitled. The taxpayer electing not to take the maximum allowable credit in any year would not be permitted to take the unused credit in a future year.

In years when prices decline, taxpayers would be required to charge the reserve with the full amount of the approximate inventory loss. Such charges to the reserve could not exceed the credit balance in the inventory reserve.

Computation of approximate amount of profit or loss

The approximate amount of profit or loss would be determined by multiplying the basic inventory by the estimated change in prices during the year. The basic inventory will be taken as equal to the smaller of the physical inventories on hand at the beginning and the end of the year. In other

words, it is limited to the inventory common to these two periods. The administrative complexities involved in extending the treatment beyond this point outweigh its possible benefits.

The estimated change in prices will be determined by the use of specified price indexes. The coverage of the price indexes would conform as closely as possible to the actual inventory of the taxpayer and their selection and application would be subject to the approval of the Commissioner of Internal Revenue.

Taxpayers would have the option of computing inventory profits and losses for the entire inventory as a unit or for narrower classes of inventory goods. The election made by the taxpayer would be subject to change only upon approval by the Commissioner.

Liquidation of part of the inventory

If any part of the inventory is liquidated, the reserve against this part of the inventory would be credited to income.

Termination of reserves

The reserves may be terminated either by the exhaustion of the accumulated reserves or by the legal expiration of the reserve provision, that is, five years after the close of the war.

If the reserve is exhausted by price declines or inventory liquidations, no further use of the reserve method would be permitted.

If the reserve is terminated by legal expiration, any amounts remaining in the reserve would be returned to income, since the purpose of the reserve is solely to safeguard the taxpayer from the inclusion in his taxable income of profits arising from temporary price rises. In order to prevent a severe drain on cash resources in the event of a possible heavy tax on large unused reserves, taxpayers could be permitted to distribute the payment of the tax liability attributable to the unused reserves over the three years subsequent to the termination of the reserve.

The proposed inventory reserve will prevent in substantial measure the taxation of inventory profits destined to be wiped out in the next few years. At the same time it will not permit profits from a permanent rise in values to escape taxation.

A sample of the operation of the inventory reserve

A. Effect of inventory as prices rise

1. Under first-in first-out method

Suppose that at the beginning of the year the taxpayer has on hand 1,000 units of a product, which he has purchased at \$10 apiece and which he expects to sell at \$12 apiece. The taxpayer expects to earn a profit of \$2 on each unit sold, or a total profit of \$2,000. Actually, however, by the time he sells his product the price has risen to \$16. Thus, apparently, the taxpayer has earned a profit of \$6 per unit or \$6,000 in all. But if the taxpayer is to remain in business, he must maintain a stock of inventory goods on hand. Now, when he purchases new inventory goods to take the place of those sold, he finds that the cost price of his product has also risen by \$4, from \$10 to \$14. Thus, in order to maintain a constant physical inventory of 1,000 units, he must reinvest \$14,000 of his \$16,000 receipts in the replenishment of the inventory. Consequently, he has only \$2,000 free cash as a result of his transaction. The other \$4,000 is tied up in inflated inventories.

Under the first-in first-out method of valuing inventories, his income would be \$6,000 in spite of the fact that \$4,000 of this profit simply represents a higher book value on a constant physical inventory.

2. Under the reserve method

Under the proposed reserve method, however, the taxpayer would be allowed to deduct from the \$6,000 an amount corresponding to the increase in the book value of his physical inventory, in this case \$4,000. Thus, if the taxpayer maintained his business at a constant rate of operations, his taxable income under the reserve method would equal \$2,000 and would coincide with the amount of free cash available for the payment of taxes and dividends.

B. Effect of inventory as prices fall

1. Under the first-in first-out method

Assume that the price movement is reversed and prices fall to their original levels. The taxpayer has on hand 1,000 units of inventory goods purchased at \$14 each, which he

expects to sell at \$16. Actually, by the time he sells them the price has fallen to \$12. Thus, apparently, the taxpayer has lost \$2 on each unit or \$2,000 in all. When the taxpayer purchases new inventory goods, however, he finds that they cost only \$10 each. In other words, although the taxpayer has apparently lost on the transaction, he is able to maintain his physical inventory and still have \$2,000 free cash.

Under the first-in first-out method of valuing inventories, the taxpayer would show a loss of \$2,000 in spite of the fact that he would have a profit of that size if he disregarded the change in the value at which he carries his inventories on his books.

2. Under the reserve method

Under the reserve method, however, the taxpayer is required to subtract from his reserve the \$4,000 representing the decrease in the book value of his constant physical inventory and add this amount to his taxable income. Thus, if he maintained his business at a constant rate of operation, his taxable income under the reserve method would equal \$2,000 and, once again, would coincide with the amount of free cash available for the payment of taxes and dividends.

June 15, 1942

JUN 15 1942

Statement of Randolph E. Paul
Tax Adviser to the Secretary of the Treasury,
to the Ways and Means Committee of
the House of Representatives, on
A War Supertax on Individual Incomes Above \$25,000

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1. Introductory

In his message to the Congress on April 27, 1942, the President said: "...discrepancies between low personal incomes and very high personal incomes should be lessened; and I therefore believe that in time of this grave national danger, when all excess income should go to win the war, no American citizen ought to have a net income, after he has paid his taxes, of more than \$25,000 a year."

There can be no 'equality of privilege' for which the President has called when some of our citizens are permitted to enjoy a luxurious standard of living while others in less fortunate circumstances are called upon to cut their living standards to a bare subsistence level. The great masses of our people will more cheerfully bear a substantial reduction in standard of living if they know that no group is being favored; that rich and poor alike are giving up the comforts of peacetime in order that we may more effectively prosecute the war. A limitation on individual income would be a very helpful step in assuring the masses of people that there is to be 'equality of privilege' in fighting this war. 1/

2. Proposed tax

To implement the President's proposal, the Treasury now recommends the enactment of a 100 percent war supertax on that part of the net income after regular income tax which exceeds a personal exemption of \$25,000.

1/ Great Britain has recognized that high tax rates, accomplishing a practical limitation upon individual incomes, may make an important contribution to the maintenance of public morale and thus contribute to the prosecution of the war. In that country under wartime tax rates an individual would have to receive about \$500,000 in order to have \$25,000 left after taxes, and an additional \$100,000 before taxes would add only \$2,500 to his income after tax.

3. Definition of the Taxpayer

A. Persons and married couples

The supertax would apply to single persons and married couples. The recent action of your Committee in approving mandatory joint returns will facilitate the application of the supertax to the combined income of the two spouses. It is recommended that for the purpose of the supertax joint returns be made mandatory and that a personal exemption of \$25,000 for each spouse be allowed, or in effect \$50,000 for the married couple.

Despite mandatory joint returns, some taxpayers could avoid some of the 100-percent supertax by transferring income-producing assets to their children and to other close relatives who could be expected to use the income as the donors desired. To meet this problem, the Treasury recommends that for purposes of the temporary supertax such gifts not be recognized and that the income from them be taxed to the donors.

B. Trusts and estates

For purposes of the regular income tax, trusts and estates are in some cases subject to the individual income tax, regardless of the number of beneficiaries and the income of each from other sources. However, since the \$25,000 limit is directed toward the "American citizen," that is, the individual himself, the supertax must of necessity look beyond estates, trusts, and similar legal entities, to the real person concerned, the beneficiary. Where this is not practicable, the Treasury recommends that the supertax be made applicable to the fiduciaries.

4. Income Subject to Tax

The Treasury recommends that for purposes of the supertax, net income be defined to include all income which is received by the taxpayer during the taxable year.

A. No tax exemptions

All tax exemptions should be removed for purposes of the supertax even though they remain for the regular income tax. For example, there can be no doubt that presently tax-exempt State and local interest should be included in taxable income for purposes of the supertax. The outstanding supply of State and local securities is so large that, if this were not done, persons affected by the supertax could substitute tax-exempt securities for the larger part of their taxable securities and thereby nullify the effect of the supertax. The President specifically referred to this exemption when he said, "It is indefensible that those who enjoy large incomes from State and local securities should be immune from taxation while we are at war." Of course, the contractual exemption formerly accorded certain Federal securities must be respected for purposes of this supertax as for all other taxes.

B. Pension trusts

For purposes of the supertax, the present treatment of pension trusts would need to be revised in such a manner as to preclude corporation executives from taking portions of their compensation in the form of contributions to pension funds rather than current salary, which would defeat the purpose of the supertax.

C. Undistributed corporation profits

The imposition of the supertax would add to the present inducements for corporations to withhold profits from distribution to stockholders. Some provision would need to be made that when dividends declined relative to corporate profits after taxes, an appropriate portion of the undivided profits would be taxed to the stockholder; or else an offsetting tax would need to be placed on the

corporation to induce profit distribution. One of these alternatives would be especially necessary where persons subject to the supertax were in control of the corporation.

D. Proprietorship and partnership business income

The individual income tax applies to the profits from a business run as an individual proprietorship and to the share of a person in the profits of a partnership whether or not the profits are withdrawn for personal use. The application of a 100 percent tax might impose hardship on such businesses and might impair their growth and endanger their competitive position.

Accordingly, for the purposes of the supertax it might be desirable to exclude business income not withdrawn for personal use. To prevent tax avoidance by this means, however, provision might be made that no larger proportion of the profit could be so excluded each year than was retained in the business on the average during a base period. This would permit normal capital growth and payment of business debts without unduly encouraging tax avoidance.

E. Averaging over several years of concentrated incomes

Incomes that are concentrated to an unusual extent in the taxable year, for example, those in the form of fees, patent rights, commissions, etc., would require special treatment to average the income over several years as is now done for income tax computation in the case of certain compensation paid on completion of work which was done over a period of five years. The law provides that the tax on such compensation shall not be greater than if it had been received over the period during which the work was done.

F. Charitable contributions

Charitable contributions present a question. Such contributions are deductible up to 15 percent of net income. Since contributions now average much less than the allowable 15 percent, the supertax would operate to increase them substantially since for persons with incomes subject to the supertax contributions up to 15 percent of net income would be costless. While the increase in contributions would be in effect a means of tax avoidance, the results in general would not necessarily be undesirable. It is not suggested that the deduction for charitable contributions be limited beyond the limitations provided under present law.

5. Relief for Persons with Debt Commitments

The imposition of the \$25,000 limit would, of course, necessitate substantial readjustment in the patterns of living of the persons affected. This is in part the very purpose of the limitation. A nation waging total war cannot afford to use its resources to provide luxurious living for a few. In many cases, however, the imposition of the supertax would result in special hardships because of the commitments, especially debts, which persons have incurred and which, if they do not meet, will result in substantial losses to them.

The great difficulty with any general deduction for debt or other fixed commitments is the discrimination which results. Most large debts are incurred to make investments of one kind or another. One person chooses to build up his estate by borrowing money to buy some earning asset and gradually paying off the debt from the earnings, while another person does not borrow, but reinvests his income from year to year. The allowance of debt as a deduction would discriminate in favor of the first man as opposed to the second since the former would be permitted to build

up his estate free from supertax, while the latter would be prevented from doing so.

Fortunately, the cases in which debt commitments would raise serious problems would not be numerous. Only commitments to retire principal would be affected, since interest on indebtedness is deductible in computing taxable income. Persons with incomes large enough to be affected by the proposed supertax ordinarily have a good deal of flexibility in their financial arrangements because of their assets and credit standing. The exemption of a portion of the business income of proprietorships and partnerships previously suggested would meet many situations where indebtedness was pressing.

Nevertheless, there would undoubtedly be some cases where fixed commitments of various kinds would be very difficult to meet and might require a measure of relief under the supertax. For example, many taxpayers, even some of those with large incomes, neglected to set aside last year the funds necessary to meet the taxes on last year's income. The imposition of the supertax might make it entirely impossible for such people to accumulate funds to pay taxes on the current year's income and have anything at all left over to cover living expenses. However, to allow a deduction only for those taxpayers who had not set aside funds to pay their taxes, while not allowing an equal deduction to the more provident, would be discriminatory. Accordingly, it is suggested that for the first year only the tax liability on the income of the previous year be allowed as a deduction in computing income subject to supertax. Thereafter taxpayers would be on warning to accumulate funds in advance to pay their taxes.

There are other cases of indebtedness which might cause hardship in a similar way. Thus, debts for unusual medical expenses might be a very heavy burden under the supertax. It would be desirable in this and other cases to allow a deduction for the payment of indebtedness.

To assure a minimum of hardship without too much discrimination, the most workable plan appears to be to allow a deduction for debt up to perhaps 15 percent of the income after present income taxes. While this deduction would be intended for the purpose of relieving the hardship of debt, it would be made available also to people who had no debt commitments, provided it was spent in meeting other financial commitments, such as insurance premiums on policies taken out in the past, or was invested in Federal securities.

6. Number of taxpayers and revenue

Under the existing rates for the regular income tax, this super-tax would affect only single persons whose incomes before tax exceeded about \$40,000 and married couples whose combined income before tax exceeded about \$100,000. Under the income tax rates tentatively adopted by the House Ways and Means Committee, the supertax would affect single persons whose incomes before tax exceeded about \$50,000 and married couples whose combined income before tax exceeded about \$185,000. With mandatory joint returns, the supertax would fall on approximately 11,000 single persons and married couples and is estimated to yield about \$184 million, in addition to the revenue from the regular income tax as tentatively revised by the Ways and Means Committee.

7. Conclusion

To summarize, the Treasury proposes that in harmony with the President's message to Congress of April 27, a supertax of 100 percent be imposed on that part of net income remaining after other taxes which exceeds \$25,000. I have discussed the more important problems which would be involved in making the tax effective and some of the hardships which the tax might impose, and have made suggestions for meeting these problems.

Fundamentally, the purpose of this proposed tax is to promote the war effort. This it would do by assuring the masses of people that there is to be relative 'equality of privilege' in fighting the war; that all are to share in the sacrifices it imposes in an equitable manner. I recommend the proposed tax for your careful consideration.

June 15, 1942

TREASURY DEPARTMENT
Washington

FOR RELEASE, MORNING NEWSPAPERS,
Tuesday, June 16, 1942.
6/15/42

Press Service
No. 32-8

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 17 and to mature September 16, 1942, which were offered on June 12, were opened at the Federal Reserve Banks on June 15.

The details of this issue are as follows:

Total applied for - \$801,271,000
Total accepted - 300,993,000

Range of accepted bids: (Excepting 1 tender of \$10,000)

High	- 99.930	Equivalent rate approximately	0.277	percent
Low	- 99.907	" " "	0.368	"
Average Price	- 99.908	" " "	0.365	"

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

TREASURY DEPARTMENT
Washington

FOR IMMEDIATE RELEASE,
Wednesday, June 17, 1942.

Press Service
No. 32-9

The Treasury today announced, in line with its freezing control policy of prohibiting the importation into the United States of Axis-tainted dollars, the first serial numbers of currency en route believed to be of German origin. Officials said that similar information will be released from time to time with respect to any such currency which was known to have infiltrated into Latin America.

In its announcement, the Foreign Funds Control Division of the Treasury Department said that a large amount of United States currency, a part of which is destined for Cuba, is known recently to have reached the Dominican Republic. This currency was brought into the Dominican Republic on a Spanish vessel, and there is good reason to believe that such currency is of Axis origin.

It was further stated that the serial numbers of such currency had been obtained, and that there was a presumption that such currency would not be licensed for release in the United States under any circumstances.

In order that persons in the dollar areas might be on guard against accepting such currency, it was announced that the "hot" money of large denominations involved are Federal Reserve notes and bear the following serial numbers:

Thousand dollar bills 1928 series B00011455A, B00014746A, B00046923A, B00047305A, B00050148A, B00053966A, B00077533A, B00079672A, B00091705A, B00093016A, B00093359A, B00006144A, B00097075A, B000106577A, L00017241A, 1934 series B0001974A, B0001661A, B00015131A to 32A inclusive, B00017333A, B00018472A, B00018879A, B00018959A to 60 A, B00021161A, B00021114A to 64A inclusive, B00025208A, B00025995A to 96A, B00027838A, B00028331A, B00028654A, B00035898A, B00037432A, B00042556A, B00043536A, B00044413A, B00044576A, B00044829A, B00045225A, B00050146A to 47A inclusive, B00055642A, B00060590A to 91 inclusive, B00065128A, B00066809A to 10A inclusive, B00066819A to 20A inclusive, B00066937A to 46A inclusive, B00075488A, B00076800A, B00077299A, B00081630A, B00090096A, B00091289A, B00092901A, B00097311A, B00119161A;

Five hundred dollar bills B00003419A, B00013618A, B00063874A, B00079272A, B00095633A, B00100608A, B00133227A, B00138803A, B00143364A, B00147904A, B00149680A, B00150562A, B00155799A, G00077800A, 1934 series A00001851A, B00009715A, B00002579A, B00015077A to 79A, B00015661A, B00019397A.

over

The Treasury's enforcement officials have been instructed to seize any of this currency if any attempt is made to bring it into the United States. Banks and other institutions have been encouraged immediately to inform Treasury officials if they should, at any time, discover the presence of any such currency in this country.

Strict measures will be taken against anyone who is found to have brought such currency into this country in violation of our laws, the Department's officers said.

TREASURY DEPARTMENT
Washington

FOR IMMEDIATE RELEASE,
Wednesday, June 17, 1942.

Press Service
No. 32-10

The Brotherhood of Railroad Trainmen, through its president A. F. Whitney, today presented a check for \$75,000 to Secretary Morgenthau to aid America's war effort.

The money was contributed voluntarily by members of the Brotherhood to be used toward the purchase of an Army bomber which, they hope, "will blast Tokyo or Berlin, or be successful in sprinkling iron daisies on the man that everybody hates."

The Brotherhood is an international organization, representing railroad men on all divisions of all railroads in the United States, Canada and Newfoundland. It has invested already more than \$17,000,000 in Government securities.

The international convention, scheduled to take place in 1943, has been abandoned, and the \$1,000,000 which would have been spent to conduct it will be invested in War Bonds at the express wish of Brotherhood members.

ment. In every case where payment is not so completed, the payment with application up to 5 percent of the amount of certificates 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 certificates 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 certificates allotted, to make delivery of certificates on full-paid subscriptions allotted, and they may issue interim receipts pending delivery of the definitive certificates.

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.

4. Bearer certificates with one coupon attached will be issued in denominations of \$1,000, \$5,000, \$10,000 and \$100,000. The certificates will not be issued in registered form.

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

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 5 percent of the amount of certificates 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 certificates 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 \$25,000 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 certificates allotted hereunder must be made or completed on or before June 25, 1942, or on later allot-

UNITED STATES OF AMERICA

5/8 PERCENT TREASURY CERTIFICATES OF INDEBTEDNESS OF SERIES A-1943

Dated and bearing interest from June 25, 1942

Due February 1, 1943

1942
Department Circular No. 688

TREASURY DEPARTMENT,
Office of the Secretary,
Washington, June 18, 1942.

Fiscal Service
Bureau of the Public Debt

I. OFFERING OF CERTIFICATES

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 5/8 percent certificates of indebtedness of the United States, designated Treasury Certificates of Indebtedness of Series A-1943. The amount of the offering is \$1,500,000,000, or thereabouts.

II. DESCRIPTION OF CERTIFICATES

1. The certificates will be dated June 25, 1942, and will bear interest from that date at the rate of 5/8 percent per annum, payable on an annual basis at the maturity of the certificates. They will mature February 1, 1943, and will not be subject to call for redemption prior to maturity.

2. The income derived from the certificates shall be subject to all Federal taxes, now or hereafter imposed. The certificates 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 certificates will be acceptable to secure deposits of public moneys. They will not be acceptable in payment of taxes and will not bear the circulation privilege.

Boston
Mr. Kilby's Office
TREASURY DEPARTMENT TELEGRAM

EXPENSES OF LOANS A&E

Washington,
Reserve Banks.

June 17, 1942.

Boston, Mass.
New York, N. Y.
Philadelphia, Pa.
Cleveland, Ohio.
Richmond, Va.
Atlanta, Ga.

Chicago, Ill.
St. Louis, Mo.
Minneapolis, Minn.
Kansas City, Mo.
Dallas, Texas.
San Francisco, Calif.

PERSONAL AND CONFIDENTIAL: Reference my telegram today transmitting press statement regarding current offering STOP Please add as final sentence of last paragraph of press statement the following QUOTE These certificates will be redeemed in cash at maturity and will carry no exchange privileges. UNQUOTE

MORGENTHAU

WSS:mrp

Sent at:

Private Wire.

TREASURY DEPARTMENT
Washington

FOR RELEASE, MORNING NEWSPAPERS,
Thursday, June 18, 1942.
6/17/42

Press Service
No. 32-11

Secretary of the Treasury Morgenthau today announced the offering, through the Federal Reserve Banks, for cash subscription at par and accrued interest, of \$1,500,000,000, or thereabouts, of 5/8 percent Treasury Certificates of Indebtedness of Series A-1943. In order to insure more extensive participation on the part of banks, corporations, and others interested in a type of security carrying maturities somewhat longer than Treasury bills, the subscription books will remain open two days, and subscriptions up to \$25,000 will be allotted in full. There will be no restrictions as to the basis for subscribing to this issue.

The certificates will be dated June 25, 1942, will be payable on February 1, 1943, and will bear interest at the rate of five-eighths of one percent per annum, payable at the maturity of the certificates. They will be issued in bearer form only, with one interest coupon attached, in denominations of \$1,000, \$5,000, \$10,000 and \$100,000.

Pursuant to the provisions of the Public Debt Act of 1941, interest upon the certificates 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 for the certificates from banks and trust companies for their own account will be received without deposit, but subscriptions from all others must be accompanied by payment of 5 percent of the amount of certificates applied for.

The basis of allotment of subscriptions over \$25,000 will be publicly announced, and payment for any certificates allotted must be made or completed on or before June 25, 1942, or on later allotment. *These certificates*

The text of the official circular follows:

will be redeemed in cash at maturity and will carry no exchange privileges.

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TREASURY DEPARTMENT
Washington

FOR RELEASE, MORNING NEWSPAPERS,
Thursday, June 18, 1942.
6/17/42

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The text of the official circular follows:

UNITED STATES OF AMERICA

5/8 PERCENT TREASURY CERTIFICATES OF INDEBTEDNESS OF SERIES A-1943

Dated and bearing interest from June 25, 1942

Due February 1, 1943

1942
Department Circular No. 688

TREASURY DEPARTMENT,
Office of the Secretary,
Washington, June 18, 1942.

Fiscal Service
Bureau of the Public Debt

I. OFFERING OF CERTIFICATES

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 5/8 percent certificates of indebtedness of the United States, designated Treasury Certificates of Indebtedness of Series A-1943. The amount of the offering is \$1,500,000,000, or thereabouts.

II. DESCRIPTION OF CERTIFICATES

1. The certificates will be dated June 25, 1942, and will bear interest from that date at the rate of 5/8 percent per annum, payable on an annual basis at the maturity of the certificates. They will mature February 1, 1943, and will not be subject to call for redemption prior to maturity.

2. The income derived from the certificates shall be subject to all Federal taxes, now or hereafter imposed. The certificates 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 certificates will be acceptable to secure deposits of public moneys. They will not be acceptable in payment of taxes and will not bear the circulation privilege.

4. Bearer certificates with one coupon attached will be issued in denominations of \$1,000, \$5,000, \$10,000, and \$100,000. The certificates will not be issued in registered form.

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III. SUBSCRIPTION AND ALLOTMENT

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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 certificates 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 \$25,000 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 certificates allotted hereunder must be made or completed on or before June 25, 1942, or on later allotment. In every case where payment is not so completed, the payment with application up to 5 percent of the amount of certificates 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 certificates 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 certificates allotted, to make delivery of certificates on full-paid subscriptions allotted, and they may issue interim receipts pending delivery of the definitive certificates.

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,
Wednesday, June 17, 1942.

Press Service
No. 32-12

The Bureau of Customs announced today that preliminary reports from the collectors of customs show imports of 49,523 head of Canadian cattle weighing 700 pounds or more each (other than cows imported specially for dairy purposes), during the period April 1 to June 6, 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 19, 1942.

The Secretary of the Treasury, by this public notice, invites tenders for \$300,000,000, or thereabouts, of 85-day Treasury bills, to be issued on a discount basis under competitive bidding. The bills of this series will be dated June 24, 1942, and will mature September 17, 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 22, 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 24, 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.

Miss Simpson

TREASURY DEPARTMENT

Washington

FOR RELEASE, MORNING NEWSPAPERS,
Friday, June 19, 1942.
6/18/42

Press Service

32-14

Secretary of the Treasury Morgenthau announced last night that the subscription books for the current offering of 5/8 percent Treasury Certificates of Indebtedness of Series A-1943 will close at the close of business today, June 19.

Subscriptions addressed to a Federal Reserve Bank, or Branch, or to the Treasury Department, and placed in the mail before 12 o'clock midnight Friday, June 19, 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 around noon on Monday, June 22.

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TREASURY DEPARTMENT
Washington

FOR RELEASE, MORNING NEWSPAPERS,
Friday, June 19, 1942.
6/18/42

Press Service
No. 32-14

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JUN 19 1942

Statement by Randolph E. Paul, Tax Adviser
to the Secretary of the Treasury,
before the Ways and Means Committee
of the House of Representatives
on the transition to collection at source

When on March 3, 1942, the Secretary of the Treasury recommended the introduction of collection of part of income tax liabilities at source, it was hoped that collection at source could begin a considerable period before the close of this calendar year. This would have provided a gradual transition to collection at source.

It is now clear that it is not practicable to begin collection at source before January 1, 1943. This gives rise to a transition problem that I wish to discuss with the Committee.

1. The problem

During calendar 1943, taxpayers will be paying taxes on 1942 income at the higher rates that will be enacted in the Revenue Act of 1942. In addition, if collection at source is adopted, the taxpayer will be paying currently part of his 1943 taxes on income derived from sources subject to withholding -- wages and salaries, bond interest, and dividends. Thus, in 1943 some taxpayers will be required to pay, at one and the same time, the tax on 1942 income and part of the tax on 1943 income. Provision should be made to ease this payment problem raised by the introduction of collection at source.

The extent of the problem depends on the income of the taxpayer. The 10 percent of net income that, under the Treasury's recommendations, would be withheld at source represents a larger part of total tax liabilities the smaller the income. Except for the very bottom of the range of taxable incomes, where the total tax is in any event small, the amount withheld at source will not exceed about 60 percent of the liabilities that would accrue under the rates tentatively adopted by your Committee. For incomes above about \$25,000, the amount withheld at source will be 25 percent or less of the accruing liabilities. Unless some provision is made, individuals with stable incomes would therefore be required to pay during 1943 between 1 and 1.6 times as much as they would have to pay if there were no collection at source.

A supplementary problem is raised by persons with incomes not subject to withholding, for example, businessmen and recipients of rents. Under present arrangements, these persons would not be required to pay any of their 1943 taxes in 1943, but would get the benefit of a postponement of tax payment until 1944. This would put these individuals at an advantage compared to persons with incomes subject to withholding, who would be required to pay part of their 1943 taxes in 1943. Some provision should be made to put the two groups on a substantially similar basis.

2. Proposed solution

a. The payment problem

The payment problem can be eased by making the transition to collection at source more gradual. The Treasury therefore recommends that the transition be spread over the two years 1943 and 1944, by permitting half of the amount withheld at source in 1943 to be credited against the quarterly instalments on 1942 taxes payable in 1943. The balance of the amount collected at source would be credited against 1943 taxes payable in 1944.

Under this proposal, the taxpayer would be permitted to credit against his March 15, 1943, instalment on 1942 taxes, half of the amounts withheld at source during January and February, 1943; against his June 15 instalment, half of the amounts withheld during March, April, and May; against his September 15 instalment, half of the amounts withheld during June, July and August; and against his December 15 instalment, half of the amounts withheld during September, October, and November. 1/

Under this plan, slightly more than half of the total amount withheld at source during 1943 would be available in March, 1944, as a credit against 1943 income tax liabilities. In this way, the transition to collection at source would be spread over the two years, 1943 and 1944. (Example 1 illustrates the operation of the proposal).

b. Income not subject to withholding

Persons with incomes that are and those with incomes that are not subject to withholding can be put on an approximate parity by requiring all taxpayers to pay a part of their 1942 tax liabilities payable in 1943 in one lump sum in March rather than in quarterly instalments. The lump sum payment required would correspond to the amount withheld at source from persons subject to withholding. Those subject to withholding would be able to pay this amount in the form of a credit for taxes withheld at source; those not subject to withholding would have to pay this amount in cash, thereby reducing the amount of tax postponed.

1/ Persons taking a credit against 1942 liabilities would be required to submit receipts for taxes withheld at source.

Under the proposal made above to solve the payment problem, persons all of whose income is subject to withholding at source will pay on their 1943 liabilities during 1943 an amount equal to 5 percent of their net income in excess of personal exemptions and dependent credits, the other 5 percent withheld at source being allowed as a credit against 1942 liabilities payable in 1943. Consequently, the simplest procedure would be to require all persons to pay in a lump sum on March 15, 1944, 5 percent of surtax net income in excess of personal exemptions and dependent credits plus $1/4$ of the balance of their tax liabilities on 1943 income. This amount could be paid either in the form of a credit for taxes withheld at source or in cash. The same treatment would be followed after the transition period 1943-1944 is over except that 10 percent would be substituted for 5 percent to allow for the larger credits that would be available to persons subject to withholding at source. (Example 2 illustrates the operation of this proposal).

This procedure reduces substantially the advantage to persons with income from sources not subject to withholding at source. However, it does not eliminate it entirely. These persons would still have an $8\frac{1}{2}$ months postponement of taxes, compared with individuals subject to withholding at source for whom the average date of payment of taxes would be July 1. 1/

1/ If it were desired to lessen or eliminate this advantage, the amount payable on March 15, 1944, could be increased, say to 10 percent of surtax net income. This would raise no difficulties for persons none of whose income was subject to withholding: they would be required to pay 10 percent of their surtax net income plus $1/4$ of the balance of their tax liabilities in March, 1944. A problem would arise for persons receiving income both from sources subject to withholding and from sources not subject to withholding. To solve this problem, the taxpayer could be required to pay in cash in March, 1944, twice the difference between 5 percent of surtax net income and the credit for taxes actually withheld at source plus $1/4$ of the balance of his tax liabilities. Doubling the difference would have the same effect as requiring persons none of whose income is subject to withholding to pay liabilities equal to 10 percent of their surtax net income in one lump sum.

Example 1

Proposal for easing the payment
problem

The following example illustrates how this proposal for spreading the transition to collection at source over 1943 and 1944 would operate for a married man with no dependents and with a net income in 1942, 1943 and 1944, of \$2,500 before exemptions, all from sources subject to withholding.

1.	Tax liability on 1942 or 1943 income	\$ 219
2.	Amount collected at source in 1943 or 1944	130
3.	Amount collected at source each month	10.83
<u>Without special payment provision</u>		
4.	Total amount payable in 1943 (item 1 plus item 2)	349
5.	Total amount payable in 1944 (item 1 minus item 2, amount collected at source in 1943, plus item 2, amount collected at source in 1944)	219
<u>With special payment provision</u>		
6.	Amount of 1942 tax liability payable on Mar. 15, 1943 (1/4 of item 1)	54.75
7.	Credit for amount collected at source (1/2 of amount collected at source in January and February, 1943)	10.83
8.	Balance due on March 15, 1943 (item 6 minus item 7)	43.92
9.	Amount of 1942 tax liability payable on	
	(a) June 15, 1943	54.75
	(b) September 15, 1943	54.75
	(c) December 15, 1943	54.75
10.	Credit for amount collected at source (1/2 of amount collected at source in preceding 3 months)	16.25
11.	Balance due on	
	(a) June 15, 1943	38.50
	(b) September 15, 1943	38.50
	(c) December 15, 1943	38.50
12.	Amount collected at source in 1943 allowed as a credit against 1942 income tax liabilities (item 7 plus 3 times item 10)	59.58
13.	Balance collected at source in 1943 available as a credit against 1943 income tax liabilities payable in 1944 (item 2 minus item 12)	70.42
14.	Total amount paid in quarterly instalments during 1943 (item 8 plus item 11 a, b, and c)	159.42
15.	Total amount payable in 1943 (item 14 plus item 2, amount collected at source)	289.42
16.	Total amount payable in 1944 (item 1 minus item 13, plus item 2)	278.58

Example 2

Proposal for persons not subject to
withholding at source

The following example illustrates how the proposal for persons not subject to withholding at source would work for a married person with no dependents and with a net income in 1943 of \$2,500 before exemptions, all from sources not subject to withholding.

1. Tax liability on 1943 income (House Ways and Means Committee rates)	\$ 219
2. Surtax net income	\$1,300
3. 5 percent of surtax net income (5 percent of item 2)	\$ 65
4. Balance of tax liability (item 1 minus item 3)	\$ 154
5. 1/4 of balance of tax liability	\$ 38.50
6. Amount due on March 15, 1944 (item 3 plus item 5)	\$ 103.50
7. Amount due in each of last 3 quarters	\$ 38.50

Example illustrating transition to collection
at source

The following example illustrates the transition to collection at source over 1943 and 1944, (1) if the amount collected at source in 1943 was applied entirely to 1943 tax liabilities and (2) if approximately half the amount collected at source in 1943 was treated as a payment of 1942 tax liabilities. The example is for a married man with no dependents and with an annual salary of \$2,620, no other income, deductions of \$120, and thus a net income each year of \$2,500 before exemptions.

1. 1943 collection at source applied entirely
to paying 1943 tax liabilities

	: Payments applied to			: Total
	: tax liabilities for			: amount
	: 1942	: 1943	: 1944	: paid
<u>Paid in 1943</u>				
Collected at source		\$ 130		\$ 130
By installments	\$ 219			219
Total paid in 1943	\$ 219	\$ 130		\$ 349
<u>Paid in 1944</u>				
Collected at source			\$ 130	\$ 130
By installments		\$ 89		\$ 89
Total paid in 1944		\$ 89	\$ 130	\$ 219
Total, 1943 and 1944	\$ 219	\$ 219	\$ 130	\$ 568

2. 1943 collection at source treated as part payment of
1942 and part payment of 1943 tax liabilities

	: Payments applied to			: Total
	: tax liabilities for			: amount
	: 1942	: 1943	: 1944	: paid
<u>Paid in 1943</u>				
Collected at source	\$ 59.58	\$ 70.42		\$ 130.00
By installments	159.42			159.42
Total paid in 1943	\$ 219.00	\$ 70.42		\$ 289.42
<u>Paid in 1944</u>				
Collected at source			\$ 130.00	\$ 130.00
By installments		\$ 148.58		\$ 148.58
Total paid in 1944		\$ 148.58	\$ 130.00	\$ 278.58
Total, 1943 and 1944	\$ 219.00	\$ 219.00	\$ 130.00	\$ 568.00

In 1945 and subsequent years \$130 would be collected at source and applied to the payment of current year liabilities while \$89 would be paid in March or in installments to complete the payment of the previous year's liabilities.

TREASURY DEPARTMENT

Washington

FOR IMMEDIATE RELEASE,
Monday, June 22, 1942.

Press Service

32-15

Secretary of the Treasury Morgenthau today announced the subscription figures and the basis of allotment for the cash offering of 5/8 percent Treasury Certificates of Indebtedness of Series A-1943.

Reports received from the Federal Reserve Banks show that subscriptions aggregate \$3,113,000,000. Subscriptions in amounts up to and including \$25,000, totaling about \$61,000,000, were allotted in full. Subscriptions in amounts over \$25,000 were allotted 50 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.

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TREASURY DEPARTMENT
Washington

FOR IMMEDIATE RELEASE,
Monday, June 22, 1942.

Press Service
No. 32-15

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TREASURY DEPARTMENT
Washington

FOR IMMEDIATE RELEASE,
Monday, June 22, 1942.

Press Service
No. 32-16

Secretary Morgenthau today announced that the Foreign Funds Control had uncovered assets in various New York banks amounting to over \$10 million in securities and cash accounts, all owned by Henry M. Blackmer.

Henry M. Blackmer fled from the United States to France when the Government initiated investigation of the Teapot Dome oil fraud in which he was wanted as a principal witness.

During the next few years his passport was revoked and he was indicted on various counts including income tax evasion and perjury in connection with his income tax returns, and a warrant was issued for his arrest. Numerous attempts to extradite him from France were unsuccessful and at various times between 1927 and 1932 substantial fines for contempt of court were levied against his American assets. Indictments against Blackmer are still outstanding and he is regarded as a fugitive from justice. Blackmer is now believed to be in Switzerland.

Included in the assets uncovered by the Foreign Funds Control are \$3,865,000 United States of America Treasury Notes Series A due June 15, 1943, \$3,250,000 United States of America Treasury Notes Series B due March 15, 1944, and several million dollars in municipal issues. Blackmer was not holding his assets in his own name but had such assets concealed in "numbered" accounts and in the accounts of foreign banks.

All of these millions of dollars of assets owned by Blackmer have been effectively frozen by the Foreign Funds Control and the Government agencies having a possible claim against Blackmer have been advised of the existence of such assets in New York.

TREASURY DEPARTMENT
Washington

FOR RELEASE, MORNING NEWSPAPERS,
Tuesday, June 23, 1942.
6/22/42

Press Service
No. 32-17

The Secretary of the Treasury announced last evening that the tenders for \$300,000,000, or thereabouts, of 85-day Treasury bills to be dated June 24 and to mature September 17, 1942, which were offered on June 19, were opened at the Federal Reserve Banks on June 22.

The details of this issue are as follows:

Total applied for- \$709,632,000
Total accepted - 301,249,000

Range of accepted bids:

High	- 99.935	Equivalent	rate	approximately	0.275	percent
Low	- 99.913	"	"	"	0.368	"
Average						
Price	- 99.914	"	"	"	0.362	"

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

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TREASURY DEPARTMENT
Washington

FOR IMMEDIATE RELEASE,
Wednesday, June 24, 1942.

Press Service
No. 32-18

The Bureau of Customs announced today that preliminary reports from the collectors of customs show imports of 49,561 head of Canadian cattle weighing 700 pounds or more each (other than cows imported specially for dairy purposes), during the period April 1 to June 13, 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 IMMEDIATE RELEASE,
Wednesday, June 24, 1942.

Press Service
No. 32-19

Mayor Frank J. Lausche of Cleveland will present a check for more than \$300,000 to Secretary Morgenthau tomorrow afternoon and will tell him and Assistant Secretary of War for Air Robert A. Lovett that the sum represents outright contributions of the people of Cleveland to buy a four-motored bomber for the Army.

President M. J. Fleming of the Federal Reserve Bank of Cleveland, who has been treasurer of the fund, will join the mayor in describing how it developed spontaneously from nickel and dime donations that rolled in after Pearl Harbor.

Treasury officials say that the check will be the largest single contribution made to the Government since military appropriations were first expanded in 1940. It will bring the total of outright gifts to Uncle Sam's war chest since last December 7 to approximately \$2,000,000, more than eighty times the total amount given to the Treasury during the two years of the first World War.

On behalf of the donors, Mayor Lausche will request the Army to name the bomber for the city of Cleveland and send it into action as soon as possible. Cleveland officials reported that every penny contributed to the fund became a part of the final check and that the most money flowed from factories and offices whose employees were already participating 100 per cent in the Treasury's War Savings payroll allotment program.

John C. Birden, regional director of the War Production Board, and Richard E. Kroesen, Cuyahoga county (Ohio) commander of the American Legion, will join Mayor Lausche and President Fleming in the presentation of the check.

-oOo-

(The check will be handed over to Secretary Morgenthau at 3 p. m. Photographers are invited.)

TREASURY DEPARTMENT
Washington

FOR RELEASE, MORNING NEWSPAPERS,
Friday, June 26, 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 July 1, 1942, and will mature September 30, 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 29, 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 July 1, 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 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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Indefinitely after the closing hour, orders will be opened at the Federal Reserve Bank and branches following which public announcements will be made by the Secretary of the Treasury of the amount and price range of accepted bids. These participating bidders 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 bidders, in whole or in part, and his action in any such respect shall be final. Payment of accepted bids and the interest thereon must be made or completed at the Federal Reserve Bank in each of such immediately available funds as

Action of the Ways and Means Committee

on the

Revenue Bill of 1942

June 26, 1942

(Revised July 20, 1942 in accordance
with H.R. 7378 as passed by the
House of Representatives.)

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as passed by the House of Representatives July 20, 1942

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Estimated increase (+) or decrease (-) in revenue yield due to
 Revenue Bill of 1942 (H.R. 7378) as passed by the
 House of Representatives, July 20, 1942

(In millions of dollars)

	Increase (+), decrease (-) over yield of present law
Income and excess-profits taxes:	
Corporation:	
Income	+ 383.4
Excess profits	+ 2,315.8
Declared value excess-profits tax	- 58.5
Total corporation income and excess profits taxes	+ 2,640.7
Individual income tax	+ 2,872.3
Total income and excess profits taxes	+ 5,513.0
Miscellaneous internal revenue:	
Capital stock tax	- 51.5
Estate tax	- 14.8
Gift tax	+ 7.7
Total	- 58.6
Liquor taxes:	
Distilled spirits <u>1/</u>	+ 266.1
Fermented malt liquors <u>1/</u>	+ 61.8
Wines <u>1/</u>	+ 11.6
Total liquor taxes	+ 339.5
Tobacco taxes:	
Cigarettes <u>1/</u>	+ 51.4
Tobacco, smoking <u>1/</u>	+ 11.8
Cigars (large) <u>1/</u>	+ 15.8
Cigarette papers and tubes	+ 7.8
Total tobacco taxes	+ 86.8
Manufacturers' excise taxes:	
Lubricating oil	+ 13.9
Photographic apparatus	+ 7.6
Rubber articles	- 8.9
Electric signs	- .1
Washing machines	- .1
Optical equipment	- .3
Total manufacturers' excise taxes	+ 12.1
Miscellaneous taxes:	
Telephone, telegraph, radio and cable facilities, leased wires, etc.	+ 26.8
Telephone bill	+ 36.8
Transportation of persons	+ 33.9
Coin-operated amusement and gaming devices	+ 4.4
Transportation of property	+ 252.9
Pari-mutuel wagering	+ 23.6
Total miscellaneous taxes	+ 378.4
Total miscellaneous internal revenue	+ 753.2
Total internal revenue	+ 6,271.2

Treasury Department, Division of Research & Statistics. July 20, 1942.

See next page for footnotes.

1/ Excluding nonrecurring floor stocks taxes which are estimated to yield: Distilled spirits, \$90.0 millions; fermented malt liquors, \$2.0 millions; wines, \$2.3 millions; cigarettes, \$5.8 millions; smoking tobacco, \$1.4 millions; cigars (large), \$1.6 millions.

Note: All estimates show full year effect assuming all proposed changes were fully reflected in revenue for an entire year. Estimates of income and excess profits taxes and the gift tax are at levels of income estimated for calendar year 1942. All other estimates are at levels of income estimated for fiscal year 1943.

Present law, Treasury proposal, and Committee
action on Revenue Bill of 1942

(The Committee action and H.R. 7378 are the same except for corporate rates)

	<u>Present law</u>	<u>Treasury proposal</u>	<u>Committee action</u>
A. <u>Corporation taxes</u>			
1. <u>Normal tax</u>			
Corporations with net income of not more than \$25,000:			
Not in excess of \$5,000	15%	15%	15%
Next \$15,000	17	17	17
Next \$5,000	19	19	19
Corporations with a net income over \$25,000:			
	24	24	24
Notch provision:			
Alternative tax	\$4,250 plus 37% of excess over \$25,000	\$4,250 plus 31% of excess over \$25,000	\$4,250 plus 31% of excess over \$25,000
Top income to which applicable	\$38,461.54	\$50,000	\$50,000
2. <u>Surtax</u> *			
Corporations with net income of not more than \$25,000			
	6	16	10
Corporations with net income over \$25,000:			
First \$25,000	6	31	21
Over \$25,000	7	31	21
Notch provision:			
Alternative tax	None (bracket rates)	\$4,000 plus 46% of excess over \$25,000	\$2,500 plus 32% of excess over \$25,000
Top income to which applicable	-	\$50,000	\$50,000

Note: Under the Committee action the normal and surtax rates do not apply to the balance of adjusted excess profits net income remaining after excess profits tax.

* In final Committee action the surtax rate for corporations with net income over \$25,000 was reduced from 21% to 16% and the excess profits tax rate was increased from 87½% to 90%. The bill, H.R. 7378, as passed by the House, retained the surtax rate of 21% and adopted the 90% excess profits rate.

	<u>Present law</u>	<u>Treasury proposal</u>	<u>Committee action</u>
3. <u>Relief for corporations with decreased earnings</u>	None	*	None

* Corporations with current year surtax net income less than the average surtax net income for the base period years 1936-1939 should be allowed a tax credit of 10 percent of the difference but not to exceed the smaller of (a) 20 percent of surtax net income or (b) the excess of the surtax computed without benefit of this provision over \$4,000. This provision should apply only to corporations with net income over \$25,000 that do not use the alternative rate under the notch provision. In the light of the Committee's tentative action in adopting a combined normal and surtax rate of 40 percent, the Treasury withdrew its recommendation. Later the Committee raised the combined rate of 40 percent to 45 percent.

4. Excess profits tax

a. Excess profits credit

(1) Invested capital method:

First \$5 million of invested capital	8%	8%	8%
Next \$5 million	7	7	7
Next \$190 million	7	7	6
Balance	7	7	5

(2) Income method:

Portion of average earnings in base period 1936-1939	95	95	95
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b. <u>Specific exemption</u>	\$5,000	\$5,000	\$10,000
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Note: The Treasury agreed in advance to the modifications in the excess profits credit and specific exemption indicated above under Committee action.

c. Excess profits tax rates **

Adjusted excess profits net income

First \$20,000	35%	50%	90.0%
\$ 20,000 to \$ 50,000	40	55	90.0
50,000 to 100,000	45	60	90.0
100,000 to 250,000	50	65	90.0
250,000 to 500,000	55	70	90.0
Over 500,000	60	75	90.0

** See note on page 1.

	<u>Present law</u>	<u>Treasury proposal</u>	<u>Committee action</u>
c. <u>Excess profits tax rates</u> continued			

Note: (1) Under the Committee action the normal and surtax rates do not apply to the balance of adjusted excess profits net income remaining after excess profits tax.

(2) Under the procedure in the present law corporations with taxable years beginning after December 31, 1941, would be subject to the new and higher income and excess profits tax rates. This would permit corporations with fiscal years to escape the full import of the new rates on part of the incomes attributable to the calendar year 1942. The Committee voted to follow the 1932 Act or some similar procedure to obviate this result, thus making the new rates applicable to all corporate incomes after January 1, 1942.

d. General relief: (A separate statement is available outlining the Treasury's proposals which were accepted by the Committee.)

5. Post-war credit

* (a) Statement of Secretary, March 3, 1942: "However, it is recognized that very high top, or so-called 'marginal rates,' may leave little incentive for the maintenance of efficiency in business operation. Furthermore, after the war there may well be need for a large volume of expenditure in readjusting industry and maintaining employment. For these reasons it is believed desirable that in the case of any dollar of corporate profits the receipt of which results in an increase in tax beyond perhaps eighty cents, the additional tax on such dollar shall be held by the Government to the account of the corporation and be returnable within a limited period after the war, in those cases where it is spent for new and additional capital equipment or otherwise is spent in the additional employment of labor."

(b) Proposal made jointly by Mr. Paul, Tax Adviser to the Secretary of the Treasury, and Mr. Stam, of the staff of the Joint Committee on Internal Revenue Taxation, on June 18, 1942:

"1. The amount to be returned shall be 14 percent of the taxpayer's adjusted excess-profits net income.

"2. The amounts returned shall not be included in corporate income subject to tax.

"3. The amounts shall be set aside in a special fund to be held by the Treasury to the credit of the taxpayer who shall be given a non-negotiable, non-interest-bearing certificate as evidence of his claim.

"4. The amounts returned to the taxpayers are intended for use in the conversion of their businesses to peacetime activity or in the maintenance of employment in business activity. To this end the amounts returned shall not be available for the following purposes:

- (1) The payment of cash or stock dividends.
- (2) Bonuses or salary increases to executives.
- (3) The increase of cash reserves unless employed in the business.
- (4) The purchase of securities.

"5. The amounts returned to the taxpayer shall be returned in the following manner: First-year collections shall be paid within the third year after the cessation of hostilities; second-year collections within the fourth year; third-year collections within the fifth year; balance within the sixth year after the cessation of hostilities."

This specific proposal was rejected by the Committee.

** The Committee tentatively adopted and then rejected the following formula:

1. The amount returned be 14 percent of the adjusted excess-profits net income--the base upon which the excess-profits tax is computed. (Giving effect to the proposed refund, therefore, the net excess-profits tax rate will be 80 percent.)

2. The refund be effected by the redemption of bonds issued to the taxpayer.

3. The bonds be issued within 3 months after the payment of the related tax, or the final quarterly installment thereof, for any taxable year.

4. The bonds mature, subject to prior call, as follows: One-third at the end of the second calendar year following the cessation of hostilities; one-third at the end of the third such year; and one-third at the end of the fourth such year.

5. The bonds shall be callable, upon 3 months' notice, at any time prior to maturity date.

6. The maturity date of all the bonds be advertised within 30 days after the cessation of hostilities, and in such a way that the maturity date of any bond shall be readily ascertainable.

7. The bonds be issued under the provisions of the Second Liberty Bond Act, thus payable without the necessity of a special appropriation.

8. The bonds be nonnegotiable and non-interest-bearing.

9. The bonds be assignable after the end of the war.

10. The amount of bonds issuable to any taxpayer in consideration of the tax paid for any taxable year be adjusted for any overage or shortage in the aggregate amount issued to such taxpayer for the prior year or years, any overage finally remaining to be adjusted by cancellation or, at the election of the taxpayer, by purchase at face value.

11. No amount be included in gross income for any year by reason of the receipt of bonds or of amounts paid for their redemption.

12. No amount be available, by reason of the issue of bonds or their redemption, for any of the following purposes:

- (1) The payment of dividends in cash or stock.
- (2) The payment of bonuses or salary increases to executives.
- (3) The increase of cash reserves unless employed in the business.
- (4) The purchase of securities.

13. The amounts refunded to be subject to a "capital gains" tax of 15 percent.

	<u>Present law</u>	<u>Treasury proposal</u>	<u>Committee action</u>
6. <u>Consolidated returns</u>	Not allowed for normal tax and surtax (except for railroads, etc., and certain corporations in foreign trade.) Allowed for excess profits tax.	Allow for both income and excess profits tax	Allow for both income and excess profits tax imposing, however, a differential tax of 2% of surtax net income for the privilege
7. <u>Nonresident foreign corporations</u>			
Tax rate	27 $\frac{1}{2}$ %	Not specified- to be aligned	37%
Withholding of tax at source (Sec. 144)	27 $\frac{1}{2}$ %	Not specified- to be aligned	37%

	<u>Present law</u>	<u>Treasury proposal</u>	<u>Committee action</u>
8. <u>Personal holding companies</u>			
Not in excess of \$2,000	71 $\frac{1}{2}$ %	Not specified	75%
In excess of \$2,000	81 $\frac{1}{2}$ %	Not specified	85%

Note: The Committee action on points 7 and 8 was taken at the suggestion of the Treasury.

9. Capital stock tax and declared value excess profits tax

Capital stock tax	\$1.25 for each \$1,000 of adjusted declared value	Repeal	Taxes retained but provision was made for the annual redeclaration of capital stock value
Declared value excess profits tax net income:			
In excess of 10% and not in excess of 15% of adjusted declared value	6.6%	Repeal	6.6%
In excess of 15% of adjusted declared value	13.2%	Repeal	13.2%

B. Individual income tax

1. Rates

a. <u>Normal tax</u>	4%	4%	6%
b. <u>Surtax</u>	(See attached Table 1)		

Note: The Treasury recommended that the first \$2,000 bracket be subdivided into four \$500 brackets. Under the Committee action the first \$2,000 bracket is retained.

c. <u>Optional tax on individuals with gross income from certain sources of \$3,000 or less</u>	(See attached Table 2)		
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Note: Under present law taxpayers having a married status on the last day of the taxable year are entitled to a married person's exemption for the entire year. Under the Committee action those having a married status on July 1 of the taxable year receive a married person's exemption.

	<u>Present law</u>	<u>Treasury proposal</u>	<u>Committee action</u>
d. <u>Non-resident alien individuals not engaged in trade or business within the United States and not having a place of business therein</u>			

Tax rate	27 $\frac{1}{2}$ %	Not speci- fied - to be aligned	37%
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Note: The 27 $\frac{1}{2}$ % rate under present law does not apply to receipts of more than \$23,000; the 37% rate under Committee action does not apply to non-resident alien individuals with aggregate receipts of more than \$22,900.

Withholding of tax at source (Section 143)	27 $\frac{1}{2}$ %	Not speci- fied - to be aligned	37%
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2. Exemptions

a. Single person	\$ 750	\$ 600	\$ 500 *
Married person	1,500	1,200	1,200 *
Dependent	400	300	400

* In addition, members of the armed forces are allowed an exclusion from gross income of \$250 for a single person and \$300 for a married person. Thus in effect the present exemptions are retained for the armed forces on active duty.

Note: The original Treasury proposal of March 3, 1942, recommended exemptions of \$750, \$1,500 and \$400. In a letter to the Chairman May 6, 1942, the Secretary recommended the lowering of exemptions to \$600, \$1,200 and \$300.

b. Children 18-21 attending school	Not included as dependents	Include as dependents	Not included as dependents
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3. Earned income credit

For normal tax only	10% of earned net income but not in excess of the entire net income	Repeal	Retain without change
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4. Collection at source

None	Rate 10%*	The plan was adopted with the revision indicated in the note on the fol- lowing page.
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* Collect the income tax at source with respect to salaries and wages, dividends and bond interest. For salaries and wages, allow personal exemptions, credit for dependents, and deductions equal to 10 percent of exemptions and credit for dependents.

Originally the Treasury recommended that the Secretary have discretion to collect at source at a rate up to 10 percent, since it was not known how soon and to what extent it might be necessary to speed up tax collections to check inflation. Subsequently, the Treasury asked outright for a 10 percent rate. On June 19, 1942, the Treasury submitted a plan to ease the transition to collection at source by spreading the impact of the 10 percent tax over two transition years 1943 and 1944. Under this plan one-half the amount collected at source during 1943 would be credited against the instalment payments on 1942 liabilities and the balance would be credited against the quarterly payment on 1943 liabilities due in March, 1944. It was suggested further that for the purpose of equalizing the impact of collection at source on persons with sources of income subject to withholding and persons not subject to withholding, all taxpayers be required to pay 5 percent of net income plus one-fourth the balance of the liabilities for 1943 in March, 1944.

In the course of the discussion in the Committee, it was suggested by a member of the Committee that a simpler method of transition would be to withhold at a rate of only 5 percent in 1943 and have all of the withheld tax apply as part payment of 1943 tax liabilities. The 10 percent rate would be imposed first in 1944, applicable as part payment of 1944 tax liabilities. It was informally the sense of the Committee that the Treasury and Joint Committee staffs should study this suggestion and report back. In its final action the Committee adopted this suggested revision.

	<u>Present law</u>	<u>Treasury proposal</u>	<u>Committee action</u>
5. <u>Joint returns</u>	Optional	Mandatory	Optional *
5a. <u>Working wife allowance</u>	None	**	None

* The Committee had tentatively adopted mandatory joint returns, but subsequently reversed its action.

** On March 30, 1942, the Treasury more specifically recommended an allowance as follows: "Where the wife works outside the home, additional household expenses usually are incurred which are not present where the wife is able to devote her full time to the maintenance of the home. For this reason, it is suggested that an additional credit be provided as follows:

"There should be allowed as a credit against the tax upon the family an amount equal to 10 percent of the wife's earnings. Such credit, however, should not exceed \$100.

"A similar credit should be allowed where a person occupying the status of head of the family, such as a widow, works."

	<u>Present law</u>	<u>Treasury proposal</u>	<u>Committee action</u>
D. <u>Excise taxes</u> Continued			
1. <u>Recommended increases</u> Continued			
Other wines, per 1/2 pint			
Sparkling	7¢	10¢	10¢
Artificially carbonated	3½¢	5¢	5¢
Liqueurs, cordials, etc.	3½¢	5¢	5¢
Imported bitters, per gallon	No excise tax		*
* The Committee tentatively adopted a tax of \$6 and subsequently eliminated it from the Bill.			
b. <u>Tobacco</u>			
Cigarettes, per thousand			
Small			
10¢ brands	\$ 3.25	\$ 3.50	\$ 3.50
15¢ brands	3.25	4.00	3.50
Large			
Not over 6½" long	7.80	9.60	8.40
Over 6½" long	3.25	4.00	3.50
Smoking tobacco, per pound	18¢	36¢	24¢
Cigars, per thousand, retailing at:			
A - Not over 2.5 cents	\$ 2.00	\$ 2.50	\$ 2.50
B - 2.6 to 4.0 "	2.00	3.50	3.50
C -(4.1 " 5.0 ")	2.00)	5.00	5.00
(5.1 " 6.0 ")	3.00)		
D - 6.1 " 8.0 "	3.00	7.00	7.00
E - 8.1 " 11.0 "	5.00	10.00	10.00
F -11.1 " 15.0 "	5.00	13.50	13.50
G -15.1 " 20.0 "	10.50	18.00	18.00
H -20.1 " 30.0 "	13.50	25.00	25.00
I -30.1 and over	13.50	35.00	35.00

Note: Originally, on March 3, 1942, the Treasury proposed rates as follows:

	<u>Present law</u>	<u>Treasury proposal</u>	<u>Committee action</u>
D. <u>Excise taxes</u> Continued			
1. <u>Recommended increases</u> Continued			
b. <u>Tobacco</u> Continued			
Not over 2.5 cents, \$2.50; 2.6 to 5 cents, \$5.00; 5.1 to 8 cents, \$7.50; 8.1 to 10 cents, \$10.00; 10.1 to 15 cents, \$15.00; 15.1 to 20 cents, \$20.00; 20.1 to 30 cents, \$25.00; 30.1 and over, \$40.00. This schedule was revised upon representations made by manufacturers and workers in the industry.			
Cigarette paper and tubes	<u>Papers:</u> (per pkg.) Not over 25 sheets - empty, 26-50 sheets - each additional 50 sheets or fraction thereof - 1/2¢	1/2¢ per 25 papers or tubes or fraction thereof	1/2¢ per 25 papers or tubes or fraction thereof
	<u>Tubes:</u> 1¢ per pkg. of 50 or fraction thereof		
c. <u>Gasoline, per gallon</u>	1 1/2¢	3¢	1 1/2¢
d. <u>Lubricating oil, per gallon</u>	4 1/2¢	10¢	6¢
e. <u>Photographic apparatus</u>			
Unexposed film and sensitized paper and photographic plates	10% of manufacturers' sales price	25%	15%
Other photographic apparatus	10% of manufacturers' sales price	25%	25%, exempting cameras weighing more than 4 lbs.

	<u>Present law</u>	<u>Treasury proposal</u>	<u>Committee action</u>
f. <u>Carbonated soft drinks</u>			
Bottle not over 33 fluid ounces retailing at			
Not over 10¢	No tax	1¢ per bottle	No tax
Over 10¢ not over 20¢	" "	2¢ " "	" "
Over 20¢	" "	3¢ " "	" "
Bottle over 33 fluid ounces	" "	36% of bottlers' selling price	" "
Carbonic acid gas used in unbottled soft drinks	" "	80¢ per pound	" "
g. <u>Candy and chewing gum</u>			
	" "	15% of manufacturers' sales price	" "
h. <u>Communications Service</u> ^{1/}			
Telephone and radio-telephone toll service charge of more than 24¢	5¢ tax on charge of 25 to 50¢; additional 5¢ tax on each 50¢	20% of total charge*	20% of total charge
Telegraph, cable and radio dispatch or message	10% of charge	15% of charge	15% of charge
Leased wire services	10% of charge	15% of charge	15% of charge
Local telephone service	6% of bill	10% of charge	10% of charge
Public station coin-operated telephone service charges under 25¢	Exempt	Exempt*	Exempt

* Originally the Treasury proposed a 5¢ tax on charges of 25 to 39 cents; 10-cent tax on charges of 40-64 cents; 15¢ tax on charges of 65 to 99 cents; additional 5¢ tax on each 25 cents or fraction thereof. This proposal was revised at the suggestion of the industry to simplify the computation of the tax.

^{1/} Revised Treasury proposal.

	<u>Present law</u>	<u>Treasury proposal</u>	<u>Committee action</u>
h. <u>Communications Service</u> Continued			

* Originally the Treasury recommended a tax of 10 percent of service charge. This recommendation was changed on representations of the industry to the effect that the tax could not be shifted to consumers.

i. Transportation of persons

Transportation charges	5% of amount paid	15%	10%
Seats and berths	5% of amount paid	20%	10%

j. Transportation of oil
by pipe line

	4 $\frac{1}{2}$ % of amount paid	10% *	4 $\frac{1}{2}$ %
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* The Treasury withdrew its proposed increase before the action of the Committee.

2. Recommended for repeal

a. <u>Commercial washing machines</u>	10% of mfrs.' sales price	Repeal	Repealed
b. <u>Optical equipment</u>	10% of mfrs.' sales price	Repeal	Repealed
c. <u>Electric signs and advertising devices</u>	10% of mfrs.' sales price	Repeal	Repealed
d. <u>Rubber articles</u>	10% of mfrs.' sales price	Repeal	Repealed

3. Submitted by request but not
included in Treasury recom-
mendations

a. <u>Freight and express</u>	No tax		5% of amount paid by either contract or common car- riers, except in the case of coal the tax is 5¢ per long ton.
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	<u>Present law</u>	<u>Treasury proposal</u>	<u>Committee action</u>
b. <u>Pari-mutuel wagers</u>	No tax		5% of pool
c. <u>Coin-operated amusement and gaming devices</u>			
1¢ gaming devices paying prizes of not more than 5¢	\$50		\$10
Other gaming devices	\$50		\$50
Amusement devices:			
Pinball machines	\$10		\$10
Other amusement devices	Exempt		\$10
d. <u>Barber and beauty shop services</u>	No tax		Suggested tax of 10% of charge was rejected
e. <u>Electrical energy</u>			
Rate	3-1/3%		Suggested in- crease to 5% was rejected
Sales by publicly owned plants	Exempt		Suggested elimination of exemption rejected
f. <u>Manufactured and natural gas</u>	No tax		Suggested tax of 5% of amount paid rejected
g. <u>Sugar</u>	1/2 cent per pound		Suggested increase to 1 cent re- jected
h. <u>Coffee</u>	No tax		Suggested tax of 5 cents per pound rejected

	<u>Present law</u>	<u>Treasury proposal</u>	<u>Committee action</u>
i. <u>Tea</u>	No tax		Suggested tax of 10 cents per pound rejected
j. <u>Cocoa</u>	No tax		Suggested tax of 5 cents per pound rejected
k. <u>Radio broadcasting</u>	No tax		Suggested tax based on (a) transmission power or (b) net time sales rejected*

* Suggestion was that tax be higher of (a) or (b):

(a) Transmission power tax at following rates: 100 watts, \$100; 250 watts, \$250; 500 watts, \$250; 1,000 watts, \$350; 5,000 watts, \$500; 7,500 watts, \$750; 10,000 watts, \$800; 25,000 watts, \$900; 50,000 watts, \$1,000.

(b) Net time sales tax at following rates: First \$50,000 net time sales in excess of \$100,000 exemption, 6 percent; next \$350,000, 8 percent; balance, 10 percent.

l. <u>Bank checks</u>	No tax		Suggested tax of 2 cents per check rejected
m. <u>Withdrawals from bank accounts</u>	No tax		Suggested tax of 1/100 of 1% rejected

Note: The Committee exempted from the tax on business machines cash registers used in over-the-counter sales of merchandise; and from the tax on musical instruments, organs sold under a bond fide contract entered into before October 1, 1941.

	<u>Present law</u>	<u>Treasury proposal</u>	<u>Committee action</u>
E. <u>State and local tax-exempt securities</u>	Interest exempt from both normal tax and surtax	Repeal present exemption for both future and outstanding securities	Present exemption retained
F. <u>Percentage depletion and intangible development expenses</u>			
1. <u>Percentage depletion</u>			
a. Oil and gas wells	27 $\frac{1}{2}$ percent of gross income	Eliminate	27 $\frac{1}{2}$ percent of gross income
b. Sulphur mines and deposits	23 percent of gross income	Eliminate	23 percent of gross income
c. Metal mines	15 percent of gross income	Eliminate	15 percent of gross income
d. Coal mines	5 percent of gross income	Eliminate	5 percent of gross income
e. Fluorspar	No percentage depletion		15 percent of gross income
Note: Under present law and Committee action percentage depletion is limited to an amount not in excess of 50 percent of net income computed without allowance for depletion.			
2. <u>Intangible development expense</u>	Option to charge to expense or capitalize*	Capitalize	Option to charge to expense or capitalize*

* 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.

	<u>Present law</u>	<u>Treasury proposal</u>	<u>Committee action</u>
G. <u>Capital gains and losses</u>			
1. <u>Individuals</u>			
a. <u>Classes of gains and losses</u>			
(1) Short-term	Assets held 18 months or less	Assets held 18 months or less	Assets held 15 months or less
(2) Long-term	Two classes: Over 18, not over 24 mos.; over 24 mos.	One class: Over 18 months	One class: Over 15 months
b. <u>Percentage of gain or loss taken into account</u>			
(1) Short-term	100%	100%	100%
(2) Long-term			
Not over 24 months	66-2/3	50	50
Over 24 months	50	50	50
c. <u>Maximum rate on statutory net long-term gains</u>	30	60	50
d. <u>Treatment of losses</u>			
(1) Short-term losses	Allowed solely against short gains of the succeeding year	To be allowed against short or long gains and, together with long losses, also against a maximum of \$1,000 of other income	To be allowed against short or long gains and, together with long losses, also against a maximum of \$1,000 of other income

	<u>Present law</u>	<u>Treasury proposal</u>	<u>Committee action</u>
d. <u>Treatment of losses</u> Continued			
(2) Long-term losses	Allowed against ordinary income in full	To be allowed against short and long capital gains and, together with short losses, also against a maximum of \$1,000 of other income	To be allowed against short and long capital gains and together with short losses, also against a maximum of \$1,000 of other income
e. <u>Loss carry-over</u>			
(1) Short-term	One year against short-term capital gains	Permit 5-year carry-over	Permit 5-year carry-over
(2) Long-term	No carry-over required because allowed against other income	Permit 5-year carry-over	Permit 5-year carry-over
2. <u>Corporations</u>			
a. <u>Classes of gains and losses</u>			
(1) Short-term	Assets held 18 months or less	No distinction to be made	Assets held 15 months or less
(2) Long-term	Assets held over 18 months	No distinction to be made	Assets held over 15 months
b. <u>Maximum rate on net long-term gains</u>	Corporate rate	Corporate rate	25% in lieu of corporate rate

	<u>Present law</u>	<u>Treasury proposal</u>	<u>Committee action</u>
<u>c. Offsetting of losses</u>			
(1) Short-term	Allowed solely against short-term gains	Allow against short or long-term gains	Allow against short or long-term gains
(2) Long-term	Allowed against other income in full	Allow against short or long-term gains	Allow against short or long-term gains
<u>d. Carry-over of losses</u>			
(1) Short-term	Carried forward for one year against short-term gains	Permit 5-year loss carry-over	Permit 5-year loss carry-over
(2) Long-term	No carry-forward required since offset against other income	Permit 5-year loss carry-over	Permit 5-year loss carry-over

Note: The modifications in the Treasury recommendations were agreed to by the Treasury in advance.

H. Insurance companies

1. Life insurance tax base (Only major changes are indicated)

a. Life insurance business

Deductions from taxable investment income (underwriting income excluded)

Expenses	Investment expenses, limited to 1/4 of 1% of assets, if any expenses allocated	Investment expenses limited to 1/4 of 1% of assets plus 1/4 of excess of rate of interest actually earned over 3-3/4%, if any expenses are allocated	Investment expenses limited to 1/4 of 1% of assets plus 1/4 of excess of rate of interest actually earned over 3-3/4%, if any expenses are allocated
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	<u>Present law</u>	<u>Treasury proposal</u>	<u>Committee action</u>
H. <u>Insurance companies</u> Continued			
Reserve earnings deduction	3-3/4 percent of mean of legal reserves or actual assumption rate, if higher, but not to exceed 4 percent; no adjustment for reserve earnings derived from tax-exempt income	Percent of mean of legal reserves equal to weighted average of 3-1/4 percent and actual assumption rate, 3-1/4 percent to be weighted 65 percent and actual assumption rate, 35 percent, preliminary term reserves to be increased by 7 percent for this purpose; adjustment of deduction to eliminate double-deduction of reserve earnings derived from tax-exempt interest	Flat percentage of investment income after investment expenses and tax exempt interest, percentage to be determined by Secretary of the Treasury so as to yield same aggregate deduction for industry as under Treasury formula*

* This proposal was made by the industry and the Treasury made no objections to its acceptance.

b. Cancellable accident and health business	Same as life business where company qualifies as a life company	Add 3-1/4 percent of reserves on cancellable accident and health business; un-earned premium reserve to be not less than 25 percent of annual premiums written	Add 3-1/4 percent of reserves on cancellable accident and health business; un-earned premium reserve to be not less than 25 percent of annual premiums written
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Note: (1) The Treasury originally proposed that cancellable health and accident business be segregated and treated like insurance other than life. The modified proposal was suggested by the industry and accepted by the Treasury.

<u>Present law</u>	<u>Treasury proposal</u>	<u>Committee action</u>
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H. Insurance companies Continued

(2) Treasury recommended that non-cancellable health and accident reserves be included with life reserves in determining whether a company was a life insurance company. This recommendation was adopted.

(3) Treasury recommended that reserves of life insurance companies be treated as borrowed capital for excess profits tax purposes, and that the reserve earnings deduction be treated like interest paid on the borrowed capital. This recommendation was adopted.

2. Mutual insurance companies
other than life

a. Exemptions

Section 101 (11) has the effect of exempting practically all mutual insurance companies other than life

Exempt companies with less than \$100,000 admitted assets or less than \$50,000 net income

Exempt companies with less than \$100,000 admitted assets or less than \$50,000 net income

b. Tax base

The deduction under section 207(c)(3) has the effect of eliminating all premiums from the tax base

Eliminate deduction under 207(c)(3); permit deduction for dividends paid to policyholders in excess of investment income available for the payment of dividends; permit deduction for amounts added to surplus apportioned to policyholders

Eliminate deduction under 207(c)(3); permit deduction for dividends paid to policyholders in excess of investment income available for the payment of dividends; permit deduction for amounts added to surplus apportioned to policyholders

Note: Treasury recommended that unearned premium reserves of both mutual and stock insurance companies other than life be included as borrowed capital for excess profits tax purposes. No adjustment is to be made on income because there is no corresponding explicit interest payment. This recommendation was adopted.

	<u>Present law</u>	<u>Treasury proposal</u>	<u>Committee action</u>
3. <u>Foreign insurance</u>			
a. Policies not signed or countersigned in United States by an officer or agent of the insurer			
(1) Life insurance	No tax	Stamp tax at rate of 1 percent	Stamp tax at rate of 1 percent of premium
(2) Surety and fidelity bonds, and certain other types of casualty income	No tax	Stamp tax at rate of 4 percent	Stamp tax at rate of 4 percent of premium
(3) Reinsurance	No tax	Stamp tax at rate of 1 percent	Stamp tax at rate of 1 percent of premium
(4) Other insurance	Stamp tax at rate of 4 percent	Stamp tax at rate of 4 percent	Stamp tax at rate of 4 percent of premium
b. Policies signed or countersigned (companies doing business in the United States)			
(1) Life insurance	Taxed on share of net income from all sources which reserves on United States policies bear to total reserve	Tax on basis of United States business	Tax on basis of United States business
(2) Insurance other than life	Taxed on United States business	Tax on United States business	Tax on United States business

I. Inventory reserves

The Treasury proposed that taxpayers be permitted to set up reserves against future inventory losses through price declines, these reserves to be deductible in computing income and excess profits tax. The Committee accepted the inventory reserve proposal in principle, the provision to be included in the draft if the technical drafting details can be worked out within the time available. It was not possible to complete the draft of the inventory provision in time for the House bill. The drafting will be continued with a view to having the provision ready for the Senate Finance Committee. (A separate mimeograph outlining the proposal is available.)

J. Check list of technical and administrative amendments

Not approved

Income tax amendments

Treatment of pre-March 1, 1913, earnings and profits.
Basis of assets acquired from a decedent for capital gain and loss purposes.

Estate and gift tax amendments

Limitation on deductibility of charitable bequests.

Deferred until later legislation

Income tax amendments

Charitable organization engaged in trade or business

Approved

Income tax amendments

Taxation of mutual investment companies.
Pension trusts and other retirement plans.
Deductibility of investment expenses (Higgins case).
Treatment of income accruing at date of decedent's death (Enright case).
Alimony.
Annuity trusts.
Amortization of bond premium.
Treatment of nonbusiness bad debts.
Elimination of charge-off requirements for bad-debt deduction.
Longer statute of limitations for bad debts and worthless stock losses.
Treatment of recoveries of bad debts and previously paid taxes.
Elimination of interim report requirement under last-in first-out inventory section.
Treatment of improvements by lessee.
Treatment of interest on money borrowed to carry paid-up life insurance.
Extension of 5-year amortization provision to individuals and partnerships, and to facilities constructed after January 1, 1940, and before June 10, 1940.
Personal holding company tax relief to deficit corporations, and allied problems.
Undistributed profits tax relief to deficit corporations.
Eliminating loan and investment companies from taxation under the personal holding company tax.
Supplement R

Approved - Continued

Income tax amendments - Continued

Treatment of involuntary conversion problems.
Revisions in method of taxing income from sources without the United States.
Revision of section 107 dealing with compensation for services rendered over several years -- 36 months and 80 percent.
General procedural relief provision for taxpayers in combat zone or in enemy territories.
Modifications in the statute of limitations on refunds.
Reciprocal exemption to employees of the Philippine Government residing in the United States.
Treatment of income placed upon an annual basis.
Modification in treatment of nonresident aliens as respects requirement of office or place of business and definition of commodities.
Treatment of suits against Collectors of Internal Revenue.

Estate and gift tax matters

Treatment of renounced legacies.
Clarification of credit for property previously taxed.
Deduction for charitable pledges.
Disallowance of claims in excess of the gross estate.
Life insurance for the purposes of the estate tax.
Powers of appointment.
Community property for Federal estate tax purposes.
Reversal of gift tax and State death tax credits.

Excess-profits tax

Revision of Supplement A.
Revision of section 751.
Revision of treatment of liquidations under invested capital credit.
Revision of treatment of earnings and profits on certain reorganizations.
Clarification of computation of basis of property paid in for stock.

Note: In addition to the above amendments, suggested by the Treasury, the Committee voted to extend the applicability of section 22 (a) (9), relating to discharge of indebtedness, for 3 years, to 1945, and to change the name of the "Board of Tax Appeals" to the "United States Tax Court".

Table 1

Comparison of individual surtax rate schedule
under present law, Treasury proposal, and
Ways and Means Committee action

Surtax net income (000)	Bracket rate			Total surtax cumulative		
	Present law	Treasury proposal	Ways and Means	Present law	Treasury proposal	Ways and Means
\$.5 - .5	6%	12%	13%	\$ 30	\$ 60	\$ 65
1 - 1.5	6	15	13	60	135	130
1.5 - 2	6	18	13	90	225	195
2 - 3	9	20	13	120	325	260
3 - 4	9	22	16	210	545	420
4 - 6	13	24	16	300	785	580
6 - 8	17	27	20	560	1,325	980
8 - 10	21	30	24	900	1,925	1,460
10 - 12	25	34	28	1,320	2,605	2,020
12 - 14	29	38	32	1,820	3,365	2,660
14 - 16	32	42	36	2,400	4,205	3,380
16 - 18	35	45	40	3,040	5,105	4,180
18 - 20	38	48	43	3,740	6,065	5,040
20 - 22	41	51	46	4,500	7,085	5,960
22 - 26	44	54	49	5,320	8,165	6,940
26 - 32	47	57	52	7,080	10,445	9,020
32 - 38	50	60	55	9,900	14,045	12,320
38 - 44	53	64	58	12,900	17,885	15,800
44 - 50	55	68	61	16,080	21,965	19,460
50 - 60	57	72	63	19,380	26,285	23,240
60 - 70	59	76	66	25,080	33,885	29,840
70 - 80	61	78	69	30,980	41,685	36,740
80 - 90	63	80	72	37,080	49,685	43,940
90 - 100	64	82	75	43,380	57,885	51,440
100 - 150	65	84	77	49,780	66,285	59,140
150 - 200	66	86	79	82,280	109,285	98,640
200 - 250	67	86	81	115,280	152,285	139,140
250 - 300	69	86	82	148,780	195,285	180,140
300 - 400	71	86	82	183,280	238,285	221,140
400 - 500	72	86	82	254,280	324,285	303,140
500 - 750	73	86	82	326,280	410,285	385,140
750 - 1,000	74	86	82	508,780	625,285	590,140
1,000 - 2,000	75	86	82	693,780	840,285	795,140
2,000 - 5,000	76	86	82	1,443,780	1,700,285	1,615,140
5,000 and over	77	86	82	3,723,780	4,280,285	4,075,140

Table 1a. Amount of individual income tax and effective rates under present law, Treasury proposal, and Committee action

Single person - No dependents

Personal exemption: Present law - \$750
 Treasury proposal - 600
 Committee action - 500

Net income before personal exemption ^{1/}	Amount of tax			Effective rates		
	Present law	Treasury proposal	Committee action	Present law	Treasury proposal	Committee action
\$ 500	-	-	-	-	-	-
600	-	-	\$ 15	-	-	2.5
700	-	\$ 16	\$ 34	-	2.3	4.9
800	\$ 3	32	52	.4	4.0	6.5
900	11	48	71	1.2	5.3	7.8
1,000	21	64	89	2.1	6.4	8.9
1,200	40	99	126	3.3	8.3	10.5
1,500	69	156	181	4.6	10.4	12.1
2,000	117	263	273	5.9	13.2	13.7
2,500	165	381	365	6.6	15.2	14.6
3,000	221	509	472	7.4	17.0	15.7
4,000	347	777	686	8.7	19.4	17.2
5,000	483	1,069	920	9.7	21.4	18.4
6,000	649	1,379	1,174	10.8	23.0	19.6
8,000	1,031	2,041	1,742	12.9	25.5	21.8
10,000	1,493	2,777	2,390	14.9	27.8	23.9
15,000	2,994	4,961	4,366	20.0	33.1	29.1
20,000	4,929	7,555	6,816	24.6	37.8	34.1
25,000	7,224	10,509	9,626	28.9	42.0	38.5
50,000	20,882	27,829	25,811	41.8	55.7	51.6
100,000	53,214	69,757	64,641	53.2	69.8	64.6
500,000	345,654	429,745	414,616	69.1	85.9	82.9
1,000,000	733,139	879,745	854,616	73.3	88.0	85.5
5,000,000	3,923,124	4,479,745	4,374,616	78.5	89.6	87.5

Normal tax rate (percent) 4 4 6 4 4 6

^{1/} Maximum earned income assumed for purposes of the earned income credit under the present law and the Committee action.

Table 1b

Amount of individual income tax and effective rates under present law, Treasury proposal, and Committee action

Married person - No dependents

Personal exemption: Present law - \$1,500
 Treasury proposal - 1,200
 Committee action - 1,200

Net income before personal exemption ^{1/}	Amount of tax			Effective rate		
	Present law	Treasury proposal	Committee action	Present law	Treasury proposal	Committee action
				Percent	Percent	Percent
\$ 1,200	-	-	-	-	-	-
1,300	-	\$ 16	\$ 13	-	1.2	1.0
1,400	-	32	30	-	2.3	2.1
1,500	-	48	48	-	3.2	3.2
1,600	\$ 6	64	66	0.4	4.0	4.1
1,800	23	99	103	1.3	5.5	5.7
2,000	42	137	140	2.1	6.9	7.0
2,500	90	241	232	3.6	9.6	9.3
3,000	138	357	324	4.6	11.9	10.8
4,000	249	613	532	6.2	15.3	13.3
5,000	375	889	746	7.5	17.8	14.9
6,000	521	1,193	992	8.7	19.9	16.5
8,000	873	1,837	1,532	10.9	23.0	19.2
10,000	1,305	2,549	2,152	13.1	25.5	21.5
15,000	2,739	4,673	4,052	18.3	31.2	27.0
20,000	4,614	7,225	6,452	23.1	36.1	32.3
25,000	6,864	10,143	9,220	27.5	40.6	36.9
50,000	20,439	27,373	25,328	40.9	54.7	50.7
100,000	52,704	69,229	64,060	52.7	69.2	64.1
500,000	345,084	429,205	414,000	69.0	85.8	82.8
1,000,000	732,554	879,205	854,000	73.3	87.9	85.4
5,000,000	3,922,524	4,479,205	4,374,000	78.5	89.6	87.5

Normal tax rate (percent) 4 4 6 4 4 6

^{1/} Maximum earned income assumed for purposes of the earned income credit under the present law and the Committee action.

Table 1c. Amount of individual income tax and effective rates under present law, Treasury proposal, and Committee action

Married person - two dependents

Personal exemption:	Present law	- \$1,500
	Treasury proposal	- 1,200
	Committee action	- 1,200
Dependent credit:	Present law	- \$ 400
	Treasury proposal	- 300
	Committee action	- 400

Net income before personal exemption ^{1/}	Amount of tax			Effective rate		
	Present law	Treasury proposal	Committee action	Present law	Treasury proposal	Committee action
				Percent	Percent	Percent
\$ 1,800	-	-	-	-	-	-
1,900	- \$	16	-	-	0.8	-
2,000	-	32	-	-	1.6	-
2,100	-	48	\$ 13	-	2.3	0.6
2,200	-	64	26	-	2.9	1.2
2,300	-	80	43	-	3.5	1.9
2,400	\$ 6	99	62	0.3	4.1	2.6
2,500	12	118	80	0.5	4.7	3.2
3,000	58	219	172	1.9	7.3	5.7
4,000	154	457	356	3.9	11.4	8.9
5,000	271	721	570	5.4	14.4	11.4
6,000	397	1,007	784	6.6	16.8	13.1
8,000	717	1,633	1,292	9.0	20.4	16.2
10,000	1,117	2,321	1,880	11.2	23.2	18.8
15,000	2,475	4,397	3,716	16.5	29.3	24.8
20,000	4,287	6,895	6,036	21.4	34.5	30.2
25,000	6,480	9,777	8,756	25.9	39.1	35.0
50,000	19,967	26,917	24,776	39.9	53.8	49.6
100,000	52,160	68,701	63,396	52.2	68.7	63.4
500,000	344,476	428,665	413,296	68.9	85.7	82.7
1,000,000	731,930	878,665	853,296	73.2	87.9	85.3
5,000,000	3,921,884	4,478,665	4,373,296	78.4	89.6	87.5

Normal tax rate (percent) 4 4 6 4 4 6

^{1/} Maximum earned income assumed for purposes of the earned income credit under the present law and Committee action.

Table 2

Optional tax schedule for individuals with gross income of \$3,000 or less derived solely from salary, wages, compensation for personal services, dividends, interest, rent, annuities, or royalties.

		The tax shall be		
		: (1) Married :		
		: person whose :		
		: spouse does not:		
If the gross	But not	Single person	file separate	Married person
income is over-	over -	(not head of	return or (2)	filing separate
		a family)*	married person :	return*
			filing joint re-	
			turn or (3) head:	
			of family*	
\$ 0	\$ 525	\$ 0	\$ 0	\$ 0
525	550	1	0	0
550	575	4	0	0
575	600	7	0	0
600	625	11	0	0
625	650	15	0	0
650	675	20	0	3
675	700	24	0	6
700	725	28	0	9
725	750	33	0	14
750	775	37	0	18
775	800	41	0	22
800	825	46	0	27
825	850	50	0	31
850	875	54	0	35
875	900	59	0	40
900	925	63	0	44
925	950	67	0	48
950	975	71	0	52
975	1,000	76	0	57
1,000	1,025	80	0	61
1,025	1,050	84	0	65
1,050	1,075	89	0	70
1,075	1,100	93	0	74
1,100	1,125	97	0	78
1,125	1,150	102	0	83
1,150	1,175	106	0	87
1,175	1,200	110	0	91
1,200	1,225	115	0	96
1,225	1,250	119	0	100
1,250	1,275	123	0	104
1,275	1,300	128	1	109
1,300	1,325	132	4	113
1,325	1,350	136	7	117

Table 2 - Continued

- 2 -

		The tax shall be		
		: (1) Married :		
		: person whose :		
		: spouse does not:		
If the gross income is over-	: But not over -	: Single person (not head of a family)*	: file separate	: Married person
			: return or (2) married person :	: filing separate return
		: filing joint re-:		
		: turn or (3) head:		
		: of family* :		
\$ 1,350	\$ 1,375	\$ 141	\$ 10	\$ 122
1,375	1,400	145	14	126
1,400	1,425	149	17	130
1,425	1,450	154	21	135
1,450	1,475	158	25	139
1,475	1,500	162	29	143
1,500	1,525	167	34	148
1,525	1,550	171	38	152
1,550	1,575	175	42	156
1,575	1,600	180	47	161
1,600	1,625	184	51	165
1,625	1,650	188	56	169
1,650	1,675	193	60	174
1,675	1,700	197	64	178
1,700	1,725	201	68	182
1,725	1,750	206	73	187
1,750	1,775	210	77	191
1,775	1,800	214	81	195
1,800	1,825	218	85	199
1,825	1,850	223	90	204
1,850	1,875	227	94	208
1,875	1,900	231	98	212
1,900	1,925	236	103	217
1,925	1,950	240	107	221
1,950	1,975	244	111	225
1,975	2,000	249	116	230
2,000	2,025	253	120	234
2,025	2,050	257	124	238
2,050	2,075	262	129	243
2,075	2,100	266	133	247
2,100	2,125	270	137	251
2,125	2,150	275	142	256
2,150	2,175	279	146	260
2,175	2,200	283	150	264
2,200	2,225	288	155	269
2,225	2,250	292	159	273
2,250	2,275	296	163	277

Table 2 - Concluded

- 3 -

		The tax shall be		
		: (1) Married :		
		: person whose :		
		: spouse does not:		
If the gross	But not	Single person	file separate	Married person
income is over-	over -	(not head of	return or (2)	filing separate
:\$:	a family)*	married person :	return
:	:	:	filing joint re-:	:
:	:	:	turn or (3) head:	:
:	:	:	of family* :	:
\$ 2,275	\$ 2,300	\$ 301	\$ 168	\$ 282
2,300	2,325	305	172	286
2,325	2,350	309	176	290
2,350	2,375	314	181	295
2,375	2,400	318	185	299
2,400	2,425	322	189	303
2,425	2,450	327	194	308
2,450	2,475	331	198	312
2,475	2,500	335	202	316
2,500	2,525	340	207	321
2,525	2,550	344	211	325
2,550	2,575	348	215	329
2,575	2,600	353	220	334
2,600	2,625	357	224	338
2,625	2,650	361	228	342
2,650	2,675	366	233	347
2,675	2,700	371	237	351
2,700	2,725	376	241	355
2,725	2,750	381	245	359
2,750	2,775	386	250	364
2,775	2,800	391	254	369
2,800	2,825	396	258	374
2,825	2,850	401	263	379
2,850	2,875	406	267	384
2,875	2,900	411	271	389
2,900	2,925	416	276	394
2,925	2,950	421	280	399
2,950	2,975	426	284	404
2,975	3,000	431	289	409

Treasury Department, Division of Tax Research

July 11, 1942

* For each dependent, subtract \$440 from gross income and use balance to determine tax.

Note: The taxes in the above schedule are such that they generally compensate for deductions and credits not allowable if this schedule is used.

Table 3

Comparison of estate tax rate schedule
under present law and proposal

Net estate after: specific exemp- tion <u>1/</u> (\$ 000)	Bracket rate		Total estate tax cumulative	
	Present law <u>2/</u>	Proposal	Present law	Proposal
Under \$5	3%	8%	\$ 150	\$ 400
5 - 10	7	12	500	1,000
10 - 15	11	15	1,050	1,750
15 - 20	11	18	1,600	2,650
20 - 30	14	22	3,000	4,850
30 - 40	18	26	4,800	7,450
40 - 50	22	30	7,000	10,450
50 - 60	25	33	9,500	13,750
60 - 70	28	36	12,300	17,350
70 - 100	28	40	20,700	29,350
100 - 150	30	44	35,700	51,350
150 - 200	30	46	50,700	74,350
200 - 250	30	48	65,700	98,350
250 - 300	32	50	81,700	123,350
300 - 350	32	52	97,700	149,350
350 - 400	32	54	113,700	176,350
400 - 450	32	56	129,700	204,350
450 - 500	32	58	145,700	233,350
500 - 600	35	60	180,700	293,350
600 - 700	35	62	215,700	355,350
700 - 800	35-37	64	251,700	419,350
800 - 900	37	66	288,700	485,350
900 - 1,000	37	68	325,700	553,350
1,000 - 1,500	39-42	70	528,200	903,350
1,500 - 2,000	45	72	753,200	1,263,350
2,000 - 2,500	49	75	998,200	1,638,350
2,500 - 3,000	53	76	1,263,200	2,018,350
3,000 - 4,000	56-59	78	1,838,200	2,798,350
4,000 - 5,000	63	79	2,468,200	3,588,350
5,000 - 6,000	67	80	3,138,200	4,388,350
6,000 - 7,000	70	80	3,838,200	5,188,350
7,000 - 8,000	73	80	4,568,200	5,988,350
8,000 - 9,000	76	80	5,328,200	6,788,350
9,000 - 10,000	76	80	6,088,200	7,588,350
10,000 and over	77	80	-	-

1/ A specific exemption of \$40,000 and a life insurance exclusion of \$40,000 are allowed by the present law. The proposal would allow a single specific exemption of \$60,000 but no life insurance exclusion.

2/ Present rates not increased by Ways and Means Committee.

TREASURY DEPARTMENT
Washington

FOR IMMEDIATE RELEASE,
Saturday, June 27, 1942.

Press Service
No. 32-21

Commissioner of Internal Revenue Guy T. Helvering today announced the extension until September 29, 1942, of the period during which returns of capital stock tax may be filed and the tax paid by all corporations for the year ended June 30, 1942.

The full text of the Treasury Decision providing the extension is as follows:

TREASURY DEPARTMENT
Office of Commissioner of Internal Revenue,
Washington, D.C.

TO COLLECTORS OF INTERNAL REVENUE
AND OTHERS CONCERNED:

General extension.--- Returns of capital stock tax under Chapter 6 of the Internal Revenue Code (53 Stat., Part 1), as amended, for the year ended June 30, 1942, are required to be filed and the tax paid on or before July 31, 1942, unless the time for filing returns and paying the tax is extended under the provision of sections 1203 and 1205 of the afore-mentioned chapter.

In accordance with the provisions of these sections, the period during which the returns of capital stock tax may be filed and the tax paid by all corporations is extended to September 29, 1942. Collectors of internal revenue are authorized to accept returns without assertion of penalties for delinquency or of interest if the returns are filed and the tax paid on or before the extended date. (Secs. 1203, 1205, 3791, 53 Stat., 171, 467; 26 U.S.C. (1940 ed.), 1203, 1205, and 3791.)

GUY T. HELVERING,
Commissioner of Internal Revenue.

Approved:

JOHN L. SULLIVAN,
Acting Secretary of the Treasury.

Miss Simpson

TREASURY DEPARTMENT
Washington

FOR IMMEDIATE RELEASE,
Monday, June 29, 1942.

Press Service

32-22

Secretary of the Treasury Morgenthau today announced the final subscription and allotment figures with respect to the current offering of 5/8 percent Treasury Certificates of Indebtedness of Series A-1943.

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	\$ 176,940,000	\$ 90,177,000
New York	1,456,264,000	731,525,000
Philadelphia	120,489,000	61,832,000
Cleveland	168,022,000	86,448,000
Richmond	82,255,000	43,124,000
Atlanta	111,939,000	57,601,000
Chicago	477,261,000	246,067,000
St. Louis	96,925,000	51,435,000
Minneapolis	49,819,000	27,992,000
Kansas City	81,697,000	43,218,000
Dallas	89,884,000	46,612,000
San Francisco	202,434,000	102,189,000
Treasury	<u>550,000</u>	<u>275,000</u>
TOTAL	\$3,114,479,000	\$1,588,495,000

TREASURY DEPARTMENT
Washington

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Monday, June 29, 1942.

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Treasury	550,000	275,000
TOTAL	\$3,114,479,000	\$1,588,495,000

TREASURY DEPARTMENT
Washington

(The following address by Edward H. Foley, Jr., General Counsel of the Treasury Department and chairman of the Inter-American Conference on Systems of Economic and Financial Control is scheduled for delivery before the Conference at 11:30 A.M., Tuesday, June 30, 1942, and is for release upon delivery.)

Mr. Chairman, Members of the Inter-American Financial and Economic Advisory Committee, fellow Delegates and Advisers:

It is with a feeling of genuine appreciation of the high honor which you have accorded to me that I accept the chairmanship of this important Conference. The responsibility imposed upon each of us by our Governments in this hour of peril is very great indeed. I am confident we shall do everything in our power to accomplish swiftly and effectively the important purposes and goals of this meeting.

This is a working conference of experts trained in the field of economic and financial controls. During the period we shall be together there will be much to discuss and much which we will learn from each other. I am sure that these discussions will result in more effective economic and financial controls in each of our countries - thereby hastening the destruction of the forces of aggression.

Resolution V of the meeting of Ministers of Foreign Affairs held in Rio de Janeiro last January recognized the urgent necessity for the adoption of measures by the American Republics to cut off all commercial and financial relations with the Axis powers and the territories dominated by them. By its terms, the Resolution called for the immediate elimination of financial and commercial activities, prejudicial to the welfare and security of the American Republics, in both the international and the domestic field. Resolution VI of the Rio Conference provided for this meeting.

Our common problem is to organize effectively all of our economic and financial strength to strike our common enemy wherever we meet him. The strength of the enemy in the past has been the division and disunity among those nations that should have been united in all of their efforts against the aggressors. These aggressors have always sought to deal with their opponents one by one, alternately reassuring or threatening, and playing on

their narrow national interests and fears to convince them that their neighbor's problem is not their own. Many nations that sought to maintain their independence through the observance of strict neutrality have seen their countries occupied and destroyed. No country can any longer have confidence in the security of a policy of strict neutrality during this war.

The strength of the American Republics is and must continue to be their singleness of purpose and their unity in action. We must forge one continuous chain of economic and financial controls around the Axis and each of the links in this chain must be as strong as all the others. This is and will continue to be the answer of the American Republics to our common foes. And in this unity of action lies the greatest assurance that the political and economic institutions of the Western Hemisphere, the freedom and dignity of its way of life, will survive.

It is our task to establish a common program for withholding our resources from the Axis and the areas which it has overrun or dominates. We must prevent the Axis from acquiring our goods and services. We must prevent the Axis from carrying on financial transactions either directly or through the cloaks of neighboring countries. We cannot hope for full success if such Axis transactions are controlled by one American Republic but not controlled by another; if fugitive funds can pour from one American Republic to another where the Axis taint can be cloaked and the funds used for financial and commercial transactions inimical to the interests of all the American Republics. If each country imposes effective controls within its own boundaries over Axis funds and transactions of benefit to the Axis, the controls of all the Republics will be strengthened.

We must, in a spirit of cooperation and mutual assistance, work out measures to destroy Axis financial and commercial activities carried on within the borders of the Western Hemisphere. Axis-owned or controlled enterprises in the American Republics must be liquidated or taken over by the American Republics. We must make sure that those who manage or work in business enterprises in this hemisphere are loyal to the cause of the American Republics.

We know that the Axis nations have planted and are using enterprises and persons within our borders to undermine our war efforts, to limit our production, to subvert our institutions and peoples, and to carry on a myriad of activities of benefit to our enemies and of harm to the interests of the American Republics. This Fifth Column not only seeks constantly to weaken us but also lies in wait for the day when it might join with kindred forces from across the seas to conquer and destroy everything that we hold dear in the Western Hemisphere. If we are to survive, if we are to bring this war to a swift and successful conclusion,

we must be ruthless in the destruction of this Fifth Column regardless of whether its members have retained their European nationality or sought to gain immunity for its nefarious activities by acquiring the cloak of citizenship of one of the American Republics.

In destroying these Axis enterprises or the interests which they hold in the business life of our community, we will need each other's support and cooperation. The technical and managerial skills and the financial resources of the American Republics should and will be made available to each other to facilitate the reorganization of such business enterprises and to assure their operation by persons of unimpeachable loyalty and of ability capable of contributing to the development of the national economy of the American Republics. We must be determined in our methods and mutually helpful in our procedures if we are to succeed in destroying the enemy within our midst.

As an integral part of our joint efforts we will, of course, be developing procedures for the exchange of views and information and assistance which will carry over not only during the war but into the period of reconstruction and development after the war.

Men who have stood side by side in the struggle to preserve democracy against the forces of aggression, will stand side by side to face and solve common problems in the victory and the reconstruction.

These are the purposes of our meeting. The agenda which has been adopted for this Conference details the work which we shall do. All of us here will contribute to the completion of our tasks. We are resolved on the economic and financial battlefields to do our part in the winning of the war.

Memorandum by Randolph E. Paul, Tax Adviser to the Secretary of the Treasury, submitted at the request of the Ways and Means Committee of the House of Representatives on repayment of debts under high tax rates.

June 22, 1942

(It should be emphasized that this memorandum does not contain any recommendations of the Treasury but was submitted merely for the information of the Committee in response to questions relating to various subjects, particularly the debt problem. It is merely a staff study and does not incorporate any policy decisions.)

Many individuals are finding it difficult, if not impossible, to continue amortizing the mortgages on their homes, or to maintain premium payments on life insurance and endowment contracts, or perhaps even payments on installment purchases of automobiles, refrigerators. One of the reasons for this difficulty is the increasing rates of income tax. An individual who committed himself to an ambitious saving program before he had reason to foresee the high tax rates of the war period, and who owns virtually no other marketable assets, has some claim to relief -- for the time being, at least,-- from one or the other of his obligations. Some corporations face the same difficulty. In one recent case a corporation had agreed to devote to a sinking fund a substantial proportion of net income before taxes. As taxes rose, the promise became so difficult to keep that the corporation had to appeal to the bondholders to change the terms of the sinking fund provision. In other instances the sinking fund or debt repayment requirements continue regardless of the amount even of net income before taxes.

The hardships resulting from the imposition of heavy income taxes on persons with commitments to repay debts present a difficult problem. The solutions which readily come to mind are open to serious objections. However, the importance of the problem is such that even an inadequate and defective treatment may be better than none. The purpose of this memorandum is to indicate certain possible approaches to the debt problem to serve as a basis for formulating a policy with respect to it.

1. Exemption of Income Devoted to Debt Repayment

The most obvious relief is a deduction for amortization payments in computing taxable net income. This remedy would create intolerable discrepancies in benefiting some forms of

saving but not others. Payments on a home are, of course, a form of saving. A taxpayer who at the beginning of the year buys a home for \$10,000 by paying \$3,000 down and borrowing \$7,000 on a mortgage, and who pays \$700 on the mortgage during the year, reducing it to \$6,300, has an equity in the house of \$3,700 by the end of the year -- \$700 more than at the beginning of the year. He has thus increased his assets, or wealth, by \$700. Some other taxpayer may instead put \$700 of his year's income into a savings bank, or use it to buy War Savings Bonds. If the \$700 paid on the mortgage is to be deducted in computing the individual's net taxable income, the savings bank depositor will not believe that his savings are somehow of a lower grade, not worthy of tax exemption. The purchaser of War Savings Bonds will not believe it either. They might agree that the contractual obligation of the home owner justifies some delay in tax payment, but not outright exemption, so long as they are taxed.

2. Deferment of Tax on Unusual Amounts Devoted to Debt Repayment

The taxpayer could be helped over the immediate emergency and given time to reduce his level of consumption without abrupt dislocation by allowing him to defer payment of the tax on that part of his income devoted to debt repayment. The deferment might be for several years, say four or five. A low interest charge might be assessed on the delayed tax.

If the deferment applied to the entire amount used for repayment of debt, the cumulated amount of postponed tax might easily grow into an embarrassing size. But there is no need to be overliberal in permitting the deferment of tax payments.

In the first place, the individual's commitments for debt repayment are often small enough to represent no more than a normal amount of saving, even when we scale down the term "normal" to take account of the heavy drain on income by the taxes proposed in the pending revenue bill. In these cases no tax postponement is necessary, provided the taxpayer is not expected to meet the standard set for the community in general in the voluntary purchase of War Savings Bonds.

In the second place, where the commitments for debt repayment are heavier than normal, only the excess amount calls for tax postponement.

If, in the example used above, the homeowner had an income of say, \$7,000, he might be denied postponement of tax, on the ground that \$700 is not an abnormal amount to expect a person to save, in these days, even under the prospective 1942 taxes, especially if he is not expected to put another \$700 aside for War Savings Bonds. But if the mortgage payment were \$1,000, for example, then tax on the last \$300 might be postponed.

In general, a taxpayer might be allowed to defer, for four years, payment of tax on that part of debt repayment that exceeded 10 percent of his taxable net income (before deduction of personal exemption and credit for dependents). Corporations could be granted a similar deferment, although the percentage might be somewhat higher.

To avoid abuse of the provision, it should be limited to debt repayment under commitments entered into before, say, January 1, 1942, and involving the purchase of homes and perhaps other specified articles (e.g., automobiles, or installment-purchased goods generally). It may be doubted that insurance premiums should be included, for reasons given in the concluding section of this statement.

In at least two respects postponement of tax payment is unsatisfactory.

First, in a few instances the commitments for debt repayment might be so very large that the taxpayer would have little prospect of accumulating enough money to pay the tax even after four years had passed.

Second, simple deferment might turn into outright exemption after all, as the home owners and other debtors exerted pressure in the post-war period to forgive and forget. The discrimination against the purchaser of War Savings Bonds and the savings bank depositor is none the less real, even though it might somehow seem less rank, if carried out in this way retroactively rather than directly during wartime.

3. Outright Exemption of All Forms of Saving -- A "Spending Tax"

If tax deferment is not enough, individual taxpayers could be granted deduction for all forms of saving, in computing the amount subject to the income tax. Savings-bank depositors and purchasers of War Savings Bonds would have no cause for complaint, as they would have if outright exemption were granted for debt repayment alone.

But complete deduction for all saving would surely be too much. The deduction could be made applicable only with respect to the increase in tax rates above the 1941 level, or above the 1942 level -- or, still more narrowly, only with respect to part of the rate increase. Better yet, perhaps, a separate income tax could be imposed, with its own rate scale, granting complete exemption to all saved income. Then the regular income tax could be increased somewhat less severely than it otherwise would need to be. This new income tax would be known as a "spending tax," since it would apply only to that part of the income that was spent. Even under this separate

tax, a complete exemption of all savings might be unnecessary; one-half or three-quarters, or some other fraction, of the saved income could be exempt. This spendings would differ from a sales tax in at least three respects: (1) It would be collected directly from the consumer, not from business firms; (2) it would grant personal exemptions and a credit for dependents; and (3) it would have a progressive rate scale, graduated by spending brackets.

In general, this plan would call for pushing the regular income tax as high as it could go without imposing excessive hardship on debtors, and then using the spendings tax to get the rest of the income-tax money that was needed. This solution of the debtor problem is in many ways the most promising of all. The staff is now studying the spendings tax to ascertain what difficulties might be encountered with it in practice.

The spendings tax approach would not apply to corporations; it would be too erratic in its effects and might seriously impede the war effort unless an almost unmanageable series of complete exemptions from the tax were devised. For an individual proprietor or partner, "spendings" would include only his personal expenditures; the profits retained in the business or saved by him after being taken out of the business would be exempt. The spendings of the business itself would of course not be taxed.

4. Complete exemption under regular income tax for debt repayment and purchase of War Savings Bonds

Complete exemption for debt repayments only would discriminate against other forms of savings. Complete exemption for all forms of savings, as previously described, might be considered too great an advantage for savers in general. An intermediate plan is to exempt amounts devoted to debt repayment and one other general category of saving to which virtually everyone else could turn if he wished. The logical category is the purchase of War Savings Bonds. Thus an individual's income would be exempt to the extent that it was devoted either to repaying debts or to purchasing War Bonds.

But it would not seem right to put all debt repayments whatsoever on a par this way with War Bonds. Rather, the same limitations on the kind of debt repayment that would be given this special treatment would be observed as in the deferred-tax-payment plan described above. Even stricter limitations might be in order. Savings bank deposits and other forms of saving would not, under this plan, be exempt. To avoid a feeling of too much discrimination against those who must save some amounts in these other ways, the exemption of debt repayment and of amounts devoted to War Savings Bond purchases should be limited

to an amount not greater than, say, 10 percent of income. Another kind of limitation would be to exempt only one-half, or one-third, of the debt repayment and the War Savings Bond purchases. The two kinds of limitation could be combined.

This plan has the disadvantage of giving some relief -- at least relief from buying a War Bond -- to all homeowners, even in cases in which their debt repayments are so small a part of their incomes as to constitute no serious problem. This defect might be remedied by refusing exemption until the debt repayment plus the War Savings Bond purchases reached, say, 10 percent of the net income and allowing exemption only to the debt repayment plus War Savings Bonds in excess of that amount. Thus if Taxpayer A's net income was \$5,000 and he was paying off \$400 a year on a mortgage, he would be allowed no exemption; if, in addition, he bought \$100 of War Savings Bonds, he would still be allowed no exemption; if he instead bought \$300 of Bonds, he would be allowed a deduction of \$200 in computing net income -- (\$400 debt repayment plus \$300 War Bonds bought) -- 10 percent of \$5,000 = \$700 - 500 = \$200 exempt. And the limitations previously noted could be applied; only half (or one-third, or some other fraction) of the \$200 would be exempt; and in no case could the exempt amount exceed, say, 10 percent of the net income -- in this case, \$500. Limitations like this would probably be necessary to avoid giving those with accumulated capital too great an opportunity to escape income tax simply by shifting their assets into War Savings Bonds. Perhaps, indeed, such shifted funds would have to be made completely ineligible for the exemption. This would require a check on all the taxpayer's assets, including his cash holdings, at the beginning and the end of the year.

In any case, the homeowners and other debt repayers come out well in comparison, since they are probably getting a much higher interest return on their money than is given by War Savings Bonds. (A debtor who devotes \$1,000 to repaying part of a 6 percent mortgage is, in effect, getting 6 percent on that \$1,000.)

This plan might be applied, with some further qualifications, to corporations. But it might induce an undue shrinkage of dividends; and it might tempt corporations into an unsound working capital position owing to an eagerness to pay off debt as rapidly as possible. There would also be the problem of corporations that would not only shift cash holdings into War Bonds, but also borrow to buy.

5. Debt Moratorium

Finally, the problem under discussion could be dealt with from a much wider point of view by some sort of more or less general moratorium on debt payments, at least for home owners, with relief to needy creditors through the Home Owners' Loan Corporation.

Tax relief alone could scarcely justify a moratorium. But the pressures of a war economy on debtors who contracted into their present position before they expected a war are not tax pressures alone. Priorities and drains on personnel that force business firms to close or operate at a loss for the duration of the war illustrate the other forces that may make some sort of moratorium advisable. Proper safeguards for the creditors' interests would of course be necessary.

From the tax point of view, this solution would be the best of all. The tax system could operate without having to make special and perhaps difficult adjustments to situations in which some persons have contracted to save at a faster rate than is compatible with an all-out war economy and who cannot escape from the contract without considerable embarrassment or loss.

6. Insurance Premiums

Payments on insurance contracts offer a special problem. Premiums on pure term insurance involve no element of savings; to this extent the policyholder could not claim discrimination if the homeowner debtor were given relief and he were not. The holder of a term policy has a contractual obligation, to be sure; but he can escape from it. The straight life insurance premium combines the elements of saving and insurance. The endowment contract may be virtually nothing but saving. It will not be easy to distinguish these elements, in each case, but it may not prove impossible. If a spendings tax is adopted, this issue must be faced. If, instead, payment of the regular income tax is deferred on account of certain kinds of debt obligation, all insurance payments could be left out of account, on the grounds that the policyholder does, after all, have a certain amount of leeway on that score -- he can borrow on the policy, or readjust his insurance program to a lower level. For the same reasons, under a deduction for War Savings Bonds, and so on, all insurance premiums could be disregarded in setting the quota of savings. A general moratorium would presumably not apply to any insurance premiums.

TREASURY DEPARTMENT
Washington

FOR RELEASE, MORNING NEWSPAPERS,
Tuesday, June 30, 1942.
6/29/42

Press Service
No. 32-25

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 July 1 and to mature September 30, 1942, which were offered on June 26, were opened at the Federal Reserve Banks on June 29.

The details of this issue are as follows:

Total applied for - \$671,366,000
Total accepted - 301,758,000

Range of accepted bids: (Excepting one tender of \$1,000,000)

High	-	99.940	Equivalent	rate	approximately	0.237	percent
Low	-	99.907	"	"	"	0.368	"
Average							
Price	-	99.909	"	"	"	0.360	"

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

TREASURY DEPARTMENT
Washington

FOR IMMEDIATE RELEASE,
Wednesday, July 1, 1942.

Press Service
No. 32-26

The Bureau of Customs announced today that preliminary reports from the collectors of customs show imports of 49,786 head of Canadian cattle weighing 700 pounds or more each (other than cows imported specially for dairy purposes), during the period April 1 to June 20, 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 IMMEDIATE RELEASE,
Wednesday, July 1, 1942.

Press Service
No. 32-27

With Congress laboring on the largest tax bill in history and the war expenditures of the Federal Government soaring to better than three and a half billion dollars monthly, the Bureau of Internal Revenue today celebrated its eightieth anniversary.

Commissioner Guy T. Helvering, upon whose Treasury bureau rests the responsibility for collecting all Government taxes, thumbed the Revenue Service's historical records to reveal the growth of the American tax system since George S. Boutwell of Massachusetts was appointed the first Commissioner by authority of the act of July 1, 1862.

The Revenue Act of 1862, which created the Bureau of Internal Revenue as it exists today and authorized the appointment of a Commissioner to administer its provisions under the direction of the Secretary of the Treasury, was sweeping in its scope.

The War Between the States had drained the Treasury of funds derived from customs duties, and Congress set about the task of writing a tax measure which, for the third time, imposed internal levies.

The Act excluded from its provisions a trifling few items in the American economy. Taxes were imposed upon distilled spirits, malted and fermented beverages; license taxes on trades, vocations and occupations; specific and ad valorem duties on manufactures and products of various kinds, including cotton, tobacco, cigars and cigarettes; taxes on auction sales, on carriages, yachts, billiard tables, and plate; on cattle, hogs, and sheep slaughtered for sale.

The income tax, considered by many to have been a product of the first World War period, was not overlooked in the Revenue Act of 1862. It imposed a tax on salaries and pay in excess of \$600 of officers and persons in the service of the United States; and duties on incomes received by individuals in excess of \$600. Taxes were also levied on interest paid on railroad bonds; on surpluses accumulated by banks, trust companies, savings institutions and insurance companies; on advertisements, and on legacies and distributive shares of personal property.

Stamp taxes were not overlooked in the drafting of the Civil War tax measure. These levies were imposed on various documents, medicinal preparations, perfumery and cosmetics, and playing cards. If any article or business was overlooked, it was apparently an oversight on the part of Congress. It had been 44 years since the citizens of the Nation had been subjected to an internal tax; a new generation was on the scene to bear the tax burden of war.

By January 1, 1863, Commissioner Boutwell's task of organizing the Bureau was practically completed. The field service was composed of 3,822 employees. The Washington administrative staff numbered 60 persons, including the Commissioner. Tax collections for the fiscal year of 1863 amounted to \$41,300,192.93. While the records of the Bureau are not exact for the first four years of internal revenue laws, figures for succeeding years indicate that the cost of collecting each \$100 exceeded three dollars.

Commissioner Helvering stated that the Bureau now has in its employ a personnel of 29,264, administrative and field. Collections for the fiscal year of 1941, amounted to \$7,370,108,377.66. The cost of collecting each \$100 had dropped to an all-time low of 89 cents.

The first complete fiscal year under the Revenue Act of 1862 was fiscal 1864, during which period a total of \$116,985,578.26 was collected. The tax on manufactures and products, which included excise taxes, yielded the greatest revenue, amounting to \$36,222,716.67. Distilled spirits came next with a total of \$30,329,149.53, while the tax on incomes netted the Government \$20,294,731.74.

Treasury officials estimate that the Revenue Act of 1941 will bring in net receipts, general and special accounts, for fiscal 1943 totaling about \$17,000,000,000. The Revenue Bill of 1942, tentatively adopted by the House Committee on Ways and Means, is expected to yield an additional \$5,047,300,000, which will bring the Government's annual receipts to approximately \$22,000,000,000 when the law is fully operative. An estimated 29,000,000 American citizens are expected to pay income taxes under the provisions of this measure, a number slightly less than the total population of the United States in the year 1862.

As the Bureau of Internal Revenue enters the eighty-first year of its existence, Commissioner Helvering and his large staff of assistants in Washington and the field are evolving

plans and procedures for collecting the enormous additional sums of revenue provided for in the Ways and Means Committee draft of the 1942 tax bill, which will be presented to the Congress next week.

While greatly enlarged in size and scope, the organization of the Internal Revenue Service resulting from the Act of July 1, 1862, remains basically unchanged. Procedures have been altered and district after district created, but the serious responsibility of garnering the revenues necessary to meet the Nation's normal and war needs are much the same as they were in the tragic days of the Civil War period, which witnessed the birth of the Bureau of Internal Revenue as it exists today.

TREASURY DEPARTMENT

Washington

FOR IMMEDIATE RELEASE,
Thursday, July 2, 1942

Press Service
No. 32 - 28

The following statement was made today by Secretary Morgenthau:

Total budgetary expenditures of the United States Government during the fiscal year ended June 30, 1942, were \$32,397,000,000, as reflected in the Daily Treasury Statement released today. Of these expenditures \$25,954,000,000, or 80 per cent, were for war activities.

The rate of expenditure for war purposes has risen rapidly, month by month, reflecting the steady expansion of our war production. In June, 1941, we spent on national defense \$832,000,000, or approximately ten per cent of the estimated national income for that month. In June, 1942, we had succeeded in increasing war production so that war expenditures had risen nearly fivefold to \$3,823,000,000, or about 40 per cent of that month's estimated national income. In the entire fiscal year just closed we expended approximately 25 per cent of the national income for the war effort. In 1943 the contemplated war expenditures will represent approximately 55 per cent of the national income.

Net revenue receipts of \$12,799,000,000 during the fiscal year were 68 per cent higher than those of the preceding fiscal year, which were the highest up to that time. Despite this rapid increase in revenue, the net deficit for the year amounted to \$19,598,000,000.

If only the receipts from taxes now on the statute books are taken into account, the deficit for the fiscal year which has just begun will be about \$56,223,000,000. The magnitude of this figure emphasizes the urgency of obtaining additional revenue.

This indicates clearly that the tax bill now before Congress should be the start, and not the conclusion, of the wartime revenue program. It is evident, however, that no matter how vigorous the tax policy, it will still be necessary to borrow many billions during the fiscal year 1943. It is of the utmost importance that as large a proportion of this money as possible be borrowed from the current savings of the people, and that the remainder be raised with a minimum of pressure upon price ceilings and of disturbance to the credit structure. It is also important, in order to minimize the post-war burden of the debt, that the necessary funds should be borrowed without departing from a policy of low-interest rates. As a matter of fact, the Government's market financing for this period has been carried out at rates no higher than $\frac{3}{8}$ of one per cent on the shortest term borrowings and 2-1/2% for long-term issues.

In order to achieve its objectives the Treasury has issued a series of obligations of a restricted character intended to appeal to the current savings of particular classes of investors. The sale of United States Savings Bonds, for example, has been consistently pressed and has been recently intensified. Thirty per cent of the deficit of the year just ended was financed from this source. These Savings Bonds are now held by millions of individuals, most of whom have never owned a Government security

before. While these bonds carry with them the right of redemption, the redemptions during the fiscal year amounted to only about 3-1/2 per cent of sales for that period.

A new instrument -- the Tax Savings Note -- was devised during the year. This security provides taxpayers with a convenient means of accumulating money in anticipation of taxes. Net sales of these notes provided for financing more than 15 per cent of the deficit during the fiscal year just ended.

Funds of a non-inflationary character are also provided by purchases of the regular forms of Government obligations by individuals and trust accounts and by insurance companies and other corporations from their current savings. A further source of such funds lies in uninvested depreciation and depletion reserves and in the funds accumulated in all classes of business enterprises by the diminution of inventories and by the postponement of capital expenditures. Sales of Government securities to commercial banks do not have an inflationary effect to the extent that they are offset by a diminution in the other assets of the banks, or by the accumulation of individual and corporate savings in the form of bank balances.

It has been the policy of the Treasury Department throughout the fiscal year to place a sufficient proportion of new issues of Government securities in long maturities to provide an ample outlet for all of the savings desired to be invested at the long-term interest rate. In May, the Treasury made a new departure in borrowing policy by offering a long-term registered 2-1/2 per cent security eligible for purchase only by non-banking investors. By means of this type of security, it is hoped to make the maximum appeal to savers of long-term funds, while avoiding the difficulties incident to the sale of long-term securities to the banks.

During the latter half of the fiscal year, an increasing proportion of short-term securities was offered by the Treasury. This was done for the twofold purpose of providing an attractive medium of investment for unabsorbed depreciation and depletion reserves and other business funds likely to be unemployed only for the duration of the war, and of providing a greater fluidity in the money market. The objective of fluidity also was furthered and the short-term rate of interest stabilized by the posting by the Federal Reserve Banks, on April 30, of a 3/8 of one per cent buying rate for Treasury bills.

The following tables show the net amount of public debt acquired during the fiscal year and in each half thereof by each of the principal classes of investors for which data are available, and the distribution of the ownership of the public debt at the beginning and at the end of the fiscal year. Figures for June, 1942, are estimated. As will be noted from the table, reporting commercial banks (holding about 95 per cent of the Government securities held by all commercial banks) acquired 19 per cent of the increase in the total public debt during the first half of the fiscal year and 32 per cent during the second half. This is equal to 26 per cent of the increase for the entire year. In other words more than two-thirds of the Treasury securities issued during the fiscal year 1942 to finance the deficit were sold to investors outside of the commercial banks.

1. Total Debt 3/4
Commercial bank
Total savings
Insurance company
Federal Reserve
Government agency
Individual trust funds
Other investors
Total.....
II. Marketable Debt
Commercial banks
Total savings bank
Insurance companies
Federal Reserve
Government agencies
Individual trust funds
Other investors
Total.....
III. Marketable Debt
Commercial banks
Total savings bank
Insurance companies
Government agencies
Individual trust funds
Other investors
Total.....
Source: Treasury Survey
Figures do not
less than 0.5
Includes securi
Estimated. In
preliminary fi
investors on M
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Comprises hold
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Absorption of the Increase of the United States Government Debt ^{1/}
During Fiscal Year Ended June 30, 1942, and Each Half of the Fiscal Year

Classified by Type of Investor

	Amount Absorbed			Percent Absorbed		
	Full year: :Dec. 31, 1941	:July 1, 1941- :Jan. 1, 1942- :June 30, 1942 ^{2/}	:July 1, 1941- :Jan. 1, 1942- :June 30, 1942 ^{2/}	Full year: :Dec. 31, 1941	:July 1, 1941- :Jan. 1, 1942- :June 30, 1942 ^{2/}	:July 1, 1941- :Jan. 1, 1942- :June 30, 1942 ^{2/}
(In millions of dollars)						
I. Total Debt ^{3/}						
Commercial banks.....	5,725	1,672	4,053	26	19	32
Mutual savings banks..	476	305	171	2	3	1
Insurance companies...	2,024	1,036	988	9	11	8
Federal Reserve Banks.	461	71	390	2	1	3
Government agencies and trust funds.....	2,121	1,048	1,073	10	12	8
All other investors ^{4/}	10,962	4,888	6,074	51	54	48
Total.....	21,770	9,021	12,749	100	100	100
II. Marketable Debt						
Commercial banks.....	5,609	1,575	4,034	51	41	56
Mutual savings banks..	456	299	157	4	8	2
Insurance companies...	1,981	1,017	964	18	27	14
Federal Reserve Banks.	461	71	390	4	2	5
Government agencies and trust funds.....	354	186	168	3	5	2
All other investors ^{4/}	2,187	658	1,529	20	17	21
Total.....	11,050	3,806	7,244	100	100	100
III. Non-marketable Debt ^{3/}						
Commercial banks.....	116	97	19	1	2	*
Mutual savings banks..	20	6	14	*	*	*
Insurance companies...	43	19	24	*	*	*
Government agencies and trust funds.....	1,767	862	905	17	17	17
All other investors ^{4/}	8,775	4,230	4,545	82	81	83
Total.....	10,720	5,214	5,506	100	100	100

Source: Treasury Survey of Ownership of Government Securities.

Note: Figures do not necessarily add to totals due to rounding.

* Less than 0.5 percent.

^{1/} Includes securities issued or guaranteed by the United States.

^{2/} Estimated. In general, ownership estimates on June 30, 1942, were arrived at by applying preliminary figures on the percentages of the public debt held by the various classes of investors on May 31, 1942, to the increases in each class of security which occurred during the month of June.

^{3/} United States savings bonds are shown at current redemption values, except for Series G which is stated at par.

^{4/} Comprises holdings by individuals, trusts and fiduciaries, corporations other than banks, and the holdings of banks and insurance companies not covered by the Treasury Survey. The latter holdings are small.

Ownership of United States Government Debt ^{1/}
As of June 30, 1941 and June 30, 1942

Classified by Type of Investor

	:Amount held: : June 30, : Percent of:		:Amount held: : June 30, : Percent of:	
	: 1941 : (In millions of dollars)	: total : %	: 1942 ^{2/} : (In millions of dollars)	: total : %
I. Total Debt ^{3/}				
Commercial banks.....	19,149	35	24,874	32
Mutual savings banks.....	3,361	6	3,837	5
Insurance companies.....	6,871	13	8,895	12
Federal Reserve Banks.....	2,184	4	2,645	3
Government agencies and trust funds.....	8,481	15	10,602	14
All other investors ^{4/}	14,702	27	25,664	34
Total.....	54,747	100	76,517	100
II. Marketable Debt				
Commercial banks.....	19,014	43	24,623	44
Mutual savings banks.....	3,342	8	3,798	7
Insurance companies.....	6,841	16	8,822	16
Federal Reserve Banks.....	2,184	5	2,645	5
Government agencies and trust funds.....	2,360	5	2,714	5
All other investors ^{4/}	10,332	23	12,519	23
Total.....	44,072	100	55,122	100
III. Non-marketable Debt ^{3/}				
Commercial banks.....	135	1	251	1
Mutual savings banks.....	19	*	39	*
Insurance companies.....	30	*	73	*
Government agencies and trust funds.....	6,121	58	7,888	37
All other investors ^{4/}	4,370	41	13,145	62
Total.....	10,675	100	21,395	100

Source: Treasury Survey of Ownership of Government Securities.

Note: Figures do not necessarily add to totals due to rounding.

* Less than 0.5 percent.

^{1/} Includes securities issued or guaranteed by the United States.

^{2/} Estimated. In general, ownership estimates on June 30, 1942, were arrived at by applying preliminary figures on the percentages of the public debt held by the various classes of investors on May 31, 1942, to the increases in each class of security which occurred during the month of June.

^{3/} United States savings bonds are shown at current redemption values, except for Series G which is stated at par.

^{4/} Comprises holdings by individuals, trusts and fiduciaries, corporations other than banks, and the holdings of banks and insurance companies not covered by the Treasury Survey. The latter holdings are small.

RECEIPTS AND EXPENDITURES

The following table shows (1) receipts and expenditures for the fiscal year 1941; (2) receipts and expenditures for the fiscal year 1942; (3) the increase or decrease in 1942 receipts and expenditures as compared with the fiscal year 1941; and (4) the increase or decrease in 1942 receipts and expenditures for the first and second halves of the fiscal year, roughly corresponding to the pre-war and war periods of the year:

RECEIPTS AND EXPENDITURES, FISCAL YEARS 1941 AND 1942
(In millions of dollars)

	1941	1942	Fiscal year 1942 - Increase (+) Decrease (-)		
			Total	July 1, 1941 to Dec. 31, 1941	Jan. 1, 1942 to June 30, 1942
Receipts:					
Internal revenue:					
Income tax	3,470	7,960	+ 4,490	+ 783	+ 3,707
Miscellaneous internal revenue	2,967	3,847	+ 880	+ 385	+ 495
Social Security taxes	788	1,016	+ 228	+ 99	+ 129
Taxes upon carriers and their employees	137	170	+ 33	+ 11	+ 22
Railroad unemployment insurance contributions	7	8	+ 1	+ 1	-
Customs	392	389	- 3	+ 46	- 49
Miscellaneous receipts:					
Return of surplus funds from Governmental corporations	319	22	- 297	- 5	- 292
Other	189	255	+ 66	+ 24	+ 42
Total receipts	8,269	13,668	+ 5,399	+ 1,343	+ 4,056
Deduct net appropriations for Federal old-age and survivors insurance trust fund	661	869	+ 208	+ 102	+ 106
Net receipts	7,607	12,799	+ 5,192	+ 1,241	+ 3,951
Expenditures:					
I. General:					
Departmental (not otherwise classified)	676	743	+ 67	+ 6	+ 61
Agriculture Department:					
Agricultural Conservation and Adjustment Administration	824	786	- 38	- 108	+ 70
Other	56	190	+ 134	+ 125	+ 9
District of Columbia (United States share)	6	6	-	-	-
Federal Security Agency:					
Civilian Conservation Corps	257	163	- 94	- 33	- 61
National Youth Administration	90	88	- 2	+ 15	- 17
Social Security Board	423	473	+ 50	+ 36	+ 14
Other	66	75	+ 9	+ 5	+ 4
Federal Works Agency:					
Work Projects Administration	1,285	882	- 403	- 173	- 230
Other	347	242	- 105	- 91	- 14
Interior Department:					
Reclamation projects	86	91	+ 5	+ 9	- 4
National Housing Agency	17	18	+ 1	+ 3	- 2
Panama Canal	29	38	+ 9	+ 4	+ 5
Post Office Department (deficiency)	30	18	- 12	- 20	+ 8
Railroad Retirement Board	7	10	+ 3	+ 2	+ 1
River and harbor work and flood control	219	191	- 28	- 25	- 3
Tennessee Valley Authority	51	127	+ 76	+ 34	+ 42
Treasury Department:					
Interest on the public debt	1,111	1,260	+ 149	+ 35	+ 114
Refunds of taxes and duties	90	94	+ 4	- 4	+ 8
Veterans' Administration	553	555	+ 2	+ 1	+ 1
Subtotal	6,221	6,050	- 171	- 179	+ 8
II. War activities:					
War Department	3,636	12,014	+ 8,378	+ 3,389	+ 4,989
Navy Department	2,266	7,945	+ 5,679	+ 1,680	+ 3,999
Emergency funds for the President	103	198	+ 95	+ 66	+ 29
Federal Security Agency	108	152	+ 44	+ 52	- 8
Federal Works Agency	-	50	+ 50	+ 5	+ 45
Lend-Lease	21	4,077	+ 4,056	+ 889	+ 3,167
National Housing Agency	42	282	+ 240	+ 167	+ 73
Selective Service (administrative expenses)	18	33	+ 15	+ 11	+ 4
United States Maritime Commission	44	598	+ 554	+ 77	+ 477
War Shipping Administration	-	88	+ 88	-	+ 88
Aid to China	-	200	+ 200	-	+ 200
Other	63	318	+ 255	+ 65	+ 190
Subtotal	6,301	25,954	+ 19,653	+ 6,401	+ 13,252
III. Revolving funds (net):					
Farm Credit Administration	a/ 59	7	+ 66	+ 70	- 4
Federal Farm Mortgage Corporation (capital stock reduction, act June 25, 1940)	a/ 100	-	+ 100	-	+ 100
Public Works Administration	23	11	- 12	- 4	- 8
Subtotal	a/ 136	18	+ 154	+ 66	+ 88
IV. Transfers to trust accounts, etc.:					
Adjusted service certificate fund	10	-	- 10	-	- 10
Agricultural Marketing Administration (surplus commodity stamps)	91	126	+ 35	+ 38	- 3
Government employees' retirement funds (U. S. share)	93	103	+ 10	+ 10	-
National service life insurance fund	-	1	+ 1	-	+ 1
Railroad retirement account	124	141	+ 17	+ 2	+ 15
Railroad unemployment insurance administration fund transfers to unemployment trust fund (act Oct. 10, 1940)	7	4	- 3	+ 4	- 7
Subtotal	325	375	+ 50	+ 54	- 4
Total expenditures (excluding public debt retirements)	12,711	32,397	+ 19,686	+ 6,342	+ 13,344
Net deficit	5,103	19,598	+ 14,495	+ 5,101	+ 9,394

a/ Excess of credits, deduct.

Note:- Figures are rounded to the nearest million and will not necessarily add to the totals shown.

The total increase of \$5,192,000,000 in receipts for the fiscal year 1942 over those for 1941 was largely accounted for by an increase of \$4,490,000,000 in income taxes. In addition, miscellaneous internal revenue increased \$880,000,000; Social Security taxes increased \$228,000,000; taxes upon carriers and their employees increased \$33,000,000; customs receipts were only \$3,000,000 less than in 1941. Miscellaneous receipts, excluding the return of surplus funds from certain governmental corporations, increased approximately \$66,000,000.

The net receipts for the fiscal year 1942, which amounted to \$12,799,000,000, were \$855,000,000 more than the estimated receipts of \$11,944,000,000 for this period as contained in the Budget Message of January 5, 1942.

The total budgetary expenditures for the fiscal year 1942 (exclusive of debt retirements) amounted to \$32,397,000,000, an increase of \$1,821,000,000 over the estimated expenditures for this period as contained in the Budget Message of January 5, 1942. Total expenditures on a comparable basis were estimated in the Budget Message at \$30,576,000,000 and the increase over budget estimates was accounted for by the acceleration of expenditures for war activities.

The general expenditures which include most of the ordinary operations of the Government amounted to \$6,050,000,000 for the fiscal year 1942 as compared with \$6,221,000,000 for the fiscal year 1941, a decrease of \$171,000,000. General expenditures for 1941 included credits of \$160,000,000 on account of the return of surplus funds of governmental corporations and expenditures for the fiscal year 1942 include \$55,000,000 of such funds repaid to governmental corporations. If these transactions are eliminated for purposes of comparison, general expenditures for 1942 were \$386,000,000 less than those in 1941. This adjusted reduction was accounted for in a large part by a decrease of \$119,000,000 under the Department of Agriculture; \$508,000,000 under the Federal Works Agency, of which \$403,000,000 represented a reduction in the expenditures of the Work Projects Administration; and \$28,000,000 of the River and Harbor work and flood control program; \$94,000,000 under the Civilian Conservation Corps, and \$12,000,000 in the Postal deficiency. On the other hand, general expenditures of certain agencies, closely integrated with our war program, showed substantial increases during 1942 over those for 1941. The principal items in this category are the Tennessee Valley Authority, with increased expenditures of \$76,000,000; Departmental, \$67,000,000; the Panama Canal, \$9,000,000, and reclamation projects, \$5,000,000. Interest on the public debt increased \$149,000,000.

Expenditures for war activities amounted to \$25,954,000,000 for the fiscal year 1942 as compared with \$6,301,000,000, on a comparable basis, for the fiscal year 1941, an increase of \$19,653,000,000. All classifications of expenditures for war activities showed great increases for the year.

In addition to direct budgetary expenditures, transactions in checking accounts of governmental agencies reflected substantial net expenditures primarily attributable to war activities. The principal item in this category was net expenditures by the Reconstruction Finance Corporation of \$1,936,000,000 as compared with net expenditures of \$725,000,000 for 1941, an increase of \$1,211,000,000.

At the end of the fiscal year 1941 monthly expenditures for defense activities were at an annual rate of approximately \$10,000,000,000. Monthly expenditures for war activities at the end of the fiscal year 1942 had increased to the point where they were equivalent to an annual rate of approximately \$46,000,000,000. Current budget estimates for the next fiscal year place war expenditures at \$67,000,000,000, and in addition, governmental corporations, such as the Reconstruction Finance Corporation, etc., contemplate spending \$3,000,000,000 for war purposes.

The monthly trend of defense and war expenditures during the fiscal years 1941 and 1942 are shown in the following table:

Month	Fiscal year	
	(In millions of dollars) 1/	
	1941	1942
July	199	966
August	223	1,129
September	241	1,327
October	311	1,534
November	393	1,446
December	495	1,847
January	589	2,101
February	610	2,201
March	769	2,797
April	782	3,231
May	857	3,553
June	832	3,823
Total	<u>6,301</u>	<u>25,954</u>

Financing net deficit and other requirements

The following table shows the sources which provided the funds to finance the net deficit of \$19,598,000,000, the excess of expenditures in checking accounts of governmental agencies, etc., of \$3,505,000,000, and the increase in the general fund balance of \$358,000,000.

1/ Figures are rounded to nearest million and will not necessarily add to totals shown.

(In millions of dollars)^{1/}

Net deficit, excluding debt retirements \$19,598

Excess of receipts (-) or expenditures (+) in

(a) Checking accounts of governmental agencies:

General + 1,815
 Sales and redemptions of obligations
 in market (net) + 1,809

(b) Trust and other accounts - 119

Increase in general fund balance + 358 3,863

Total requirements \$23,461

Means of financing:

Public debt receipts (net) from

(a) Public issues:

Treasury Bills 835
 Treasury Certificates of Indebtedness .. 3,095
 U. S. Savings Bonds (net) 5,874
 Treasury Notes - Tax Series (net) 3,015
 Other issues 8,878 \$21,696

(b) Special issues:

Unemployment Trust Fund 841
 Federal Old-Age and Survivors
 Insurance Trust Fund 753
 Other accounts 171 1,765

Total \$23,461

THE PUBLIC DEBT

The gross public debt on June 30, 1942, amounted to \$72,422,000,000 as compared with \$48,961,000,000 on June 30, 1941, an increase of \$23,461,000,000. The following statement shows the public debt as of June 30, 1941, and June 30, 1942, classified by character of issues, as between regular issues sold on the market and special issues held for account of Government trust and special funds. The table also shows the increases in the debt from July 1 to December 31, 1941 (for all practicable purposes, the pre-war period) and from January 1 to June 30, 1942 (first six months of war financing). It should be noted that of the net increase of \$23,461,000,000 in the amount of the public debt during the year, \$21,696,000,000 represented an increase in the amount of outstanding public issues, and \$1,765,000,000 an increase in special issues.

^{1/} Figures are rounded to the nearest million and will not necessarily add to the totals shown.

Statement of the outstanding public
debt on June 30, 1941, and June 30, 1942
(In millions of dollars)

Issues	1941	1942	Change during fiscal year 1942		
			Total	July 1, 1941 to Dec. 31, 1941	Jan. 1, 1942 to June 30, 1942
Public issues					
Prewar and postal savings bonds	196	196	--	--	--
Treasury bonds	30,215	38,085	+ 7,870	+ 3,152	+ 4,718
United States Savings bonds	4,314	10,188	+ 5,874	+ 1,826	+ 4,048
Depository bonds	--	79	+ 79	+ 64	+ 15
Adjusted Service bonds	241	229	- 12	- 8	- 4
Treasury notes	5,698	6,689	+ 991	+ 298	+ 693
Treasury notes (Tax series)	--	3,015	+ 3,015	+ 2,471	+ 544
Certificates of indebtedness	--	3,096	+ 3,096	--	+ 3,096
Treasury bills	1,603	2,508	+ 905	+ 398	+ 507
Matured debt on which interest has ceased	205	98	- 107	- 80	- 27
Debt bearing no interest	369	356	- 13	- 7	- 6
Debt bearing no interest					
Subtotal	42,841	64,537	+ 21,696	+ 8,115	+ 13,581
Special issues					
Government Life Insurance Fund	531	537	+ 6	- 24	+ 30
Federal Old-Age and Survivors Insurance Trust Fund	2,381	3,133	+ 752	+ 356	+ 396
Railroad Retirement Account	74	91	+ 17	+ 17	--
Civil Service Retirement Fund	645	783	+ 138	+ 96	+ 42
Foreign Service Retirement Fund	5	5	--	+ 1	- 1
Canal Zone Retirement Fund	5	7	+ 2	+ 1	+ 1
Alaska Railroad Retirement Fund	1	1	--	--	--
Postal Savings System	88	55	- 33	- 25	- 8
Canal Zone Postal Savings System	--	1	+ 1	--	+ 1
National Service Life In- surance Fund	3	39	+ 36	+ 7	+ 29
Federal Deposit Insurance Corporation	90	95	+ 5	- 25	+ 30
Federal Savings & Loan Insurance Corporation	5	5	--	--	--
Adjusted Service Certificate Fund	19	18	- 1	- 1	--
Unemployment Trust Fund	2,273	3,114	+ 841	+ 459	+ 382
Subtotal	6,120	7,885	+ 1,765	+ 862	+ 903
Grand Total	48,961	72,422	+ 23,461	+ 8,977	+ 14,484

Note: Figures are rounded to the nearest million and will not necessarily add to the totals shown.

The computed rate of interest on the total interest-bearing debt continued its downward trend during the year, principally because of the fact that a large amount of the new debt was of a short-term character at low rates. The average rate was 2.285% on June 30, 1942, as compared with 2.518% on June 30, 1941.

The following table shows market issues of Treasury certificates of indebtedness, Treasury notes, Treasury bonds, and United States Savings bonds offered by the Treasury during the fiscal year 1942, including re-funding operations:

	Issue Date	Maturity Date	Rate	Face Amounts Issued (In millions)		
				Exchanges	Cash	Total
<u>Treasury Certificates of Indebtedness</u>						
A-1942	4/15/42	11/1/42	1/2%	--	1,507.1	1,507.1
A-1943	6/25/42	2/1/43	5/8%	--	1,588.5	1,588.5
<u>Treasury Notes</u>						
A-1946	11/1/41	3/15/46	1%	502.9 1/	--	502.9
B-1946	6/5/42	12/15/46	1-1/2%	1,118.4 2/	--	1,118.4
<u>Treasury Bonds</u>						
1967-72	10/20/41	9/15/72	2-1/2%	189.0	1,407.5	1,596.5
1967-72	12/15/41 3/	9/15/72	2-1/2%	--	1,119.6	1,119.6
1951-55	12/15/41	12/15/55	2%	--	532.7	532.7
1949-51	1/15/42	6/15/51	2%	1,014.0 4/	--	1,014.0
1952-55	2/25/42	6/15/55	2-1/4%	--	1,510.8	1,510.8
1962-67	5/5/42	6/15/67	2-1/2%	--	882.3	882.3
1949-51	5/15/42	9/15/51	2%	--	1,292.4	1,292.4
<u>Treasury Notes (tax series) 5/</u>				--	4,138.9	4,138.9
<u>United States Savings Bonds 6/</u>				--	6,081.6	6,081.6
<u>Total</u>				<u>2,824.3</u>	<u>20,061.4</u>	<u>22,885.7</u>

1/ Exchanged for \$299.4 of RFC notes and \$203.4 of CCC notes.
 2/ Exchanged for \$846.1 of HOLC bonds and \$272.3 of RFC notes.
 3/ Additional to 10/20/41 issue.
 4/ Includes exchanges for \$299.1 of FFMC bonds and \$308.6 of RFC notes.
 5/ Redemptions during the year were \$1,124.4.
 6/ Including discount accrued during the year. Redemptions during the year were \$207.4.
 (Figures are rounded to nearest million and will not necessarily add to totals shown.)

Under the Public Debt Act of 1942, approved March 28, 1942, the limitation on the general borrowing power under the Second Liberty Bond Act, as amended, was increased from \$65,000,000,000 to \$125,000,000,000. As of June 30, 1942, the unused borrowing authorization under the limitation in effect on this date was \$50,846,000,000, as shown by the following statement:

[The table content is extremely faint and illegible. It appears to be a multi-column table with various rows of data, possibly representing financial figures related to the borrowing authorization mentioned in the text above.]

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STATUTORY DEBT LIMITATION
AS OF JUNE 30, 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 June 30, 1942:		
Interest-bearing:		
Bonds -		
Treasury	\$38,084,533,250	
Savings (Maturity value)*	12,482,909,100	
Depository	78,953,000	
Adjusted Service	<u>728,665,857</u>	\$51,375,061,207
Treasury notes	13,955,776,350	
Certificates of indebtedness	6,228,013,000	
Treasury bills (maturity value)	<u>2,508,298,000</u>	<u>22,692,087,350</u>
		\$74,067,148,557
Matured obligations, on which interest has ceased	<u>87,309,050</u>	<u>74,154,457,607</u>
Face amount of obligations issuable under above authority		<u>50,845,542,393</u>

Reconciliation with Daily Statement of the United States Treasury
June 30, 1942

Total face amount of outstanding public debt obligations issued under authority of the Second Liberty Bond Act, as amended		74,154,457,607
Deduct, unearned discount on Savings bonds (difference between current redemption value and maturity value)		<u>2,294,720,639</u>
		71,859,736,968
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	10,990,680	
Bearing no interest	<u>355,727,288</u>	<u>562,708,148</u>
Total gross debt outstanding as of June 30, 1942		<u>\$72,422,445,116</u>

* Approximate maturity value. Principal amount (current redemption value) according to preliminary public debt statement \$10,188,188,461.

THE GUARANTEED DEBT

On October 16, 1941, the Secretary of the Treasury announced that thereafter the Treasury would provide the funds needed by governmental corporations and credit agencies and that the previous practice whereby such agencies and corporations sold their guaranteed obligations in the market would be discontinued. As a result of this change in policy, the contingent liabilities of the Government on account of outstanding market issues of obligations of governmental corporations and credit agencies, guaranteed as to principal and interest, decreased from \$6,370,000,000 on June 30, 1941, to \$4,568,000,000 on June 30, 1942, a decrease of \$1,802,000,000. During this period the securities of governmental corporations and credit agencies held directly by the Treasury increased from \$302,000,000 to \$4,079,000,000, an increase of \$3,777,000,000. A statement of guaranteed obligations as of June 30, 1941, and June 30, 1942, is as follows:

STATEMENT OF AMOUNT OF OUTSTANDING OBLIGATIONS
GUARANTEED AS TO PRINCIPAL AND INTEREST BY THE
UNITED STATES AS OF JUNE 30, 1941 AND
JUNE 30, 1942

(In millions of dollars)

	<u>1941</u>	<u>1942</u>	<u>1942</u>	
			Increase (+)	Decrease (-)
Market Issues:				
Commodity Credit Corporation	696	701	+	5
Federal Farm Mortgage Corporation ..	1,270	944	-	326
Federal Housing Administration	17	26	+	9
Home Owners' Loan Corporation	2,419	1,563	-	856
Reconstruction Finance Corporation ..	1,741	1,219	-	522
Federal Public Housing Authority ...	226	114	-	112
Subtotal	<u>6,370</u>	<u>4,568</u>	-	<u>1,802</u>
Issues held by Treasury:				
Commodity Credit Corporation	140	400	+	260
Federal Farm Mortgage Corporation ..	-	263	+	263
Home Owners' Loan Corporation	-	551	+	551
Reconstruction Finance Corporation ..	20	2,534	+	2,514
Tennessee Valley Authority	57	57	-	-
Federal Public Housing Authority ...	85	274	+	189
Subtotal	<u>302</u>	<u>4,079</u>	+	<u>3,777</u>
Total	<u>6,672</u>	<u>8,647</u>	+	<u>1,975</u>

Note: Figures have been rounded to the nearest million and will not necessarily add to totals shown.

Between July 1, 1941, and October 16, 1941, the Treasury offered on behalf of governmental agencies the following market issues of guaranteed obligations:

	Issue Date	Maturity Date	Rate	Face Amounts Issued (In millions)		
				Exchanges	Cash	Total
Commodity Credit Corporation Notes: Series G	7/21/41	2/15/45	1-1/8%	\$200.8	\$210.8	\$411.6
Reconstruction Finance Corporation Notes: Series W	7/3/41	4/15/44	1%	208.7	362.7	571.4
			TOTAL	\$409.5	\$573.5	\$983.0

LOANS AND INVESTMENTS

The Government's interest in the net assets (excluding cash on deposit with the Treasurer of the United States) represented by loans, other investments and properties of governmental corporations and credit agencies amounted to \$6,204,000,000 as of May 31, 1942, as compared with \$3,022,000,000 as of May 31, 1941, a net increase of \$3,182,000,000. This increase is accounted for in large measure by the Treasury's purchase of securities issued by governmental corporations rather than having such securities sold in the market. The amount of such net purchases during the fiscal year ended June 30, 1942, was \$3,777,000,000.

TREASURY FINANCING OPERATIONS

During the fiscal year 1942, sales of new marketable issues of Treasury certificates of indebtedness, Treasury notes, Treasury bonds, and United States Savings bonds (including discount accrued during the year) aggregated \$22,885,600,000 as compared with \$7,781,600,000 during the fiscal year 1941. The computed rate of interest on all such new issues was 1.78% as compared with the computed rate of 2.14% on similar issues for the fiscal year 1941.

The amount of Treasury bills outstanding increased from \$1,603,000,000 on June 30, 1941, to \$2,508,000,000 on June 30, 1942.

The Treasury refunded the following issues maturing or called for redemption during the fiscal year 1942: 2 issues of Treasury notes, 3 issues of Reconstruction Finance Corporation notes, one of which matured on July 1, 1942; 1 issue of Commodity Credit Corporation notes; 2 issues of Federal Farm Mortgage Corporation bonds called for redemption on January 15, 1942, and March 1, 1942; and one issue of Home Owners' Loan Corporation bonds called for redemption on July 1, 1942, aggregating \$2,936,000,000. Of this aggregate amount of maturing and called issues \$2,825,000,000 were

exchanged for an equivalent amount of new Treasury notes and Treasury bonds, the balance was redeemed for cash. The annual interest charge on the maturing or called securities exchanged amounted to \$47,336,000, equivalent to an annual rate of 1.68%, whereas the annual interest charge on the new Treasury issues amounts to \$46,819,000, equivalent to an annual rate of 1.66%.

During the year, especially after the beginning of hostilities in December, 1941, the Treasury expanded its program for the sale of United States Savings bonds.

The following table shows cash receipts and redemptions during 1942 as compared with prior years and the current redemption value of outstanding Savings bonds at the end of each fiscal year, since the first issue of such bonds in March 1935:

<u>Fiscal Year</u>	<u>Receipts</u>	<u>Redemptions</u>	<u>Outstanding at end of year</u>
1942	\$6,082,000,000	\$207,000,000	\$10,189,000,000
1941	1,557,000,000	148,000,000	4,314,000,000
1940	1,151,000,000	114,000,000	2,905,000,000
1939	712,000,000	82,000,000	1,868,000,000
1938	505,000,000	67,000,000	1,238,000,000
1937	520,000,000	36,000,000	800,000,000
1936	265,000,000	11,000,000	316,000,000
1935	63,000,000	1,000,000	62,000,000

On July 3, 1941 the Treasury announced a plan to make it easier for taxpayers, large and small, to meet the unprecedented tax bills required by the National Defense program which was then gaining momentum. Under this plan two series of Treasury notes were issued, both dated August 1, 1941 and maturing August 1, 1943. The plan contemplated that on January 1 of each year thereafter two new series would be provided so that a taxpayer could always purchase notes during the entire year in which he is receiving his income, to be used in payment of taxes due in the following year. One series of notes, designated Tax Series A, provide a return of about 1.92% a year if the notes are used in payment of taxes, but if they are redeemed for cash, only the issue price will be paid to the holder. A limitation of \$1200 was placed upon the amount of Tax Series A notes which could be used in payment of income taxes by any one taxpayer in any one tax year. The other series of notes, designated Tax Series B, provide a return of about .48% per year if the notes are used in payment of taxes, but if they are redeemed for cash only the issue price will be paid to the holder. No limit has been placed on the amount of Tax Series B notes which may be used by taxpayers in meeting their tax payments. During the fiscal year 1942 \$72,000,000 of Tax Series A notes and \$4,067,000,000 of Tax Series B notes were sold. Substantial amounts of these notes were used in connection with the payment of the March and June, 1942 tax installments. During the fiscal year \$1,104,000,000 of these notes were received for taxes, of which \$17,000,000 were Series A notes and \$1,087,000,000 were Series B notes. Only \$21,000,000 of these notes were presented for cash redemption, of which less than \$1,000,000 were Series A notes and \$20,000,000 Series B notes.

As of the end of June, 1941, United States Government agencies and trust funds held \$8,481,000,000 of direct and indirect securities issued by the United States, of which \$2,360,000,000 consisted of public marketable issues and \$6,121,000,000 of special issues sold direct to such agencies and trust funds. During the year ended June 30, 1942, total holdings of such securities by Government agencies and trust funds increased \$2,121,000,000, of which \$356,000,000 represented the net increase in marketable issues and \$1,765,000,000 represented the increase in special issues. Total holdings of securities on June 30, 1942, amounted to \$10,602,000,000 as compared with the total outstanding direct and indirect securities issued by the United States amounting to \$76,517,000,000 on that date.

TREASURY ISSUES

The financing on October 20, 1941, the first since the beginning of the fiscal year, was announced on October 9, 1941, and consisted of an offering to the public for cash, at par and accrued interest, of \$1,200,000,000, or thereabouts, of 2-1/2% Treasury Bonds of 1967-72, maturing September 15, 1972. In addition to the cash offering, the holders of \$204,425,400 outstanding 1-1/4% Treasury notes of Series C-1941, maturing December 15, 1941, were offered the privilege of exchanging such notes for the Treasury Bonds mentioned above, the notes exchanged being accepted at par with interest adjustments as of October 20, 1941. Also, in addition to the cash offering for public subscription, \$100,000,000, or thereabouts of 2-1/2% Treasury Bonds of 1967-72 were made available for allotment to Government investment accounts against cash payment. The amount of Treasury Bonds of 1967-72 issued on cash subscriptions, including \$100,000,000 allotted to Government investment accounts, was \$1,407,503,200. Of the 1-1/4% Treasury notes of Series C-1941, \$188,971,200 were exchanged for Treasury Bonds of 1967-72.

On October 23, 1941, there was announced an offering of 1% Treasury Notes of Series A-1946, dated November 1, 1941, and maturing March 15, 1946. The Treasury offered to accept in payment for these notes the proceeds of redemption from the holders of \$299,839,000 of 7/8% Reconstruction Finance Corporation Notes of Series P, maturing November 1, 1941, and also offered to purchase at par and accrued interest \$204,241,000 of 1% Commodity Credit Corporation Notes of Series E, maturing November 15, 1941, to the extent to which the holders thereof subscribed for Treasury Notes of Series A-1946. Subscriptions from others were not invited. A total of \$502,866,000 of the Treasury Notes of Series A-1946 was issued. \$299,444,000 of the maturing Reconstruction Finance Corporation Notes of Series P and \$203,422,000 of the Commodity Credit Corporation Notes of Series E were tendered and accepted as payment for the Treasury Notes of Series A-1946.

The financing on December 15, 1941, announced December 4, 1941, consisted of an additional offering of \$1,000,000,000, or thereabouts, of 2-1/2% Treasury Bonds of 1967-72, dated October 20, 1941, maturing September 15, 1972; and an offering of \$500,000,000, or thereabouts, of 2% Treasury Bonds of 1951-55, dated December 15, 1941, maturing December 15, 1955; both issues being offered to the public for cash, at par and accrued interest. In addition to the public offering, provision was made to sell \$50,000,000 of the Treasury Bonds of 1967-72 to Government investment accounts.

For the benefit of small investors preferential allotment was given under each issue to subscriptions for \$5,000 and under, where delivery in registered bonds 90 days after the issue date was specified. A face amount of \$1,119,570,750 of Treasury Bonds of 1967-72, including \$50,000,000 sold to Government investment accounts and about \$26,000,000 on preferred allotments, was issued. Of the Treasury Bonds of 1951-55 the amount issued was \$532,687,950 which included about \$13,800,000 sold on preferred allotments. The December financing was the first occasion on which the Treasury announced a definite basis for subscriptions from all classes of subscribers. It is felt that this action resulted in more equitable allotments for the legitimate investment requirements of subscribers. Subscriptions were grouped broadly into four classes, as follows:

Banks and trust companies for their own account - not to exceed 50 per cent of capital and surplus.

Mutual savings and cooperative banks, Federal Savings and Loan Associations, trust accounts and investment corporations, pension funds, insurance companies, and similar institutions and funds - not to exceed 10 per cent of total resources.

Corporations organized for profit, and dealers and brokers - not to exceed 50 per cent of net worth.

Individuals - not to exceed 50 per cent of net worth or 100 per cent of cash deposited with subscription. (Note: No preferred allotment was made on such full-paid subscriptions.)

The Treasury announced on January 11, 1942, an offering of 2% Treasury Bonds of 1949-51, dated January 15, 1942, and maturing June 15, 1951, the amount of the offering being limited to the amount of securities tendered and accepted, as follows:

1. The holders of \$426,349,500 of 1-3/4% Treasury Notes, Series A-1942, maturing March 15, 1942, were invited to exchange such notes for Treasury Bonds of 1949-51. \$406,387,700 of these notes were exchanged for a like amount of Treasury Bonds of 1949-51.

2. The Treasury offered to apply the proceeds of payment of \$236,476,200 outstanding 3% Federal Farm Mortgage Corporation Bonds of 1942-47, called for redemption on January 15, 1942, to payment for Treasury Bonds of 1949-51. \$203,251,900 of these bonds were redeemed and the proceeds applied in payment for a like amount of Treasury Bonds of 1949-51.

3. The Treasury offered to purchase, at par and accrued interest, \$103,147,500 of outstanding 2-3/4% Federal Farm Mortgage Corporation Bonds of 1942-47, called for redemption on March 1, 1942, to the extent to which the holders thereof subscribed for Treasury Bonds of 1949-51. \$95,829,300 of these bonds were purchased and that amount was subscribed by the holders to the purchase of Treasury Bonds of 1949-51.

4. The Treasury offered to apply the proceeds of payment of \$310,090,000 outstanding 7/8% Reconstruction Finance Corporation Notes of Series R, maturing January 15, 1942, to payment for Treasury Bonds of 1949-51. \$308,550,000 of these notes were tendered for payment and the proceeds accepted in payment for a like amount of Treasury Bonds of 1949-51.

The total amount of Treasury Bonds of 1949-51 issued under the above-mentioned provisions was \$1,014,018,900.

On February 13, 1942, there was announced an offering to the public for cash, at par and accrued interest, of \$1,500,000,000, or thereabouts, of 2-1/4% Treasury Bonds of 1952-55, dated February 25, 1942, and due June 15, 1955. Subscriptions were entertained from the various classes of subscribers on the basis inaugurated in the financing of December, 1941. For the benefit of small investors, preferential allotment was given to subscriptions for \$5,000 and under, where delivery in registered bonds 90 days after the issue date was specified. A face amount of \$1,510,795,300 of Treasury Bonds of 1952-55, including about \$13,132,000 on preferred allotments, was issued.

The financing on April 15, 1942, announced on April 6, 1942, consisted of an offering to the public for cash, at par and accrued interest, of \$1,500,000,000, or thereabouts, of 1/2% Treasury Certificates of Indebtedness of Series A-1942, dated April 15, 1942, due November 1, 1942. Subscriptions were entertained on the same basis as under the December, 1941, and February, 1942, issues of Treasury Bonds. The face amount of Treasury Certificates of Indebtedness of Series A-1942 issued was \$1,507,083,000, including about \$66,000,000 of subscriptions in amounts up to and including \$25,000, which were allotted in full.

On May 4, 1942, there was announced an offering for cash, at par and accrued interest, of two series of Treasury Bonds, consisting of \$1,250,000,000, or thereabouts, of 2% Treasury Bonds of 1949-51, dated May 15, 1942, due September 15, 1951; and an unspecified amount of 2-1/2% Treasury Bonds of 1962-67, dated May 5, 1942, due June 15, 1967.

The rules inaugurated in December, 1941, and followed in February and April, 1942, governing the basis of subscriptions to Government securities, were not made applicable and no limitation was placed upon amounts of subscriptions to these issues. All subscriptions up to and including \$10,000 for that issue were allotted in full. The face amount issued of Treasury Bonds of 1949-51 was \$1,292,444,100, including about \$69,000,000 of subscriptions of \$10,000 and under, which were allotted in full.

The announcement provided that the 2-1/2% Treasury Bonds of 1962-67 would not be available for subscription, for their own account, by commercial banks which accept demand deposits. It was provided that these bonds would not be transferable before July 6, 1942, and that they would not be transferable to commercial banks which accept demand deposits before May 5, 1952. However, these 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. As the offering was not specific in amount, it remained open for a period longer than customary. The face amount issued of Treasury Bonds of 1962-67, including \$52,618,000 sold to Government investment accounts, was \$882,306,500.

The Treasury announced on May 25, 1942, an issue of 1-1/2% Treasury Notes of Series B-1946, dated June 5, 1942, due December 15, 1946, in payment of which there might be tendered only 2-1/4% Home Owners' Loan Corporation Bonds, Series G 1942-44, called for redemption on July 1, 1942, of which \$875,438,625 were outstanding; or 1% Reconstruction Finance Corporation Notes of Series S, maturing July 1, 1942, of which \$275,868,000 were outstanding. Exchanges were made par for par with an adjustment of accrued interest to June 5, 1942. A face amount of \$1,118,353,400 of the Treasury Notes of Series B-1946 was issued, for which there were exchanged \$846,081,400 of Home Owners' Loan Corporation Bonds, Series G 1942-44, and \$272,272,000 of Reconstruction Finance Corporation Notes, Series S.

The financing on June 25, 1942, announced June 18, 1942, consisted of an offering for cash of \$1,500,000,000 or thereabouts, of 5/8% Treasury Certificates of Indebtedness of Series A-1943, dated June 25, 1942, and maturing February 1, 1943. There were no restrictions as to the basis for subscribing to this issue. Subscriptions up to and including \$25,000 were allotted in full. A face amount of \$1,588,495,000 of the Certificates of Indebtedness of Series A-1943 was issued, including about \$61,000,000 of subscriptions in amounts up to \$25,000, allotted in full.

GUARANTEED ISSUES

Due to the policy adopted in October, 1941, of financing Government corporations and credit agencies through the Treasury, there was very little financing activity during the fiscal year 1942 with respect to the sale of new guaranteed market issues. However, the following financing transactions were consummated during the early part of the fiscal year:

Reconstruction Finance Corporation:

On June 24, 1941, the Secretary of the Treasury, on behalf of the Reconstruction Finance Corporation, invited subscriptions from the public, at par and accrued interest, for \$500,000,000, or thereabouts, of 1% notes of Series W of the Corporation, dated July 3, 1941, and maturing April 15, 1944. This financing was designed to provide new cash for the Corporation

and to refund
194 of which
face amount of
Series N notes

Commodity Credit

On July
Commodity Credit
interest, for
of the Corpora
This financing
Series D, matu
\$20,000,000,
amount of \$411
exchanged for

and to refund the Corporation's 7/8% notes of Series N, maturing July 20, 1941, of which there were \$211,460,000 outstanding. A total of \$571,363,000 face amount of Series W notes was issued; \$208,668,000 being exchanged for Series N notes and \$362,695,000 being sold for cash.

Commodity Credit Corporation:

On July 10, 1941, the Secretary of the Treasury, on behalf of the Commodity Credit Corporation, announced an offering, at par and accrued interest, for \$400,000,000, or thereabouts, of 1-1/8% notes of Series G of the Corporation, dated July 21, 1941, and maturing February 15, 1945. This financing was designed to refund the Corporation's 5/8% notes of Series D, maturing August 1, 1941, of which there were outstanding \$202,553,000, and to provide additional cash for the Corporation. A face amount of \$411,596,000 notes of Series G were issued, including \$200,815,000 exchanged for notes of Series D and \$210,781,000 sold for cash.

TREASURY DEPARTMENT
Washington

July 2, 1942.

MEMORANDUM FOR THE PRESS:

Stories appeared yesterday in various newspapers that Canadian troops, rushing to the defense of Alaska in accordance with an international agreement, were delayed at the border by demands of Customs officials for payment of duty on their spare uniforms and fighting equipment, that when the matter was reported to Washington it was found by Treasury and State Department officials that the law required payment of duties on the soldiers' effects, and that a solution was not found until the Secretary of State requested that the troops of our ally be regarded as "distinguished visitors" and thus be permitted to enter their baggage without examination.

There is no information in the possession of the Treasury Department which would support any of these statements. No instances of delay in the passage of Canadian troops into Alaska or any other part of American territory on account of Customs formalities have been reported to the Bureau of Customs, nor have there been any reports that Customs officers have demanded payment of duty on effects or equipment carried by these troops or brought to America with them. The law does not require payment of duty either on the clothing and personal effects these troops may bring with them or on their arms and equipment.

The only question of Customs law brought to the attention of the Treasury Department in connection with the presence of Canadian troops on American soil was the question whether goods consigned to individual members of Canadian forces and sent to them after their arrival on American soil could be delivered to them without payment of duty and taxes. The State Department expressed its desire to find some way to grant this privilege to individual Canadian officers and soldiers since a like courtesy was being accorded to United States troops on Canadian soil. The only specific instance which came directly to the attention of the Bureau of Customs in this connection was in a letter and telegrams from the Collector at Juneau which asked whether liquor, cigarettes, and tobacco for sale in an officers' bar could be imported into Alaska from Canada without payment of tax.

To the general request from the State Department for free entry for packages sent to individual officers and soldiers after their arrival in United States territory, informal reply was made that the only way it seemed possible under existing law to grant such a privilege would be by designating all the Canadian troops on American soil as "distinguished foreign visitors." This solution was not considered wholly satisfactory either by the State

Department or the Treasury Department. Nevertheless, the Secretary of State acted upon it and on June 19 addressed a letter to the Secretary of the Treasury so designating the Canadian forces in Alaska.

Realizing that this could be only a temporary expedient and an unsatisfactory one at best, the Treasury Department caused to be introduced in Congress on Wednesday, June 24, a joint resolution (H.J. Res.327) which would accord free entry and freedom from internal revenue tax to any articles imported into the United States, its territories or possessions, for the personal or official use of members of the armed forces of any of the United Nations on duty within American territory. On representation by the Treasury Department that the matter was one of great urgency, the resolution was passed by both houses within three days and has been approved by the President.

The "distinguished foreign visitor" privilege has not been invoked in any instance in behalf of the Canadian forces in Alaska and its employment is now unnecessary in the light of the joint resolution.

TREASURY DEPARTMENT
Washington

FOR RELEASE, MORNING NEWSPAPERS,
Friday, July 3, 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 July 8, 1942, and will mature October 7, 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, July 6, 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 July 8, 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.

July 2, 1942

The Agreement of April 1, 1941 between the United States and China, under which the United States Stabilization Fund undertook to purchase Chinese yuan to the amount of \$50 million and under which the Stabilization Board of China was established, has been extended for a period of one year beyond June 30, 1942.

The extension of the 1941 Agreement is in accordance with the traditional policy of the Treasury of giving full financial aid to the Chinese Government and of supporting the foreign exchange position of the Chinese yuan.

ICE/cia
7/2/42

FOR IMMEDIATE RELEASE,
Thursday, July 2, 1942.

~~July 2, 1942~~

Press Service
No. 32-31

The Agreement of April 1, 1941, between the United States and China, under which the United States Stabilization Fund undertook to purchase Chinese yuan to the amount of ~~\$50 million~~ ^{\$50,000,000} and under which the Stabilization Board of China was established, has been extended for a period of one year beyond June 30, 1942.

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TREASURY DEPARTMENT
Washington

FOR IMMEDIATE RELEASE,
Thursday, July 2, 1942.

Press Service
No. 32-31

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32-32
~~DRAFT PRESS RELEASE~~

The Secretary of the Treasury, Henry Morgenthau, Jr., and Minister Fernando Lobo, Charge d'Affaires of the United States of Brazil in Washington, today signed an agreement extending to July 15, 1947 the Stabilization Agreement entered into five years ago.

Under this Agreement, as extended today, the United States will make dollar exchange available to the Government of the United States of Brazil for the purpose of stabilizing the Brazilian milreis-United States dollar rate of exchange up to a total amount of \$100,000,000 and will sell gold to the United States of Brazil at such times and in such amounts as the Brazilian Government may request, also to a total amount of \$100,000,000. In the Agreement as originally drafted these two amounts were \$60,000,000.

"The extension of this Agreement between the Treasuries of the United States of America and the United States of Brazil and the increase in the facilities made available to Brazil under the Agreement," *said Secretary Morgenthau*, "are a further evidence of the close and friendly relations existing between the two countries and constitute an assurance of continued cooperation between the two Treasuries." "The friendship and understanding symbolized by this and other agreements with our great sister republic in South America promise much for both a joint attack on the problems of the war and ^a solution for our common problems in the peace."

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FAS:dm:7/3/42

(This draft was approved by Messrs. White and B. Bernstein, by Mr. Gouthier of the Brazilian Embassy, and by the State Department through Mr. Luthringer.)

TREASURY DEPARTMENT
Washington

FOR IMMEDIATE RELEASE,
Monday, July 6, 1942.

Press Service
No. 32-32

The Secretary of the Treasury, Henry Morgenthau, Jr., and Minister Fernando Lobo, Charge d'Affaires of the United States of Brazil in Washington, today signed an agreement extending to July 15, 1947 the Stabilization Agreement entered into five years ago.

Under this Agreement, as extended today, the United States will make dollar exchange available to the Government of the United States of Brazil for the purpose of stabilizing the Brazilian milreis-United States dollar rate of exchange up to a total amount of \$100,000,000 and will sell gold to the United States of Brazil at such times and in such amounts as the Brazilian Government may request, also to a total amount of \$100,000,000. In the Agreement as originally drafted these two amounts were \$60,000,000.

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Immediate

~~DRAFT PRESS RELEASE~~

32-33

[The Secretary of the Treasury, Henry Morgenthau, Jr., and the Cuban Ambassador, Dr. Aurelio F. Concheso, today signed an agreement under which the Government of the United States undertakes to sell gold to the Government of the Republic of Cuba from time to time with payment to be made within 120 days after delivery of the gold provided that the unpaid-for amount of gold shall not at any time exceed \$5,000,000. [The details of the Agreement were worked out between the Cuban and United States Treasuries on the occasion of a recent visit to this country by Dr. Oscar Garcia Montes, the Minister of Finance of Cuba.

[This Agreement, evidencing the close cooperation that has existed between the Treasuries of the Republic of Cuba and the United States, will enable the Cuban Treasury to carry out operations designed to stabilize the Cuban peso-United States dollar rate of exchange.

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C.P.

(Approved by Messrs. White and B. Bernstein, by the State Department through Mr. Luthringer, and tentatively approved by Mr. Pazos of the Cuban Embassy.)

Wholly
10.15 am
7/6/42

FAS:dm:7/3/42

TREASURY DEPARTMENT
Washington

FOR IMMEDIATE RELEASE,
Monday, July 6, 1942.

Press Service
No. 32-33

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This Agreement, evidencing the close cooperation that has existed between the Treasuries of the Republic of Cuba and the United States, will enable the Cuban Treasury to carry out operations designed to stabilize the Cuban peso-United States dollar rate of exchange.

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TREASURY DEPARTMENT
Washington

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

Press Service
No. 32-34

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 July 8 and to mature October 7, 1942, which were offered on July 3, were opened at the Federal Reserve Banks on July 6.

The details of this issue are as follows:

Total applied for - \$646,058,000
Total accepted - 300,056,000

Range of accepted bids: (Except for three tenders totaling \$75,000)

High	- 99.925	Equivalent	rate	approximately	0.297	percent
Low	- 99.906	"	"	"	0.372	"
Average						
Price	- 99.908	"	"	"	0.365	"

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

TREASURY DEPARTMENT
Comptroller of the Currency
Washington

FOR RELEASE, MORNING NEWSPAPERS
Wednesday, July 8, 1942

Press Service
32 - 35

During the month ended June 30, 1942, authorizations were issued to receivers for payments of dividends to the creditors of eleven insolvent national banks. Dividends so authorized will effect total distributions of \$1,945,662 to 53,915 claimants who have proved claims aggregating \$25,429,901, or an average payment of 7.65 percent. The minimum and maximum percentages of dividends authorized were 2.15 percent and 55.0 percent, while the smallest and largest payments involved in dividend authorizations during the month were \$27,300 and \$478,350, respectively. Of the eleven dividends authorized during the month, one was for a regular dividend payment, nine were for final dividend payments and one was a final and partial interest payment. Dividend payments so authorized during the month ended June 30, 1942, were as follows:

DIVIDEND PAYMENTS TO CREDITORS OF INSOLVENT NATIONAL
BANKS AUTHORIZED DURING THE MONTH ENDED
JUNE 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>
Hyde Park-Kenwood Nat'l Bank Chicago, Illinois	Final	6/10/42	7th	6.25%	\$ 144,303	69.75%	10,668	\$ 2,308,845
First National Bank Tamaroa, Illinois	Final	6/8/42	2nd	8.9%	36,983	38.9%	665	415,538
First National Bank Logansport, Indiana	Final Partial Int.	6/23/42	6th	7.18%	305,800	101.18%	7,898	4,350,400
City National Bank Paducah, Kentucky	Final	6/20/42	7th	5.9%	236,400	55.9%	9,276	4,006,700
First National Bank of Brockport, New York	Final	6/3/42	4th	6.8%	81,926	76.1203%	2,837	1,204,788
Larchmont Nat'l Bank & Tr. Co. Larchmont, New York	Final	6/17/42	4th	2.15%	27,300	32.15%	4,562	1,270,700
First National Bank Charleroi, Pennsylvania	Final	6/27/42	6th	2.22%	32,500	82.22%	3,017	1,462,600
Monongahela Nat'l Bank of Pittsburgh, Pennsylvania	Final	6/19/42	5th	6.24%	417,900	96.24%	7,853	6,696,700
Nat'l Loan and Exchange Bank Columbia, South Carolina	Final	6/19/42	5th	3.55%	59,300	73.55%	3,446	1,671,600
Edisto Nat'l Bank of Orangeburg, South Carolina	Final	6/22/42	5th	10.65%	124,900	71.65%	3,360	1,172,300
First Nat'l Bank of Dodgeville, Wisconsin	Regular	6/3/42	1st	55.0%	478,350	55.0%	333	869,730

TREASURY DEPARTMENT
Washington

FOR IMMEDIATE RELEASE,
Tuesday, July 7, 1942.

Press Service
No. 32-36

Persons holding ordinary United States currency in the Territory of Hawaii must exchange such currency by July 15, 1942 for United States currency of a special series to be used only in the Territory of Hawaii, the Treasury Department announced today. The exchange may be made at any bank within the Territory of Hawaii without charge.

The provisions of law governing the currency exchange are contained in regulations issued on June 25, 1942, by J. B. Poindexter, Governor of Hawaii, and Brigadier-General Thomas H. Green, Executive to the Military Governor of Hawaii. Under the terms of these regulations, after July 15, 1942, no currency other than United States currency, Hawaiian series, may be held or used in the Territory of Hawaii without a license from Governor Poindexter, and exportations of the new currency from Hawaii will be prohibited.

Any person importing ordinary United States currency into Hawaii after June 25, 1942, must deposit immediately such currency with an official at the appropriate port of entry, and will receive in return currency of the new series. Persons willfully disobeying these regulatory provisions will be subjected to severe criminal penalties, under orders issued by Brigadier-General Green.

Treasury officials explained that the new series is currency of the United States issued by the United States Treasury Department as legal tender for Hawaii and that it is fully backed by the credit of the United States. A note of the new series differs from ordinary American currency only in that it bears the distinctive overprint "Hawaii" in bold-faced type on each end of the face and the word "Hawaii" across the reverse side.

License applications to hold or use ordinary United States currency in Hawaii or to export United States currency, Hawaiian series, from Hawaii may be filed with Governor Poindexter on Form TFR-H28 in the manner in which Foreign Funds Control applications are filed.

- 2 -

The Hawaiian currency replacement program results from careful study of Hawaiian currency problems by the Treasury Department, War Department, Navy Department and Department of the Interior, in collaboration with Hawaiian civil and military authorities. Brigadier-General Green announced that the program complements other measures taken for the protection of Hawaiian citizens and the economic defense of Hawaii.

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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 \$25,000 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 July 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.

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

UNITED STATES OF AMERICA

2 PERCENT TREASURY BONDS OF 1949-51

Dated and bearing interest from July 15, 1942

Due December 15, 1951

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

Interest payable June 15 and December 15

1942
Department Circular No. 689

TREASURY DEPARTMENT,
Office of the Secretary,
Washington, July 8, 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 \$2,000,000,000, or thereabouts.

II. DESCRIPTION OF BONDS

1. The bonds will be dated July 15, 1942, and will bear interest from that date at the rate of 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, 1951, but may be redeemed at the option of the United States on and after December 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,

Treasury Department are authorized to act as official agencies. Subscriptions from banks and trust companies for their own account will be received without deposit, but subscriptions from all others must be accompanied by payment of 10 percent of the amount of bonds applied for.

All subscriptions for amounts up to and including \$25,000 will be allotted in full; other subscriptions will be received subject to allotment, and the basis of their allotment will be publicly announced. Payment for any bonds allotted must be made or completed on or before July 15, 1942, or on later allotment.

The text of the official circular follows:

Handwritten signature or initials, possibly "L. B. ..."

TREASURY DEPARTMENT
Washington

FOR RELEASE, MORNING NEWSPAPERS,
Wednesday, July 8, 1942.
7/7/42

Press Service
No. 32-37

Secretary of the Treasury Morgenthau today announced the offering, through the Federal Reserve Banks, for cash subscription at par and accrued interest, of \$2,000,000,000, or thereabouts, of 2 percent Treasury Bonds of 1949-51. In order to insure full participation of banks, corporations and others who may be interested in the offering, the subscription books will remain open two days. There will be no restrictions as to the basis for subscribing to this issue.

The Treasury Bonds of 1949-51, now offered for subscription, will be dated July 15, 1942, and will bear interest from that date at the rate of 2 percent per annum payable semiannually with the first coupon due December 15, 1942, for a fractional period. The bonds will mature December 15, 1951, but may be redeemed, at the option of the United States, on and after December 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.

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 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

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TREASURY DEPARTMENT
Washington

FOR RELEASE, MORNING NEWSPAPERS,
Wednesday, July 8, 1942.
7/7/42

Press Service
No. 32-37

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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 from banks and trust companies for their own account will be received without deposit, but subscriptions from all others must be accompanied by payment of 10 percent of the amount of bonds applied for.

All subscriptions for amounts up to and including \$25,000 will be allotted in full; other subscriptions will be received subject to allotment, and the basis of their allotment will be publicly announced. Payment for any bonds allotted must be made or completed on or before July 15, 1942, or on later allotment.

The text of the official circular follows:

UNITED STATES OF AMERICA

2 PERCENT TREASURY BONDS OF 1949-51

Dated and bearing interest from July 15, 1942

Due December 15, 1951

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

Interest payable June 15 and December 15

1942
Department Circular No. 689

TREASURY DEPARTMENT,
Office of the Secretary,
Washington, July 8, 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 \$2,900,000,000, or thereabouts.

II. DESCRIPTION OF BONDS

1. The bonds will be dated July 15, 1942, and will bear interest from that date at the rate of 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, 1951, but may be redeemed at the option of the United States on and after December 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 \$25,000 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 July 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.

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TREASURY DEPARTMENT
Washington

FOR IMMEDIATE RELEASE,
Wednesday, July 8, 1942.

Press Service
No. 32-38

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, 1942, as follows:

Country of Origin	Wheat		Wheat flour, semolina, crushed or cracked wheat, and similar wheat products	
	Imports	Imports	Imports	Imports
	Established: May 29, 1942, to June 27, 1942	Established: May 29, 1942, to June 27, 1942	Established: May 29, 1942, to June 27, 1942	Established: May 29, 1942, to June 27, 1942
	(Bushels)	(Bushels)	(Pounds)	(Pounds)
Canada	795,000	795,000	3,815,000	3,352,059
China	-	-	24,000	-
Hungary	-	-	13,000	-
Hong Kong	-	-	13,000	-
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	44
Italy	100	-	2,000	-
Cuba	-	-	12,000	-
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	3,352,103

TREASURY DEPARTMENT
Washington

FOR IMMEDIATE RELEASE,
Wednesday, July 8, 1942.

Press Service
No. 32-39

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	June 27, 1942	837,280,732
Colombia	475,086,450	"	372,549,298
Costa Rica	30,144,642	(Import quota filled)	
Cuba	12,109,603	June 27, 1942	5,642,283
Dominican Republic	18,098,664	(Import quota filled)	
Ecuador	22,634,408	July 4, 1942 <u>2/</u>	18,412,238
El Salvador	96,657,909	June 27, 1942	75,493,420
Guatemala	80,715,477	(Import quota filled)	
Haiti	41,436,647	July 4, 1942 <u>2/</u>	39,357,942
Honduras	3,287,588	" <u>2/</u>	2,513,687
Mexico	74,966,100	June 27, 1942	34,598,080
Nicaragua	32,078,385	"	21,002,030
Peru	3,767,088	July 4, 1942 <u>2/</u>	3,110,901
Venezuela	38,094,430	(Import quota filled)	
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	June 27, 1942	13,107,191
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, July 8, 1942.

Press Service
No. 32-40

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 June 27, 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:

(In Pounds)				
Country of Origin	: Staple length less	:Staple length 1-1/8" or		
	: than 1-1/8"	:more but less than 1-11/16"		
	: Imports Sept.:	Imports Sept.		
	: Established : 20, 1941, to	: Established	20, 1941, to	
	: Quota : June 27, 1942 :	: Quota	June 27, 1942	
Egypt and the Anglo-				
Egyptian Sudan	783,816	-	43,451,566	33,493,073
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	6
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	-	-	-
	14,516,882	9,828,954	45,656,420	35,549,556

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	: Established : 33-1/3% of : to June 27, 1942:	Imports Sept. 20, 1941, to Total Quota June 27, 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, July 8, 1942.

Press Service
No. 32-41

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 June 27, 1942, inclusive, as follows:

Products of Philippine Islands	:	Established Quota	:	Unit of	:	Imports as of
	:	Period	:	Quantity	:	June 27, 1942
Coconut oil		Calendar year		448,000,000		Pound 31,149,515
Refined sugars		Calendar year		112,000,000)		Pound 2,346,712
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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 209,465

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,
Wednesday, July 8, 1942.

Press Service
No. 32-42

The following statement was made today by Secretary Morgenthau:

In his Message to Congress on April 27, 1942, the President said:

"To keep the cost of living from spiraling upward, we must discourage credit and instalment buying, and encourage the paying off of debts, mortgages, and other obligations; for this promotes savings, retards excessive buying and adds to the amount available to the creditors for the purchase of War Bonds."

I want to reemphasize this seventh point in the President's recent Message to Congress so that there may be no misunderstanding about it.

Specifically, I want to clear up a misconception that may have arisen from a memorandum recently presented by Mr. Randolph Paul, Tax Adviser to the Secretary of the Treasury, to the Ways and Means Committee of the House of Representatives on the subject of repayment of debts under high tax rates. This memorandum stated explicitly:

"It should be emphasized that this memorandum does not contain any recommendations of the Treasury but was submitted merely for the information of the Committee in response to questions relating to various subjects, particularly the debt problem. It is merely a staff study and does not incorporate any policy decisions."

Committee questions called for a discussion of all remedies and the subject of a debt moratorium was, therefore, referred to in the memorandum. As some misunderstanding seems to have arisen, I should like to make it clear that the Treasury did not recommend such a moratorium. Nor did the Committee take any action with respect to the memorandum.

TREASURY DEPARTMENT

Washington

FOR RELEASE, MORNING NEWSPAPERS,
Thursday, July 9, 1942.
7/8/42

Press Service

32-43

Secretary of the Treasury Morgenthau announced last night that the subscription books for the current offering of 2 percent Treasury Bonds of 1949-51 will close at the close of business today, July 9.

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, July 9, 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 around noon on Saturday, July 11.

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TREASURY DEPARTMENT
Washington

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TREASURY DEPARTMENT
Washington

(The following address by Assistant Secretary of the Treasury John L. Sullivan before a War Savings campaign luncheon in Boston, Massachusetts, is scheduled for delivery at 1 p.m., Eastern War Time, Thursday, July 9, 1942, and is for release at that time.)

I do not think that I need to tell you how delighted I am to have this opportunity to meet with you today. At a time when the world appears to be up-side down, at a time when desperate forces are seeking to crush civilization itself, one derives a certain sense of reassurance in returning to New England and to Boston -- the section of this new world and the very town in which many of the foundations of our American way of life were laid.

And it is inspiring during days such as these to meet with men like yourselves who are living proof that a democracy can wage war democratically. When the master military minds of the aggressor nations laid their plans for total war it was their vain hope that this type of warfare could be resisted only by other dictator nations. Their faith in this type of warfare indicated a complete lack of understanding of the American mind, of American courage, and of the American concept of the value of freedom. Now we are just beginning to demonstrate what we will soon prove to them: That in a land wherein all men are created free and equal, where there are no discriminations because of race, creed, and color, and where to 130 million people liberty is truly dearer than life, there exists a nation with such unity of purpose and devotion to freedom that we can outstrip any other nation in the world in the totality of our war effort.

Neither you nor I nor anyone in this world today knows when or how this war will end. We know it will be a hard war. We know it may be a long war. We know that before it is finished the supreme sacrifice will have been paid by thousands of our fine young men. We know that for years to come the misery and the agony of this conflict will linger with us. We know that this war will create a greater drain upon the wealth and substance of this country than any war we or any other nation has ever fought. But we also know this: Almost no matter how many deaths and casualties result, certainly no matter how much it costs us in terms of money and goods, it is far, far cheaper to fight and be free than to bend to the conqueror. Yes -- it is ten thousand times cheaper to win than to lose.

Ask the people of Poland and Czechoslovakia, of Belgium and Holland. Ask the people of France and Austria and Yugoslavia.. Yes -- ask those people whether it is better for our sons to die on the battlefield or to fall before the murder squads of despot powers seeking to make all races forever servile to their own. Ask the business men of conquered Europe whose factories and stores, whose banks and businesses have been taken over lock, stock and barrel by the invader. Ask any member of the millions of broken families of Europe whether any price can be too great to win this fight and their answer will be just what you expect: Whatever the cost, it is cheaper to win than to lose.

There is one thing more we know about this war, and that is that somewhere, somehow, sometime, we will win. No matter how long it takes -- no matter how many it takes -- no matter how much it takes -- we will win. And, we will win this war so thoroughly and so completely, that when it has been concluded, we, in company with our allies can establish a just and enduring peace so that future generations of Americans will not have to go through those things which we are now experiencing.

Not the least important aspect of total war is finances, and I think it might be helpful to you if I briefly review our financial situation:

On July 1, 1941, there was a national debt of about forty-nine billion dollars. On July 1 of this year that debt was seventy-two billion dollars.

In mid-summer of 1941, we were spending for rearmament about eight hundred million dollars a month. In mid-summer of this year, we are spending on the war effort about four billion dollars a month.

During the fiscal year 1942, about 25% of our entire national income was spent for rearmament. During the fiscal year 1943, about 55% of our national income will be spent for the war effort.

Military and naval appropriations already voted by the Congress total about two hundred billion dollars.

Under the present tax laws, we anticipate in the fiscal year 1943 collections of about seventeen billion dollars, and expenditures (including Government corporations) of about seventy-seven billion dollars, leaving a deficit of about sixty billion dollars.

This deficit indicates that the tax bill now pending before the Congress may be considered as the start, rather than the conclusion, of the nation's wartime revenue program. It also emphasizes the tremendous sums of money we must procure from other sources.

Roughly speaking, this nation is today obtaining money through three main sources: Taxes; the sale of regular Treasury securities to banks, insurance companies, trusts and individuals; and War Savings Bonds.

The borrowing of true investment funds is now being accelerated with the cooperation of a nation-wide Victory Fund Committee of bankers, businessmen, and security dealers. They are giving generously and freely of their time and doing a splendid job. I bespeak for the committee here in the Boston district the cooperation of everyone in New England.

The third source of funds for waging this war is the sale of War Savings Bonds to the people of the United States. It is the hope of the Treasury that from this source we may borrow at least twelve billion dollars in the next twelve months.

We believe that it is vitally important not only to the Treasury, but to each and every one of us individually that this minimum objective be achieved and that at least a billion dollars a month is borrowed from the current earnings of the people of America. In addition to the fact that we urgently need this money are the further reasons that borrowing from this particular source contributes substantially to restrain inflation and the alternatives to the success of our drive to raise this amount out of current earnings are far from pleasant.

Lending to Uncle Sam a part of each salary check or wage envelope is surely far better than having the specter of inflation as a guest at our dinner table. When the people of America set aside a definite percentage of their earnings to lend to the Government, they can plan their budgets with a reasonable degree of certainty, but they are defenseless before the creeping paralysis of inflation. No one can know how to budget his resources when he doesn't know what the necessities of life may cost next week or next month. Everything we do to check inflation serves to hold down the cost of living, thus promoting better public morale. At the same time, it keeps down the cost of war and the pyramiding of the national debt.

Moreover, in addition to keeping us in a better economic condition during the war this type of borrowing furnishes the people with an ever increasing fund of savings to fall back upon when they need it and with which they can plan a secure future for their families.

The money which is invested in War Bonds is not money spent but money saved. The bonds they buy are the finest, strongest securities in the world. They are backed with the entire resources and strength of the United States Government. And for every \$3.00 invested in them the lender receives \$4.00.

I would be less than frank with you if I did not remind you of the consequences of the failure of this campaign to borrow twelve billion dollars annually from current earnings. The amount of money we are required to raise is so great that taxes and the ordinary type of Treasury financing cannot satisfy our requirements. If, through a voluntary savings plan we cannot borrow the amount we need, we shall be forced to resort to compulsory savings -- a prospect not pleasant to contemplate.

The keystone of this War Savings Bond campaign, as you well realize, is the 10% payroll allotment plan. You gentlemen are businessmen. You know that in order to finance your business you need a steady source of income. You can't meet your payrolls on a trickle of sales this month and a torrent next month. You want steady production and steady sales, so that you can chart an even course for your business.

You also realize that we cannot count on individual month by month effort to bring us our billion dollar a month quota. You know we can't gamble on the weather or the war news to be favorable for bond selling. We have to plan and organize so that the money will come in and the bonds go out month after month. Only in that way can we meet our quotas.

The Treasury and the nation at large are grateful to you and to thousands of your fellow workers, all over the country for the unselfish service you have rendered to help promote this campaign. A splendid job has been done. A more thorough job must be done.

Ninety-nine percent of those industrial plants employing 5,000 people have installed a payroll savings plan. Many of these firms are over the 10% mark. If we can get an over-all savings from 34 million workers in the country with plant payrolls, our objective of a billion dollars a month will be more than reached.

In those cases where payroll savings have been successfully installed and where over 90% of the people in the plants are participating for a substantial part of their wages, the results have been obtained through well organized drives within the plant itself. Most of these drives have been conducted in the manner of a Community Chest campaign. All of these drives have been joint employer and employee enterprises. Management has taken the initiative. The planning has been done in the front office. The individual solicitation has been done in the plant itself by the workers. I doubt if in the nation today there exists any more striking proof of the cooperation between management and labor than has been demonstrated in their working shoulder to shoulder in making the 10% payroll allotment plan a success.

Throughout the nation labor has given to this campaign its unqualified support. There is no segment of organized labor or group of unorganized labor that has not done its part, and I am sure that you gentlemen will find that every effort you make to increase the number participating or the degree of participation will be met at least half way by your employees. Apropos of labor's attitude toward this question, I might tell you that last week in a small plant in an Eastern city, the employees walked out on strike because two of their fellow employees were not participating in this campaign.

The Treasury very earnestly hopes that long before snow falls everyone working in an industrial plant in New England will be lending voluntarily at least 10% of his current earnings. For many of these enterprises this will require a new drive to increase the degree of participation. I do hope that no one will be reluctant to make a renewed effort to achieve this. We have recently had a striking example of the result of such a drive in the Treasury Department. About two months ago, the employees of the Treasury Department were setting aside about 5% of their current earnings in War Bonds. The first two weeks in June we put on in the Treasury a drive such as I have just described, and as a result of that drive, the employees of the Treasury are today setting aside out of their earnings 11%. Thus, by a two-week effort, we were able to more than double our own participation. I am sure that with the type of effort of which I know you gentlemen are capable, you can experience a similar increase.

I am not going to try to tell any of you gentlemen how you should try to organize your plants. Most of you have already largely completed that organization. I am merely pointing out to you how vital it is that every plant and every office be organized as completely as possible for regular payroll purchase of War Savings Bonds. The War Savings Bonds Committee and office here in Boston, under the able direction of State Administrator Daniel J. Doherty, stands ready and willing to help you in every possible way. They will supply you with forms, folders, printed matter, and speakers. They will be delighted to give you every kind of help that experience has proved valuable.

May I appeal to you gentlemen today as employers and as leaders. Now is the time for organizers to organize. Now is the time for leaders to lead. I urge you to set aside any fears you may have of seeming to take a paternalistic attitude toward your employees. Everybody is ready for this plan. Almost everybody wants it.

William Green of the A. F. of L. endorses it. He says: "A steady investment of 10% of the earnings of working men and women in War Savings Stamps and Bonds would be reasonable and in no way burdening."

Philip Murray of the C. I. O. endorses it. He states:
"We of the C. I. O. will increase our purchases to the maximum
of our ability. Those who can will put at least 10% into War
Bonds. Some will go much higher."

The Gallup Poll finds that 98% of the American people are
in favor of War Savings Bonds, and that over 2/3rds of the people
think that 15% is a fair amount to buy, rather than 10%.

You gentlemen are leaders. You who are good executives can
organize this vital job of payroll allotment and of War Savings
Bond sales in your plants as nobody else can possibly do. In
behalf of the Treasury, in the name of the United States of
America, I call upon you all to perform this patriotic service.

TREASURY DEPARTMENT
Washington

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

7/9/42

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 July 15, 1942, and will mature October 14, 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, July 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 July 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
Washington

FOR IMMEDIATE RELEASE,
Thursday, July 9, 1942.

Press Service
No. 32-46

The Bureau of Customs announced today that due to the authorization for acceptance of an entry covering a large shipment of Venezuelan coffee which was inadvertently presented for entry under the current quota, and was subsequently placed in storage pending the opening of the next quota period on October 1, 1942, the current Venezuelan coffee import quota remains unfilled to an appreciable extent. Therefore, Treasury Department Press Service 32-39, dated July 8, 1942, is hereby amended and the total quantity of Venezuelan coffee covered by entries for consumption authorized for acceptance during the period October 1, 1941, to July 4, 1942, should read 36,919,928 pounds.

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TREASURY DEPARTMENT
Washington

(The following address by Edward H. Foley, Jr., General Counsel of the Treasury Department and chairman of the Inter-American Conference on Systems of Economic and Financial Control is scheduled for delivery before the Conference at 3 P.M., Friday, July 10, 1942, and is for release upon delivery.

Members of the Inter-American Financial and Economic Advisory Committee, fellow Delegates, Advisors, and Friends:

I think I speak for all those present when I say that this Conference has been a real success. It is in an atmosphere of great accomplishment that this Conference draws to a close.

We came here to discuss our mutual problems, to learn of each other's experiences; and, particularly, for the purpose of developing a hemispheric program for effectively controlling the financial and economic transactions and interests of the Axis nations and their allies and of those under the domination or influence of the Axis. These objectives have been accomplished. The eight resolutions, which have been unanimously adopted by the delegates to this Conference, constitute a powerful and effective hemispheric program of economic and financial controls.

Great though the accomplishment of this Conference may be when measured in terms of adopted resolutions, these are not its greatest accomplishments. Overshadowing the actual resolutions which have been adopted is the spirit in which they were formulated and discussed. These resolutions represent the joint and unanimous action of twenty-one free and sovereign countries acting in unison for their mutual interest and well-being. Moreover, unanimity upon these resolutions does not represent cloak-room compromise. These resolutions do not represent unanimity purchased at the price of watering down the resolutions to the point of being innocuous and meaningless. Rather, these are dynamic resolutions, bristling with the call to real and positive action. This is the unanimous and militant answer to the twenty-one American Republics to the Axis aggressor.

But resolutions standing alone are not enough. Resolutions no matter how strong, will not destroy the forces of aggression. Our program now requires execution with the same forthright action and singleness of purpose as that which accomplished the adoption of the program. There can be no delay without benefit to the aggressor. There can be no compromise without comfort to our enemy. We have joined hands in planning our campaign. Now we must stand shoulder to shoulder in its execution. Each delegate at this Conference has a duty to see that the program adopted here is carried out.

The task will not be easy. The Resolutions will not be effective automatically to destroy the enemy. At many points in the road the job will be thankless. We cannot discharge our duty without hurting some people for ours is the task of hurting the enemy.

An abstract resolution to destroy the aggressor abroad and the aggressor within each of our countries is comparatively simple in its adoption. In its execution we will not be dealing with abstractions -- we will be called upon ruthlessly to uproot the financial and economic roots of persons and enterprises in each of our countries. These persons and enterprises will have power and influence. They will not take the force of our blows meekly. Rather, they will fight back with all the viciousness of a cornered rat and with all of the intrigue and pressure tactics symbolized by totalitarian aggression and cunning. It will take real courage for us to discharge our duties in the spirit and with the determination evidenced at this conference.

Against these difficulties, however, there will be many compensations. Freedom and sovereignty are worth any price which must be paid for their defense. What does it matter that you and I make personal sacrifices and endure hatred if our actions are executed with the conviction that we are doing our part both in our homes and abroad to beat the axis to its knees. Others are daily making the supreme sacrifice with their lives. The spirit of these twenty-one republics knows no compromise with those who have attacked our institutions and our way of life.

Finally, it must always be remembered that we are not alone in the execution of this grave mission. Each of us can take courage and be heartened by the fact that the rest of us are fighting the same battles and that the rest of us are ready and anxious to come to the assistance of our sister republics. We must keep each other informed, both on the problems arising and upon the progress we are making. This is a hemispheric project, not the separate and unrelated efforts of twenty-one countries. We dedicate our action to mutual assistance and a singleness of objective -- the destruction of the Axis.

In closing, I should like again to thank the delegates and advisers for their whole-hearted cooperation and assistance. The ability and training of the delegates and advisers of each of the American Republics attending this Conference testify to the sincerity of all of the Republics in trying to solve our mutual problems in the fine traditions of Pan-Americanism. It is this spirit and this tradition that is foreign to the philosophy of the Axis machine of aggression and against which the aggressor must inevitably succumb.

TREASURY DEPARTMENT
Washington

FOR IMMEDIATE RELEASE,
Friday, July 10, 1942.

Press Service
No. 32-48

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 June 27, 1942, inclusive, as follows:

Commodity	: Established Quota	: Unit of	: Imports as of
	: Period & Country : Quantity	: Quantity	: June 27, 1942
Cattle less than 200 pounds each	Calendar year 100,000	Head	48,408
Cattle, 700 pounds or more each (other than dairy cows)	Quarter year from April 1, 1942		
	Canada 51,720	Head	49,930
	Other countries 8,280	Head	(Tariff rate quota filled)
Whole milk, fresh or sour	Calendar year 3,000,000	Gallon	2,336
Cream, fresh or sour	Calendar year 1,500,000	Gallon	491
Fish, fresh or frozen filleted, etc., cod, haddock, hake, pollock, cusk and rosefish	Calendar year 15,000,000	Pound	5,728,845
White or Irish potatoes Certified seed	12 months from Sept. 15, 1941 90,000,000	Pound	33,030,494
	Other 12 months from Sept. 15, 1941 60,000,000	Pound	1,237,846
Cuban filler tobacco, unstemmed or stemmed (other than cigarette leaf tobacco), and scrap tobacco	Calendar year 22,000,000	Pound (Unstemmed equivalent)	11,118,111
Red Cedar Shingles	Calendar year 2,617,111	Square	1,678,981
Silver or black foxes, furs, and articles: Foxes valued under \$250 ea. and whole furs and skins	Period - May - Nov. 1942.		
	All countries 41,774	Number	15,452
Tails	12 months from December 1, 1941 5,000	Piece	(Import quota filled)

Commodity	Established Quota	Unit of	Imports as of
	Period & Country	Quantity	June 27, 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	24
Crude petroleum, topped crude petroleum, and fuel oil	Calendar year		
	Venezuela	2,082,574,771 Gallon	314,535,429
	Netherlands	630,097,196 "	236,413,483
	Colombia	94,662,490 "	92,469,506
	Other countries	150,868,343 "	(Import quota filled)
Molasses and sugar sirups containing soluble nonsugar solids equal to more than 6% of total soluble solids	Calendar year	1,500,000 Gallon	665,646

TREASURY DEPARTMENT
Washington

FOR IMMEDIATE RELEASE,
Saturday, July 11, 1942.

Press Service
No. 32-49

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 \$3,843,000,000. Subscriptions in amounts up to and including \$25,000, totaling about \$196,000,000, were allotted in full. Subscriptions in amounts over \$25,000 were allotted 52 percent, on a straight percentage basis, but not less than \$25,000 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.

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TREASURY DEPARTMENT
Comptroller of the Currency
Washington

FOR RELEASE, MORNING NEWSPAPERS,
Tuesday, July 14, 1942.
7-13-42

Press Service
No. 32-50

During the month of June, 1942, the liquidation of eight 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 eight receiverships, amounted to \$44,376,235, while dividends paid to unsecured creditors amounted to an average of 81.67 percent of their claims. Total costs of liquidation of these receiverships averaged 6.98 percent of total collections from all sources, including offsets allowed.

Dividend distributions to all creditors of all active receiverships during the month of June, amounted to \$1,357,531. 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 JUNE, 1942

<u>Name & 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>
Commercial Nat'l Bk Washington, D. C.	2-28-33	\$ 12,148,410	82.57	\$ 1,000,000	\$ - 0 -
Federal American Nat'l Bk & Tr Co. Washington, D. C.	10-31-33	12,918,155	84.9	2,000,000	- 0 -
Citizens Nat'l Bk Kokomo, Indiana	10-23-31	3,029,871	90.197	350,000	- 0 -
Peoples-Ticonic NB Waterville, Maine	11-6-33	5,608,269	89.32	300,000	- 0 -
Commercial NB & Tr Co. St. Joseph, Michigan	9-28-31	2,604,090	76.49	200,000	- 0 -
First Nat'l Bk East Rochester, N.Y.	10-10-34	1,558,862	93.2	150,000	- 0 -
Union Nat'l Bk Scranton, Penna.	2-21-34	4,112,491	76.07	500,000	- 0 -
Merchants NB Brownsville, Texas	3-28-32	2,396,087	46.75	250,000	- 0 -

TREASURY DEPARTMENT
Washington

FOR RELEASE, MORNING NEWSPAPERS,
Tuesday, July 14, 1942.
7-13-42

Press Service
No. 32-51

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 July 15 and to mature October 14, 1942, which were offered on July 10, were opened at the Federal Reserve Banks on July 13.

The details of this issue are as follows:

Total applied for - \$650,704,000
Total accepted - 301,186,000

Range of accepted bids: (Excepting two tenders totaling \$45,000)

High	- 99.920	Equivalent rate	approximately	0.316	percent
Low	- 99.906	"	"	"	0.372 "
Average					
Price	- 99.908	"	"	"	0.365 "

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

TREASURY DEPARTMENT
Washington

FOR IMMEDIATE RELEASE,
Wednesday, July 15, 1942.

Press Service
No. 32-52

Market transactions in Government securities for Treasury investment and other accounts in June, 1942, resulted in net sales of \$250,000, Secretary Morgenthau announced today.

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TREASURY DEPARTMENT

Washington

FOR IMMEDIATE RELEASE,
Wednesday, July 15, 1942.

Press Service

no. 32-53

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	\$ 218,046,000	\$ 117,699,300
New York	1,587,258,700	834,234,500
Philadelphia	198,854,900	108,454,800
Cleveland	231,751,200	128,015,400
Richmond	199,092,100	109,087,300
Atlanta	227,408,000	135,643,400
Chicago	511,216,200	280,593,000
St. Louis	102,418,500	62,378,200
Minneapolis	64,403,300	39,320,700
Kansas City	97,357,200	58,817,500
Dallas	115,066,800	65,587,800
San Francisco	287,277,600	152,566,500
Treasury	9,345,000	4,881,000
Total	<u>\$3,849,495,500</u>	<u>\$2,097,279,400</u>

TREASURY DEPARTMENT
Washington

FOR IMMEDIATE RELEASE,
Wednesday, July 15, 1942.

Press Service
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San Francisco	287,277,600	152,566,500
Treasury	9,345,000	4,881,000
	<u>\$3,849,495,500</u>	<u>\$2,097,279,400</u>

TREASURY DEPARTMENT
Washington

FOR RELEASE, MORNING NEWSPAPERS,
Friday, July 17, 1942.
7/16/42

The Secretary of the Treasury, by this public notice, invites tenders for \$350,000,000, 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 July 22, 1942, and will mature October 21, 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, July 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 July 22, 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.

(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 RELEASE, MORNING NEWSPAPERS,
Tuesday, July 21, 1942.

7/20/42

Press Service
No. 32-55

The Secretary of the Treasury announced last evening that the tenders for \$350,000,000, or thereabouts, of 91-day Treasury bills to be dated July 22 and to mature October 21, 1942, which were offered on July 17, were opened at the Federal Reserve Banks on July 20.

The details of this issue are as follows:

Total applied for - \$679,266,000
Total accepted - 351,861,000

Range of accepted bids:

High	-	99.924	Equivalent rate approximately	0.301	percent
Low	-	99.906	" " "	0.372	"
Average					
Price	-	99.907	" " "	0.368	"

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

TREASURY DEPARTMENT

Washington

FOR RELEASE, MORNING NEWSPAPERS

Press Service
No. 32-56

Tuesday, July 28, 1942

Secretary of the Treasury Morgenthau today made public preliminary statistics from corporation income, declared value excess-profits, and defense tax returns for 1940, filed through December 31, 1941, prepared under the direction of the Commissioner of Internal Revenue Guy T. Helvering. The preliminary report, Statistics of Income for 1940, Part 2, will be released at an early date.

NUMBER OF RETURNS, NET INCOME, DEFICIT, TAX, AND DIVIDENDS PAID

The number of corporation income, declared value excess-profits, and defense tax returns for 1940 filed through December 31, 1941, is 511,741, of which 220,980 show net income of \$11,203,244,134, while 247,020 show a deficit of \$2,269,240,519, and 43,741 have no income data (inactive corporations). The income tax is \$2,143,913,713, the declared value excess-profits tax is \$30,761,851, and the total tax \$2,174,675,564. The total amount of dividends paid in cash and assets other than corporation's own stock is \$6,088,346,325, of which \$5,888,150,235 is reported on returns with net income and \$200,196,090 on returns with no net income.

The increase or decrease, 1940 over 1939, for the number of returns, net income, deficit, and tax follows:

Preliminary data for corporation returns:
 Increase or decrease, 1940 over 1939
 for number of returns, net income,
 deficit, and tax

(Money figures in thousands of dollars)

Item	1940	1939	Increase or decrease (-) 1940 over 1939	
			Number or amount	Percent
Number of returns	511,741	515,960	- 4,219	- 1
Returns with net income:				
Number of returns	220,980	199,479	21,501	11
Net income ^{1/}	11,203,244	8,826,713	2,376,531	27
Total tax liability				
Income tax	^{2/} 2,143,914	1,216,450	927,463	76
Declared value excess-profits tax	^{3/} 30,762	15,806	14,956	95
Returns with no net income:				
Number of returns	247,020	270,138	- 23,118	- 9
Deficit ^{1/}	2,269,241	2,092,148	177,093	8
Number of returns of inactive corporations	43,741	46,343	- 2,602	- 6

^{1/} "Net income" or "Deficit," for 1940, is the amount reported for declared value excess-profits tax computation adjusted by excluding net operating loss deduction; for 1939, is the amount reported for declared value excess-profits tax computation and is the difference between "Total income" and "Total deductions."

^{2/} Includes income defense tax.

^{3/} Includes declared value excess-profits defense tax.

RETURNS INCLUDED

The data presented in this release are, in general, from returns for the calendar year ending December 31, 1940. However, data from a considerable number of returns for a fiscal year ending within the period July 1940 through June 1941 are tabulated with the calendar year returns. There are also included part year returns with the greater part of the accounting period in 1940.

Data are tabulated from returns, Form 1120, filed by domestic corporations and resident foreign corporations not exempt from tax under section 101, Internal Revenue Code as amended; also from Form 1120L filed by domestic life insurance companies and by foreign life insurance companies carrying on insurance business within the United States or holding reserve funds upon business transacted within the United States. The data are tabulated from the returns as filed by the taxpayer, and prior to revisions that may be made as a result of audit by the Bureau of Internal Revenue. No data from amended returns or tentative returns are included in the tabulations.

CHANGES IN LAW AFFECTING CORPORATION RETURNS

The Internal Revenue Code, as amended by the Revenue Act of 1939 and the two Revenue Acts of 1940, introduces certain changes which affect the computation of the taxable net income and the

income tax of corporations having taxable years beginning after December 31, 1939. The most significant changes are:

(1) Increase in the rates of income tax (including income defense tax) for domestic corporations (other than mutual investment companies). The rates are as follows:

Normal-tax	14.85 percent of the first \$5,000
net income of	16.5 percent of the next 15,000
\$25,000 or less	18.7 percent of the next 5,000
Normal-tax net	38.3 percent of amount over \$25,000,
income over	plus \$4,152.50
\$25,000 and not	
over \$31,964.30	
Normal-tax net	36.9 percent of amount over \$25,000,
income over	plus \$4,250
\$31,964.30 and not	
over \$38,565.89	
Normal-tax net	24 percent of the entire amount of
income over	normal-tax net income
\$38,565.89	

Resident foreign corporations regardless of amount of normal-tax net income, and mutual investment companies regardless of amount of adjusted net income less the basic surtax credit are taxed at the 24 percent rate.

(2) "Net operating loss deduction," is available (except to mutual investment companies) for taxable years beginning after December 31, 1939, and for the first such year represents the excess of statutory deductions over statutory gross income of the preceding taxable year, subject to certain exceptions and limitations.

(3) Gains and losses from sales or exchanges of capital assets are classified as "short-term" or "long-term." A short-term capital gain or loss results from the sale or exchange of a capital asset held for 18 months or less; a long-term capital gain or loss, from the sale or exchange of a capital asset held for more than 18 months.

A net short-term capital gain and a net long-term capital gain or loss are included in computing net income for the current year; but a net short-term capital loss is not deductible in computing net income for the current year. Such loss may be carried over and treated as a short-term capital loss in the succeeding taxable year, in an amount not in excess of the net income for the year in which the loss was sustained.

For the previous taxable year a net capital gain was included in net income, and the deduction for capital loss in excess of gain was limited to \$2,000.

(4) Amortization of the cost of emergency facilities necessary for national defense may be deducted. In general, the cost of such facilities completed or acquired after June 10, 1940, may, at the election of the corporation, be written off over a five-year period instead of through the ordinary allowance for depreciation based on estimated useful life.

DEFINITIONS

"Net income" or "Deficit" for 1940, is the amount reported for declared value excess-profits tax computation (item 30, page 1, Form 1120), adjusted by excluding net operating loss deduction (item 26, page 1, Form 1120).

"Income tax" for 1940 includes the income defense tax, and does not take into allowance any credit claimed for income tax paid to a foreign country or United States possession.

The "Declared value excess-profits tax" for 1940 is the amount reported as tax liability and includes the declared value excess-profits defense tax. This amount is taken as a deduction in the computation of net income for income tax purposes, unless the return is rendered on a cash basis. If the cash basis of accounting is used, the deduction is the amount of declared value excess-profits tax actually paid within the taxable year covered by the return.

"Total compiled receipts" as tabulated, consists of gross sales (less returns and allowances), gross receipts from operations (where inventories are not an income-determining factor), taxable interest, rents and royalties, net short-term capital gain, net long-term capital gain, net gain from sale or exchange of property other than capital assets, dividends, other receipts required to be included in gross income, and tax-exempt interest received on Government obligations. "Total compiled receipts" excludes nontaxable income other than tax-exempt interest received on certain Government obligations.

INDUSTRIAL CLASSIFICATION

Corporations are classified industrially on the one business activity which accounts for the largest percentage of receipts. Therefore, the industrial groups contain corporations not engaged exclusively in the industries in which they are classified.

Changes in the composition of certain major industrial groups for 1940 have been made. A chart showing the industrial groups in which changes occur between 1940 and 1939 is shown on the last page of this release.

DATA AND CLASSIFICATIONS

Tables 1 and 2 - All returns are classified by major industrial groups for returns with net income and with no net income. In Table 1, totals for the following items are shown for each classification to which the items are applicable: Number of returns, total compiled receipts, net income, deficit, income tax, declared value excess-profits tax, and dividends paid in cash and assets other than corporation's own stock. In Table 2, totals for the following items are shown: Dividends received on stock of domestic corporations; and interest received on Government obligations, amount subject to declared value excess-profits tax and amount wholly tax-exempt.

Table 3 presents in historical sequence the number of returns, total compiled receipts, net income, deficit, tax, and dividends paid

for the years 1931 - 1940. In comparing the data for these years, the various changes in law must be taken into consideration, especially the discontinuance, under the Revenue Act of 1934, of the privilege of filing consolidated returns except by railroad corporations; and the provision of the Revenue Act of 1936 requiring the dividends received from domestic corporations subject to tax, to be included in net income for excess profits tax computation.

In analyzing the data consideration should be given the special provisions of the Internal Revenue Code affecting the computation of gross income, deductions, and net income of insurance companies. Of particular importance are the provisions permitting life insurance companies to include only interest, dividends, and rents in gross income and allowing deductions for earnings needed to maintain reserve funds required by law and reserve for dividends. For 1940, the deductions for these reserves are \$29,804,967 for returns with net income and \$933,215,101 for returns with no net income.

Table 1. - Corporation returns, 1940, filed through December 31, 1941, by major industrial groups, for returns with net income and with no net income: Number of returns, total compiled receipts, net income, deficit, income tax, declared value excess-profits tax, and dividends paid in cash and assets other than corporation's own stock

(Money figures in thousands of dollars)

Major industrial groups 1/	Total number of returns 2/	Returns with net income 3/						Returns with no net income 3/				
		Number of returns	Total compiled receipts 4/	Net income 3/	Income tax 5/	Declared value excess-profits tax 6/	Dividends paid in cash and assets other than corporation's own stock	Number of returns	Total compiled receipts 4/	Deficit 3/	Dividends paid in cash and assets other than corporation's own stock	
1 All industrial groups	511,741	220,980	125,181,114	11,203,244	2,145,914	30,762	5,888,150	247,020	22,844,460	2,269,241	200,196	1
2 Mining and quarrying	13,145	3,956	2,416,369	314,948	63,692	436	267,964	6,237	844,935	108,380	14,589	2
3 Metal mining	2,615	380	922,946	175,575	35,269	113	140,111	999	94,271	19,881	1,048	3
4 Anthracite mining	145	59	122,793	4,962	790	4	2,755	77	108,679	5,492	-	4
5 Bituminous coal, lignite, peat, etc.	1,955	676	658,961	30,013	5,965	89	16,300	1,070	295,425	15,552	2,296	5
6 Crude petroleum and natural gas production	5,569	1,992	475,856	71,140	14,649	75	88,530	3,022	292,345	61,169	11,029	6
7 Nonmetallic mining and quarrying	1,796	818	229,213	32,612	6,835	151	20,269	839	47,849	5,458	214	7
8 Mining and quarrying not allocable	1,085	51	6,620	646	137	4	198	230	6,365	867	1	8
9 Manufacturing	87,949	47,169	60,680,293	5,631,953	1,215,113	21,365	2,376,799	37,717	6,263,339	321,022	22,809	9
10 Food and kindred products	10,546	5,315	9,493,808	444,317	93,794	597	243,634	4,835	1,108,045	35,817	2,064	10
11 Beverages	3,104	1,641	1,545,825	151,993	33,188	142	66,699	1,282	284,816	19,359	344	11
12 Tobacco manufactures	289	124	1,394,545	145,279	33,667	29	89,296	155	25,052	5,215	862	12
13 Textile-mill products	4,877	2,690	3,486,113	229,746	49,109	988	77,485	2,081	739,780	37,028	1,458	13
14 Apparel and products made from fabrics	8,461	4,198	1,953,655	59,092	11,520	241	19,736	4,160	545,347	15,454	595	14
15 Leather and products	2,135	1,139	1,039,203	48,074	9,110	209	22,566	969	249,911	10,285	234	15
16 Rubber products	595	339	1,113,391	72,712	14,783	280	27,021	240	51,859	1,958	155	16
17 Lumber and timber basic products	2,733	1,608	928,322	75,772	15,805	563	36,329	1,017	161,963	16,979	1,638	17
18 Furniture and finished lumber products	4,552	2,398	1,173,732	75,272	15,637	426	27,697	2,064	220,608	12,282	891	18
19 Paper and allied products	2,211	1,469	1,811,922	190,143	42,549	300	64,738	704	255,091	8,858	328	19
20 Printing and publishing industries	11,691	5,612	1,940,992	178,513	36,993	226	88,342	5,717	466,567	30,083	1,097	20
21 Chemicals and allied products	7,073	3,484	4,640,910	683,168	145,076	734	335,405	3,287	226,030	16,858	594	21
22 Petroleum and coal products	709	354	5,045,667	267,700	44,751	119	175,246	315	638,605	19,827	10,588	22
23 Stone, clay, and glass products	3,579	1,941	1,577,710	213,460	47,295	932	102,537	1,527	155,528	12,165	277	23
24 Iron, steel, and products	6,741	4,552	7,123,564	616,352	137,171	4,798	191,278	2,028	452,676	21,143	486	24
25 Nonferrous metals and their products	2,574	1,596	1,928,199	219,064	48,749	631	63,367	919	82,462	4,724	59	25
26 Electrical machinery and equipment	1,850	1,059	2,380,418	325,740	74,139	1,245	147,142	715	110,218	7,226	79	26
27 Machinery, except transportation equipment and electrical	6,001	3,833	4,458,849	651,485	143,896	5,299	217,668	1,965	184,147	13,738	468	27
28 Automobiles and equipment, except electrical	846	498	4,678,608	376,796	127,709	743	249,282	305	117,906	9,134	57	28
29 Transportation equipment, except automobiles	841	426	1,545,560	256,431	57,402	1,856	71,181	352	49,090	7,670	53	29
30 Other manufacturing	4,174	2,030	1,028,994	122,433	26,740	740	45,347	2,009	138,034	9,413	402	30
31 Manufacturing not allocable	2,367	883	368,008	28,407	6,011	266	10,002	1,071	59,604	5,785	78	31
32 Public utilities	23,458	11,478	10,441,885	1,392,066	347,375	1,195	1,033,670	10,363	3,260,749	278,681	21,837	32
33 Transportation	15,475	7,316	5,193,349	583,303	124,082	865	320,023	7,177	2,986,514	252,899	11,670	33
34 Communication	3,886	1,784	1,508,654	286,242	63,055	100	200,957	1,870	54,725	7,073	805	34
35 Other public utilities	4,097	2,378	3,737,881	722,521	158,238	231	332,690	1,316	219,510	18,709	9,362	35

For footnotes, see pages 16-18.

Table 1. - Corporation returns, 1940, filed through December 31, 1941, by major industrial groups, for returns with net income and with no net income: Number of returns, total compiled receipts, net income, deficit, income tax, declared value excess-profits tax, and dividends paid in cash and assets other than corporation's own stock - Continued

(Money figures in thousands of dollars)

Major industrial groups 1/ - Continued	Total number of returns 2/	Returns with net income 5/						Returns with no net income 5/				
		Number of returns	Total compiled receipts 4/	Net income 5/	Income tax 5/	Declared value excess-profits tax 6/	Dividends paid in cash and assets other than corporation's own stock	Number of returns	Total compiled receipts 4/	Deficit 3/	Dividends paid in cash and assets other than corporation's own stock	
36 Trade	141,619	71,766	40,021,748	1,270,150	262,825	4,915	504,758	66,680	7,079,817	184,960	7,581	36
37 Wholesale	58,016	22,296	19,088,463	496,601	100,122	2,557	170,054	14,899	2,766,201	59,579	2,955	37
38 Commission merchants	4,724	2,406	516,858	39,026	7,046	185	17,562	2,179	117,290	5,158	619	38
39 Other wholesalers	55,292	19,890	18,571,605	457,575	93,076	2,172	152,692	12,720	2,648,911	54,221	2,315	39
40 Retail	86,661	40,619	17,964,204	639,643	154,854	1,451	273,096	44,256	3,547,020	103,215	3,226	40
41 General merchandise	6,529	3,574	5,596,055	320,841	73,328	282	153,539	2,854	288,093	11,026	324	41
42 Food stores, including market milk dealers	6,992	2,492	3,543,027	68,802	15,218	75	57,838	4,296	587,281	12,245	241	42
43 Package liquor stores	1,705	733	56,289	957	135	8	46	952	40,259	875	7	43
44 Drug stores	5,471	1,960	459,545	17,067	3,049	68	7,593	3,376	168,214	3,941	27	44
45 Apparel and accessories	11,459	5,174	1,570,355	56,448	11,201	153	18,709	6,070	372,437	14,505	379	45
46 Furniture and house furnishings	5,708	2,992	728,091	28,513	5,540	85	7,205	2,656	164,997	7,210	128	46
47 Eating and drinking places	9,755	2,678	438,876	16,619	3,045	59	7,452	6,841	346,864	12,925	70	47
48 Automotive dealers	10,881	6,266	3,092,268	45,201	8,158	225	13,054	4,354	781,546	10,912	553	48
49 Filling stations	2,721	1,079	255,006	9,246	1,801	22	4,897	1,566	81,286	2,101	14	49
50 Hardware	2,851	1,566	137,331	4,557	726	37	1,082	1,459	50,984	2,100	23	50
51 Building materials, fuel and ice	8,911	5,091	976,127	34,069	5,851	184	12,097	3,665	291,427	10,054	527	51
52 Other retail trade	8,522	4,358	680,595	25,444	4,652	171	6,219	3,992	235,759	10,842	640	52
53 Retail trade not allocable	5,176	2,876	450,665	12,079	2,071	85	3,566	2,197	137,892	4,681	316	53
54 Trade not allocable	16,942	8,851	2,969,082	133,887	27,849	1,106	61,588	7,545	786,596	22,566	1,420	54
55 Service	44,851	16,091	2,617,707	203,365	56,558	408	89,989	24,777	1,210,987	94,323	1,589	55
56 Hotels and other lodging places	4,964	1,718	305,263	17,762	3,155	42	5,916	3,073	334,890	31,566	224	56
57 Personal service	9,476	3,763	429,789	22,033	3,871	74	7,725	5,382	225,510	9,667	290	57
58 Business service	8,087	3,247	651,415	45,672	9,582	72	25,213	4,222	161,563	16,617	205	58
59 Automotive repair services and garages	3,888	1,273	88,666	3,994	696	17	1,248	2,496	77,840	3,750	40	59
60 Miscellaneous repair services, hand trades	1,432	591	44,471	2,246	416	18	902	814	16,358	730	4	60
61 Motion pictures	4,636	2,353	810,375	78,983	12,525	74	37,336	2,072	194,592	10,597	329	61
62 Amusement, except motion pictures	5,421	1,528	157,155	19,467	4,025	50	6,935	3,259	84,678	11,821	204	62
63 Other service, including schools	6,722	1,550	146,947	12,755	2,443	52	4,642	3,351	113,876	9,562	86	63
64 Service not allocable	225	68	3,627	252	45	10	73	108	1,880	213	6	64
65 Finance, insurance, real estate, and lessors of real property	152,962	58,990	6,559,200	2,030,914	188,879	1,184	1,535,779	82,084	3,344,674	1,158,937	119,044	65
66 Finance	40,754	22,401	3,812,812	1,630,221	120,398	564	1,283,141	14,793	577,096	457,410	75,881	66
67 Banks and trust companies	17,343	11,422	1,622,276	319,297	21,724	310	216,462	4,423	313,165	80,264	20,536	67
68 Long-term credit agencies, mortgage companies, except banks	3,243	1,109	26,992	5,495	973	7	3,536	1,838	30,116	22,809	1,059	68
69 Short-term credit agencies, except banks	5,802	3,558	379,604	118,996	24,718	95	68,406	1,866	28,662	5,893	1,508	69

For footnotes, see pages 16-18.

Table 1. - Corporation returns, 1940, filed through December 31, 1941, by major industrial groups, for returns with net income and with no net income: Number of returns, total compiled receipts, net income, deficit, income tax, declared value excess-profits tax, and dividends paid in cash and assets other than corporation's own stock - Continued

(Money figures in thousands of dollars)

Major industrial groups 1/ - Continued	Total number of returns 2/	Returns with net income 3/						Returns with no net income 3/				
		Number of returns	Total compiled receipts 4/	Net income 5/	Income tax 5/	Declared value excess-profits tax 6/	Dividends paid in cash and assets other than corporation's own stock	Number of returns	Total compiled receipts 4/	Deficit 5/	Dividends paid in cash and assets other than corporation's own stock	
Finance, insurance, real estate, and lessors of real property - Continued												
Finance - Continued												
70 Investment trusts and investment companies 7/	4,168	2,412	240,250	166,621	6,312	27	157,212	1,625	46,455	116,056	17,079	70
71 Other investment companies, including holding companies 8/	2,317	1,441	1,362,837	975,624	58,775	46	800,955	799	95,689	171,322	26,714	71
72 Security and commodity-exchange brokers and dealers	2,105	887	99,565	16,900	2,764	39	11,209	1,101	37,344	12,148	6,845	72
73 Other finance companies	2,242	819	55,758	22,054	4,157	28	19,060	1,185	15,425	25,218	588	73
74 Finance not allocable	5,529	953	27,569	7,235	975	15	6,523	1,960	12,242	25,720	1,754	74
75 Insurance carriers, agents, etc.	8,452	4,007	1,669,416	163,639	22,958	190	100,280	4,047	1,725,274	395,850	28,429	75
76 Insurance carriers	2,053	780	1,504,997	154,555	17,485	5	85,173	1,096	1,685,767	395,082	28,296	76
77 Insurance agents, brokers, etc.	6,399	5,227	184,418	29,084	5,475	186	17,107	2,951	59,487	2,768	153	77
78 Real estate, including lessors of buildings	95,604	29,825	890,225	142,018	24,148	577	75,214	58,895	1,002,478	283,855	12,454	78
79 Lessors of real property, except buildings	8,152	2,757	186,749	95,056	21,375	55	77,144	4,349	41,826	21,841	2,281	79
80 Construction	16,685	6,716	1,908,631	101,702	18,858	934	29,850	8,888	615,450	55,554	1,051	80
81 Agriculture, forestry, and fishery	8,741	5,213	484,176	49,289	9,190	232	24,421	4,985	156,695	31,642	1,422	81
82 Agriculture and services	7,825	2,965	450,072	45,887	8,542	200	25,090	4,397	145,804	22,574	580	82
83 Forestry	560	118	10,519	1,456	276	17	952	887	6,721	7,912	852	83
84 Fishery	556	132	25,785	1,947	372	66	399	201	6,171	1,166	10	84
85 Nature of business not allocable, except trade	22,551	1,601	76,105	8,897	1,423	45	4,941	5,289	47,813	57,763	10,474	85

For footnotes, see pages 16-18.

Table 2. - Corporation returns, 1940, filed through December 31, 1941, by major industrial groups, for returns with net income and with no net income: Dividends received on stock of domestic corporations and interest received on Government obligations

(Money figures in thousands of dollars)

Major industrial groups <u>1/</u>	Returns with net income <u>3/</u>				Returns with no net income <u>3/</u>				
	Dividends received on stock of domestic corporations <u>9/</u>	Interest received on Government obligations			Dividends received on stock of domestic corporations <u>9/</u>	Interest received on Government obligations			
		Total	Subject to declared value excess-profits tax <u>10/</u>	Wholly tax-exempt <u>11/</u>		Total	Subject to declared value excess-profits tax <u>10/</u>	Wholly tax-exempt <u>11/</u>	
1 All industrial groups	1,852,227	485,641	281,769	203,875	168,448	299,700	72,829	226,871	1
2 Mining and quarrying	40,069	2,441	1,531	910	3,055	290	170	120	2
3 Metal mining	30,339	1,133	665	488	104	59	2	37	3
4 Anthracite mining	51	145	159	6	50	64	60	4	4
5 Bituminous coal, lignite, peat, etc.	3,290	380	290	89	556	122	79	45	5
6 Crude petroleum and natural gas production	4,928	642	343	299	2,276	59	27	32	6
7 Nonmetallic mining and quarrying	1,461	138	90	48	49	6	2	4	7
8 Mining and quarrying not allocable	1	4	3	(12)	-	2	2	-	8
9 Manufacturing	360,740	21,697	11,653	10,043	12,210	961	539	422	9
10 Food and kindred products	28,712	1,596	810	786	569	256	92	164	10
11 Beverages	2,282	422	186	256	281	50	42	8	11
12 Tobacco manufactures	5,008	522	329	193	20	12	7	5	12
13 Textile-mill products	4,730	958	512	446	376	68	42	26	13
14 Apparel and products made from fabrics	1,296	295	171	124	43	14	7	7	14
15 Leather and products	1,383	125	88	57	125	13	1	12	15
16 Rubber products	5,888	78	63	15	62	32	4	28	16
17 Lumber and timber basic products	2,825	254	178	75	112	21	19	2	17
18 Furniture and finished lumber products	1,584	537	342	193	193	50	35	14	18
19 Paper and allied products	5,658	828	594	234	503	36	22	15	19
20 Printing and publishing industries	14,955	2,061	1,061	1,000	268	118	84	33	20
21 Chemicals and allied products	69,806	3,155	1,506	1,649	564	76	45	31	21
22 Petroleum and coal products	93,398	1,102	519	583	8,351	14	7	7	22
23 Stone, clay, and glass products	9,434	961	620	341	80	23	10	14	23
24 Iron, steel, and products	17,239	1,770	1,127	643	203	76	62	14	24
25 Nonferrous metals and their products	12,863	475	306	169	25	4	3	2	25
26 Electrical machinery and equipment	13,430	1,513	570	943	31	2	(12)	1	26
27 Machinery, except transportation equipment and electrical	10,615	3,423	1,852	1,571	148	66	34	32	27
28 Automobiles and equipment, except electrical	46,178	814	364	450	4	1	1	(12)	28
29 Transportation equipment, except automobiles	6,979	358	178	180	4	4	2	2	29
30 Other manufacturing	5,870	252	130	122	207	21	18	3	30
31 Manufacturing not allocable	757	193	146	49	41	3	3	(12)	31
32 Public utilities	114,139	5,706	3,859	1,848	16,335	798	279	519	32
33 Transportation	55,948	3,582	2,730	852	16,205	754	254	501	33
34 Communication	14,591	277	47	229	29	6	1	5	34
35 Other public utilities	43,599	1,848	1,081	767	101	37	25	13	35

For footnotes, see pages 16-18.

Table 2. - Corporation returns, 1940, filed through December 31, 1941, by major industrial groups, for returns with net income and with no net income; Dividends received on stock of domestic corporations and interest received on Government obligations - Continued

(Money figures in thousands of dollars)

Major industrial groups ^{1/} - Continued	Returns with net income ^{3/}				Returns with no net income ^{3/}				
	Dividends received on stock of domestic corporations ^{9/}	Interest received on Government obligations			Dividends received on stock of domestic corporations ^{9/}	Interest received on Government obligations			
		Total	Subject to declared value excess-profits tax ^{10/}	Wholly tax-exempt ^{11/}		Total	Subject to declared value excess-profits tax ^{10/}	Wholly tax-exempt ^{11/}	
56 Trade	46,859	4,201	2,574	1,627	2,056	460	245	217	56
57 Wholesale	26,718	1,760	1,025	734	850	182	90	92	57
58 Commission merchants	6,462	205	75	128	186	9	5	4	58
59 Other wholesalers	20,256	1,556	950	606	664	173	85	88	59
40 Retail	18,186	2,127	1,377	750	849	188	101	87	40
41 General merchandise	8,788	643	363	280	115	21	15	6	41
42 Food stores, including market milk dealers	1,511	556	468	88	244	58	21	37	42
43 Package liquor stores	1	-	-	-	-	-	-	-	43
44 Drug stores	1,488	9	5	4	9	5	5	2	44
45 Apparel and accessories	2,185	191	142	49	42	8	5	5	45
46 Furniture and house furnishings	451	54	35	21	48	25	10	15	46
47 Eating and drinking places	1,129	39	24	15	4	17	13	4	47
48 Automotive dealers	614	125	103	22	20	2	2	1	48
49 Filling stations	205	185	92	95	9	(12)	(12)	-	49
50 Hardware	29	59	2	37	5	8	4	4	50
51 Building materials, fuel and ice	1,119	120	68	52	185	28	18	10	51
52 Other retail trade	455	115	58	57	119	13	10	5	52
53 Retail trade not allocable	258	50	20	50	52	4	5	1	53
54 Trade not allocable	1,956	314	171	143	357	91	53	37	54
55 Service	21,757	659	244	413	1,275	274	109	165	55
56 Hotels and other lodging places	893	30	20	11	557	19	9	10	56
57 Personal service	521	104	37	67	51	19	11	7	57
58 Business service	2,698	159	82	56	124	92	68	24	58
59 Automotive repair services and garages	117	7	3	4	11	3	1	3	59
60 Miscellaneous repair services, hand trades	5	5	2	1	(12)	-	-	-	60
61 Motion pictures	18,672	177	34	143	110	7	(12)	7	61
62 Amusement, except motion pictures	429	84	10	74	355	6	3	3	62
63 Other service, including schools	418	108	56	52	87	128	17	111	63
64 Service not allocable	3	8	-	8	1	-	-	-	64
65 Finance, insurance, real estate, and lessors of real property	1,254,336	449,295	260,792	188,505	150,797	296,560	71,555	225,224	65
66 Finance	1,176,061	414,198	246,157	168,061	87,481	64,802	21,770	45,033	66
67 Banks and trust companies	22,803	405,391	241,847	161,544	4,363	61,687	20,969	40,718	67
68 Long-term credit agencies, mortgage companies, except banks	255	196	75	121	225	1,239	254	986	68
69 Short-term credit agencies, except banks	9,159	186	70	116	437	14	7	7	69

For footnotes, see pages 16-18.

Table 2. - Corporation returns, 1940, filed through December 31, 1941, by major industrial groups, for returns with net income and with no net income: Dividends received on stock of domestic corporations and interest received on Government obligations - Continued

(Money figures in thousands of dollars)

Major industrial groups 1/ - Continued	Returns with net income 3/				Returns with no net income 3/				
	Dividends received on stock of domestic corporations 9/	Interest received on Government obligations			Dividends received on stock of domestic corporations 9/	Interest received on Government obligations			
		Total	Subject to declared value excess-profits tax 10/	Wholly tax-exempt 11/		Total	Subject to declared value excess-profits tax 10/	Wholly tax-exempt 11/	
70 Finance, insurance, real estate, and lessors of real property - Continued									
Finance - Continued									
Investment trusts and investment companies 7/	187,188	2,593	1,189	1,404	30,248	396	152	244	70
71 Other investment companies, including holding companies 8/	945,849	3,350	1,482	1,869	49,741	399	157	242	71
72 Security and commodity-exchange brokers and dealers	3,820	2,737	1,051	1,685	1,029	595	156	437	72
73 Other finance companies	4,755	68	31	58	588	58	15	43	73
74 Finance not allocable	2,434	1,677	392	1,285	853	415	80	555	74
75 Insurance carriers, agents, etc.	66,184	52,708	13,374	19,334	55,854	251,113	49,517	181,796	75
76 Insurance carriers	62,558	52,632	13,333	19,299	55,800	251,100	49,512	181,788	76
77 Insurance agents, brokers, etc.	3,626	76	41	35	55	13	5	8	77
78 Real estate, including lessors of buildings	10,401	1,888	973	915	6,065	595	227	367	78
79 Lessors of real property, except buildings	1,690	500	307	193	1,396	50	21	29	79
80 Construction	7,148	608	270	337	601	163	76	87	80
81 Agriculture, forestry, and fishery	5,491	787	722	65	1,206	64	21	43	81
82 Agriculture and services	5,349	777	715	64	1,118	50	14	35	82
83 Forestry	15	8	7	1	84	9	4	5	83
84 Fishery	127	2	1	(12)	4	5	3	2	84
85 Nature of business not allocable, except trade	1,687	248	125	124	954	130	57	74	85

For footnotes, see pages 16-18.

Table 3. - Corporation returns, 1951-40, in aggregate and for returns with net income and with no net income: Number of returns, total compiled receipts, net income, deficit, income tax, declared value excess-profits tax, and dividends paid in cash and assets other than corporation's own stock; also number of returns of inactive corporations

(Money figures in thousands of dollars)

	1940 <u>15/</u>	1939	1938	1937	1936	1935	1934	1933	1932	1931	
All corporation returns:											
1 Number of returns	468,000	469,617	471,032	477,858	476,857	477,115	469,804	446,842	451,884	459,704	1
2 Total compiled receipts <u>4/</u>	148,025,574	152,878,224	120,455,946	142,443,379	152,722,602	114,649,717	101,489,954	84,234,006	81,637,988	108,056,952	2
3 Net income less deficit <u>3/</u>	8,934,004	8,734,565	3,872,882	7,355,991	7,326,218	1,695,950	94,170	<u>19/</u> 2,547,367	<u>19/</u> 5,643,574	<u>19/</u> 3,287,545	3
4 Income tax	<u>5/</u> 2,145,914	1,216,450	<u>14/</u> 855,578	<u>15/</u> 1,232,857	<u>16/</u> 1,169,765	710,156	588,375	416,093	<u>18/</u> 285,576	398,994	4
5 Declared value excess-profits tax	<u>6/</u> 30,762	15,806	5,988	43,355	21,615	<u>17/</u> 24,969	<u>17/</u> 7,673	<u>20/</u> 6,976	-	-	5
6 Dividends paid in cash and assets other than corporation's own stock	6,008,546	5,748,739	5,013,433	7,514,017	7,379,533	5,940,620	<u>18/</u> 4,859,379	3,127,459	3,885,601	6,151,083	6
Returns with net income <u>3/</u>:											
7 Number of returns	220,980	199,479	189,884	192,028	203,161	184,231	145,101	109,786	82,646	175,898	7
8 Total compiled receipts <u>4/</u>	125,181,114	105,658,338	80,267,477	109,202,739	105,011,693	77,638,952	65,118,536	46,906,664	31,855,451	52,267,013	8
9 Net income <u>3/</u>	11,203,244	8,826,715	6,525,979	9,654,837	9,478,241	5,164,723	4,275,197	2,985,972	2,153,113	3,683,368	9
10 Income tax	<u>5/</u> 2,145,914	1,216,450	<u>14/</u> 855,578	<u>15/</u> 1,232,857	<u>16/</u> 1,169,765	710,156	588,375	416,093	<u>18/</u> 285,576	398,994	10
11 Declared value excess-profits tax	<u>6/</u> 30,762	15,806	5,988	43,355	21,615	<u>17/</u> 24,969	<u>17/</u> 7,673	<u>20/</u> 6,976	-	-	11
12 Dividends paid in cash and assets other than corporation's own stock	5,888,150	5,562,273	4,780,202	7,308,774	7,179,220	4,651,002	<u>18/</u> 3,822,599	2,385,889	2,320,586	3,871,880	12
Returns with no net income <u>3/</u>:											
13 Number of returns	247,020	270,138	301,148	285,810	275,696	312,882	324,703	337,056	369,238	283,806	13
14 Total compiled receipts <u>4/</u>	22,844,460	27,219,888	40,186,469	33,240,640	27,710,909	37,010,765	38,371,418	37,327,342	49,782,556	55,789,939	14
15 Deficit <u>3/</u>	2,269,241	2,092,148	2,855,098	2,280,846	2,152,024	3,468,774	4,181,027	5,533,339	7,796,687	6,970,913	15
16 Dividends paid in cash and assets other than corporation's own stock	200,196	184,466	253,251	205,243	200,112	1,289,618	1,036,781	741,570	1,565,215	2,279,203	16
17 Number of returns of inactive corporations	45,741	46,343	49,469	51,259	51,922	56,518	59,094	57,258	56,752	56,700	17

For footnotes, see pages 16-18.

Footnotes for Tables 1, 2, and 3

- 1/ Corporations are classified industrially on the one business activity which accounts for the largest percentage of receipts. Therefore, the industrial groups contain corporations not engaged exclusively in the industries in which they are classified. A chart showing the industrial groups in which changes occur between 1940 and 1939 is shown on the last page of this release.
- 2/ Includes number of returns of inactive corporations.
- 3/ "Net Income" or "Deficit" for 1940 is the amount reported for declared value excess-profits tax computation (item 30, page 1, Form 1120) adjusted to exclude net operating loss deduction (item 26, page 1, Form 1120); for 1936-39 is the amount reported for (declared value) excess-profits tax computation and is the difference between "Total income" and "Total deductions"; for 1933-35 is the amount reported for income tax computation; and for 1931-32 is the current year net income before deduction of prior year loss. Net income or deficit, as here defined is the basis for classification of the returns by those with net and those with no net income for all years except 1936 when the classification was based on the net income for income tax computation which is less than the net income for (declared value) excess-profits tax computation by the amount of the excess profits tax.
- 4/ "Total compiled receipts" as tabulated, consists of gross sales (less returns and allowances), gross receipts from operations (where inventories are not an income-determining factor), taxable interest, rents and royalties, net short-term capital gain, net long-term capital gain, net gain from sale or exchange of property other than capital assets, dividends, other receipts required to be included in gross income, and tax-exempt interest received on Government obligations. "Total compiled receipts" excludes nontaxable income other than tax-exempt interest received on certain Government obligations.
- 5/ Includes income defense tax.
- 6/ Includes declared value excess-profits defense tax.
- 7/ Consists of corporations which derived 90 percent or more of receipts from investments and which at no time during the taxable year had investments in corporations in which they owned 50 percent or more of the voting stock.
- 8/ Consists of (1) corporations which derived 90 percent or more of receipts from investments and which at some time during the taxable year had investments in corporations in which they owned 50 percent or more of the voting stock, and (2) corporations which derived less than 90 percent but more than 50 percent of receipts from investments.

Footnotes for Tables 1, 2, and 3 - Continued

- 9/ Dividends from domestic corporations subject to income taxation under chapter 1 of the Internal Revenue Code (column 2, schedule E, page 3, Form 1120), which is the amount used for the computation of the dividends received credit. Excludes dividends from corporations organized under the China Trade Act, 1922, and corporations entitled to the benefits of section 251 of the Internal Revenue Code, (corporations receiving a large portion of their gross income from sources within a possession of the United States).
- 10/ Consists of interest on United States savings bonds and Treasury bonds owned in principal amount of over \$5,000, reported as item 8, page 1, Form 1120.
- 11/ Consists of interest on obligations of States, Territories, or political subdivisions thereof, or the District of Columbia, or United States possessions; obligations of the United States issued on or before September 1, 1917, Treasury notes, Treasury bills, and Treasury certificates of indebtedness; United States savings bonds and Treasury bonds owned in principal amount of \$5,000 or less; and obligations of instrumentalities of the United States.
- 12/ Less than \$500.
- 13/ Preliminary figures.
- 14/ Consists of \$41,569,498 normal tax and \$7,778,561 surtax on undistributed profits reported on returns for a fiscal year ending in period July through November 1938 (and on returns for a part year beginning in 1937 and ending in 1938, the greater part of the accounting period falling in 1938), and \$804,230,054 income tax reported on returns for the calendar year 1938 and on returns with a fiscal year ending in period January through June 1939 (and on returns for a part year beginning and ending in 1938 and for a part year beginning in 1938 and ending in 1939, the greater part of the accounting period falling in 1938).
- 15/ Consists of \$1,056,939,166 normal tax and \$175,897,696 surtax on undistributed profits.
- 16/ Consists of \$59,289,827 income tax reported on returns with fiscal year ending in period July through November 1936 (and on returns for a part year beginning in 1935 and ending in 1936, the greater part of the accounting period falling in 1936), and \$965,503,111 normal tax and \$144,972,284 surtax on undistributed profits reported on returns for the calendar year 1936 and returns with fiscal year ending in period January through June 1937, (and on returns for a part year beginning and ending in 1936, and for a part year beginning in 1936 and ending in 1937, the greater part of the accounting period falling in 1936.)
- 17/ Includes a small amount of excess-profits tax which appears on returns with no net income for income tax purposes because the credit for interest received on certain obligations of the United States and its instrumentalities, which is allowed against net income in the computation of the income tax, is not allowed against net income in the computation of the excess-profits tax. (See

Footnotes for Tables 1, 2, and 3 - Continued

article 1, (d), Treasury Decision 4469, "Regulations relating to excess-profits tax imposed by section 702 of the Revenue Act of 1934.")

18/ Revised.

1934: See Statistics of Income for 1935, Part 2, Page 9, footnote 2.

1932: See Statistics of Income for 1933, page 37.

19/ Deficit in excess of net income.

20/ The excess-profits tax for 1933 became effective June 30, 1933, under section 216 of the National Industrial Recovery Act.

Industrial groups in which changes occur between 1940 and 1939

The following chart shows the industrial groups in which changes occur between the two years. Included are those for which the only change consists of rewording the title to express more clearly the contents of the groups.

Major industrial groups	
1940	1939
<p>Mining and quarrying Crude petroleum and natural gas production</p> <p>Manufacturing Food and kindred products (includes "Ice, natural and manufactured") Other manufacturing (excludes "Ice, natural and manufactured")</p> <p>Trade Wholesale - Commission merchants - Other wholesalers Retail General merchandise Food stores, including market milk dealers Apparel and accessories Automotive dealers Building materials, fuel and ice (includes "Fuel and ice dealers") Other retail trade (excludes "Fuel and ice dealers")</p> <p>Service Hotels and other lodging places Personal service Automotive repair services and garages Motion pictures Amusement, except motion pictures Miscellaneous repair services, hand trades Other service, including schools Finance, insurance, real estate, and lessors of real property 1/ Finance Long-term credit agencies, mortgage companies, except banks Short-term credit agencies, except banks Investment trusts and investment companies 2/ Other investment companies, including holding companies 3/ Finance not allocable 6/ Insurance carriers, agents, etc. Insurance carriers Insurance agents, brokers, etc. ----- Nature of business not allocable, except trade 8/</p>	<p>Mining and quarrying Petroleum</p> <p>Manufacturing Food and kindred products (excludes "Ice, natural and manufactured") Other manufacturing (includes "Ice, natural and manufactured")</p> <p>Trade Wholesale ----- ----- Retail Department, general merchandise, dry goods Limited-price variety stores Mail-order houses Food stores Apparel Dealers in automobiles, accessories, tires, batteries Lumber and coal yards (excludes "Fuel and ice dealers") Other retail trade (includes "Fuel and ice dealers")</p> <p>Service Personal service Automobile repair services Amusement Other service, including schools Finance, insurance, real estate, and lessors of real property Finance - not designated but available by summarizing Mortgage and title companies Commercial credit and finance companies Industrial and personal loan companies Investment trusts and investment companies 2/ Holding companies 4/ Other corporations holding securities 5/ ----- Insurance carriers, agents, etc. ----- Finance, insurance, real estate, and lessors of real property, not allocable 7/ Nature of business not allocable, except trade 8/</p>

1/ Excludes corporations that are combinations of "Finance," "Insurance," "Real estate," and "Lessors of real property" which are tabulated in "Nature of business not allocable, except trade."

2/ For 1940, consists of companies which derived 90 percent or more of receipts from investments and which at no time during the taxable year had investments in companies in which they owned 50 percent or more of the voting stock; for 1939, consists of investment trusts and investment companies which (a) at no time during the taxable year owned 50 percent or more of the voting stock of another corporation or (b) at any time during the taxable year owned 50 percent or more of the voting stock of another corporation but whose income from such stock was less than 50 percent of the amount of dividends received.

3/ Consists of (a) companies which derived 90 percent or more of receipts from investments and which at some time during the taxable year had investments in companies in which they owned 50 percent or more of the voting stock, and (b) companies which derived less than 90 percent but more than 50 percent of receipts from investments.

4/ Consists of corporations which at any time during the taxable year owned 50 percent or more of the voting stock of another corporation and whose income from such stock was 50 percent or more of the amount of dividends received.

5/ Consists of companies (other than investment trusts and investment companies) which (a) at no time during the taxable year owned 50 percent or more of the voting stock of another corporation or (b) at any time during the taxable year owned 50 percent or more of the voting stock of another corporation but whose income from such stock was less than 50 percent of the amount of dividends received.

6/ "Finance not allocable" was included in "Finance, insurance, real estate, and lessors of real property, not allocable" for 1939.

7/ Partly tabulated in "Finance not allocable," and partly in "Nature of business not allocable, except trade" for 1940.

8/ For 1940, includes corporations that are combinations of "Finance," "Insurance," "Real estate," and "Lessors of real property" which for 1939 were tabulated in "Finance, insurance, real estate, and lessors of real property, not allocable."

Statement of Secretary Morgenthau before the
Committee on Finance of the
United States Senate

July 23, 1942

You will recall that in his Budget Message of January 5th, President Roosevelt asked for additional taxes for the fiscal year 1943, exclusive of Social Security taxes, of \$7 billion. On March 3rd, I appeared before the Committee on Ways and Means of the House and presented recommendations for a tax program to produce \$7,600 million in additional annual revenue from taxes. On May 6th I wrote a letter to the Chairman of the Committee on Ways and Means recommending a reduction in personal income tax exemptions to produce approximately \$1,100 million more revenue. These two recommendations together involved a tax program of \$8,700 million of additional revenue. These amounts represented what I believed, and still believe, was the very least that the American people could afford to provide.

It is only against the background of our war expenditures that we can tell whether the Revenue Bill before you will fulfill its purpose. We are now spending \$150 million a day, or almost \$5 billion a month. In the fiscal year that is beginning we expect to spend the almost inconceivable sum of \$77 billion to win this war for human freedom.

There can be no compromise with these war expenditures. We would not reduce them if we could. Our whole effort must be to translate our spending as fast and as effectively as possible in the actual production and use of our war materials. If our expenditures this year reach \$77 billion, our receipts in revenue from the people must bear some reasonable relationship to that colossal figure. If the House Bill were to become law it would be necessary to borrow from the public

during this fiscal year about \$53 billion. To the extent that we enlist our current income in taxes to cut down this borrowing, we shall be protecting the future economic soundness of our country and our free institutions. To the extent that we fail, we shall be endangering the survival of all that we are fighting to preserve.

It is interesting to remember that only two years ago, in the fiscal year 1941, we were devoting only about 7 percent of our national income to defense expenditures. In the present fiscal year we shall be spending about half of our national income on the war. Thanks to the foresight of President Roosevelt and the splendid cooperation of Congress, we expect to devote to the war effort in our first complete fiscal year of war a proportion of our national income roughly comparable to the proportion being spent by Canada and approaching that being spent in Great Britain.

We get a different picture, however, if we look at the percent of expenditures financed through taxes in the three countries. In the fiscal year 1941 Canada financed about 70 percent of all its expenditures by taxation, and in the fiscal year 1943 it expects to raise about 55 percent from taxes. The United Kingdom, in the fiscal year 1941, financed 44 percent of all its expenditures by taxation, and in the fiscal year 1943 it expects to raise 53 percent from taxes. In the United States, however, including Federal, State, and local governments, only 37 percent of all fiscal 1943 Government expenditures would be financed by taxation on the basis of the Revenue Bill now before you. It is clear that we are substantially behind Great Britain and Canada in the proportion of our expenditures which we are raising from taxes. Quite frankly, I do not see why we should not do at least as well as Great Britain and Canada.

Taxation and the Cost of Living

Taxation does more than supply money to finance the war. It does more than apportion the war burden now, once and for all, instead of leaving it for further distribution through taxes after the war. Wartime taxation also plays an important part in preventing rapid and continued increases in the cost of living. The President has announced a seven-point program for holding down the cost of living. Ceilings have been placed on prices. This fact may have caused many people to be unduly optimistic about the future of the cost of living. It cannot be too strongly emphasized that if the price ceilings are to be maintained and rapid and continuous price rises avoided, the pressure of the large and expanding volume of consumer purchasing power on the diminishing supply of goods must be reduced.

To reach a much larger volume of consumer purchasing power, the Bill now before you includes such a broad reduction of personal exemptions that it will affect almost seven million individuals who have never paid direct taxes to the Federal Government before. If this section of the Bill is passed as it stands, some thirty-one million income tax returns will be filed in 1943 as against only 7,700,000 in 1940. For the first time in our history the income tax is becoming a people's tax.

Taxes cannot, by themselves, win the battle against inflation. The battle must be fought with determined and coordinated effort on many fronts. Taxation can be fully effective in this battle only if it is accompanied by restraint and self-denial in other fields. Nevertheless, taxation by itself can make the price situation more controllable and less dangerous than it otherwise would be, and it is an essential anti-inflationary weapon that must be used to the utmost. Inflation has been well described

as "the ruthless process whereby sacrifice is imposed inequitably upon a people who have lacked the unity, the courage and intelligence to impose that sacrifice equitably upon themselves." It is for us to show that we have the unity, the courage, and the intelligence to check inflation now.

Treasury Program a Minimum Program

The Administration's revenue program was presented last Spring as a minimum. On March 3rd, when I first came before the Ways and Means Committee, our total contemplated expenditures for the fiscal year 1943 were \$63 billion. Since then they have risen by \$14 billion, and the total war appropriations, authorizations and requests for this and succeeding fiscal years have risen by \$75 billion. It is true that the Bill before you would produce by far the greatest revenues in our history, and I would not wish for one moment to minimize the task performed by the Ways and Means Committee. Yet this Bill would provide only \$6.3 billion additional revenue in place of the \$8.7 billion we recommended in the Spring. It would fail by about \$2.4 billion to reach that minimum of last Spring, which is even more emphatically the very least we can afford to provide today.

In presenting its revenue program to the Committee on Ways and Means, the Treasury outlined methods of taxation which it considered most desirable and appropriate to raise the required amounts. I still believe that these proposals are sound and present the best sources for a revenue program of this size. They are based upon the principle of ability to pay, and they avoid such devices as a general sales tax, which would fall with the greatest impact upon those least able to bear the burden. The various provisions of the Administration program are well known and it is not necessary to repeat them here. I should like, however, to emphasize certain points which I hope will be most carefully considered by the Committee.

1. Special Privileges

The Revenue Bill as it stands violates the basic principle of equity which is so important to an all-out war finance program. It does this by leaving certain highly privileged groups free from tax on large portions of their income.

The first of these especially favored groups are the recipients of tax-free interest from State and municipal securities. Exemption of interest on State and local securities is a serious breach in our system of taxing according to ability to pay. For example, in the case of one individual, out of a total reported income of approximately \$975,000, over \$668,000 came from State and local securities. If the Bill as it passed the House should become law, this individual would pay only \$243,000; if, on the other hand, your Committee would adopt my suggestion and remove this pre-Pearl Harbor exemption, he would pay \$832,000. Let me put the illustration another way. If this exemption is retained he would have \$732,000 left after taxes; if it is abolished, he would have \$143,000 left.

The glaring unfairness of this exemption may be seen in another way. Under the tax rates in the House Bill, a person with a surtax income of \$100,000 from other sources who holds a 3 percent tax exempt security receives as much net return after taxes as from a taxable security yielding 20 percent. The existence of this special privilege for all holders of tax-free securities costs the Government and the people of the United States, under the House rates of tax, about \$200 million a year; and it will cost still more as our wartime taxes tempt more and more wealthy individuals to shift their investments into the hide-out of tax exempt securities.

How can we expect to obtain an all-out war effort from all our people if we go on permitting a group of individuals and corporations owning \$14 billion of State and local securities to go tax free on the income from these securities? We are asking our young men to give their lives for their country, and at the same time we are allowing many wealthy persons, safe behind the lines, to escape their fair share of the war's financial burden. At a time when we are straining our energies to the utmost to defeat a powerful and ruthless foe, common decency requires that we abolish these special tax shelters, and do it now.

Another highly privileged group having large amounts of income exempt from income tax are the owners of oil wells and mines. I refer to those provisions of the law dealing with percentage depletion. Percentage depletion is a serious breach in our system of taxation according to ability to pay.

I cannot believe that the taxpayers of America would knowingly sanction a provision of the law which allows owners of oil and gas wells to deduct from their income 27-1/2 percent of their gross receipts from such wells--not for one year, two years, or the period necessary to return investment, but for an unlimited period. For example, a leading oil company owned a number of oil properties which had cost it \$3 million. At the time the case was examined percentage depletion of \$3.6 million had already been allowed and the properties still had three-fourths of the oil left.

Certainly we cannot justify this exemption on the ground that it encourages exploration and drilling for oil. There is grave doubt that it has a substantial effect on oil discovery. It would have cost the Federal Government about one-third as much to have paid all the cost of every wild-cat well that was drilled in 1941 as to have allowed percentage depletion and the associated intangible drilling expenses. The annual cost of these allowances under the proposed rates would be about \$200 million.

The privilege of filing separate income tax returns furnishes another example of special tax advantage to many married couples having larger than ordinary incomes. In families in which the income is earned partly by the husband and partly by the wife and in families in which income earning property can be divided between husband and wife, the tax on the family income is less than where the husband or wife receives the whole income. The family is the true economic unit, and it is unfair for the amount of tax on the family to vary depending upon who earns the income or upon who in the family has income producing property. Ability to pay taxes must be judged in terms of family incomes and not the incomes of members of the family. The failure to require joint income tax returns constitutes a violation of the fundamental principle upon which our tax system has been based.

The adoption of mandatory joint returns would also eliminate another discrimination prevailing under existing law. Married couples living in the eight so-called community property States receive tax advantages which are in no way commensurate with any special relationship that may exist between husbands and wives in those States. For example, take a family in which the husband has a salary of \$10,000 after deductions. If the family has its residence in, say, California, and filed community property returns, the family tax would be \$1,788, while if the family lives in, say, Iowa, the tax would be \$2,152, or over 20 percent more. The discrimination is even more pronounced with larger incomes. In this national emergency, how can we complacently permit the citizens of these community property States a more favorable tax status than those of the rest of the country?

These examples of special privileges are intolerable at a time like this, when we are imposing heavy taxes on persons with small incomes and there is pressure for limiting wages and farm prices. The country is in greater danger today than ever before in its history. The war is now in its most critical phase, and only by pulling together as

a united people can we make the effort that will turn the tide toward victory. At such a time any special privilege for any group not only deprives the Treasury of revenue that is badly needed for the war effort, but it hinders the war effort by undermining the morale without which the war cannot be won.

2. Excess Profits Tax

Another similar hindrance to the prosecution of this "people's war" is the existence of excessive profits in wartime. There is no easier way to stir the righteous anger of the American people than to let them hear constantly of excessive wartime profits that are not being recovered by adequate taxation. I have said repeatedly that we are determined to take the profit out of war, and the Treasury's recommendations have been framed with this determination in mind.

An effective excess profits tax does much more than produce badly needed revenue in time of war. It also reassures the masses of our farmers and factory workers that industry is not being rewarded unduly for its part in the winning of the war.

I do not believe that any patriotic American needs the "incentive" of profits to produce for war at this time. Millions of our people are willing to pay new and genuinely burdensome taxes, to buy War Bonds without stint, and to do without many of the accustomed luxuries and even conveniences of daily life. Their only "incentive" is their firm resolve to win this war and build a better future.

Experience has shown, however, that when excess profits taxes are too high they may result in extravagance and waste in the conduct of business. It is vitally important that we stimulate business to produce

for war purposes as economically and efficiently as possible, if for no other reason than to avoid a waste of war materials and labor and to hold down the cost of the war to the Government. Moreover, a post-war credit to industry will help toward the rebuilding of our economic life. For these reasons we have recommended a 90 percent excess profits tax coupled with a 10 percent credit for return to the corporation after the war. The credit should, of course, be restricted in such a manner that it would be used for the direct employment of labor, the conversion of plant to peacetime business or for other uses promoting economic adjustment and growth.

3. Tax on Freight and Express

One tax that would be imposed by the Bill before you directly threatens the stability of prices. This is the tax on freight and express which would add to the cost of producing and supplying practically every commodity and service. In great numbers of cases the added cost would make it impossible for businesses to continue to operate under the price ceilings which have been imposed and the breaches in the price ceilings which would thereby be caused would threaten the whole price structure.

Conclusion

I shall not attempt today to discuss the more technical aspects of the long and complex Bill before you, nor to enlarge further upon the subjects I have mentioned already. The Treasury staff stands ready, as always, to assist you in every way possible in carrying out your difficult and responsible task. I should like, however, to make just one more appeal. Every day consumed in your Committee's work will lose us substantial amounts of revenue under the excise tax portions of the Bill.

Every day that can be saved in enacting this Bill will enable it to produce just so much more in needed revenue. Every day saved will give our citizens additional time to adjust themselves to the impact of the most severe tax bill in all our history.

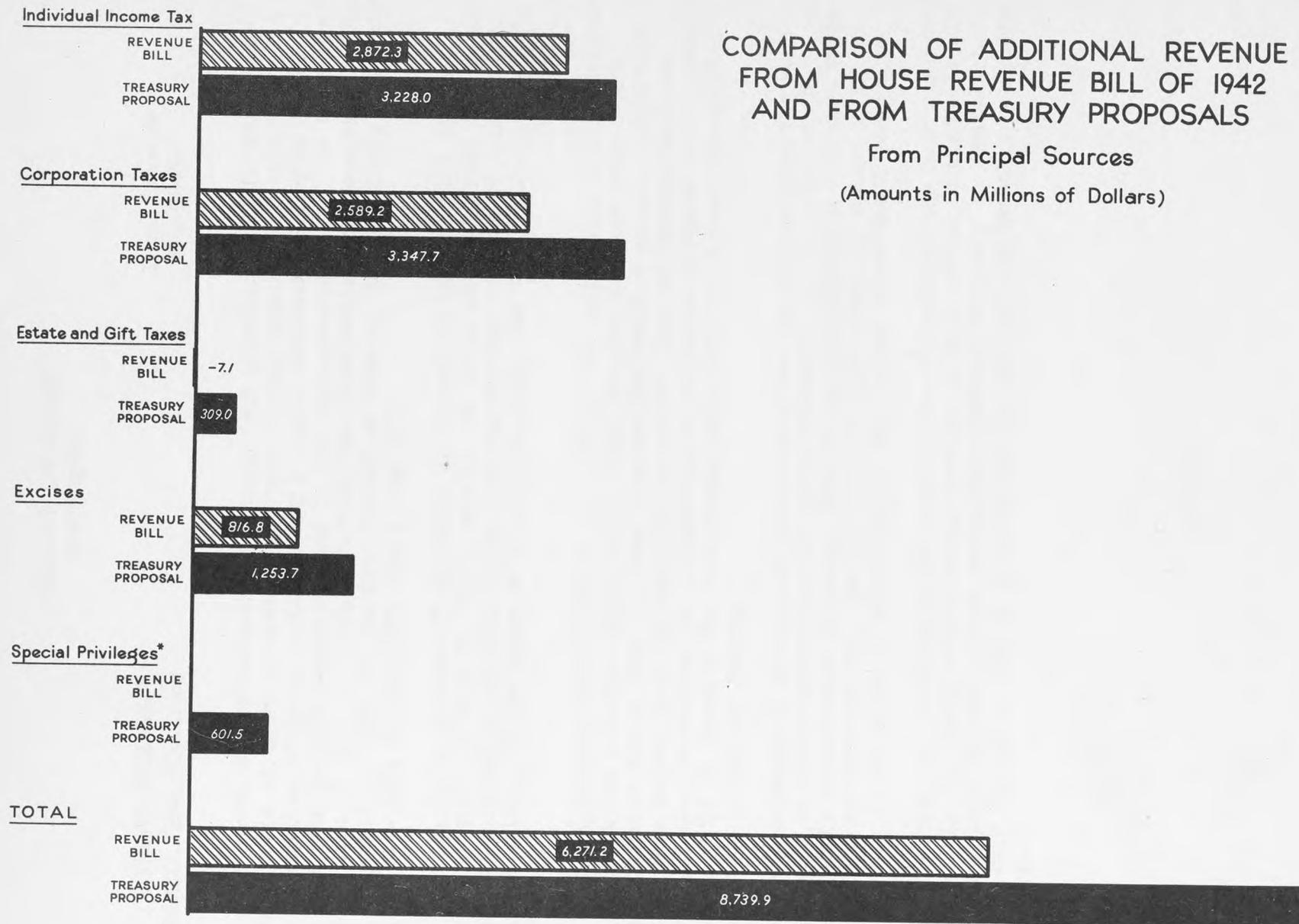
I am discussing our tax problem with you today on broader grounds than that of revenue alone. It is my conviction that the people of this country want a courageous tax bill, and want it with the least possible delay. They are ready for greater sacrifices than some of us imagine. The overwhelming majority of them, I am convinced, want us in Washington to show a determination that is worthy of their own. They will be critical of us only if we seem to palter or haggle, or if we pay too much attention to the demands of selfish groups, or if we seem half-hearted in asking self-denial of the people as a whole.

Our acceptance of sacrifice on the home front is a yardstick of our determination to win the war. For this reason it is unthinkable to me that we should be straining every effort on the fighting fronts abroad and on the production line at home, and at the same time be anything less than all-out in the financing of the war effort. This war, above all others, can be won only by hard fighting, by the acceptance of risks and deprivations, and by the united effort of civilians and fighting men alike. In this kind of war a tax bill can be a decisive battle. It could be lost by narrow vision and faulty leadership. It can be won by boldness and courage. I am confident that this Committee will live up to its high responsibilities and keep faith with a united people.

COMPARISON OF ADDITIONAL REVENUE FROM HOUSE REVENUE BILL OF 1942 AND FROM TREASURY PROPOSALS

From Principal Sources

(Amounts in Millions of Dollars)



**Joint returns; interest on State and local obligations; and percentage depletion*

TREASURY DEPARTMENT
Washington

FOR IMMEDIATE RELEASE,
Thursday, July 23, 1942.

Press Service
No. 32-58

The Bureau of Customs announced today that provision will be made at customs ports of entry to enable importers to file entries and withdrawals for consumption covering cotton having a staple length 1-1/8 inches or more but less than 1-11/16 inches subject to the quota provisions of the President's proclamation of June 29, 1942, modifying the proclamations of December 19, 1940, and September 5, 1939, at the same instant of time on July 29, 1942, at 12 noon EWT, 11 a.m. CWT, 10 a.m. MWT, and 9 a.m. PWT.

The unentered portion of the quota of 45,646,520 pounds shall become a "global" quota on July 29, 1942, open to the entry and withdrawal from warehouse for consumption of such cotton from any foreign country of origin. The unfilled balance of the quota as of July 18, 1942, was approximately 9,000,000 pounds.

All outstanding authorizations for entries and withdrawals for consumption of cotton having a staple length 1-1/8 inches or more but less than 1-11/16 inches on which duties have not been paid and for which a permit of delivery has not been issued shall be cancelled as of the close of customs business July 28, 1942. No entries for consumption or warehouse withdrawals for consumption shall be accepted for such cotton after July 25 without telegraphic authorization from the Bureau.

The acceptance of entries and withdrawals for consumption covering such cotton will be authorized within the quota limitation in the order of the time of their presentation in proper form at the customhouse in the port where the merchandise has arrived. No quota status will attach by reason of prior presentation of an entry or withdrawal in this or any other quota period.

If entries and withdrawals for consumption presented at the hour specified above on July 29, 1942, cover a total quantity of such cotton in excess of the unfilled balance of the current quota, 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,
Friday, July 24, 1942
7/23/42

The Secretary of the Treasury, by this public notice, invites tenders for \$350,000,000, 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 July 29, 1942, and will mature October 28, 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, July 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 July 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 RELEASE, MORNING NEWSPAPERS,
Sunday, July 26, 1942.
7-25-42

Press Service
No. 32-60

The Treasury Department announced today that space has been made available in the Shubert-Belasco Theater Building on Lafayette Square, which the Department is now using to house thousands of Government files, for an American Theater Wing Stage Door Canteen in Washington.

Negotiations were conducted with the Treasury by Milton Shubert of the American Theater Wing War Service, Inc., who is organizing the Washington branch. It is expected that the canteen will be open for free entertainment, food and smokes for service men in uniform soon after Labor Day.

Treasury officials said they were pleased to aid in developing additional recreational facilities for members of the armed forces of the United Nations who are stationed or passing through Washington.

"Moreover," they declared, "the Treasury Department is delighted to be able to cooperate with the folks of the entertainment world who have given so generously of their time and talent to stimulate the sale of War Savings Bonds and Stamps."

At the same time the Theater Wing announced a buffet supper on the stage of the National Theater for Thursday evening, August 6, at which plans for operating the canteen in Washington will be laid before civic, professional, social and Governmental leaders of the National Capital.

Helen Hayes, a native of Washington, will be hostess for the supper and will be assisted by a group of theatrical stars from Washington and New York. Miss Antoinette Perry, chairman of the Wing, and Brock Pemberton, co-chairman of its branches committee, will be present.

The Washington Stage Door Canteen will be patterned on its New York progenitor, where more than 3,500 service men are entertained nightly by the best theatrical talent in the country, supplied with cigarettes, coffee, tea, milk, sandwiches

and are invited to dance by pretty girls all of whom are members of the theatrical profession or connected with the theater. No charge of any kind is made to service men in uniform and no civilians will be admitted.

The Shubert-Belasco Theater, formerly known as the Lafayette Square Opera House, is one of the historic playhouses of the city, located on the site of the home where Secretary of State Seward was assaulted and critically wounded on the night Lincoln was assassinated.

The Treasury has made available for the Washington Stage Door Canteen a lobby, 28 by 18 feet, a recreation hall, 64 by 39 feet, and a mezzanine, 57 by 14 feet.

The National Press Club already has pledged to participate in the venture, offering both talent and financial support.

TREASURY DEPARTMENT

Washington

FOR RELEASE, MORNING NEWSPAPERS,
Tuesday, July 28, 1942.

Press Service
No. 32-61

Commissioner of Internal Revenue Guy T. Helvering reminded American motorists today that the opportunity to purchase use tax stamps at local post offices will expire on Friday, July 31.

Thereafter, the Commissioner said, owners will be required to purchase their stamps from the office of the Collector of Internal Revenue for their District.

Commissioner Helvering issued his reminder for the benefit of a few delinquent motorists who, through negligence or otherwise, have not purchased their \$5 use tax stamps for the current fiscal year.

Stamps are sold by the Collectors only upon presentation of cash, money order or certified check. To avoid inconvenience and trouble, motorists who have not as yet complied with the law should call at their local post offices immediately and purchase their stamps, he said.

Mr. Helvering called attention to the fact that under the law which imposes this tax any person operating a motor vehicle prior to payment of the tax is subject to a penalty of \$25 and/or thirty days imprisonment, and to a penalty of \$25 for operating the vehicle without the use tax stamp affixed thereto.

Mr. Helvering stated emphatically that it is the intention of the Internal Revenue Service to pursue vigorously to a conclusion any violation of the law. He cited the action already taken by the Collector of Internal Revenue at St. Louis, Missouri, where cases involving 680 violators have been presented to the United States Attorney for prosecution. The violators in these cases were discovered in one hour by deputies operating from that office.

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TREASURY DEPARTMENT

Washington

FOR RELEASE, MORNING NEWSPAPERS,
Tuesday, July 28, 1942.

Press Service
32-62

7/27/42

The Secretary of the Treasury announced last evening that the tenders for \$350,000,000, or thereabouts, of 91-day Treasury bills to be dated July 29 and to mature October 28, 1942, which were offered on July 24, were opened at the Federal Reserve Banks on July 27.

The details of this issue are as follows:

Total applied for - \$645,242,000

Total accepted - 350,308,000

Range of accepted bids: (Excepting one tender of \$500,000)

High	-	99.925	Equivalent rate approximately	0.297	percent
Low	-	99.905	" " "	0.376	"
Average					
Price	-	99.907	" " "	0.369	"

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

Special agents of the Intelligence Unit of the Bureau of Internal Revenue obtained indictment of 113 individuals, including prominent business and professional men as well as racketeers, for evasion of income and other taxes. The year also saw 113 prosecutions in this category, of which 111 convictions were obtained, and fines totalling \$135,000 were assessed in addition to prison sentences. Nearly \$38,000,000 in additional taxes and penalties were recommended in cases investigated. Miscellaneous charges involved 49 other individuals.

One interesting case involved Dr. Curtis H. Muncie, an osteopath of Great Neck, Long Island, who has maintained offices in New York City for many years. Dr. Muncie claims a cure of deafness by reconstruction of the eustachian tubes. He had lived on a lavish scale, but failed to account for his total income in his tax returns. As the year ended, Dr. Muncie pleaded guilty to tax evasion, and was sentenced to a year and a day in the penitentiary.

Special Agents of the Intelligence Unit also were successful in bringing to justice Herbert Glassman of Washington, D. C., who was interested in several corporations operating taxicabs, a casualty insurance business, and automobile sale and finance company.

Through diversion of corporate funds, Glassman, with his accountant, Joseph I. Zucker, was able to understate income for taxes over a long period.

Both Glassman and the accountant were convicted in May, 1942, and given substantial prison sentences and fines.

More than 2,000 investigations were made in cases involving suspected violation of the "freezing" control; to determination of the true ownership of American business enterprises suspected of being under Axis control; of foreign trade transactions suspected of being for the benefit of persons or firms in foreign lands with Axis ties; and to the locating and policing of large deposits of currency and securities in the United States that might benefit Axis countries and nationals.

One outstanding case was the discovery of \$10,000,000 in assets belonging to the fugitive Henry Blackmer of Teapot Dome fame.

In addition to bringing hidden alien-owned fortunes under Treasury control, the Foreign Funds Control provided information for the vesting of enemy alien properties by the Alien Property Custodian. Included in this category are such firms as I. G. Farbenindustrie, the Schering Corporation, Luscombe Airplane Corporation, Adlanco X-Ray Corporation and others.

An outstanding contribution to national defense was made by the Foreign Funds investigators, along with officers from all other Treasury enforcement agencies in policing enemy nationals and businesses following the Japanese attack on Pearl Harbor, and the subsequent declaration of war upon the United States by Germany and Italy. The Foreign Funds Control took an active part in assisting in the mass migration of Japanese from Pacific coast military zones.

Inability of violators to obtain the necessary raw materials because of the war contributed to a decrease in illicit distilling operations during the 1942 fiscal year, Stewart Berkshire, deputy commissioner of Internal Revenue in charge of the Alcohol Tax Unit, reported.

Agents reported moonshiners in some southern states, unable to get sugar, ~~resorting~~ ^{turning} to sorghum molasses as a source for their product, with the potency apparently not challenged, but palatability being a matter of debate. Some witnesses testified the potion made them ill before it made them convivial.

The number of stills seized was 11,369, a decrease of about 4 percent from the previous year. However, operations were on a much smaller scale per still, and mash seizures dropped more than 20 percent, and arrests more than 22 percent.

In the fourteen southern states, the 'shiners were more persistent in the face of priorities and rationing, and still seizures actually increased slightly.

More than 20,000 prosecutions were recommended to United States attorneys in alcohol tax cases during the 1942 fiscal year, involving 17,489 defendants, of which 15,279 were convicted.

The field investigative staff of Foreign Funds Control completed its first year of operations, with its personnel, under direction of Erwin G. May, increased to 100 investigators to meet the wartime activities of this phase of Treasury enforcement.

Officers of the Alcohol tax unit dug deep into the wooded hills of Shelby County, Alabama, for one of their most interesting cases.

In an investigation smacking of storied "revenoors" and mountain clans, they cleared up a widespread conspiracy in a section bounded by the Coosa River and Waxahatchee Creek. Here resided a number of families by the names of Etress, Garden, Hope and Jones, which, as far back as the era of national prohibition have been persistent violators of liquor laws.

These people are mostly related by blood or by marriage, and live within a radius of four square miles. Their clannishness gave investigators a hard nut to crack.

The case culminated with 36 convictions, and actual sentences totalling 38 years and additional probationary sentences aggregating 85 years.

In assembling evidence, the federal officers destroyed distilleries with a total capacity of 20,300 gallons a day.

obtained against a number of persons, and the Treasury officers painstakingly followed out the leads, bringing others into the net.

Nicolo Impastato of Kansas City is alleged by officers to have been the man behind the scenes in the operation of this and several previous rings in that area which have been riddled by the Bureau of Narcotics again and again over a period of years.

The source of supply of the latest effort was charged by the investigators to have been one Paul Antinore of Tampa, Florida, who is believed to have smuggled the drugs into this country from Cuba and other Caribbean points. Indictments were obtained against Impastato and Antinore and a number of others.

Total seizures of illicit narcotics by Customs and Narcotics officers in the fiscal year were 2,065 ounces, a sharp drop from the 5,863 ounces of the previous period. There also was a decline in seizures of bulk marihuana from 19,767 ounces in 1941 to 14,720 ounces in 1942, but an increase in the number of marihuana cigarettes from 18,405 to 33,660.

The Bureau of Narcotics continued its marihuana eradication program in cooperation with state and local authorities and land owners, with an estimated 9,742 acres of the growing plant being destroyed in the fiscal year, compared with more than 33,000 acres eradicated in the fiscal year 1941.

There was a slight increase in marihuana arrests, and a slight decrease in narcotics arrests, with the total of 2,867 about the same as in 1941.

"cave color" heroin in Mexico, and smuggling it into the United States for delivery at New York City, with the aid of border traffickers.

A somewhat similar case developed in California, where Customs and Narcotics officers obtained indictments against ten persons, residents of New York and California, alleged to have smuggled narcotics from Mexico across the California line. The drugs were distributed eventually in New York, Detroit, and other points. Some of the principals were arrested in 1941, but subsequent investigation implicated others, and new indictments were returned.

Defendants in the Los Angeles case are Samuel Walkoff, alias Sammy Walker, Max Gauchman, Thomas Coughler, Michael Walkoff, Milton Abramson, John Angel, Thomas McEvoy, Herbert Gordon, John Phelps, Anthony Busterno, and a man named Ruiz.

One of the largest seizures made was that of 95 ounces of pure heroin, at San Francisco, coincident with the arrest of Alexander Stanger and Robert Ridgill, old offenders in the smuggling line. They had been working as seamen on ships plying the Pacific. Both drew prison terms, Stanger, 12 years, and Ridgill, two.

Harry J. Anslinger, Commissioner of Narcotics, also reported the destruction of still another highly organized, far-reaching narcotics conspiracy, one centering in the Middlewest.

Large stores of narcotics were seized in Kansas City when officers solved an ingeniously devised secret wall panel. Indictments were

these items were larger than in the previous year. Narcotics seizures dropped to 600, from 789 in ^{the} 1941 fiscal period.

There was a decided decrease in large-scale attempts to smuggle into seaports narcotic drugs, due to wartime shipping restrictions, and this, coupled with effective enforcement measures, drove prices in the underworld traffic to new highs, indicating an increasing scarcity of illicit supplies. However, there were indications that traffickers were turning to Mexico for supplies, and several large seizures were made at border points in recent months. There was a continued trickle of marihuana also, but these seizures were small in most cases.

One of the most interesting narcotics cases, developed jointly by Customs and the Bureau of Narcotics, appeared to be an attempt of New York hoodlums to develop illicit sources in Mexico. Eight persons were prosecuted in Arizona, and later in New York, on a conspiracy count. The eight, Dominick Petrelli, Salvatore Santoro, Joseph Gagliano, Joseph Spitaleri, Philip Lombardo, Frank Livorsi, Charles Alberto, and John Schillaci were said by officers to be members of the so-called "107th Street Mob," an organization of New York racketeers recruited from the remnants of the old "Dutch" Schult^Z_A and "Lucky" Luciano gangs. They and others in New York City, Texas, Arizona and Mexico have been the object of a two-year investigation.

The Treasury officers travelled thousands of miles into Mexico and Canada, and from coast to coast gathering evidence. This evidence indicated that the New York organization was purchasing opium and

The coins, made of silver and very deceptive, circulated mostly in the East, and Zerzow's capture resulted from intensive investigation involving tracing of thousands of coins and elimination of numerous suspects.

Major activities of the Bureau of Customs during the year shifted from the peacetime traffic in spices and silks, and other exotic products of foreign lands, into a grim battle along the front of economic warfare. William R. Johnson, Commissioner of Customs, reported the Bureau's outstanding "case work" was in the administration of export control laws designed to keep strategic commodities out of the hands of our enemies.

The Bureau worked closely with the Office of Exports of the Board of Economic Warfare, and with the Treasury's Foreign Funds Control.

Industrial diamonds, platinum, machine tools, and war-necessary metals are among the hundreds of items appearing in the Customs lists of attempted illegal exports, many of which appeared Axis promoted.

The Customs men enforced censorship regulations on communications moving outside the mails, to prevent passage through the ports and borders of information valuable to the enemy.

The strict control of merchant shipping necessitated by the war greatly increased the enforcement responsibilities of the Customs relating to movement of vessels in United States ports.

Seizures of all kinds of smuggled commodities totalled 9,200 during the fiscal year. There were 3,100 seizures of smuggled liquor. Both

In imposing sentence, Judge Goddard said:

"The crime involved here is not only one of counterfeiting, but it is a despicable attempt at fraud upon our soldiers, sailors and people of small means who buy these stamps."

With the Secret Service campaign of education making the passing of "funny money" increasingly hazardous, the loss to victims of counterfeit bills during 1942 fiscal year dropped to a new low of \$47,882, compared with \$91,000 the previous year.

The low figure is 93 percent less than the 1933-36 average prior to the inauguration of the ^{Crime Prevention} ~~"Know Your Money"~~ campaign. The Secret Service ^{"Know your money" film} ~~film on the subject~~ ^{to} was shown some 7,500,000 persons during the year, and its study material was incorporated in numerous school textbooks and other publications.

The Secret Service made 1,886 arrests during the latest fiscal year, of which 118 were for making or passing counterfeit bills, 200 for making or passing counterfeit coins, 1,171 for forging Government checks, and 397 for other offenses. The previous year saw 2,949 arrests. Nearly 98 percent of cases tried during the year resulted in convictions.

The outstanding coin counterfeiting case during the period culminated in arrest at Buffalo, New York, on March 14 of William G. Zerzow, in whose homes agents seized a 200-ton pressure hydraulic press and dies for making fake 50-cent pieces. Zerzow confessed to passing thousands of these coins during the past four years.

of high-graders by Canadian authorities in 1939 caused the Toronto refineries to refuse to accept any more bar or button gold, but the convictions did not stop the trickle of the yellow metal from the mines into bootleg channels. It appeared that the flow had been diverted to the United States, and so it was that American officers were called into the case.

The "break" came when agents of the United States Secret Service, the Bureau of Customs, and the Canadian Mounted arrested Charles S. Abrahams and Harry Julius at the Peace Bridge, in Buffalo, New York, seizing \$10,000 in gold concealed on Julius.

Canadian officers took into custody Sidney Faibish of Toronto, termed the "brains" of the conspiracy, and a number of lesser lights, including one woman. On the American side, Treasury agents rounded up as other principals, Kushner, Jack Rubin, and David Roth.

The abortive venture in War Stamp counterfeiting resulted in arrest, in New York City, on May 12 of six men, comprising the engravers, printers, financial backers and distributors, and confiscation of \$52,500 in fake stamps, and the plate from which they were printed. The seizure was made before a single stamp was placed in circulation. Abraham Perkes, Joseph Perkes, Harry Horowitz, Louis Samouski, and Morris Rubin were sentenced to 10 years in prison, and Abraham Glickstein to 8 years, when they appeared before Federal Judge Henry W. Goddard on June 11.

richest nuggets and slipped them past the guards, concealed on their persons, through canny "fences" and refiners, through clever smugglers, and finally to the New York metals firm of Kushner and Pines. This firm, records of the case revealed, took care of the matter of concealment of origin, and sale of the pilfered metal to the United States Government.

Bernard Kushner, president of the metals company was sentenced to four years in prison, and fined \$3,000.

There has always been "high-grading" in the mining regions, as this thievery of ore, bit by bit, is called. But even the veteran officers of the Canadian services were astounded at the magnitude of the operations revealed by this investigation, ~~\$3,000,000~~ ⁶ \$3,000,000 worth in three years.

It was found that in each gold mining camp of any size, several large operators were located; that each operator had a staff of "buyers" who obtained the ore from the individual miners and mill employees, maintaining a steady supply of the contraband; that the ore was pulverized and melted into bar or button form, and the resulting bars, of considerable fineness, were sold to "distributors."

The latter persons sold the gold to refineries and were paid for it after assays had been made.

In the early stages of the conspiracy Toronto was the ultimate disposal point for the high-graded gold. Prosecution of three groups

Chatard, or Chadwick, will have a Washington state sentence of up to 15 years awaiting when he completes his 12-year sentence in the Fort Worth case. His wife is serving two years.

Secret Service agents helped smash still another international counterfeiting attempt during the year. A raid on an apartment house in Tiajuana, Mexico, by Mexican and American officers yielded a complete plant and ~~\$25,000~~^{11,200} face value of counterfeit \$10 and \$20 Federal Reserve notes. Harry H. Edwards, alias Deane Reynolds, an old-timer with two prison terms for making bogus money to his credit and one for narcotics violation, was captured. After his case is disposed of in the Mexican courts, an effort will be made to return him to the United States for violation of parole in the narcotics case.

In breaking up a gang of international "high-graders," officers of Canada and the United States wrote a new and colorful chapter in the history of gold mining. They smashed a modern, mechanized, organized version of the feverish scramble for nuggets so often punctuated with fisticuffs and blazing gun fire in the roaring Gold Rush days of the last century.

Convictions in the United States court at Buffalo of five members of the conspiracy, and conviction in Toronto of five others now make it possible to reveal details of the three year investigation by officers of the two nations. This investigation had to thread a maze of intrigue, reaching from workmen in the mines of Ontario and Quebec who ~~intended~~^{"high-graded"} the

Thelma Etta. It was in this same case that Louis Buchalter, murder ring principal, was a co-defendant.

Chadwick, or Chatard, as he also was known, appealed his conviction, and upon its ^{confirmation} ~~was confirmed~~ in April, 1941, became a fugitive, as did his wife. Narcotics officers launched a nationwide search. Shortly thereafter, came the first of the drug company holdups in the state of Washington that were later attributed to Chadwick.

The Tacoma Drug Co., wholesalers, was robbed by three men who used a gun to force an employee to open an electrically protected safe, after first tying up the president of the firm and two others with rope and tape. The robbers took 45 ounces of morphine and substantial quantities of other narcotics.

Early this year a Seattle pharmacy was robbed. Then the gang played a return engagement at the Tacoma Drug Co. A desperado accompanied by a woman entered the home of Virgil L. Berry, an employee, and at pistol point forced him to give up the keys and safe combination, and then bound Berry, his wife and child in bed. The woman maintained guard while her companion attempted to complete the robbery. He was frustrated when an alarm in the drug company plant went off.

Narcotics officers cooperating with state authorities finally identified one of the principals as the fugitive Chadwick. A search throughout the northwest was launched, and he and his wife were captured at Tacoma in March 1942. A quantity of narcotics and two pistols were found in his possession.

the "Know Your Money" educational campaign of the Service ^{being} is intensified ¹ as a further safeguard by making Americans scrutinize more carefully the money that passes through their hands.

De Shelley's deceptive \$20 note appeared in Tacoma, Washington, in December, 1941, and alert Treasury officers had the hunch that its appearance might be, in some manner, linked with a gang active in hijacking legitimate drug dispensaries of narcotics. With the subsequent arrest of Philip Chadwick, the Fort Worth gunman, by Narcotics officers, clues were developed which put the Secret Service on the trail of de Shelley. The trail led to Mexico City. Mexican officers assisted the United States Treasury agents, and a trap was set for the wily counterfeiter, who apparently thought he could operate with impunity ^{le} from below the Rio Grande, smuggling his wares into the United States by "runners."

The Secret Service was no stranger to de Shelley, who had ^{plied} ~~run~~ his trade in Europe as well as in Mexico and the United States. When he was arrested by the cooperating Mexican officers he meekly led the agents to a hollow tree in Chapultepec Park where he uncovered his cache of counterfeit plates. He had a complete plant for manufacturing fake \$50 and \$100 notes and Mexican currency. He faces prosecution under Mexican law.

Philip Chadwick, whose arrest contributed indirectly to the foiling of the de Shelley counterfeiting scheme, was convicted in Fort Worth, Texas, with a number of others in July, 1940, in connection with an extensive conspiracy to distribute narcotic drugs. Convicted with him was his wife,

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The Secret Service is maintaining a constant vigil to thwart any attempt of America's enemies to resort to this weapon. At the same time,

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The de Shelley-Chadwick case is one of the more spectacular instances of the Treasury's war against crime during the 1942 fiscal year, and testifies to the close cooperation between ^{its} various ~~Treasury~~ ^{as well as} agencies and between ^{United States} American and other Western Hemisphere ^{enforcement} officers under the Good Neighbor policy.

^{working with Post office inspectors,} Secret Service agents smashed a gigantic conspiracy to counterfeit War Savings Stamps and cooperated with the Bureau of Customs, the Foreign Funds Control, and the Canadian Royal Mounted Police in breaking up a gold-smuggling ring that was draining a million dollars a year in possible wartime assets from our allied nation to the north.

Customs and the Foreign Funds Control cooperated in the investigation in New York that led to indictment of Werner von Clemm, naturalized citizen of German origin, and associates, in what the officers allege was a plot sponsored by the German government to "cash" in the United States millions of dollars worth of diamonds which fell into the hands of the invaders of Belgium and Holland.

The Bureau of Narcotics, in cooperation with Customs, broke up an attempt of New York racketeers to organize narcotics traffic across the Mexican border to replace the sources of supply dried up by wartime shipping restrictions.

Treasury Law Enforcement agencies have been mobilized into a many-sided offensive against the enemies of the United Nations, and at the same time have occupied the front lines of defense at home, Elmer L. Irey, coordinator of the investigative groups, today told Secretary Morgenthau in a 1942 fiscal year review.

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The report revealed how one far-flung investigation broke up an ambitious international counterfeiting conspiracy, sent to prison a notorious fugitive gunman, and solved a series of spectacular narcotics armed robberies in the Pacific northwest.

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TREASURY DEPARTMENT
Washington

FOR RELEASE, MORNING NEWSPAPERS,
Sunday, August 2, 1942.

Press Service
No. 32-63

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The Secret Service is maintaining a constant vigil to thwart any attempt of America's enemies to resort to this weapon. At the same time, the "Know Your Money" educational campaign of the Service is being intensified as a further safeguard by making Americans scrutinize more carefully the money that passes through their hands.

De Shelley's deceptive \$20 note appeared in Tacoma, Washington, in December, 1941, and alert Treasury officers had the hunch that its appearance might be, in some manner, linked with a gang active in hijacking legitimate drug dispensaries of narcotics. With the subsequent arrest of Philip Chadwick, the Fort Worth gunman, by Narcotics officers, clues were developed which put the Secret Service on the trail of de Shelley. The trail led to Mexico City. Mexican officers assisted the United States Treasury agents, and a trap was set for the wily counterfeiter, who apparently thought he could operate with impunity

from below the Rio Grande, smuggling his wares into the United States by "runners."

The Secret Service was no stranger to de Shelley, who had plied his trade in Europe as well as in Mexico and the United States. When he was arrested by the cooperating Mexican officers he meekly led the agents to a hollow tree in Chapultepec Park where he uncovered his cache of counterfeit plates. He had a complete plant for manufacturing fake \$50 and \$100 notes and Mexican currency. He faces prosecution under Mexican law.

Philip Chadwick, whose arrest contributed indirectly to the foiling of the de Shelley counterfeiting scheme, was convicted in Fort Worth, Texas, with a number of others in July, 1940, in connection with an extensive conspiracy to distribute narcotic drugs. Convicted with him was his wife, Thelma Etta. It was in this same case that Louis Buchalter, murder ring principal, was a co-defendant.

Chadwick, or Chatard, as he also was known, appealed his conviction, and upon its confirmation in April, 1941, became a fugitive, as did his wife. Narcotics officers launched a nationwide search. Shortly thereafter, came the first of the drug company holdups in the state of Washington that were later attributed to Chadwick.

The Tacoma Drug Co., wholesalers, was robbed by three men who used a gun to force an employee to open an electrically protected safe, after first tying up the president of the firm and two others with rope and tape. The robbers took 45 ounces of morphine and substantial quantities of other narcotics.

Early this year a Seattle pharmacy was robbed. Then the gang played a return engagement at the Tacoma Drug Co. A desperado accompanied by a woman entered the home of Virgil L. Berry, an employee, and at pistol point forced him to give up the keys and safe combination, and then bound Berry, his wife and child in bed. The woman maintained guard while her companion attempted to complete the robbery. He was frustrated when an alarm in the drug company plant went off.

Narcotics officers cooperating with state authorities finally identified one of the principals as the fugitive Chadwick. A search throughout the northwest was launched, and he and his wife were captured at Tacoma in March 1942. A quantity of narcotics and two pistols were found in his possession.

Chatard, or Chadwick, will have a Washington state sentence of up to 15 years awaiting when he completes his 12-year sentence in the Fort Worth case. His wife is serving two years.

Secret Service agents helped smash still another international counterfeiting attempt during the year. A raid on an apartment house in Tia Juana, Mexico, by Mexican and American officers yielded a complete plant and \$11,200 face value of counterfeit \$10 and \$20 Federal Reserve notes. Harry H. Edwards,

alias Deane Reynolds, an old-timer with two prison terms for making bogus money to his credit and one for narcotics violation, was captured. After his case is disposed of in the Mexican courts, an effort will be made to return him to the United States for violation of parole in the narcotics case.

In breaking up a gang of international "high-graders," officers of Canada and the United States wrote a new and colorful chapter in the history of gold mining. They smashed a modern, mechanized, organized version of the feverish scramble for nuggets so often punctuated with fistcuffs and blazing gun fire in the roaring Gold Rush days of the last century.

Convictions in the United States court at Buffalo of five members of the conspiracy, and conviction in Toronto of five others now make it possible to reveal details of the three year investigation by officers of the two nations. This investigation had to thread a maze of intrigue, reaching from workmen in the mines of Ontario and Quebec who "high-graded" the richest nuggets and slipped them past the guards, concealed on their persons, through canny "fences" and refiners, through clever smugglers, and finally to the New York metals firm of Kushner and Pines. This firm, records of the case revealed, took care of the matter of concealment of origin, and sale of the pilfered metal to the United States Government.

Bernard Kushner, president of the metals company was sentenced to four years in prison, and fined \$3,000.

There has always been "high-grading" in the mining regions, as this thievery of ore, bit by bit, is called. But even the veteran officers of the Canadian services were astounded at the magnitude of the operations revealed by this investigation - \$3,000,000 worth in three years.

It was found that in each gold mining camp of any size, several large operators were located; that each operator had a staff of "buyers" who obtained the ore from the individual miners and mill employees, maintaining a steady supply of the contraband; that the ore was pulverized and melted into bar or button form, and the resulting bars, of considerable fineness, were sold to "distributors."

The latter persons sold the gold to refineries and were paid for it after assays had been made.

In the early stages of the conspiracy Toronto was the ultimate disposal point for the "high-graded" gold. Prosecution of three groups of "high-graders" by Canadian authorities in 1939 caused the Toronto refineries to refuse to accept any more bar or button gold, but the convictions did not stop the trickle of the yellow metal from the mines into bootleg channels. It appeared that the flow had been diverted to the United States, and so it was that American officers were called into the case.

The "break" came when agents of the United States Secret Service, the Bureau of Customs, and the Canadian Mounted arrested Charles S. Abrahams

and Harry Julius at the Peace Bridge, in Buffalo, New York, seizing \$10,000 in gold concealed on Julius.

Canadian officers took into custody Sidney Faibish of Toronto, termed the "brains" of the conspiracy, and a number of lesser lights, including one woman. On the American side, Treasury agents rounded up as other principals, Kushner, Jack Rubin, and David Roth.

The abortive venture in War Stamp counterfeiting resulted in arrest, in New York City, on May 12 of six men, comprising the engravers, printers, financial backers and distributors, and confiscation of \$52,500 in fake stamps, and the plate from which they were printed. The seizure was made before a single stamp was placed in circulation. Abraham Perkes, Joseph Perkes, Harry Horowitz, Louis Samouski, and Morris Rubin were sentenced to 10 years in prison, and Abraham Glickstein to 8 years, when they appeared before Federal Judge Henry W. Goddard on June 11.

In imposing sentence, Judge Goddard said:

"The crime involved here is not only one of counterfeiting, but it is a despicable attempt at fraud upon our soldiers, sailors and people of small means who buy these stamps."

With the Secret Service campaign of education making the passing of "funny money" increasingly hazardous, the loss to victims of counterfeit bills during 1942 fiscal year dropped to a new low of \$47,882, compared with \$91,000 the previous year.

The low figure is 93 percent less than the 1933-36 average prior to the inauguration of the Crime Prevention campaign. The Secret Service "Know Your Money" film was shown to some 7,500,000 persons during the year, and its study material was incorporated in numerous school textbooks and other publications.

The Secret Service made 1,886 arrests during the latest fiscal year, of which 118 were for making or passing counterfeit bills, 200 for making or passing counterfeit coins, 1,171 for forging Government checks, and 397 for other offenses. The previous year saw 2,949 arrests. Nearly 98 percent of cases tried during the year resulted in convictions.

The outstanding coin counterfeiting case during the period culminated in arrest at Buffalo, New York, on March 14 of William G. Zerzow, in whose home agents seized a 200-ton pressure hydraulic press and dies for making fake 50-cent pieces. Zerzow confessed to passing thousands of these coins during the past four years.

The coins, made of silver and very deceptive, circulated mostly in the East, and Zerzow's capture resulted from intensive investigation involving tracing of thousands of coins and elimination of numerous subjects.

Major activities of the Bureau of Customs during the year shifted from the peacetime traffic in spices and silks, and other exotic products of foreign lands, into a grim battle along the front of economic warfare. William R. Johnson, Commissioner of Customs, reported the Bureau's outstanding "case work" was in the administration of export control laws designed to keep strategic commodities out of the hands of our enemies.

The Bureau worked closely with the Office of Exports of the Board of Economic Warfare, and with the Treasury's Foreign Funds Control.

Industrial diamonds, platinum, machine tools, and war-necessary metals are among the hundreds of items appearing in the Customs lists of attempted illegal exports, many of which appeared Axis promoted.

The Customs men enforced censorship regulations on communications moving outside the mails, to prevent passage through the ports and borders of information valuable to the enemy.

The strict control of merchant shipping necessitated by the war greatly increased the enforcement responsibilities of the Customs relating to movement of vessels in United States ports.

Seizures of all kinds of smuggled commodities totalled 9,200 during the fiscal year. There were 3,100 seizures of smuggled liquor. Both these items were larger than in the previous year. Narcotics seizures dropped to 600, from 789 in the 1941 fiscal period.

There was a decided decrease in large-scale attempts to smuggle into seaports narcotic drugs, due to wartime shipping restrictions, and this, coupled with effective enforcement measures, drove prices in the underworld traffic to new highs, indicating an increasing scarcity of illicit supplies. However, there were indications that traffickers were turning to Mexico for supplies, and several large seizures were made at border points in recent months. There was a continued trickle of marihuana also, but these seizures were small in most cases.

One of the most interesting narcotics cases, developed jointly by Customs and the Bureau of Narcotics, appeared to be an attempt of New York hoodlums to develop illicit sources in Mexico. Eight persons were prosecuted in Arizona, and later in New York, on a conspiracy count. The eight, Dominick Petrelli, Salvatore Santoro, Joseph Gagliano, Joseph Spitaleri, Philip Lombardo, Frank Livorsi, Charles Alberto, and John Schillaci were said by officers to be members of the so-called "107th Street Mob," an organization of New York racketeers recruited from the remnants of the old "Dutch" Schultz and "Lucky" Luciano gangs. They and others in New York City, Texas, Arizona and Mexico have been the object of a two-year investigation.

The Treasury officers traveled thousands of miles into Mexico and Canada, and from coast to coast gathering evidence. This evidence indicated that the

New York organization was purchasing opium and "cane color" heroin in Mexico, and smuggling it into the United States for delivery at New York City, with the aid of border traffickers.

A somewhat similar case developed in California, where Customs and Narcotics officers obtained indictments against ten persons, residents of New York and California, alleged to have smuggled narcotics from Mexico across the California line. The drugs were distributed eventually in New York, Detroit, and other points. Some of the principals were arrested in 1941, but subsequent investigation implicated others, and new indictments were returned.

Defendants in the Los Angeles case are Samuel Walkoff, alias Sammy Walker, Max Gauchman, Thomas Coughler, Michael Walkoff, Milton Abramson, John Angel, Thomas McEvoy, Herbert Gordon, John Phelps, Anthony Buserne, and a man named Ruiz.

One of the largest seizures made was that of 95 ounces of pure heroin, at San Francisco, coincident with the arrest of Alexander Stanger and Robert Ridgill, old offenders in the smuggling line. They had been working as seamen on ships plying the Pacific. Both drew prison terms, Stanger, 12 years, and Ridgill, two.

Harry J. Anslinger, Commissioner of Narcotics, also reported the destruction of still another highly organized, far-reaching narcotics conspiracy, one centering in the Middlewest.

Large stores of narcotics were seized in Kansas City when officers solved an ingeniously devised secret wall panel. Indictments were obtained against a number of persons, and the Treasury officers painstakingly followed out the leads, bringing others into the net.

Nicolo Impastato of Kansas City is alleged by officers to have been the man behind the scenes in the operation of this and several previous rings in that area which have been riddled by the Bureau of Narcotics again and again over a period of years.

The source of supply of the latest effort was charged by the investigators to have been one Paul Antinore of Tampa, Florida, who is believed to have smuggled the drugs into this country from Cuba and other Caribbean points. Indictments were obtained against Impastato and Antinore and a number of others.

Total seizures of illicit narcotics by Customs and Narcotics officers in the fiscal year were 2,065 ounces, a sharp drop from the 5,863 ounces of the previous period. There also was a decline in seizures of bulk marihuana from 19,767 ounces in 1941 to 14,720 ounces in 1942, but an increase in the number of marihuana cigarettes from 18,405 to 33,660.

The Bureau of Narcotics continued its marihuana eradication program in cooperation with state and local authorities and land owners, with an estimated 9,742 acres of the growing plant being destroyed in the fiscal year, compared with more than 33,000 acres eradicated in the fiscal year 1941.

There was a slight increase in marihuana arrests, and a slight decrease in narcotics arrests, with the total of 2,867 about the same as in 1941.

Officers of the Alcohol Tax Unit dug deep into the wooded hills of Shelby County, Alabama, for one of their most interesting cases.

In an investigation smacking of storied "revenoors" and mountain clans, they cleared up a widespread conspiracy in a section bounded by the Coosa River and Waxahatchee Creek. Here resided a number of families by the names of Etress, Garden, Hope and Jones, which, as far back as the era of national prohibition have been persistent violators of liquor laws.

These people are mostly related by blood or by marriage, and live within a radius of four square miles. Their clannishness gave investigators a hard nut to crack.

The case culminated with 36 convictions, and actual sentences totalling 38 years and additional probationary sentences aggregating 85 years.

In assembling evidence, the federal officers destroyed distilleries with a total capacity of 20,300 gallons a day.

Inability of violators to obtain the necessary raw materials because of the war contributed to a decrease in illicit distilling operations during the 1942 fiscal year, Stewart Berkshire, deputy commissioner of Internal Revenue in charge of the Alcohol Tax Unit, reported.

Agents reported moonshiners in some Southern states, unable to get sugar, turned to sorghum molasses as a source for their product, with the potency apparently not challenged, but palatability being a matter of debate. Some witnesses testified the potion made them ill before it made them convivial.

The number of stills seized was 11,369, a decrease of about 4 percent from the previous year. However, operations were on a much smaller scale per still, and mash seizures dropped more than 20 percent, and arrests more than 22 percent.

In the fourteen Southern states, the 'shiners were more persistent in the face of priorities and rationing, and still seizures actually increased slightly.

More than 20,000 prosecutions were recommended to United States attorneys in alcohol tax cases during the 1942 fiscal year, involving 17,489 defendants, of which 15,279 were convicted.

The field investigative staff of Foreign Funds Control completed its first year of operations, with its personnel, under direction of Erwin G. May, increased to 100 investigators to meet the wartime activities of this phase of Treasury enforcement.

TREASURY DEPARTMENT
Washington

FOR RELEASE, MORNING NEWSPAPERS,
Friday, July 31, 1942.
7/30/42

The Secretary of the Treasury, by this public notice, invites tenders for \$350,000,000, 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 August 5, 1942, and will mature November 4, 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, August 3, 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 August 5, 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.

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TREASURY DEPARTMENT

Washington

For Immediate Release,
Saturday, August 1, 1942.

Press Service
No. 32-65

In connection with the resignation of Edward H. Foley, Jr., General Counsel of the Treasury Department, announced today by the White House, Secretary Morgenthau made public the following exchange of letters between Mr. Foley and himself:

July 23, 1942

Dear Mr. Secretary:

Enclosed is a letter from me to the President dated today which tenders my resignation as General Counsel for the Department of the Treasury in order that I may accept a commission as Lieutenant Colonel in the Army of the United States.

As you know, the decision was a very difficult one to make. The years that I have been honored by serving you as General Counsel for the Department represent to me the most interesting and happiest of my life. However, I have felt that I could best serve my country for the duration of the war by accepting the commission that has been offered me.

It has been a great privilege to work under you. The magnitude of the tasks, the variety of the work, and above all, your foresight in anticipating and taking steps to meet the problems which would face the Department in the event of war, have been a stimulation to me which I shall always remember.

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My work in the Department was made infinitely easier and pleasant by the excellent cooperation and fine personal attitude of the various officers of the Department. I do not think I am overstating the situation when I say that they make up the most efficient and most able executive establishment in the Government. I request that you express my appreciation to them.

Finally, I must ask you to thank the members of my own staff for their efforts on behalf of the General Counsel's Office. I have never known a group of men who gave more unstintingly of their time and abilities than did they. I doubt that a more competent and conscientious organization of lawyers has ever been assembled anywhere.

The warm personal relationship which I enjoyed with the men at the Treasury Department will, I know, continue. I hope there will be many opportunities during the days ahead for me to see much of them.

Cordially,

(Signed - E. H. Foley, Jr.)

The Honorable,

The Secretary of the Treasury.

- - - -

July 24, 1942

Dear Ed:

I have your letter of July 23 and the letter from you to the President of the same date which you enclosed and in which you tendered your resignation as General Counsel for the Department of the Treasury.

Your services in this Department have been so well performed, and you have handled with ability and efficiency so many difficult and important matters, that I deeply regret that you have

decided to tender your resignation. The manner in which you executed your duties as General Counsel has been of inestimable value in the prosecution of the war, and I could not ask for a better or more competent General Counsel than you have been. I have enjoyed our personal relations and your cooperation has always made our official relations very pleasant.

While I regret your leaving, I can appreciate that you are anxious in time of war to aid your country as a member of the armed forces. I know that when you accept your commission as lieutenant colonel, the Army will secure a gentleman and an excellent officer.

I shall most certainly comply with your request to me to express your thanks and appreciation to the officers of the Department and to the members of your staff. I sincerely hope that someday after the war has been prosecuted to a successful conclusion we shall again be able to work together.

Very sincerely yours,

(Signed - Henry Morgenthau, Jr.)

Secretary of the Treasury.

Edward H. Foley, Jr., Esq.,
General Counsel for the
Department of the Treasury,
Washington, D. C.

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.

and sworn to, and by a certificate of the appointment of the personal representatives, under seal of the court, dated not more than 6 months prior to the submission of the bonds, which shall show that at the date thereof the appointment was still in force and effect. Upon payment of the bonds appropriate memorandum receipt will be forwarded to the representatives, which will be followed in due course by formal receipt from the Collector of Internal Revenue.

7. 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 from May 5, 1942, for bonds allotted hereunder must be made on August 3, 1942, or on later allotment. Accrued interest from May 5, 1942 to August 3, 1942 inclusive is \$6.16293 per \$1,000. Each day's accrued interest thereafter is \$0.0683 per \$1,000. Any qualified depository will be permitted to make payment by credit for bonds allotted to its customers up to

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.

6. Any bonds issued hereunder, or under the provisions of Department Circular No. 685, dated May 4, 1942, which upon the death of the owner constitute part of his estate, will be redeemed at the option of the duly constituted representatives of the deceased owner's estate, at par and accrued interest to date of payment, ^{1/} Provided:

- (a) that the bonds were actually owned by the decedent at the time of his death; and
- (b) that the Secretary of the Treasury be authorized to apply the entire proceeds of redemption to the payment of Federal estate taxes.

Registered bonds submitted for redemption hereunder must be duly assigned to "The Secretary of the Treasury for redemption, the proceeds to be paid to the Collector of Internal Revenue at _____ for credit on Federal estate taxes due from estate of _____." Owing to the periodic closing of the transfer books and the impossibility of stopping payment of interest to the registered owner during the closed period, registered bonds received after the closing of the books, for payment during such closed period, will be paid only at par with a deduction of interest from the date of payment to the next interest payment date; ^{2/} bonds received during the closed period for payment at a date after the books reopen, will be paid at par plus accrued interest from the reopening of the books to the date of payment. In either case checks for the full six months interest due on the last day of the closed period will be forwarded to the owner in due course.

All bonds submitted must be accompanied by Form PD 1782, ^{3/} properly completed, signed

^{1/} An exact half-year's interest is computed for each full half-year period irrespective of the actual number of days in the half year. For a fractional part of any half year, computation is on the basis of the actual number of days in such half year.

^{2/} The transfer books are closed from May 16 to June 15, and from November 16 to December 15 (both dates inclusive) in each year.

^{3/} Copies of Form PD 1782 may be obtained from any Federal Reserve Bank or from the Treasury Department, Washington, D. C.

deemed 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.

3. 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.

4. 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.

5. 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. 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,

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

ADDITIONAL ISSUE

1942
Department Circular No. 692

Fiscal Service
Bureau of the Public Debt

TREASURY DEPARTMENT,
Office of the Secretary,
Washington, August 3, 1942

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 now offered will be an addition to and will form a part of the series of 2-1/2 percent Treasury Bonds of 1962-67 issued pursuant to Department Circular No. 685, dated May 4, 1942, will be freely interchangeable therewith, and are identical in all respects therewith.

2. 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 re-

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 circular released today.

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.

The right is reserved to close the books as to any or all subscriptions at any time without notice. Subscriptions will be allotted in full as received, and payment at par and accrued interest from May 5, 1942 must be made on August 3, 1942, or on later allotment. Accrued interest to August 3, 1942, is \$6.16293 per \$1,000, and each day's accrued interest thereafter is \$0.0683 per \$1,000. Delivery of bonds allotted hereunder will not be effected earlier than September 1.

The text of the official circular follows:

32-66

TREASURY DEPARTMENT
Washington

FOR RELEASE, MORNING NEWSPAPERS,
Monday, August 3, 1942.
7/31/42

Press Service
No.

Secretary of the Treasury Morgenthau today announced the offering, through the Federal Reserve Banks, of an additional amount of 2-1/2 percent Treasury Bonds of 1962-67, for which cash subscriptions are invited at par and accrued interest, the amount to be issued not being specifically limited. At the same time the Secretary announced that additional rights not heretofore accorded would be attached to the bonds, through provision for their optional redemption, at par and accrued interest, upon the death of the owner, for the purpose of satisfying Federal estate taxes, full particulars in such respect appearing in the official circular.

The bonds now offered will be an addition to and will form a part of the series of 2-1/2 percent Treasury Bonds of 1962-67 issued pursuant to Department Circular No. 685, dated May 4, 1942. They are identical in all respects with such bonds, with which they will be freely interchangeable. The bonds are dated May 5, 1942, and 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. 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

Kmt

TREASURY DEPARTMENT
Washington

FOR RELEASE, MORNING NEWSPAPERS,
Monday, August 3, 1942.
7/31/42

Press Service
No. 32-66

Secretary of the Treasury Morgenthau today announced the offering, through the Federal Reserve Banks, of an additional amount of 2-1/2 percent Treasury Bonds of 1962-67, for which cash subscriptions are invited at par and accrued interest, the amount to be issued not being specifically limited. At the same time the Secretary announced that additional rights not heretofore accorded would be attached to the bonds, through provision for their optional redemption, at par and accrued interest, upon the death of the owner, for the purpose of satisfying Federal estate taxes, full particulars in such respect appearing in the official circular.

The bonds now offered will be an addition to and will form a part of the series of 2-1/2 percent Treasury Bonds of 1962-67 issued pursuant to Department Circular No. 685, dated May 4, 1942. They are identical in all respects with such bonds, with which they will be freely interchangeable. The bonds are dated May 5, 1942, and 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. 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 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 circular released today.

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.

The right is reserved to close the books as to any or all subscriptions at any time without notice. Subscriptions will be allotted in full as received, and payment at par and accrued interest from May 5, 1942 must be made on August 3, 1942, or on later allotment. Accrued interest to August 3, 1942, is \$6.16293 per \$1,000, and each day's accrued interest thereafter is \$0.0683 per \$1,000. Delivery of bonds allotted hereunder will not be effected earlier than September 1.

The text of the official circular follows:

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

ADDITIONAL ISSUE

1942
Department Circular No. 692

TREASURY DEPARTMENT,
Office of the Secretary,
Washington, August 3, 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 now offered will be an addition to and will form a part of the series of 2-1/2 percent Treasury Bonds of 1962-67 issued pursuant to Department Circular No. 685, dated May 4, 1942, will be freely interchangeable therewith, and are identical in all respects therewith.

2. 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.

3. 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.

4. 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.

5. 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. 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.

6. Any bonds issued hereunder, or under the provisions of Department Circular No. 685, dated May 4, 1942, which upon the death of the owner constitute part of his estate, will be redeemed at the option of the duly constituted representatives of the deceased owner's estate, at par and accrued interest to date of payment,^{1/} Provided:

- (a) that the bonds were actually owned by the decedent at the time of his death; and
- (b) that the Secretary of the Treasury be authorized to apply the entire proceeds of redemption to the payment of Federal estate taxes.

Registered bonds submitted for redemption hereunder must be duly assigned to "The Secretary of the Treasury for redemption, the proceeds to be paid to the Collector of Internal Revenue at _____ for credit on Federal estate taxes due from estate of _____." Owing to the periodic closing of the transfer books and the impossibility of stopping payment of interest to the registered owner during the closed period, registered bonds received after the closing of the books for payment during such closed period will be paid only at par with a deduction of interest from the date of payment to the next interest payment date;^{2/} bonds received during the closed period for payment at a date after the books reopen will be paid at par plus accrued interest from the reopening of the books to the date of payment. In either case checks for the

^{1/} An exact half-year's interest is computed for each full half-year period irrespective of the actual number of days in the half year. For a fractional part of any half year, computation is on the basis of the actual number of days in such half year.

^{2/} The transfer books are closed from May 16 to June 15, and from November 16 to December 15 (both dates inclusive) in each year.

full six months interest due on the last day of the closed period will be forwarded to the owner in due course. All bonds submitted must be accompanied by Form PD 1782,^{1/} properly completed, signed and sworn to, and by a certificate of the appointment of the personal representatives, under seal of the court, dated not more than 6 months prior to the submission of the bonds, which shall show that at the date thereof the appointment was still in force and effect. Upon payment of the bonds appropriate memorandum receipt will be forwarded to the representatives, which will be followed in due course by formal receipt from the Collector of Internal Revenue.

7. 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 from May 5, 1942, for bonds allotted hereunder must be made on August 3, 1942, or on later allotment. Accrued interest from May 5, 1942 to August 3, 1942 inclusive is \$6.16293 per \$1,000. Each day's accrued interest thereafter is \$0.0683 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.

^{1/} Copies of Form PD 1782 may be obtained from any Federal Reserve Bank or from the Treasury Department, Washington, D. C.

TREASURY DEPARTMENT
Washington

FOR RELEASE, MORNING NEWSPAPERS,
Tuesday, August 4, 1942.

Press Service
No. 32-67

The Secretary of the Treasury announced last evening that the tenders for \$350,000,000, or thereabouts, of 91-day Treasury bills to be dated August 5 and to mature November 4, 1942, which were offered on July 31, were opened at the Federal Reserve Banks on August 3.

The details of this issue are as follows:

Total applied for - \$582,900,000
Total accepted - 352,511,000

Range of accepted bids:

High	-	99.925	Equivalent rate	approximately	0.297	percent
Low	-	99.905	"	"	0.376	"
Average						
Price	-	99.906	"	"	0.372	"

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

August 5, 1942.

STATUTORY DEBT LIMITATION
AS OF JULY 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
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Outstanding as of July 31, 1942:

Interest-bearing:

Bonds -

Treasury	\$40,182,050,350	
Savings (Maturity value)*	13,546,763,725	
Depository	81,173,000	
Adjusted Service	<u>727,669,357</u>	\$54,537,656,432

Treasury notes	14,514,899,825	
Certificates of indebtedness	6,250,863,000	
Treasury bills (Maturity value)	<u>3,663,342,000</u>	<u>24,429,104,825</u>
		78,966,761,257

Matured obligations, on which interest has ceased	<u>76,740,350</u>	<u>79,043,501,607</u>
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Face amount of obligations issuable under above authority	<u>\$ 45,956,498,303</u>
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Reconcilement with Daily Statement of the United States Treasury
July 31, 1942

Total face amount of outstanding public debt obligations issued under authority of the Second Liberty Bond Act, as amended	\$ 79,043,501,607
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Deduct, unearned discount on Savings bonds (difference between current redemption value and maturity value)	<u>2,468,923,459</u>
	76,574,578,148

Add other public debt obligations outstanding but not subject to the statutory limitation:

Interest-bearing (Pre-War, etc.)	\$ 195,969,620	
Matured obligations on which interest has ceased	10,963,960	
Bearing no interest	<u>354,659,517</u>	561,593,097

Total gross debt outstanding as of July 31, 1942	<u>\$ 77,136,171,245</u>
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*Approximate maturity value. Principal amount (current redemption value) according to preliminary public debt statement \$11,077,840,266.

IV. PAYMENT

1. Payment at par and accrued interest, if any, for certificates allotted hereunder must be made or completed on or before August 15, 1942, or on later allotment. In every case where payment is not so completed, the payment with application up to 5 percent of the amount of certificates 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 certificates 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 certificates allotted, to make delivery of certificates on full-paid subscriptions allotted, and they may issue interim receipts pending delivery of the definitive certificates.

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.

4. Bearer certificates with two coupons attached will be issued in denominations of \$1,000, \$5,000, \$10,000 and \$100,000. The certificates will not be issued in registered form.

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

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 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. Others than banking institutions and security dealers 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 5 percent of the amount of certificates 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 certificates 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 \$25,000 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.

UNITED STATES OF AMERICA

7/8 PERCENT TREASURY CERTIFICATES OF INDEBTEDNESS OF SERIES B-1943

Dated and bearing interest from August 15, 1942

Due August 1, 1943

1942
Department Circular No. 693

TREASURY DEPARTMENT,
Office of the Secretary,
Washington, August 6, 1942.

Fiscal Service
Bureau of the Public Debt

I. OFFERING OF CERTIFICATES

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 certificates of indebtedness of the United States, designated 7/8 percent Treasury Certificates of Indebtedness of Series B-1943. The amount of the offering is \$1,500,000,000, or thereabouts.

II. DESCRIPTION OF CERTIFICATES

1. The certificates will be dated August 15, 1942, and will bear interest from that date at the rate of 7/8 percent per annum, payable on a semiannual basis on February 1 and August 1, 1943. They will mature August 1, 1943, and will not be subject to call for redemption prior to maturity.

2. The income derived from the certificates shall be subject to all Federal taxes, now or hereafter imposed. The certificates 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 certificates will be acceptable to secure deposits of public moneys. They will not be acceptable in payment of taxes and will not bear the circulation privilege.

Federal Reserve Banks and the Treasury Department are authorized to act as official agencies. Subscriptions for the certificates from banks and trust companies for their own account will be received without deposit, but subscriptions from all others must be accompanied by payment of 5 percent of the amount of certificates applied for.

The basis of allotment of subscriptions over \$25,000 will be publicly announced, and payment for any certificates allotted must be made or completed on or before August 15, 1942, or on later allotment. These certificates will be redeemed in cash at maturity and will carry no exchange privileges.

The text of the official circular follows:

CP-20



TREASURY DEPARTMENT
Washington

FOR RELEASE, MORNING NEWSPAPERS.
Thursday, August 6, 1942.
8/5/42

Press Service
No. 3269

Secretary of the Treasury Morgenthau today announced the offering, through the Federal Reserve Banks, for cash subscription at par and accrued interest, of \$1,500,000,000, or thereabouts, of 7/8 percent Treasury Certificates of Indebtedness of Series B-1943. In order to insure more extensive participation on the part of banks, corporations, and others interested in a type of security carrying maturities longer than Treasury bills, the subscription books will remain open two days, and subscriptions up to \$25,000 will be allotted in full. There will be no restrictions as to the basis for subscribing to this issue.

The certificates will be dated August 15, 1942, will be payable on August 1, 1943, and will bear interest at the rate of seven-eighths of one percent per annum, payable on a semiannual basis on February 1 and August 1, 1943. They will be issued in bearer form only, with two interest coupons attached, in denominations of \$1,000, \$5,000, \$10,000 and \$100,000.

Pursuant to the provisions of the Public Debt Act of 1941, interest upon the certificates 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 and security dealers generally may submit subscriptions for account of customers, but only

TREASURY DEPARTMENT
Washington

FOR RELEASE, MORNING NEWSPAPERS,
Thursday, August 6, 1942.
8-5-42

Press Service
No. 32-69

Secretary of the Treasury Morgenthau today announced the offering, through the Federal Reserve Banks, for cash subscription at par and accrued interest, of \$1,500,000,000, or thereabouts, of 7/8 percent Treasury Certificates of Indebtedness of Series B-1943. In order to insure more extensive participation on the part of banks, corporations, and others interested in a type of security carrying maturities longer than Treasury bills, the subscription books will remain open two days, and subscriptions up to \$25,000 will be allotted in full. There will be no restrictions as to the basis for subscribing to this issue.

The certificates will be dated August 15, 1942, will be payable on August 1, 1943, and will bear interest at the rate of seven-eighths of one percent per annum, payable on a semi-annual basis on February 1 and August 1, 1943. They will be issued in bearer form only, with two interest coupons attached, in denominations of \$1,000, \$5,000, \$10,000 and \$100,000.

Pursuant to the provisions of the Public Debt Act of 1941, interest upon the certificates 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 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 for the certificates from banks and trust companies for their own account will be received without deposit, but subscriptions from all others must be accompanied by payment of 5 percent of the amount of certificates applied for.

The basis of allotment of subscriptions over \$25,000 will be publicly announced, and payment for any certificates allotted must be made or completed on or before August 15, 1942, or on later allotment. These certificates will be redeemed in cash at maturity and will carry no exchange privileges.

The text of the official circular follows:

UNITED STATES OF AMERICA

7/8 PERCENT TREASURY CERTIFICATES OF INDEBTEDNESS OF SERIES B-1943

Dated and bearing interest from August 15, 1942

Due August 1, 1943

1942
Department Circular No. 693

TREASURY DEPARTMENT,
Office of the Secretary,
Washington, August 6, 1942.

Fiscal Service
Bureau of the Public Debt

I. OFFERING OF CERTIFICATES

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 certificates of indebtedness of the United States, designated 7/8 percent Treasury Certificates of Indebtedness of Series B-1943. The amount of the offering is \$1,500,000,000, or thereabouts.

II. DESCRIPTION OF CERTIFICATES

1. The certificates will be dated August 15, 1942, and will bear interest from that date at the rate of 7/8 percent per annum, payable on a semi-annual basis on February 1 and August 1, 1943. They will mature August 1, 1943, and will not be subject to call for redemption prior to maturity.

2. The income derived from the certificates shall be subject to all Federal taxes, now or hereafter imposed. The certificates 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 certificates will be acceptable to secure deposits of public moneys. They will not be acceptable in payment of taxes and will not bear the circulation privilege.

4. Bearer certificates with two coupons attached will be issued in denominations of \$1,000, \$5,000, \$10,000 and \$100,000. The certificates will not be issued in registered form.

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

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 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. Others than banking institutions and security dealers 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 5 percent of the amount of certificates 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 certificates 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 \$25,000 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 certificates allotted hereunder must be made or completed on or before August 15, 1942, or on later allotment. In every case where payment is not so completed, the payment with application up to 5 percent of the amount of certificates applied for shall, upon declaration made by the Secretary of the Treasury in his discretion, be forfeited to the United States. Any qualified depositor will be permitted to make payment by credit for certificates 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 certificates allotted, to make delivery of certificates on full-paid subscriptions allotted, and they may issue interim receipts pending delivery of the definitive certificates.

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.

FOR IMMEDIATE RELEASE

~~FOR RELEASE IN MORNING PAPERS, THURSDAY, AUGUST 6, 1942.~~

37-70

~~WASHINGTON, AUG. 5~~ The Victory Fund Committees will be used, Secretary Morgenthau announced late today, to stimulate widespread distribution of the \$1,500,000,000 issue of Certificates of Indebtedness, which is being offered tomorrow, following similar efforts on the 2-1/2% registered bonds offered earlier in the week.

It was pointed out that it has been the aim of the Treasury to place as large a volume of securities as possible outside the banking system. This is consistent with its policy of utilizing the large reservoir of spendable funds and accumulated savings in the war effort. The Victory Fund organization, the Secretary pointed out, was formed with this program in mind and its ^{available} trained personnel of nearly 20,000 representatives of the banking and securities industries, working on a voluntary basis through Federal Reserve district and regional committees, is well equipped to help carry out this plan.

From incomplete reports on the sale of the registered 2-1/2s, it appears that the demand in many Federal Reserve districts for the first few days of the offering exceeds that of the corresponding period for the original issue last May, indicating that the Victory Fund Committees are successful in finding new investors interested in this type of security.

George Buffington, Assistant to the Secretary, is in charge of the Victory Fund Committee program.

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TREASURY DEPARTMENT
Washington

FOR IMMEDIATE RELEASE,
Wednesday, August 5, 1942.

Press Service
No. 32-70

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TREASURY DEPARTMENT
Washington

FOR RELEASE, MORNING NEWSPAPERS,
Friday, August 7, 1942.
8/7/42

The Secretary of the Treasury, by this public notice, invites tenders for \$350,000,000, or thereabouts, of 92-day Treasury bills, to be issued on a discount basis under competitive bidding. The bills of this series will be dated August 12, 1942, and will mature November 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, August 10, 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 August 12, 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

32-72

FOR RELEASE, MORNING NEWSPAPERS,
Friday, August 7, 1942.
8/6/42

Press Service

Secretary of the Treasury Morgenthau announced last night that the subscription books for the current offering of 7/8 percent Treasury Certificates of Indebtedness of Series B-1943 will close at the close of business today, August 7.

Subscriptions addressed to a Federal Reserve Bank, or Branch, or to the Treasury Department, and placed in the mail before 12 o'clock midnight Friday, August 7, 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 Tuesday, August 11.

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TREASURY DEPARTMENT
Washington

FOR RELEASE, MORNING NEWSPAPERS,
Friday, August 7, 1942.
8/6/42

Press Service
No. 32-72

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Statement of Randolph E. Paul
Tax Adviser to the Secretary of the Treasury
Before the Senate Finance Committee
on percentage depletion and related allowances

On March 3 and April 16, 1942, the Treasury recommended to the House Committee on Ways and Means the elimination of two privileges now accorded to the oil and gas and mining industries. These are (1) the allowance of depletion on arbitrary percentage bases that are considerably higher than average cost depletion for the enterprises affected, and (2) the option to charge intangible development costs to current expense instead of to capital,^{1/} which in conjunction with percentage depletion results in effect in a double deduction for the intangible development costs.

The Treasury believes that these proposals constitute a vital improvement in the income tax. They would also yield about two hundred million dollars in revenue under the rates of the House Bill.

I. ELIMINATION OF PERCENTAGE DEPLETION

The present law provides that the producers of oil, gas and certain minerals may take as a depletion deduction the following percentages of their gross income from such properties:

1. Oil and gas	27½%
2. Sulphur	23%
3. Metal mines	15%
4. Coal	5%

The House Bill provides in addition to the allowances contained in the present law percentage depletion of 15 percent for fluorspar. In each case, the percentage depletion allowance for any property may not exceed 50 percent of the net income for the taxable year. For oil and gas wells taxpayers may exercise their option between cost depletion and percentage depletion every year. Under the House Bill, this privilege is extended to mining operations as well.

^{1/} The provisions with respect to intangible development costs for oil and gas wells differ from those relating to mines (see footnote, page 17).

It is estimated that at 1942 business levels and the rates of tax fixed in the House Bill, the elimination of percentage depletion and the substitution of cost depletion will increase the revenue by \$124 million. Approximately 80 percent of this total is accounted for by oil and gas properties, the rest by sulphur, metal, and coal mines. The figure includes the increase on corporate tax revenue only. Since individuals are large owners of oil royalty interests, against which depletion is allowed, there would also be some increase in tax receipts from individuals.

A. Background of the Percentage Depletion Deduction

The basic purpose of allowing a deduction for depletion is to permit the taxpayer to maintain his capital investment. It is thus closely analogous to the deduction for depreciation, which provides an allowance for the restoration of capital consumed in the process of production. Unless an allowance for depletion were made, the producer of oil and minerals would be taxed on the entire value of the product extracted from the ground, and when the well was dry or the mineral exhausted, he would not have maintained his capital without impairment. Since our tax is a tax on income, it is clear that he should be allowed to recover his capital investment free of tax. But to exempt from the tax any amount greater than his capital investment is to allow a subsidy which is not shared by other taxpayers.

Ordinarily a taxpayer would maintain his capital investment through an allowance based upon his cost, that is, the amount of capital which he had invested in the enterprise. When the Revenue Act of 1918 was enacted, however, it was thought desirable to make a special provision for the producers of oil and minerals. This was done by providing for discovery depletion. This allowed a deduction for depletion based not on the taxpayer's cost, but (in the case of mines and wells discovered after March 1, 1913) on the value of the property at the time of discovery, or within thirty days thereafter. Thus, the discoverer of oil or minerals was in effect given the value of his discovery free from any income tax. This was an extraordinary provision. In no other line of endeavor, is a successful entrepreneur allowed to take the fruits of his success tax free.

Discovery depletion continued in the law without material change until 1926. In that year percentage depletion was substituted in the case of oil and gas wells, and this was extended to coal and metal mines and to sulphur in the Revenue Act of 1932. Percentage depletion is based wholly on income. It bears no relation to the actual capital investment in the property. Percentage depletion thus in effect conceals the subsidy of discovery depletion, and it adds a further serious evil. The total amount recoverable through discovery depletion was at least limited to the value of the property within a short period after the discovery. But there is no such limit to percentage depletion. It runs on year after year without any regard to the amount which has already been allowed to the taxpayer.^{1/} Percentage depletion as it now exists is therefore wholly divorced from the fundamental purpose of a depletion allowance.

Moreover, percentage depletion is not confined to the taxpayer making the discovery. It is extended to any taxpayer who has an interest in oil and gas or minerals regardless of whether his enterprise or risk has contributed to discovery or production.

B. Percentage Depletion is Inequitable

The percentage depletion allowance is greatly in excess of the depletion actually sustained by the taxpayers to which it is allowed. An examination of the returns filed by 78 oil companies shows that they deducted an aggregate of \$30.6 million as depletion for the year 1941. Yet the same returns show that these taxpayers deducted on their books only \$6.1 million in computing their income and surplus which was reported to stockholders.

^{1/} Cf. G.C.M. 17760, 1937-1 Cum. Bull. 102, and G.C.M. 22239, 1940-2 Cum. Bull. 105, both involving situations where the taxpayer had received percentage depletion allowances in excess of its capital investment in the property. See also Mother Lode Coalition Mines Co. v. Commissioner 125 F. (2d) 657 (C.C.A. 2d., 1942), pending on certiorari before the Supreme Court, where the taxpayer seeks to obtain percentage depletion for the year 1935 although it conceded that "cost basis depletion had been fully recovered by 1925," and that "no deduction on that basis was allowable."

The present statutory allowance for percentage depletion on oil and gas wells is greatly in excess of the average cost depletion for the industry (Exhibit 1). In 1940, the average sales price or gross income per barrel of oil produced was \$1.02. Depletion at the rate of $27\frac{1}{2}$ percent of gross income would have amounted to 28.0¢ per barrel. Reported depletion based upon cost amounted to only 5.9¢ per barrel. Actually, however, percentage depletion allowances are often less than $27\frac{1}{2}$ percent of gross income since they are limited to 50 percent of the net income from the property. On the average, net income before depletion for the industry was 31.8¢ per barrel of oil in 1940. Percentage depletion at 50 percent of net income would have amounted to 15.9¢ per barrel, or more than two and one-half times cost depletion. For the first 9 months of 1941, percentage depletion computed on the same basis approximated 20¢ a barrel or about three and one-half times cost depletion.

A study of the income tax returns for 1931-1937 of one of the leading oil companies shows that it had in the ground more than three-quarters of the original oil reserves in 10 of its properties located in the East Texas field. Yet this company recovered through percentage depletion, and the related option to expense intangible development expense, more than the entire cost of the properties and of intangible development. If, on the remaining reserves, this company should obtain depletion allowances at the rate enjoyed thus far, the aggregate deduction for depletion would approximate four times the cost of the properties. (See Exhibit 2).

Although the Revenue Act of 1941 imposed income taxes at the rate of 31 percent, and excess profits taxes ranging up to 60 percent, oil companies in general did not approach these rates. Some actual examples of oil companies that made provision for Federal income taxes for 1941 of less than 31 percent of net income reported to stockholders are listed in Exhibit 3. 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 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 allowance. The companies ordinarily report depletion to their stockholders on a cost basis, but receive for tax purposes a very much larger allowance in the form 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 4 and Chart I give 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 unusual.

Percentage depletion not only discriminates between taxpayers receiving percentage depletion and other classes of taxpayers, but it also results in discriminations among producers within the oil and mining industries. Because of differences in the ratio of net income to gross income, a percentage depletion allowance based on gross income produces marked variations in the tax burden in relation to net incomes. This is aggravated by the provision that the depletion allowance may not exceed 50 percent of net income computed without allowance for depletion, since only the more prosperous

^{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 or operations.

producing units can take full advantage of the depletion allowance.^{1/} Elimination of percentage depletion, and placing all of the oil and mining enterprises on a cost depletion basis, would restore a desirable element of tax uniformity among these taxpayers.

It may be pointed out that the continuance of percentage depletion at the rates established in 1926 results in a far greater subsidy than was the case at the time these rates were fixed. This results from three factors: (1) a much larger proportion of oil wells now are drilled on a scientific basis with the result that the risk involved is substantially less (see page 10 below); (2) improvements in the techniques for getting oil out of the ground have considerably increased the recovery from successful wells; and (3) tax rates have substantially increased. Thus, the oil producer still gets as a depletion allowance $27\frac{1}{2}$ percent of all the oil produced (subject to the 50 percent of net income limitation), although the amount produced per well drilled has greatly increased; and the amount so allowed has resulted in a greatly increased tax benefit. There is no basis for continuing at the present time a subsidy which is even larger than it was in 1926.

C. The Reasons Advanced in Favor of Percentage Depletion Are Unsound.

A variety of arguments have been made from time to time in support of percentage depletion. We believe that these arguments are all lacking in merit. They are discussed below.

1. 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 ratio of an oil property's net income (before depletion) to its gross income must be 55 percent or more to permit the allowance of percentage depletion at the rate of $27\frac{1}{2}$ percent of gross income; for metal mining properties the ratio must be 30 percent or higher to permit percentage depletion at the rate of 15 percent of gross income.

a. The oil industry

i. 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 5 and chart II) 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 production will decline. The problem of oil supply is a problem of transportation and not of production or limited reserves.

ii. Stripper wells. It has been claimed that the elimination of percentage depletion would lead to the widespread abandonment of stripper wells -- the wells with relative low output and high cost of production. Careful examination does not sustain this argument. 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 about 8 percent of the properties got percentage depletion equal to $27\frac{1}{2}$ percent of gross income, the maximum amount allowed by existing law. In order to qualify for this maximum percentage depletion allowance, these properties had to have net incomes in excess of two times $27\frac{1}{2}$ percent or 55 percent of gross income. Such a large margin of profit is not characteristic of the stripper well.

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 6)

iii. The effect of price. The effect of percentage depletion on production is negligible compared to the effect of price changes. It is estimated that the tax relief attributable to percentage depletion in 1941 amounted to about 5 cents per barrel of oil produced. In that year the price of oil went up 10 cents a barrel. In Pennsylvania it rose by even more -- since August, 1940, by 90 cents a barrel including an increase of 25¢ per barrel granted by the Office of Price Administration to stimulate output in that area.

^{1/} Pa. Laws, 1921, pp. 912-913 (amended by Pa. Laws, 1923, p. 115, and by Pa. Laws, 1929, p. 821).

b. 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 magnesium, 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.

In the case of certain minerals, especially where the available reserves are small, there is a special problem arising out of the acceleration of production for war purposes in years of high tax rates. The Treasury has given careful study to this question, and is presenting its views in a separate memorandum in which it is recommended that provision be made for excess profits tax relief in the cases where war production may lead to substantial hardship.

2. Percentage Depletion cannot be justified as a stimulus to exploration and discovery.

a. The oil industry

We now know that the 1918 fear of oil shortages was unfounded. It is also clear that we did not need the special discovery provision to obtain exploitation of our natural resources, and that the provision has been extremely costly in terms of revenue. In the period following 1918, 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 prices. The importance of the price of oil products in stimulating or retarding the search for oil is clearly revealed by Exhibit 7 and Chart III, which show for the period 1917 to 1941 the number of wells drilled and the average price of oil per barrel. In twenty 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. This study shows that 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 8 and Chart IV) 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 will not 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 from 40 to 50 percent in 1942. This restriction is limited primarily to the drilling of development wells rather 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 some 13,000 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, 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 from percentage depletion attributable to oil and gas wells was more than \$65 million. The chief difficulty with the argument for percentage depletion as a stimulus for oil discovery is that it is not confined to discoverers; in actual operation, 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. 2/ Their

1/ 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), the 2,761 dry holes reported for 1941 (see Exhibit 9) involved an expenditure of \$47,765,000. At an average cost per hole of \$20,000 (an outside figure allowing for possible increases in cost) the 2,761 dry holes in 1941 represented a total drilling cost of \$55,220,000.

2/ Oil Weekly, March 2, 1942.

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 other statutory provisions designed to provide relief to the prospector. Section 105 of the Internal Revenue Code limits the surtax on individuals 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. In addition, 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.

d. 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.

3. 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 cost of prospecting.

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

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, substantial 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 untaxed 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 10) 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 11.)

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. The twenty

major integrated companies already referred to as accounting for about 53 percent of the crude petroleum production of the United States, also have 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 12) 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 13)

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 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. But the indicated practice is 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.

4. 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 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. Furthermore, corporations now have cost depletion figures available, for they ordinarily use cost depletion rather than percentage depletion in their reports to stockholders. It is also necessary to compute cost depletion under the present law for the purpose of determining "earnings or profits" so as to tell whether a distribution by a corporation is taxable as a dividend or not. The excess of percentage depletion over cost depletion is included in "earnings or profits." ^{1/}

C. 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/} Regs. 103, Secs. 19.115-3 and 19.115-6. See also Charles F. Ayer, 12 B.T.A. 284; Elton Hoyt, 2nd, 34 B.T.A. 1011.

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. 1/ This excess must be charged to capital account to be recovered through depletion. The Treasury recommends that the expensing of development costs be eliminated and that all development costs of productive properties be capitalized.

It is estimated that at levels of business for the calendar year 1942 and at the tax rates in the House bill the elimination of the expensing of development costs alone, without the elimination of percentage depletion, would increase the revenue by \$87 million. 2/ The combined effect of eliminating percentage depletion and the expensing of development costs would be to increase the revenue by over \$200 million. Both of these figures relate to the corporate tax alone and do not include some additional revenue that would be obtained from individuals.

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.

2/ \$62.5 million from oil and gas and \$24.6 million from mining properties.

When a taxpayer takes advantage of the option to charge intangible development costs to expense, he gets a deduction for part of his capital investment. When he takes further advantage of the percentage depletion allowance under the existing law, he ordinarily gets an allowance which is considerably in excess of the capital investment other than the intangible development costs which have been expensed. The expensing of development costs, therefore, amounts to allowing a double deduction, once when the costs are incurred, and again through percentage depletion. (For illustrations of excessive allowances, see Exhibit 2)

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 is a capital investment. 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. ^{1/} The trend in the industry since

^{1/} "...such incidental expenses as are paid for wages, fuel, repairs, hauling, etc., in connection with the drilling of wells and further development of the property, may, at the option of the operator, be deducted as an operating expense or charged to capital account." Art. 170 of Regulations 33, promulgated October 3, 1917.

the adoption of the regulations has been toward drilling by independent contractors. In such cases, the drilling costs are even more clearly capital expenditures instead of current expenses. Furthermore, at the time the option was originally extended, depletion was based upon and limited to cost, so that no double deduction was involved in the option to deduct intangible drilling costs. If the costs were deducted, there was that much less capital investment to recover through the depletion allowance. The expensing of development costs should certainly have ceased when percentage depletion was introduced in 1926.

It may be suggested that the expensing of development costs could be disallowed merely by changing the Regulations. This would lead to litigation and uncertainty which would probably not be finally settled for several years. It might be claimed 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. 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. In case the Committee prefers some modification of percentage depletion at this time, the following suggestions along that line are offered.

A. Reduction of the percentage rates.

Percentage depletion might be retained with a reduction in the percentage rates allowed. Estimates of the revenue effect of various changes in the rate are presented in Exhibit 14. The reduction should apply not only to the percentage of gross income but also to the net income limitation. The latter might be reduced from 50 percent to 25 percent of the net income from the property.

B. Limitation on aggregate amount of deduction.

If it is thought that the percentage form of computation offers some measure of simplicity in determination of taxable income, there should at least be a limitation so that the aggregate amount of depletion deducted cannot exceed the taxpayer's capital investment in the property. Such a limit should be provided even if the rates of percentage depletion are reduced as mentioned in the preceding paragraph.

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

If the Committee should conclude that it is desirable to continue percentage depletion for stripper wells and marginal mines, the Treasury is prepared to make suggestions as to the limits and details for carrying such a policy into effect.

D. Continuance of percentage depletion for new discoveries.

If the Committee should feel that the subsidy of percentage depletion is desirable so far as it is actually effective to stimulate new discoveries, the Treasury is also prepared to make suggestions as to provisions which would confine the special allowance to those who actually bear the costs and risks of exploration and discovery.

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 over \$200 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 revenue and national morale.

Exhibit 1

Average selling price, net profit and cost depletion
per barrel of oil produced in 1939, 1940 and the
first nine months of 1941.

	:	:	:
	1939	1940	1941 (9 mo.)
	:	:	:
1. Average selling price	\$1.022	\$1.018	\$1.105
2. Net cost of production	.785	.759	.756
3. Net profit margin	.237	.259	.349
4. Depletion based on cost	.064	.059	.055
5. Net profit before depletion (3 ÷ 4)	.301	.318	.404
6. 50% of net profit before depletion	.151	.159	.202
7. Ratio, cost depletion to average selling price (4 ÷ 1)	6.3%	5.9%	5.0%
8. Ratio, 50% of net profit to average selling price (6 ÷ 1)	14.8	15.6	18.3

Source: Data from U. S. Tariff Commission. Based upon a questionnaire survey covering approximately 2,500 operators with 70% of the nation's oil production.

EXHIBIT 2

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 3

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 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 4

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

(In thousands of dollars)

Company	Year	Depletion claimed for income tax purposes ^{1/}	Cost depletion	Taxable net income reported ^{2/}	Net income based on cost depletion ^{2/}	Tax saving from percentage depletion	
						Under 1937 Act rates:	Under H.R. 7378 rates
A	1937	9,800	600	-5,000	4,200	630	1,890
B	1937	10,100	2,900	-5,900	1,300	195	585
C	1937	3,600	400	800	4,000	480	1,440
D	1938	5,300	1,900	6	3,400	645 ^{3/}	1,527

Source: Form 1120, Corporation Income Tax Return

- ^{1/} Under percentage depletion privileges.
^{2/} After deduction of 85% of dividends received.
^{3/} Under 1938 Act rates.

EXHIBIT 5

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

(Millions of barrels)

Year	Production:				Imports of	Exports of	Estimated reserves of
	of crude oil	All oils	Gasoline	Fuel Oil			
1926	771	780	267	340	60	15	4/
1927	901	803	305	339	58	16	4/
1928	901	861	339	384	80	19	4/
1929	1,007	940	383	415	79	26	4/
1930	898	927	398	369	62	24	4/
1931	851	903	408	335	47	26	4/
1932	785	835	378	308	45	27	4/
1933	906	868	380	324	32	37	4/
1934	908	920	410	340	36	41	12,177
1935	997	984	435	367	32	51	4/
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 <u>2/</u>	1,392	1,483	660	3/	3/	3/	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 6

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 7

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	24,639	1.61
1923	24,438	1.34
1924	21,800	1.43
1925	25,623	1.63
1926	27,319	1.88
1927	24,143	1.50
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	15,197	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	1.12 <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 8

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-logical	Geo-physical	Random drilling	Total	Geo-logical	Geo-physical	Total Geological and Geophysical	Random drilling	Total
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 9

Number of wildcat oil and gas wells drilled,
1937 - 1941

Year	Wildcat wells drilled		
	Total	Successful: wells	Dry holes
1937	2,224	281	1,943
1938	2,638	369	2,269
1939	2,589	270	2,319
1940	3,038	366	2,672
1941	3,264	503	2,761

Source: Frederic Lahee, "Wildcat Drilling of Wells," Bulletin of American Association of Petroleum Geology, Vols. 22-25.

EXHIBIT 10

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

Division	:Gross investment: :(in millions of : Percent : dollars) : 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 11

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 12

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 13

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)	<u>361</u>
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 TREC 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 14

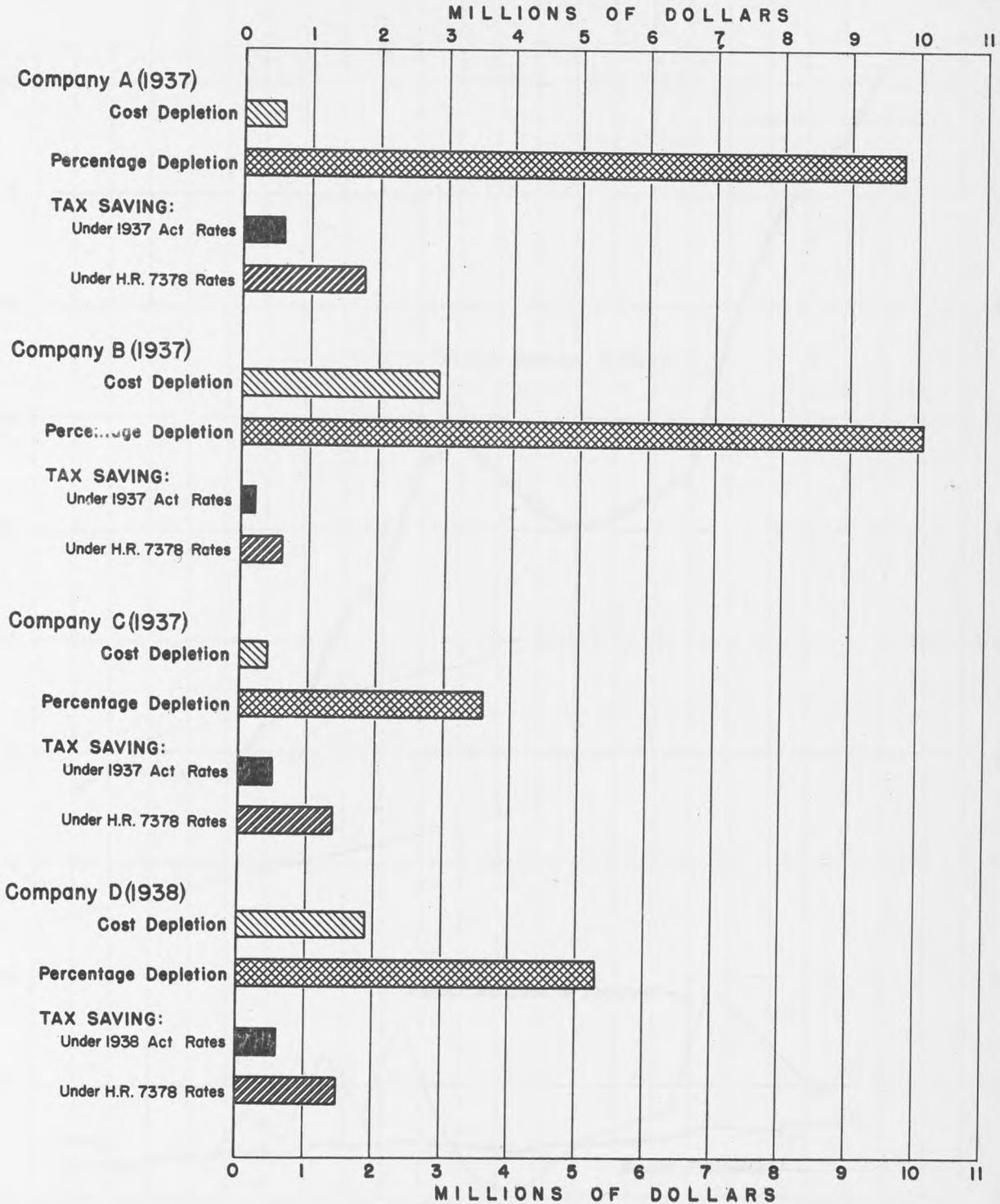
Estimate of net increases in revenue ^{1/} from various changes in the percentage depletion allowance, and the elimination of the option to expense intangible development costs
(Millions of dollars)

	: Oil and : gas wells :	: Mining	: Total
I. <u>Eliminating option to expense intangible development costs, and</u>			
(a) Eliminating percentage depletion	172.7	31.0	203.7
(b) Reducing percentage depletion to:			
(1) Rates in Schedule A	133.4	27.8	161.2
(2) Rates in Schedule B	120.7	22.5	143.2
(3) Rates in Schedule C	108.2	20.6	128.8
II. <u>Retaining option to expense intangible development costs, and</u>			
(a) Eliminating percentage depletion	98.0	26.1	124.1
(b) Reducing percentage depletion to:			
(1) Rates in Schedule A	47.2	12.4	59.6
(2) Rates in Schedule B	36.1	7.0	43.1
(3) Rates in Schedule C	26.3	5.7	32.0

Schedule	Percentage depletion rates			
	: Oil and : gas wells :	: Metal : mines	: Coal : mines	: Sulphur : mines
Present law	27½%	15%	5%	23%
Schedule A	15	8	5	12½
Schedule B	17½	10	5	15
Schedule C	20	11	5	16½

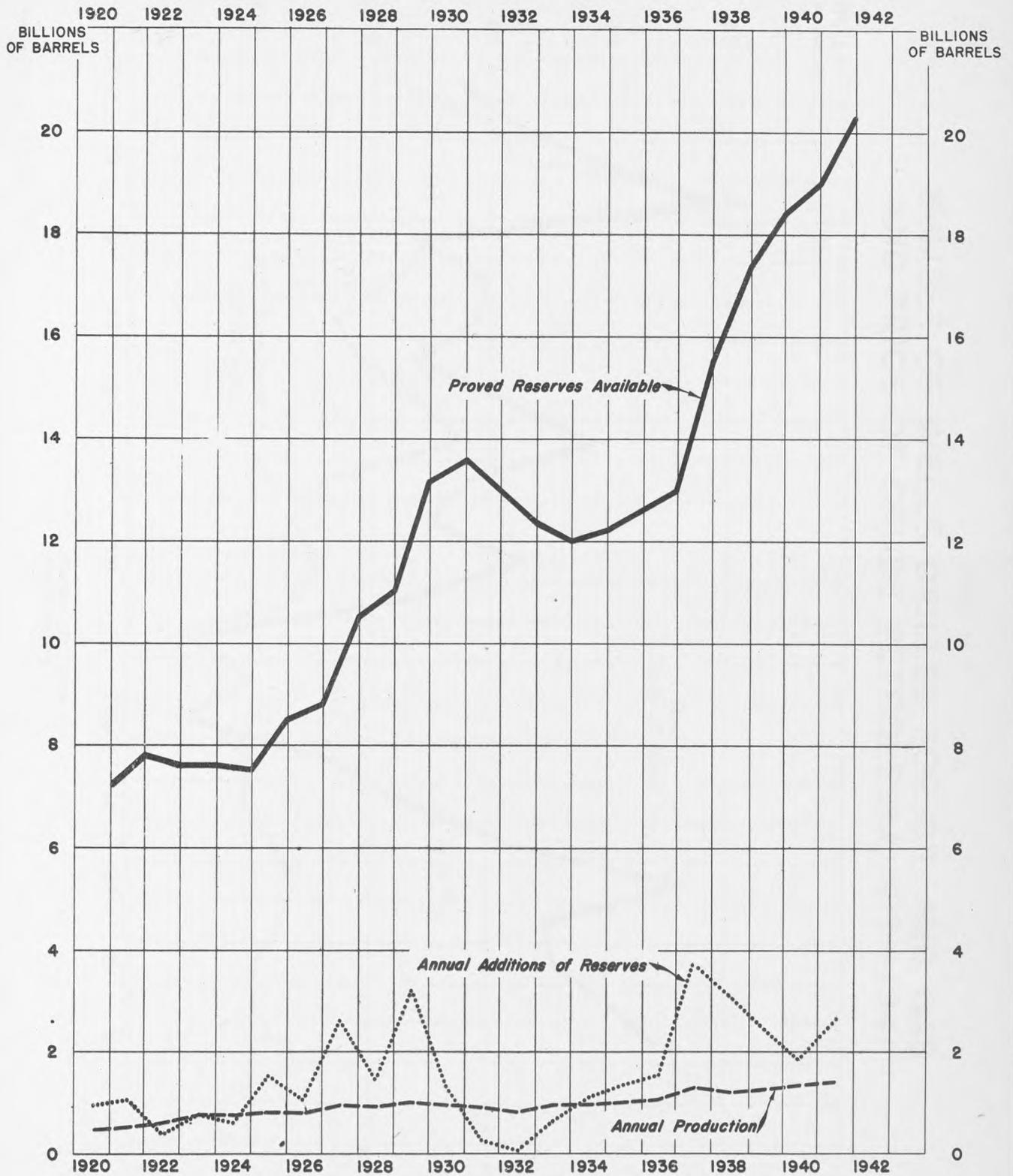
^{1/} At rates of tax under the Revenue Bill of 1942 (H. R. 7378), as passed by the House of Representatives July 20, 1942.

CHART I
TAX AVOIDANCE BY 4 MAJOR OIL COMPANIES
 Due to Excess of Percentage Depletion Over Cost Depletion



Source: See Exhibit 4

CHART II
ANNUAL ADDITIONS OF RESERVES, TOTAL PROVED RESERVES AVAILABLE, AND ANNUAL PRODUCTION



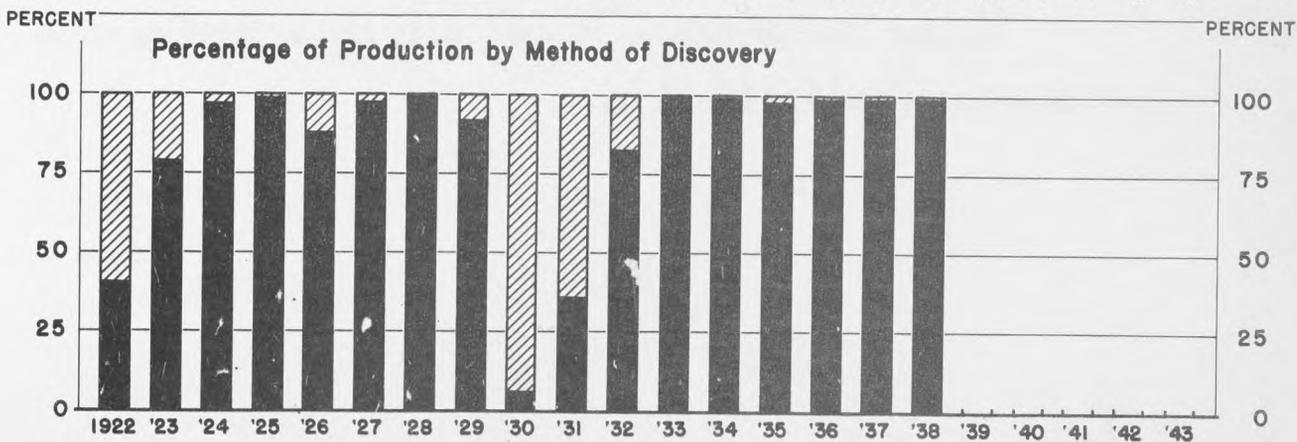
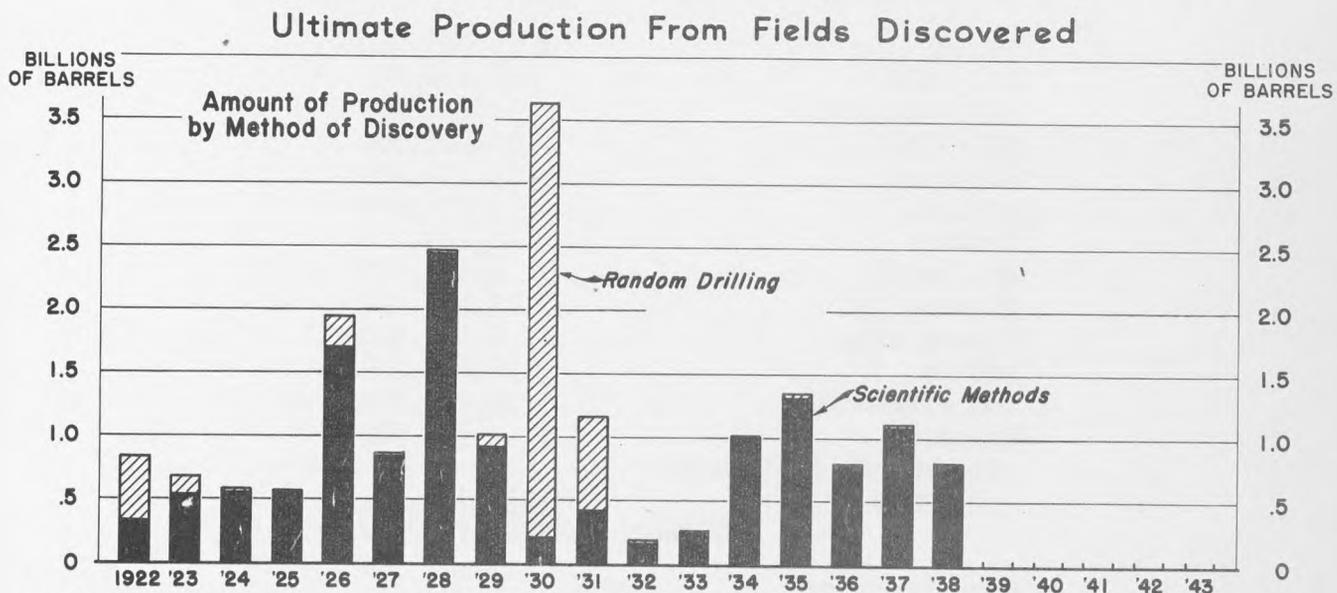
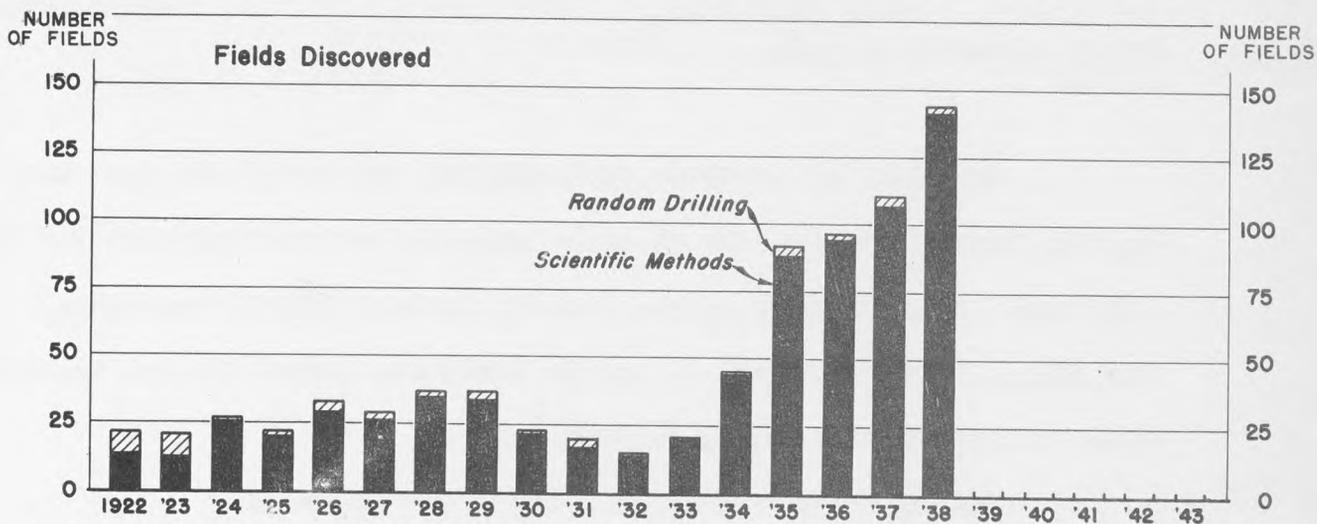
Source: 1920-1940 from hearings before H.R. Committee on Interstate and Foreign Commerce Feb. 27, 1942; for 1941, Oil and Gas Journal Jan. 29, 1942

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



Source: See Exhibit 7
 p = preliminary

CHART IV
**OIL RESERVES DISCOVERED
 BY SCIENTIFIC AND RANDOM DRILLING, 1922 - 1938**



Source: See Exhibit 8

Miss Simpson

TREASURY DEPARTMENT

Washington

FOR RELEASE, MORNING NEWSPAPERS,
Saturday, August 8, 1942.

8/7/42

Press Service

32-7

Secretary of the Treasury Morgenthau announced last night that reports from the Federal Reserve Banks indicate that subscriptions for the additional issue of 2-1/2 percent Treasury Bonds of 1962-67 aggregated \$964,778,800, through August 7, divided among the several Federal Reserve Districts and the Treasury as follows:

<u>Federal Reserve District</u>	<u>Total Subscriptions Received & Allotted</u>
Boston	\$ 65,180,300
New York	612,138,200
Philadelphia	42,864,700
Cleveland	20,848,500
Richmond	12,419,000
Atlanta	3,936,800
Chicago	40,103,200
St. Louis	3,633,000
Minneapolis	13,200,000
Kansas City	6,937,300
Dallas	10,610,200
San Francisco	16,787,700
Treasury	350,600
Government Investment Accounts	<u>115,769,300</u>
TOTAL	<u>\$964,778,800</u>

Similar figures will be released daily by the Treasury while the subscription books remain open.

Jim *APD.* *owrb*

TREASURY DEPARTMENT
Washington

FOR RELEASE, MORNING NEWSPAPERS,
Saturday, August 8, 1942.
8/7/42

Press Service
No. 32-74

Secretary of the Treasury Morgenthau announced last night that reports from the Federal Reserve Banks indicate that subscriptions for the additional issue of 2-1/2 percent Treasury Bonds of 1962-67 aggregated \$964,778,800, through August 7, divided among the several Federal Reserve Districts and the Treasury as follows:

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Dallas	10,610,200
San Francisco	16,787,700
Treasury	350,600
Government Investment Accounts	<u>115,769,300</u>
TOTAL	<u>\$964,778,800</u>

TREASURY DEPARTMENT
Comptroller of the Currency
Washington

FOR RELEASE, MORNING NEWSPAPERS,
Tuesday, August 11, 1942.
8/10/42

Press Service
No. 32-75

During the month ended July 31, 1942, authorizations were issued to receivers for payments of dividends to the creditors of six insolvent national banks. Dividends so authorized will effect total distributions of \$666,700 to 40,462 claimants who have proved claims aggregating \$17,477,200, or an average payment of 3.81 percent. The minimum and maximum percentages of dividends authorized were 0.1 percent and 14.63 percent, while the smallest and largest payments involved in dividend authorizations during the month were \$4,700 and \$397,400, respectively. Of the six dividends authorized during the month, four were for final dividend payments and two were for final and partial interest payments. Dividend payments so authorized during the month ended July 31, 1942, were as follows:

DIVIDEND PAYMENTS TO CREDITORS OF INSOLVENT NATIONAL
BANKS AUTHORIZED DURING THE MONTH ENDED
JULY 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 Nat'l Bank of Du Quoin, Illinois	Final	7-11-42	6th 8.65%	\$ 73,300	83.65%	2,181	\$ 847,000
Ayers Nat'l Bank of Jacksonville, Illinois	Final	7-29-42	5th 1.15%	35,900	31.15%	5,843	3,121,600
First Nat'l Bank of Joliet, Illinois	Final Partial Int.	7-20-42	6th 2.21%	72,300	100.21%	10,059	3,273,000
Middlesex Nat'l Bk Lowell, Massachusetts	Final	7-18-42	6th .1%	4,700	53.1%	9,508	4,681,000
First Nat'l Bank Pontiac, Michigan.	Final Partial Int.	7-7-42	7th 7.97%	397,400	102.97%	11,385	4,986,800
First Nat'l Bk of Centerville, South Dakota	Final	7-25-42	3rd 14.63%	83,100	54.63%	1,486	567,800

TREASURY DEPARTMENT
Washington

FOR RELEASE, MORNING NEWSPAPERS,
Tuesday, August 11, 1942.
8/10/42

Press Service
No. 32-76

The Secretary of the Treasury announced last evening that the tenders for \$350,000,000, or thereabouts, of 92-day Treasury bills to be dated August 12 and to mature November 12, 1942, which were offered on August 7, were opened at the Federal Reserve Banks on August 10.

The details of this issue are as follows:

Total applied for - \$594,007,000
Total accepted - 350,648,000

Range of accepted bids: (Excepting three tenders totaling \$100,000)

High	-	99.925	Equivalent rate approximately	0.293	percent
Low	-	99.904	" " "	0.376	"
Average					
Price	-	99.905	" " "	0.372	"

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

TREASURY DEPARTMENT
Washington

FOR RELEASE, MORNING NEWSPAPERS,
Tuesday, August 11, 1942
8/10/42

Press Service

32-7

Secretary of the Treasury Morgenthau announced last night that reports from the Federal Reserve Banks indicate that subscriptions for the additional issue of 2-1/2 percent Treasury Bonds of 1962-67 aggregated \$1,026,595,400, through August 10, divided among the several Federal Reserve Districts and the Treasury as follows:

<u>Federal Reserve District</u>	<u>Total Subscriptions Received & Allotted</u>
Boston	\$ 68,821,900
New York	654,620,300
Philadelphia	48,171,800
Cleveland	22,541,300
Richmond	14,407,700
Atlanta	4,498,000
Chicago	42,905,400
St. Louis	3,926,400
Minneapolis	14,397,000
Kansas City	7,307,100
Dallas	10,910,600
San Francisco	17,935,400
Treasury	383,200
Government Investment Accounts	115,769,300
TOTAL	<u>\$1,026,595,400</u>

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TREASURY DEPARTMENT
Washington

FOR RELEASE, MORNING NEWSPAPERS,
Tuesday, August 11, 1942
8/10/42

Press Service
No. 32-77

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Government Investment Accounts	115,769,300
TOTAL	<u>\$1,026,595,400</u>

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TREASURY DEPARTMENT

Washington

FOR IMMEDIATE RELEASE,
Tuesday, August 11, 1942.

Press Service
770.32-78

Morganthau

Secretary of the Treasury today announced the subscription figures and the basis of allotment for the cash offering of 7/8 percent Treasury Certificates of Indebtedness of Series B-1943.

Reports received from the Federal Reserve Banks show that subscriptions aggregate \$3,273,000,000. Subscriptions in amounts up to and including \$25,000, totaling about \$71,000,000, 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.

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TREASURY DEPARTMENT

Washington

FOR IMMEDIATE RELEASE
Tuesday, August 11, 1942

Press Service
No. 32-78

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

TREASURY DEPARTMENT
Washington

FOR IMMEDIATE RELEASE,
Wednesday, August 12, 1942.

Press Service
No. 32-79

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 August 1, 1942, inclusive, as follows:

Commodity	: Established Quota	: Unit of	: Imports as of
	: Period & Country:	Quantity:	Quantity : August 1, 1942
Cattle less than 200 pounds each	Calendar year	100,000	Head 55,828
Cattle, 700 pounds or more each (other than dairy cows)	Quarter year from July 1, 1942		
	Canada	51,720	Head 7,904
	Other countries	8,280	Head (Tariff rate quota filled)
Whole milk, fresh or sour	Calendar year	3,000,000	Gallon 2,914
Cream, fresh or sour	Calendar year	1,500,000	Gallon 547
Fish, fresh or frozen filleted, etc., cod, haddock, hake, pollock, cusk and rosefish	Calendar year	15,000,000	pound 8,841,398
White or Irish potatoes	12 months from Sept. 15, 1941	90,000,000	Pound 33,030,534
	Other 12 months from September 15	60,000,000	Pound 1,249,542
Cuban filler tobacco, unstemmed or stemmed (other than cigarette leaf tobacco), and scrap tobacco	Calendar year	22,000,000	Pound (unstemmed equivalent) 14,206,372
Red Cedar Shingles	Calendar year	2,617,111	Square 1,958,422
Silver or black foxes, furs, and articles: Foxes valued under \$250 ea. and whole furs and skins	Period - May - Nov. 1942.		
	All countries	41,774	Number 15,736
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 : August 1, 1942
Silver or black foxes, furs, and articles:				
Paws, head, or other separated parts	12 months from December 1, 1941	500	Pounds	(Import quota filled)
Piece plates	"	550	Pounds	None
Articles, other than piece plates	"	500	Unit	24
Crude petroleum, topped crude petroleum, and fuel oil	Calendar year			
	Venezuela	2,082,574,771	Gallon	317,366,111
	Netherlands	630,097,196	Gallon	251,714,859
	Colombia	94,662,490	"	(Import quota filled)
	Other countries	150,868,343	"	(Import quota filled)
Molasses and sugar sirups containing soluble nonsugar solids equal to more than 6% of total soluble solids	Calendar year	1,500,000	Gallon	665,661

TREASURY DEPARTMENT
Washington

FOR IMMEDIATE RELEASE,
Wednesday, August 12, 1942.

Press Service
No. 32-80

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 proclamation of September 5, 1939, modified by the proclamation of December 19, 1940, and June 29, 1942, as follows, during the period September 20, 1941, to August 1, 1942:

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;

(In Pounds)				
Country of Origin	: Staple length less than 1-1/8"	: Imports Sept. 20, 1941, to August 1, 1942:	: Staple length 1-1/8" or more but less than 1-11/16"	: Imports Sept. 20, 1941, to August 1, 1942.
	: Quota	: Quota	: Quota	: Quota
Egypt and the Anglo-Egyptian Sudan	783,816	-	43,451,566	42,062,663
Peru.....	247,952	247,952	2,056,299	3,122,300
British India.....	2,003,483	70,264	64,942	-
China.....	1,370,791	-	2,626	-
Mexico.....	8,883,259	8,883,259	-	196,930
Brazil.....	618,723	618,723	3,808	3
Union of Soviet Socialist Republics...	475,124	-	-	-
Argentina.....	5,203	203	435	-
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	41,759
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	9,829,766	45,656,420	4/ 45,423,661

^{1/} Other than Barbados, Bermuda, Jamaica, Trinidad, and Tobago.
^{2/} Other than Gold Coast and Nigeria.
^{3/} Other than Algeria, Tunisia, and Madagascar.
^{4/} Figures are shown by country of origin, although a "global" quota was established by Presidential proclamation of June 29, 1942, effective July 29, 1942.

(2)

COTTON CARD STRIPS, ^{2/}COMBER WASTE, LAP WASTE, SILVER 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 ^{2/} 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 IMPORTS : Sept. 20, 1941, to Aug. 1, 1942	: Established: 33-1/3% of : Total Quota:	: Imports Sept. 20, 1941, to Aug. 1, 1942. ^{1/}
United Kingdom.....	4,323,457	434	1,441,152	434
Canada.....	239,690	231,613	-	-
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	301,674	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, August 12, 1942.

Press Service
No. 32-81

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	:	Authorized for entry
	:	(Pounds) <u>1/</u>	:	for consumption
	:		:	As of (Date) : (Pounds)

Signatory Countries:

Brazil	1,821,836,025	August 1, 1942	905,382,588
Colombia	617,483,151	"	441,583,223
Costa Rica	39,185,707	August 8, 1942 <u>2/</u>	30,717,829
Cuba	15,726,029	August 1, 1942	6,556,007
Dominican Republic	23,523,302	(Import quota filled)	
Ecuador	29,415,140	August 8, 1942 <u>2/</u>	18,449,738
El Salvador	123,781,103	August 1, 1942	82,541,382
Guatemala	104,900,424	August 8, 1942 <u>2/</u>	91,509,446
Haiti	53,868,211	" <u>2/</u>	40,430,153
Honduras	4,191,694	" <u>2/</u>	4,154,769
Mexico	96,438,728	August 1, 1942	38,542,279
Nicaragua	40,893,390	"	27,847,741
Peru	4,897,122	August 8, 1942 <u>2/</u>	3,110,901
Venezuela	57,080,665	" <u>2/</u>	47,816,760

Non-signatory Countries:

British Empire, except Aden and Canada	22,976,474	(Import quota filled)	
Kingdom of the Netherlands and its possessions	25,570,406	August 1, 1942	13,107,191
Aden, Yemen, and Saudi Arabia	5,034,821	"	1,316,569
Other countries not signa- tories of the Inter-American Coffee Agreement	15,959,761	(Import quota filled)	

1/ Quotas revised effective February 26, 1942, and July 16, 1942.
2/ Per telegraphic reports.

TREASURY DEPARTMENT

Washington

FOR IMMEDIATE RELEASE,
 Wednesday, August 12, 1942.

Press Service
 No. 32-82

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, 1942, as follows:

Country of Origin	WHEAT		Wheat flour, semolina, crushed or cracked wheat, and similar wheat products	
	Imports	Imports	Imports	Imports
	Established : May 29, 1942, to : Quota : August 1, 1942 :	Established : May 29, 1942, to : Quota : August 1, 1942 :	Established : May 29, 1942, to : Quota : August 1, 1942 :	Established : May 29, 1942, to : Quota : August 1, 1942 :
	(Bushels)	(Bushels)	(Pounds)	(Pounds)
Canada	795,000	795,000	3,815,000	3,674,106
China	-	-	24,000	-
Hungary	-	-	13,000	-
Hong Kong	-	-	13,000	-
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	44
Italy	100	-	2,000	-
Cuba	-	-	12,000	-
France	1,000	-	1,000	-
Greece	-	-	1,000	-
Mexico	100	-	1,000	-
Panama	-	-	1,000	-
Uruguay	-	-	1,000	-
Poland and Dansig	-	-	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	3,674,150

general ruling to the same extent as such restrictions, disabilities and other limitations have been imposed by this general ruling.

(3) This general ruling shall not be deemed to prohibit or otherwise restrict the ordinary purchase, sale, transfer, pledge, or hypothecation of, or similar dealing in, securities which are issued by, or the obligation of, any Philippine company or to prohibit or restrict transactions incidental thereto.

(4) As used in this general ruling, the term "Philippine company" shall mean:

(a) Any partnership, association, corporation or other organization organized under the laws of the Philippine Islands and which prior to January 1, 1942, derived its principal income from the Philippine Islands;

(b) Any sole proprietorship which prior to January 1, 1942, derived its principal income from, and was primarily engaged in business in, the Philippine Islands; and

(c) Any agent, trustee, transfer or paying agent, or other representative of or for any Philippine company to the extent that it acts as such.

1s/ Randolph Paul

Acting Secretary of the Treasury

CODE OF FEDERAL REGULATIONS

Title 31 - Money and Finance: Treasury

Chapter I - Monetary Offices, Department of the Treasury

Part 132 - General Rulings under Executive Order No. 8389, as amended, Executive Order No. 9193, 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.*

TREASURY DEPARTMENT,
Office of the Secretary,

AUG 12 1941

GENERAL RULING NO. 10-A UNDER
EXECUTIVE ORDER NO. 8389, AS AMENDED, EXECUTIVE
ORDER NO. 9193, 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 authorized by a license expressly referring to this general ruling:

(a) No Philippine company shall make any payment, or perform any covenant, duty, condition or service within the United States on, or with respect to, any direct or indirect obligation or security of, or claim against, such company.

(b) No person shall exercise within the United States any right, remedy, power or privilege with respect to, or directly or indirectly arising out of or in connection with, any obligation or security of, or claim against, any Philippine company, including any right, remedy, power or privilege with respect to any guaranty, covenant or agreement that such Philippine company will perform any covenant, duty, condition, or service.

(2) Unless otherwise provided, an appropriate license or other authorization issued by the Secretary of the Treasury shall remove all the restrictions, disabilities and other limitations imposed by this

* Part 132; - Sec. 5(b), 40 Stat. 415 and 966; Sec. 2, 48 Stat. 1; 54 Stat. 179; Public No. 354, 77th Congress, 55 Stat. 838; Ex. Order 8389, April 10, 1940, as amended by Ex. Order 8785, June 14, 1941, Ex. Order 8832, July 26, 1941, Ex. Order 8963, December 9, 1941, Ex. Order 8998, December 26, 1941, and Ex. Order 9193, July 6, 1942; Regulations, April 10, 1940, as amended June 14, 1941, and July 26, 1941.

[It was pointed out by Treasury representatives that Philippine companies would not be permitted to use today's ruling to avoid paying their obligations in any case where funds were available and such payments could be made on an equitable basis. In such cases the Treasury will license payments upon appropriate application by interested parties.

[Moreover, the Treasury expects Philippine companies to furnish their creditors upon demand with information concerning their present ability to pay their obligations. Any failure to furnish such information will be dealt with appropriately by the Treasury.

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R.E.P.
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TREASURY DEPARTMENT
Washington, D. C.

FOR IMMEDIATE RELEASE
Wednesday, August 12, 1942

Press Service
No. 32-83

The Treasury Department today announced a moratorium on obligations of Philippine companies held in the United States. This moratorium does not apply to the obligations of the Philippine Government.

Pursuant to General Ruling No. 10-A issued today under the Presidential freezing orders, no Philippine company may make any payment in this country on its obligations and no person may enforce in the United States any claim or obligation against a Philippine company. Such payments can be made and such claims can be enforced only if a Foreign Funds Control license is first obtained.

Treasury officials stated that today's action was intended to make it clear that the assets in the United States of Philippine companies were fully frozen so that the interests of all the parties involved could be fully and properly protected. It was pointed out that some of these Philippine companies had assets in the Philippines worth many millions of dollars before the war and only a relatively small amount of funded indebtedness. The companies do not have assets in the United States at this time to meet maturing obligations and since no one knows or could know, the present condition or value of property in the Philippines, it is, at the present time, impossible to deal fairly with the respective rights of stockholders, bondholders and other creditors. Under today's ruling the situation will be frozen until it is possible to ascertain the facts.

TREASURY DEPARTMENT
Washington

FOR IMMEDIATE RELEASE
Wednesday, August 12, 1942

Press Service
No. 32-83

The Treasury Department today announced a moratorium on obligations of Philippine companies held in the United States. This moratorium does not apply to the obligations of the Philippine Government.

Pursuant to General Ruling No. 10-A issued today under Presidential freezing orders, no Philippine company may make any payment in this country on its obligations and no person may enforce in the United States any claim or obligation against a Philippine company. Such payments can be made and such claims can be enforced only if a Foreign Funds Control license is first obtained.

Treasury officials stated that today's action was intended to make it clear that the assets in the United States of Philippine companies were fully frozen so that the interests of all the parties involved could be fully and properly protected. It was pointed out that some of these Philippine companies had assets in the Philippines worth many millions of dollars before the war and only a relatively small amount of funded indebtedness. The companies do not have assets in the United States at this time to meet maturing obligations and since no one knows or could know, the present condition or value of property in the Philippines, it is, at the present time, impossible to deal fairly with the respective rights of stockholders, bondholders and other creditors. Under today's ruling the situation will be frozen until it is possible to ascertain the facts.

It was pointed out by Treasury representatives that Philippine companies would not be permitted to use today's ruling to avoid paying their obligations in any case where funds were available and such payments could be made on an equitable basis. In such cases the Treasury will license payments upon appropriate application by interested parties.

Moreover, the Treasury expects Philippine companies to furnish their creditors upon demand with information concerning their present ability to pay their obligations. Any failure to furnish such information will be dealt with appropriately by the Treasury.

GENERAL RULING NO. 10-A UNDER
EXECUTIVE ORDER NO. 8389, AS AMENDED, EXECUTIVE
ORDER NO. 9193, 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 authorized by a license expressly referring to this general ruling:

(a) No Philippine company shall make any payment, or perform and covenant, duty, condition or service within the United States on, or with respect to, any direct or indirect obligation or security of, or claim against, such company.

(b) No person shall exercise within the United States any right, remedy, power or privilege with respect to, or directly or indirectly arising out of or in connection with, any obligation or security of, or claim against, any Philippine company, including any right, remedy, power or privilege with respect to any guaranty, covenant or agreement that such Philippine company will perform any covenant, duty, condition, or service.

(2) Unless otherwise provided, an appropriate license or other authorization issued by the Secretary of the Treasury shall remove all the restrictions, disabilities and other limitations imposed by this general ruling to the same extent as such restrictions, disabilities and other limitations have been imposed by this general ruling.

(3) This general ruling shall not be deemed to prohibit or otherwise restrict the ordinary purchase, sale, transfer, pledge, or hypothecation of, or similar dealing in, securities which are issued by, or the obligation of, any Philippine company or to prohibit or restrict transactions incidental thereto.

(4) As used in this general ruling, the term "Philippine company" shall mean:

(a) Any partnership, association, corporation or other organization organized under the laws of the Philippine Islands and which prior to January 1, 1942, derived its principal income from the Philippine Islands;

(b) Any sole proprietorship which prior to January 1, 1942, derived its principal income from, and was primarily engaged in business in, the Philippine Islands; and

(c) Any agent, trustee, transfer or paying agent, or other representative of or for any Philippine company to the extent that it acts as such.

RANDOLPH PAUL
Acting Secretary of the Treasury

TREASURY DEPARTMENT
Comptroller of the Currency
Washington

FOR RELEASE, MORNING NEWSPAPERS
Thursday, August 13, 1942

Press Service
No. 32-84

8/12/42

During the month of July, 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 \$29,726,606, while dividends paid to unsecured creditors amounted to an average of 77.52 percent of their claims. Total costs of liquidation of these receiverships averaged 7.11 percent of total collections from all sources, including offsets allowed.

Dividend distributions to all creditors of all active receiverships during the month of July, amounted to \$1,215,664. 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 JULY, 1942

<u>Name & 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>
First American NB & Tr Co. Berwyn, Illinois	6-21-32	\$ 407,404	20.2	\$ 175,000	\$ - 0 -
Joliet Nat'l Bank Joliet, Illinois	2-10-32	3,860,438	72.33	700,000	- 0 -
First Nat'l Bank <u>5/</u> Tamaroa, Illinois	12-9-33	262,476	38.9	40,000	- 0 -
First Nat'l Bank <u>5/</u> Rochester, Michigan	12-12-33	1,553,648	80.13 <u>6/</u>	100,000	- 0 -
Commercial Nat'l Bank High Point, N. C.	2-10-32	6,536,084	99.68	1,000,000	- 0 -
First Nat'l Bank <u>5/</u> Grand Forks, N. D.	11-15-33	4,341,652	84.25 <u>6/</u>	400,000	- 0 -
Monongahela NB Brownsville, Pa.	4-16-31	2,671,892	53.	100,000	-- 0--
Citizens Nat'l Bk <u>1/ 2/</u> Irwin, Penna.	2-10-33	176,347	117.992 <u>3/</u>	100,000	6,156 <u>4/</u>
Diamond Nat'l Bk Pittsburgh, Pa.	11-15-32	9,812,317	84.92 <u>6/</u>	600,000	- 0 -
First Nat'l Bk <u>2/</u> Cowen, W. Va.	10-20-31	104,348	116.5 <u>3/</u>	25,000	11,716 <u>4/</u>

- 1/ Receiver appointed to levy and collect stock assessment covering deficiency in value of assets sold, or to complete unfinished liquidation.
- 2/ Receiver elected by shareholders to continue liquidation after payment of principal and interest in full to creditors.
- 3/ 100% principal and interest in full paid to creditors.
- 4/ Partial return to shareholders of stock assessments previously paid in pursuant to election for continuance of receivership.
- 5/ Formerly in conservatorship.
- 6/ Including dividends paid through or by purchasing bank.

TREASURY DEPARTMENT
Washington

FOR RELEASE, MORNING NEWSPAPERS,
Friday, August 14, 1942
8/13/42

The Secretary of the Treasury, by this public notice, invites tenders for \$350,000,000, 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 August 19, 1942, and will mature November 18, 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, August 17, 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 August 19, 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.

Miss Simpson

TREASURY DEPARTMENT

Washington

FOR RELEASE, MORNING NEWSPAPERS,
Friday, August 14, 1942.
8/13/42

Press Service
32-86

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 Saturday, August 15.

Subscriptions addressed to a Federal Reserve Bank or Branch, or to the Treasury Department, and placed in the mail before 12 o'clock midnight Saturday, August 15, 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.

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TREASURY DEPARTMENT

Washington

FOR RELEASE, MORNING NEWSPAPERS,
Friday, August 14, 1942.
8/13/42

Press Service
No. 32-86

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TREASURY DEPARTMENT
Washington

FOR RELEASE, MORNING NEWSPAPERS
Friday, August 14, 1942
8/13/42

Press Service
No. 32-87

Secretary Morgenthau today announced that the Government of Mexico and the Government of the United States have, in cooperation, taken steps to further supplement the measures aimed at preventing the disposition within the Western Hemisphere of currency looted by the Axis.

The Government of Mexico has prohibited the importation into that country of all United States currency other than bills of two dollar denomination and United States coins. At the same time all United States currency presently within Mexico has been ordered into the Bank of Mexico and associated banks. Such currency will not be released by the Mexican Government but in those cases in which persons who have turned over such currency can prove that the currency was legitimately acquired and free from Axis taint, the peso equivalent will be turned over to the person surrendering the United States currency.

It was announced that persons failing to turn in United States currency in their possession would be treated as enemies of Mexico within the meaning of the Mexican laws dealing with trading with the enemy and enemy property.

In order to supplement the Mexican decree the Treasury announced that on and after August 14, 1942, it would be illegal to export to Mexico any United States currency other than coins and bills of two dollar denomination. Furthermore, all United States currency brought into this country from Mexico on and after August 14, 1942 (except coins and bills of two dollar denomination), will be required to be surrendered to the United States Customs authorities at the border. Such currency will be turned over to the Federal Reserve Banks in accordance with the procedure established under General Ruling No. 5, as amended.

The effect of this joint measure of the United States and Mexican governments is to prevent use being made of Mexico as a place in which Axis agents may dispose of dollar currency looted abroad.

Treasury spokesmen stated that the new regulations would in no way interfere with the legitimate activities of residents

on either side of the United States-Mexico border who have long been accustomed to using pesos and dollar currency without distinction on both sides of the international line. The exemptions provided in both the Mexican and United States rulings will allow pesos to enter and leave the United States and American two dollar bills and coins to enter and leave Mexico freely.

It was further said that the new regulations would not affect the free passage across the border of checks, drafts, traveler's checks and other credit instruments in the same manner as has been true up to the present time. Likewise nothing contained in the present regulations will prevent Americans from maintaining bank accounts in Mexican banks or Mexicans from maintaining accounts in banks within the United States. Such accounts, many of which now exist, will remain entirely unaffected.

This action supersedes the previous Treasury Department ruling which had allowed any person arriving in the United States from Mexico to bring with him up to \$250 in United States currency regardless of the denomination of the bills imported.

It was pointed out that tourists going from the United States to Mexico would be subject to no inconvenience whatsoever in connection with the new rulings, provided that before departing for Mexico they converted such funds as they intended taking with them into traveler's checks, bank drafts or other credit instruments or into two dollar bills or coins.

Treasury spokesmen stated that the two dollar bill had been eliminated from the restrictions imposed on the importation and exportation of other United States currency to and from Mexico by reason of the fact that very few such bills have fallen into Axis hands whereas it is known that large amounts of United States currency of other denominations have come under the control of the aggressors.

The Treasury also announced that any person leaving the United States going through Mexico en route to any other country would be allowed to carry United States currency in any denomination having an aggregate value of \$250, plus \$250 for each accompanying dependent.

TREASURY DEPARTMENT

Washington

FOR RELEASE, MORNING NEWSPAPERS,
Friday, August 14, 1942.
8/13/42

Press Service
 No. 32-88

Secretary of the Treasury Morgenthau announced last night that reports from the Federal Reserve Banks indicate that subscriptions for the additional issue of 2-1/2 percent Treasury Bonds of 1962-67 aggregated \$1,143,085,200, through August 13, divided among the several Federal Reserve Districts and the Treasury as follows:

<u>Federal Reserve District</u>	<u>Total Subscriptions Received & Allotted</u>
Boston	\$ 74,894,200
New York	716,411,500
Philadelphia	71,662,200
Cleveland	23,945,700
Richmond	17,713,800
Atlanta	4,871,200
Chicago	45,844,200
St. Louis	4,596,800
Minneapolis	14,867,900
Kansas City	9,356,800
Dallas	13,024,700
San Francisco	19,624,200
Treasury	402,700
Government Investment Accounts	125,869,300
TOTAL	<u>\$1,143,085,200</u>

TREASURY DEPARTMENT
Washington

FOR IMMEDIATE RELEASE,
Saturday, August 15, 1942.

Press Service
No. 32-89

Market transactions in Government securities for Treasury investment and other accounts in July, 1942, resulted in net sales of \$2,295,000, Secretary Morgenthau announced today.

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TREASURY DEPARTMENT
Washington

32-90

FOR IMMEDIATE RELEASE,
Saturday, August 15, 1942.

Press Service

Secretary of the Treasury Morgenthau today announced the final subscription and allotment figures with respect to the current offering of 7/8 percent Treasury Certificates of Indebtedness of Series B-1943.

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	\$ 159,515,000	\$ 78,454,000
New York	1,448,236,000	698,529,000
Philadelphia	142,119,000	70,408,000
Cleveland	158,627,000	80,633,000
Richmond	100,147,000	49,922,000
Atlanta	117,730,000	59,005,000
Chicago	559,485,000	278,189,000
St. Louis	109,993,000	56,309,000
Minneapolis	48,294,000	26,385,000
Kansas City	94,237,000	47,999,000
Dallas	84,357,000	41,872,000
San Francisco	250,062,000	121,606,000
Treasury	16,000	16,000
TOTAL	\$3,272,818,000	\$1,609,327,000

Handwritten signature/initials
L.P.

TREASURY DEPARTMENT
Washington

FOR IMMEDIATE RELEASE,
Saturday, August 15, 1942.

Press Service
No. 32-90

Secretary of the Treasury Morgenthau today announced the final subscription and allotment figures with respect to the current offering of 7/8 percent Treasury Certificates of Indebtedness of Series B-1943.

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Philadelphia	142,119,000	70,408,000
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Richmond	100,147,000	49,922,000
Atlanta	117,730,000	59,005,000
Chicago	559,485,000	278,189,000
St. Louis	109,993,000	56,309,000
Minneapolis	48,294,000	26,385,000
Kansas City	94,237,000	47,999,000
Dallas	84,357,000	41,872,000
San Francisco	250,062,000	121,606,000
Treasury	<u>16,000</u>	<u>16,000</u>
TOTAL	\$3,272,818,000	\$1,609,327,000

TREASURY DEPARTMENT
Washington

FOR RELEASE, MORNING NEWSPAPERS
Tuesday, August 18, 1942.
8/17/42

Press Service
No. 32-91

The Secretary of the Treasury announced last evening that the tenders for \$350,000,000, or thereabouts, of 91-day Treasury bills to be dated August 19 and to mature November 18, 1942, which were offered on August 14, were opened at the Federal Reserve Banks on August 17.

The details of this issue are as follows:

Total applied for - \$711,549,000
Total accepted - 352,409,000

Range of accepted bids:

High - 99.925	Equivalent rate	approximately	0.297	percent
Low - 99.905	"	"	0.376	"
Average	"	"		
Price - 99.906	"	"	0.372	"

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

*Miss
Simpson*

TREASURY DEPARTMENT
Washington

37

FOR IMMEDIATE RELEASE,
Tuesday, August 18, 1942.

Press Service

The Secretary of the Treasury today announced the final subscription and allotment figures with respect to the current offering of the additional issue 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	\$ 84,202,400
New York	751,668,300
Philadelphia	77,511,200
Cleveland	32,828,400
Richmond	20,712,500
Atlanta	5,992,300
Chicago	50,462,200
St. Louis	5,802,300
Minneapolis	22,580,900
Kansas City	10,836,500
Dallas	14,588,300
San Francisco	22,470,200
Treasury Government Investment Accounts	9,421,000 125,869,300
TOTAL	\$1,234,945,800

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TREASURY DEPARTMENT
Washington

FOR IMMEDIATE RELEASE,
Tuesday, August 18, 1942.

Press Service
No. 32-92

The Secretary of the Treasury today announced the final subscription and allotment figures with respect to the current offering of the additional issue 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>
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New York	751,668,300
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Richmond	20,712,500
Atlanta	5,992,300
Chicago	50,462,200
St. Louis	5,802,300
Minneapolis	22,580,900
Kansas City	10,836,500
Dallas	14,588,300
San Francisco	22,470,200
Treasury	9,421,000
Government Investment Accounts	<u>125,869,300</u>
TOTAL	\$1,234,945,800

TREASURY DEPARTMENT

Washington

FOR RELEASE, MORNING NEWSPAPERS,
Friday, August 21, 1942.
8/20/42

Press Service
No. 32-93

(The following address of SECRETARY MORGENTHAU at the ceremonies designating Roanoke, Virginia, as the first "Treasury Flag City" in the War Savings Bond campaign is scheduled to be delivered in Roanoke at 6 p.m., Eastern War Time, Thursday, August 20, 1942, and is for release upon delivery at that time.)

Just before coming to Roanoke for this great demonstration it was my privilege in the past five days to inspect Army camps in the West and South at the invitation of General Marshall. By way of preface I can assure you that your boys are being well housed, well fed and well prepared for the fighting that lies ahead of them. No praise of mine can be too high for the job the Army has done, and is doing, in equipping and training the manpower of America for war.

One impression above all that I bring away with me is of the magnificent spirit of these men. We civilians used to think, in our superior way, that we

needed to send morale officers among our troops. To-day it would do all of us good to have some of these soldiers come among us as morale officers for a time. Believe me, they know what this war is all about. They know the effort and sacrifice that it will take to win. They are ready for it with a cheerful courage that is an inspiration to all who see it.

You in Roanoke have done your full share in equipping, maintaining and training this Army of ours. You have not only furnished your share of men but your War Bonds have helped to pay for the weapons that the Army will use in battle. And in the buying of War Bonds your city has set a record and an example for other cities to follow. Roanoke is the first city in the United States in which every company can claim that at least ninety percent of its employees are buying War Bonds regularly out of current earnings through a payroll savings plan. Every company or labor union that can show such a record is entitled to fly the blue Minute Man flag, and these two hundred Minute Man flags which I see before me today are the symbols of a great achievement.

I am especially glad that this has been accomplished in the home city of Congressman Woodrum, and that he is here with us today. I have looked upon Congressman Woodrum as a friend ever since my old days at the Farm Credit Administration back in early 1933 when I first came before his committee for an appropriation. In the years since then he has always been a friend of the Treasury; he has been a friend of sound finance who has helped to create a sound public understanding of our financial problems. It must make him especially proud to see his own city buying "A Share in America" regularly week after week, for he believes, as I believe, that if millions of Americans own Government securities they will take a more active and helpful interest in the way their money is being spent, not only now but in the years to come.

To those who may be listening on the radio I should like to say that there is no special reason of geography, economics or human nature that makes Roanoke any different from a hundred other cities of its size.

Roanoke is in fact just an average American community. It has no particular concentration of war industry in its area. Its incomes have not been doubled and tripled by war work. The only explanation of its War Bond record is that its employers and workers have seen their duty in these war-time days and have done it. My hope now is that all communities of the United States will follow this lead, one after another, and will report every firm enrolled in payroll savings, with the employees setting aside an average of at least ten percent of their earnings every payday to help finance the war.

War expenditures have already reached unprecedented heights, and will continue to mount as our own participation on the fighting front increases in extent and intensity. To pay the bills that will come in ever-increasing volume we shall have to draw upon every available source of funds. Congress will, in the final analysis, determine how much we must pay in taxes. The balance we shall have to borrow, not only from banks

and other institutions, but from individuals, men, women and children, rich and poor, in every state and county of the nation.

You have heard many times that this is a total war. That means simply that no one can escape his own personal responsibility to make his maximum contribution to the total effort. This war is not fought by armies and navies alone. It is fought with economic weapons too. It is fought on the farms and in the factories, in the mines and on the merchant ships and railroads, but it is fought too in the homes where men and women curtail their normal expenditures to save money and materials vitally necessary to supply our fighting men.

Every time you buy a War Bond you too are fighting on this economic front. You are not only helping to pay for the war, you are not only helping to protect the value of your dollar, but you are helping to protect your own personal future as well.

We simply do not have an unlimited store of the materials needed for war production and supply. Every time you buy something that is not absolutely necessary you are actually competing with our armed forces for materials without which we cannot win the war. Remember, on the other hand, that every time you forego unnecessary and unpatriotic spending you help to win the war, not only on the economic front but on the fighting front too.

At a time like this it is not enough to buy War Bonds with whatever we may have left over from our normal budgets. We must cut these budgets drastically to conserve the materials needed for the war, and to place our savings at the disposal of our Government to pay for these materials.

Millions of us still place the buying of War Bonds last in our family budget for the month, yet we have passed the time when we can afford to put the war last in our thoughts or in our daily lives. It is time for us to put the buying of War Bonds first on the family

budget. The millions of people who are now on payroll savings plans are doing precisely that. In this way they are making the purchase of War Bonds a first charge upon their income. It is urgent that all of us do likewise.

We on the home front have got to fight much harder from now on. We have got to discipline ourselves to do without things we would like to have but do not actually need, and to put our earnings into War Bonds instead. It is high time for all of us to cut deeply into our accustomed ways of living so that we can help our country in this war for survival and for freedom.

About thirty million men and women work for regular pay in this country. More than eighteen million of them are setting aside a part of their pay every payday for the buying of War Bonds, and I give them full credit for the patriotism, the effort, and in many cases the real sacrifice which this regular investment involves. But they are setting aside an average of only six percent of their pay. Why not ten percent? And how about the millions of workers who are not taking part in payroll savings plans at all?

It should no longer be necessary for the Treasury to come to every American, hat in hand, to ask for subscriptions to War Bonds and at 2.9 percent interest. By this time every American should be coming forward, willingly and gladly, to lend a part of his earnings to his country. After all, we have been at war for more than eight months. Thousands of our men have been in action; millions more are in training for the battles that are to come. I have seen them this week, marching along dusty roads in the heat of Summer, toughening themselves and mastering their weapons, learning to kill and to avoid being killed. Take my word for it: They know that this is a tough war. It is up to us to prove that we know it too. From now on it is up to every one of us to prove that we are worthy of our fighting men by buying War Bonds -- until it hurts.

TREASURY DEPARTMENT
Washington

FOR RELEASE, MORNING NEWSPAPERS,
Friday, August 21, 1942.

8-20-42

The Secretary of the Treasury, by this public notice, invites tenders for \$350,000,000, 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 August 26, 1942, and will mature November 25, 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, August 24, 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 per cent 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 August 26, 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, August 20, 1942.

Press Service
No. 32-95

The Bureau of Customs announced today that provision will be made at customs ports of entry to enable importers to present entries for consumption covering coffee the produce of countries not signatories of the Inter-American Coffee Agreement, on September 1, 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.

Executive Order No. 8863, of August 21, 1941, allocating for the present quota year the quota provided for in Article VII of the Inter-American Coffee Agreement for countries which are not signatories of the Agreement, terminates on September 1, 1942. Therefore, any unentered portion of the over-all quota for coffee the produce of non-signatory countries at the close of business August 31, 1942, shall be open to the entry for consumption of coffee the produce of any non-signatory country at the hour specified above, on September 1, 1942. The unexhausted portion of the quota as of August 15 was approximately 15,500,000 pounds.

The acceptance of entries will be authorized within the quota limitation in the order of the time of their presentation in proper form at the customhouse in the port where the coffee has arrived. If entries for consumption presented at the time specified above on September 1, 1942, cover a total quantity of coffee the produce of non-signatory countries in excess of the quota limitation, the quantity which may be admitted to entry will be prorated on the basis of the quantity presented for entry.

Executive Order No. 8863 ceases to be effective on September 1, 1942, and no order will be issued allocating the non-signatory quota for the year beginning October 1, 1942.

Statement by Randolph E. Paul
on the administrative and compliance
problems involved in collection at source

August 22, 1942

A. Proposed changes in procedure for collection at source

In the period since collection at source was adopted by the House of Representatives, the Treasury has carefully re-examined the contemplated procedure in order that it might be adapted as much as possible to the needs of employers and payors of dividends and interest. We have held extensive discussions with employers and with payors of interest and dividends. We have made a detailed examination in the field of the methods used by several hundred employers in preparing their payrolls and the changes that would be necessary to incorporate collection at source.

The businessmen whom we have consulted have been extremely helpful and cooperative. They have been more than generous in giving us the benefit of their practical experience and knowledge. Our discussions with them and our re-examination of the problem have suggested a number of important modifications in the plan originally approved by the House. These modifications will simplify the operations of the plan, and will reduce the additional personnel and machine needs of business.

1. For wages and salaries, we suggest the adoption of a plan of the type suggested by Mr. Gretz of the American Telephone and Telegraph Company whereby employers could use a simple table to determine the amount of tax to be withheld. A sample table is attached. By means of this table, the tax could be determined directly from the gross wage without any computations. Out of 454 employers interviewed, almost two-thirds expressed a preference for the use of such a table. In many cases the use of the table will entirely eliminate the need for additional machines.

2. Several other minor changes for wages and salaries are designed to meet specific problems raised by employers. These changes are: (a) the employer would not be required to get withholding deduction certificates from employees hired and employed for less than a week and paid less than \$11; (b) the employer will be permitted, if he wishes, to get information on the employee's marital and dependency status on a different form from the one he will have to file at the end of the year giving total wages and total tax withheld, instead of, as in the original procedure, using the same form for both purposes; (c) the employer would be given 30 days' time to prepare a receipt for an employee terminating employment instead of having to give the receipt along with the last paycheck; (d) the employer would be given 30 days within which to give effect to a change in an employee's marital and dependency status.

3. For dividends, we suggest that the payor corporation be permitted to give an annual receipt instead of a receipt with each dividend payment.

Dividend payors have informed us that this change will greatly simplify their problem. For example, one dividend payor has indicated that the substitution of an annual receipt for a quarterly receipt would halve the additional expense of collection at source.

4. We also recommend that dividends paid by credit unions, saving and loan associations, building and loan associations, cooperative banks, and farm cooperatives be exempt from withholding. These types of dividends are typically paid in small amounts to a very large number of persons. They should be exempted in the same way as interest on saving deposits.

5. One of the major complaints made by representatives of the American Banking Association was that the collection at source system would seriously threaten the nominee and street name systems of registration of corporate stocks. The proposed system for the treatment of the nominee problem eliminates any ground for this complaint. This system provides for gross withholding from the nominee, for the issuance of a receipt to the nominee by the payor corporation, and to the actual owner by the nominee. We have discussed this proposed treatment with representatives of the American Banking Association and they agreed that under it the present nominee system could be continued. The proposed treatment involves essentially a continuation of the present method of handling information returns. It will be recalled that one of the points to which the Commissioner called particular attention was a statement in the report by the American Bankers' Association that one bank had estimated that it would require the services of a crew of 12 men for at least 12 months to transfer the stock now held in nominee form. Under the proposed procedure this would be entirely unnecessary since the nominee relationship would not be disturbed.

6. The other suggested modifications for dividends would give the corporation more time within which to give effect to exemption certificates and would place the responsibility on the stockholder to notify the withholding agent that the stockholder is exempt from withholding.

7. For coupon interest, we have developed a number of modifications. However, in view of the testimony before the Senate Finance Committee as to the very large number of small coupons, and the problems imposed on the initial paying bank and the final obligor by the absence of evidence on the identity of the owners of the coupons, we now propose that coupon bond interest be completely exempted from withholding. The amount of revenue involved is very small, only \$40 million in 1943 and \$80 million in 1944. These objections do not apply to withholding from dividends or registered bond interest, which offer a much simpler problem. Moreover, the revenue from dividends is substantial, amounting to about \$200 million in 1943 and about \$400 million in 1944.

All of these changes have been discussed with employers and payors of dividend and interest. They were developed jointly with the Bureau of Internal Revenue, which agrees with their desirability if collection at source is enacted. It is uniformly agreed that they will greatly simplify the problem of withholding.

B. Administrative problem of the Bureau of Internal Revenue

In a statement before your subcommittee on Wednesday the Commissioner of Internal Revenue outlined the administrative problems this bill would impose on the Bureau of Internal Revenue. There can be no doubt that additional burdens would be imposed on the Bureau. At the same time, I am firmly convinced that the statement given by the Commissioner greatly overstated these burdens. Some of the most important steps under collection at source are part of the present administrative procedure, or replace other steps that are part of the administrative procedure. Furthermore, the major part of the additional burden will not occur until 1944 giving over a year in which to make the adjustment.

1. The Commissioner's statement makes the point that 11,000 additional employees will be required to administer collection at source. However, according to the Bureau's estimate, very few of these employees will be required until after April 1, 1943, and most of them will not be required until 1944. At most, between 3,000 and 4,000 additional employees will be required during all of calendar 1943. There should thus be ample time for the recruitment of additional personnel.

2. Some months ago, the Bureau indicated to the Treasury that a large part of its personnel problem arose from the fact that its priority classification for personnel was class 5. At the representations of the Treasury, the Bureau of the Budget changed the Bureau to class 2 in order to facilitate the administration of collection at source. This gives the Bureau a priority for personnel subordinate only to military needs.

3. The Commissioner's statement indicated that collection at source would require about 100,000,000 forms to be filled out annually for employees, stockholders and bondholders. Approximately 75 to 80 million of these forms would be required under the present information-at-source system even in the absence of collection at source. Only 1/4 or 1/5 of these 100,000,000 forms can be attributed to collection at source. Collection at source will supplant the present system of information at source.

4. The Commissioner's statement called attention to the need for seven different forms to administer collection at source. Four of these forms replace forms now in use.

5. The statement read by the Commissioner stressed the additional machines the Bureau would require. We have been informally assured by representatives of the War Production Board that the Bureau's stated needs could be met and would be given priority. The Secretary of the Treasury has written a letter to Mr. Nelson asking for formal assurance on this point.

6. Hardly any of the additional machinery will be needed prior to April 1, 1943, and much of it will not be needed until 1944.

7. The Commissioner's statement made the point that there would be 750,000 delinquent employers each quarter, out of a total of about 2,700,000 withholding agents. This estimate seems unduly large. According to the Commissioner, there are only 250,000 delinquent employers each quarter under the social security tax. The number of withholding agents will be about the same as the number of employers paying social security taxes, and the quarterly return will be considerably simpler than that now required under social security. (The attached table shows the estimated number of persons subject to withholding and the number of withholding agents.)

8. It should be noted that in most cases delinquency merely means that the employer is late in filing his return. In addition, delinquent employers are overwhelmingly small employers, accounting for a very small percentage of all employees.

9. The plan for administering collection at source was developed jointly by the Bureau of Internal Revenue and the Treasury. The Bureau was consulted at every stage. While the Bureau has repeatedly emphasized the administrative difficulties of the procedure, it has always agreed that the plan was administratively feasible. In a statement read to the House Ways and Means Committee on May 22, 1942, the Commissioner said: "I have no doubt that a withholding tax could be satisfactorily administered in normal times Since these are not normal times, if withholding is to be a part of our tax plan, the work cannot be done unless the Bureau is given a priority status respecting personnel, equipment, and space subordinate alone to the military forces." The statement read by the Commissioner at that time expressed no doubt that collection at source was entirely feasible if such priority status could be obtained.

C. Compliance burden on industry

We are firmly convinced that undue stress has been placed not only on the administrative problems of the Bureau but also on the compliance problems of employers and payors of dividends.

1. Collection at source imposes much the same problem on employers as does the social security tax. Employers have handled and are handling the social security taxes without serious difficulty. Canadian employees are handling a system very similar to the one here proposed with no great difficulty.

2. As stated in our report to you on our field survey of employers' problems, that survey suggested that more than two-thirds of all employers in the country are in firms indicating no need for additional equipment; and fewer than one-third in firms indicating a

need for additional equipment. Moreover much of this apparent need for additional equipment will be eliminated by the changes we have suggested.

3. Most firms that indicated a need for additional equipment are now using their machines no more than 8 hours a day. Further, the indicated need for additional machines was small relatively to the machines now in use -- in the neighborhood of 10 percent. Consequently, more extensive use of existing machinery would in very many cases make new machines unnecessary.

4. The need for additional personnel by employers is fairly widespread, but the additional number needed is relatively small, and few or no employers expressed serious concern that they would be unable to obtain the additional personnel needed.

5. The Commissioner's statement laid great stress on the estimates of the American Bankers' Association as to the cost of withholding from interest and dividends. These estimates were based on a complete misunderstanding of the plan. They were based on the assumption that the paying agent would need to prepare five copies of a receipt along with each dividend check and that the proposed system would necessitate the elimination of the "nominee" and "street name" systems of registration of corporate stocks. Neither of these assumptions is valid. Our original proposal contemplated only one receipt with each dividend check; and our revised procedure contemplates only one a year, to be prepared as a duplicate of the information return sent to the Bureau. The nominee system would not be disturbed. The estimates of the American Bankers' Association are therefore many times too high. The additional burden on payers of dividends would be relatively slight.

6. In general, for both employers and payors of dividends, much of the work required under collection at source replaces work now being done in the preparation of information returns.

7. It should be noted that of 454 employers interviewed, 88 percent were favorably disposed to collection at source; and only 6 percent definitely opposed.

D. Attitude of employers

We have just received preliminary results from the Office of War Information on the special study of employees they are making for us. So far, they have interviewed 172 employees in Baltimore and Minneapolis. Of these employees, 76 percent were favorable to withholding, and only 14 percent opposed. Eighty-four percent said that withholding would have no effect on their bond purchases and only 8 percent said it would cause them to reduce their bond purchases.

Conclusion:

From my remarks, I hope it will be clear to the Committee that the Treasury has labored assiduously to ease the administrative and compliance burden of collection at source, and that this burden can be borne by the Bureau of Internal Revenue and the business men of the United States without interfering with the war effort. We realize that the administrative burden is substantial and have never suggested anything to the contrary. We are sure, however, that this country can do what other countries have done. If collection at source were unimportant, we would not ask to have it incorporated in the law. Collection at source is, however, essential if our income tax is to be flexible and capable of quick expansion in the light of wartime needs. Further, present methods of collection are completely inadequate for a mass income tax at high rates. Collection at the source adapts the income tax to the needs of the masses of the people accustomed to budgeting in terms of weeks or months rather than quarters or years. If the income tax is to occupy its proper place in our wartime fiscal program, the problem of introducing collection at source must be faced sooner or later during this war and it will be harder to face it later than to face it now.

As a postscript, I might mention the fact that if the Ruml plan is seriously considered, collection at the source is all the more needed in order to carry into actual effect the desire that the tax paid in a year shall, insofar as possible, be on the income of that year. In case the Ruml plan should be adopted, collection at source should by all means be integrated with it.

Estimated number of workers receiving wages at some time during calendar year 1942, number of such workers subject to filing an income tax return, and number subject to withholding tax; also number of withholding agents

(All figures are in thousands)

	: Total number:	Number of persons	
	: or persons :	Subject to :	
	: receiving :	filing regular :	Subject
	: wages at :	income tax :	to
	: some time :	returns under :	withholding
	: during year :	H.R. 7378 :	
Exempt from withholding tax:			
Agriculture	3,000	300	1,400
Domestic	2,000	400	1,000
Casual	1,000	200	800
Military (full year of service) <u>1/</u>	2,000	800	800
Self-employed	*	1,000	*
Total	<u>8,000</u>	<u>2,700</u>	<u>4,000</u>
Subject to withholding tax:			
Federal government <u>2/</u>	2,000	1,500	1,500
State and local governments	3,000	2,000	2,000
All other - Railroad employees, plus persons covered by social security <u>3/</u>	<u>49,000</u>	<u>25,300</u>	<u>23,500</u>
Total	<u>54,000</u>	<u>28,800</u>	<u>27,000</u> <u>1/</u>
Total	<u>62,000</u>	<u>31,500</u>	<u>31,000</u>

Withholding agents (The employers of the workers listed in each column above)

Exempt from withholding tax:			
Farmers	1,500	--	400
Housewives	2,000	--	525
Casuals <u>4/</u>	--	--	--
Total	<u>3,500</u>	--	<u>925</u>
Subject to withholding tax:			
Federal government <u>2/</u>	60	--	60
State and local governments	200	--	200
All other - Railroad employees plus persons covered by social security <u>3/</u>	<u>2,440</u>	--	<u>2,440</u>
Total	<u>2,700</u>	--	<u>2,700</u>
Total	<u>6,200</u>	--	<u>3,625</u>

Treasury Department
Division of Research and Statistics

July 30, 1942

See page 2 for footnotes.

*Not included.

- 1/ While the military personnel spending the full year in active service will increase in the calendar year 1943, it is assumed that the increase will be replaced in civil life, so that at the level of income of the calendar year 1942 the estimated number of persons subject to withholding under H.R. 7378 is still 27 million.
- 2/ Excludes the military forces.
- 3/ Excludes persons employed at any time during the year in agricultural, domestic, or governmental work.
- 4/ Withholding agents for casuals are included under housewives or under other agents who have employees subject to withholding.

Statement by Randolph E. Paul
on Ruml plan

In a press release of August 23, 1942, Mr. Beardsley Ruml criticizes the Treasury's objections to his original Pay-As-You-Go income tax plan. He directs his comments principally at two points: (1) the Treasury's statement that the plan would be unacceptable without collection at the source and (2) the modified method of tax cancellation suggested by the Treasury. Mr. Ruml's statement reveals a serious misunderstanding of the Treasury's position. Before proceeding with any changes in the income tax so revolutionary as that suggested by Mr. Ruml, it is essential that this misunderstanding be cleared up; and that the basic issues be clearly understood.

The basic objective of the "pay as you go" plan proposed by Mr. Ruml is to get taxpayers on a current basis. This objective has deservedly met widespread public approval. The present method of collecting income taxes is poorly suited to a mass tax at high rates. The amounts individuals pay in any year depend not at all on their income in that year, but rather on the income of the preceding year. The taxpayer is always in the process of catching up with himself and never succeeding.

The Ruml plan as originally proposed fails, however, to accomplish its objectives. A change in names does not change facts. Under the Ruml plan, the amount paid in 1943 would be called a "tentative tax on 1943 income." But it would be computed by assuming that 1943 income would be the same as 1942 income. Calling the amount paid in 1943 a "tentative tax on 1943 income"

does not make it a tax on 1943 income if, as in the original Ruml plan, the amount paid is computed as it now is on the basis of 1942 income.

In many cases the problem is made even worse than it now is, since under the Ruml plan a taxpayer will have to settle in the following year for any difference between his "tentative" tax and his actual tax.

Mr. Jones, let us say, is married with no dependents and has an income of \$3,000 in 1941 and 1942, \$10,000 in 1943, and \$3,000 in 1944. His tax liabilities at the new rates passed by the House are \$324 on \$3,000 of income and \$2,152 on \$10,000 of income. How much will Mr. Jones have to pay under the original Ruml plan?

1943: Income	\$10,000
Tax payments:	
Tentative tax on 1943 income computed on the basis of a 1942 income of \$3,000	324
Adjustment for difference between tentative tax paid in 1942 and actual tax on 1942 income	<u>0</u>
Total payments	324
1944: Income	3,000
Tax payments:	
Tentative tax on 1944 income computed on the basis of a 1943 income of \$10,000	2,152
Adjustment for the difference between tentative tax paid in 1943 and actual tax on 1943 income (\$2,152 - \$324)	<u>1,828</u>
Total	\$ 3,980

In 1943, Mr. Jones pays only \$324 out of a \$10,000 income--the same amount he would pay under existing methods of income tax payment. In 1944, Mr. Jones must pay almost \$4,000 out of a \$3,000 income. He has a high tentative tax because his income was high in the preceding year. In addition he has a big adjustment to pay because his income was low two years ago. This is current tax payment in name only. True, Mr. Jones will in 1945 receive credit for his overpayment in 1944. But in 1944 he must finance this extra payment out of his reduced income.

It is no answer to this example to say that most taxpayers do not experience such wild fluctuations in income. It is precisely such fluctuations that make current tax payment necessary and that the Ruml plan is designed to cure. If everybody's income stayed the same year after year, the present method of tax collection would do well enough. There would be no need of the Ruml plan or any other plan for current payment.

The best way to cure this defect in the Ruml plan is to couple the Ruml plan with collection at the source. Collecting as much of the tax as possible from income as it is earned is truly "pay as you go."

Collection-at-source is a practicable way by which the tax paid in any year can be computed and paid on the basis of actual income received in that year. It is "current" collection in fact as well as in name. It is for this reason that the Treasury finds the Ruml plan completely unacceptable unless it is linked with collection-at-source at the combined normal and first bracket surtax rate.

Collection-at-the-source is essential not only to serve the convenience of the taxpayer but also to make the income tax a flexible instrument to meet war-time final needs. Under the original Ruml plan as now, a change in tax rates would not affect tax collections until the following calendar year. With collection-at-the-source, a change in tax rates can be effective almost immediately. Under the original Ruml plan as now, a change in national income will not affect tax collections until the following calendar year. With collection-at-the-source, it will affect tax collections immediately.

The other major defect in the original Ruml plan is the clear and striking injustice of cancelling all 1941 liabilities. Mr. Ruml would do this in order that tax payments made in 1942 could be treated as a tentative tax on 1942 income. Once again the objective, namely to bring all taxpayers current immediately is admirable. But the results are not. Many an individual had a higher income in 1941 than in most other years of his life. Cancelling his 1941 liabilities would be a pure windfall, a windfall that would have to be made up by other taxpayers who had not been so fortunate. The man who in 1941 received \$500,000 would have a

tax liability of almost \$350,000 cancelled, although his income in 1942 and later years may be much lower and although the \$500,000 may be traceable directly to the war program.

Moreover, such a taxpayer is unlikely to need the cancellation in order to wipe out his debt to the Government. Few men who have such an income are so improvident as to make no provision for the tax as the income is received; or are so unfortunate as to have no substantial amount of capital with which to wipe out the debt.

To meet this obvious defect the Treasury has suggested that the Ruml plan would be greatly improved if only part of tax liabilities be cancelled, and that, for simplicity, the cancellation refer to 1942 liabilities.

The part to be cancelled would be the entire normal tax - or 4 percent at existing rates -- plus the first bracket rate of the surtax -- or 6 percent at existing rates. The cancellation would not, as Mr. Ruml erroneously stated, apply only to the first \$2,000 of net taxable income. It would apply to the entire net taxable income but at only the first bracket rate. For example, a married person with no dependents with \$500,000 income in 1942 would (ignoring, for simplicity the earned income credit) have a net taxable income of \$498,500 under existing exemptions. The amount cancelled would be 10 percent of this or \$49,850 out of a total tax at existing rates of \$345,350.

A man with \$10,000 income would have a net taxable income of \$8,500. Again ignoring the earned income credit he would have \$850 cancelled out of a total liability of \$1,305, leaving about \$450 to be paid during the next two years.

The Treasury's suggestion applies equally to all taxpayers; but it does not permit high income taxpayers to cancel their liabilities under higher surtax rates. As noted above, persons subject to these higher rates are most likely to make advance provision for taxes, and hence do not need to have all their liabilities cancelled.

This statement does not imply Treasury approval of the Rumml plan. Its purpose is rather to clarify the considerations that must be taken into account in judging the plan, and to indicate the modifications that should be made in it if the Senate Finance Committee should deem it an appropriate part of the 1942 tax bill.

August 24, 1942

Speech delivered by Erwin N. Griswold
Consulting Expert, Treasury Department
before the Tax Section
of the American Bar Association
Detroit, Michigan
on Tuesday, August 25, 1942.

WAR TAXES -- PROBLEMS AND PROGRESS

The Treasury and the Committees of Congress have now been working eight months on the Revenue Act of 1942, and it is still several weeks before the task will be completed. As soon as it is enacted, work must be begun on the Revenue Bill of 1943. It is a continuous and never finished task, and in these days of the tremendous demands of war, no one will deny that it may fairly be called stupendous as well.

The subject of this talk is the problems and the progress of our war tax bill. There is not much that I can say about progress that is not already well known. Progress is undoubtedly being made today by the Senate Finance Committee in Washington which is now considering the bill. But there is much that can be said about problems. They have been many and difficult. Some have been faced and solved. Others are still with us.

The problems presented in formulating a tax bill fall into two main groups. There are innumerable technical questions. And there are the major questions of policy. Many issues of both types have had to be met in preparing the present bill.

Technical Problems

The Treasury has made a sincere effort in this bill to urge upon Congress the desirability of removing inequities which have grown up in our tax law. The present bill as it passed the House of Representatives is 320 pages long and a large proportion of this space is occupied with what might be called technical amendments. You are familiar with many of them. The bill deals with annuity trusts, thus, in effect, overruling the case of Burnet v. Whitehouse -- which should have been overruled many years ago. The bill deals with improvements made by a lessee of real property, thus negating the result of Helvering v. Bruun. The deduction for bad debts is modified so that the old requirements that the debt be "ascertained to be worthless and charged off during the taxable year" are eliminated. Under the bill, the only question is when the debt became worthless. Of course, this is in many cases a difficult question of fact. In order to prevent hardship which might arise from uncertainty in determining

this fact, the bill provides a seven-year period during which the statute of limitations is left open for adjustment of the issue.

The bill makes provision for cases where bad debts or prior taxes are recovered after deduction in a previous year in which no tax benefit was received. The bill provides that alimony shall be taxable to the recipient and deductible by the payor, thus reversing the result of the early case of Gould v. Gould. It provides for amortization of premium on bonds. It overturns the rule of the Enright case with respect to the accrued income of a taxpayer at the time of his death. It eliminates the narrow restriction on liquidating dividends. It changes the methods of taxing capital gains and losses. It provides a careful revision and restriction of the law with respect to pension trusts. The taxation of insurance companies is completely overhauled. For the first time, comprehensive relief provisions are included under the excess profits tax. Amendments to the estate tax deal with problems which have long existed with respect to powers of appointment and the proceeds of life insurance.

I have enumerated only a small portion of all the technical changes that have been made in this long bill. These changes have all been important in themselves. Each one has required a large amount of careful study and the preparation of repeated drafts of the statutory language necessary to carry the change into effect. Many of the changes seem very simple, but in fact have required very elaborate additions to the statute. For instance, let us take the problem of the Enright case, under which income earned by a decedent at the time of his death is lumped together with his other income and taxed as a unit in his final return. This led to harsh results, extremely unfair in many cases. It was not very difficult to reach the conclusion that it should be changed. Offhand, one would think that the change could be made in a few lines; it need only be provided that the income should be taxable to the one who actually receives it. But when the problem is actually examined, it is found to be more complex than that.

Probably the most serious difficulty comes from the inter-relation of the income tax and the estate tax. Under the rule of the Enright case, there was an income tax due, but this income tax was a liability of the estate and thus was deductible in computing the estate tax. If the rule of the Enright case, alone, were changed, there would be an income tax saving in the decedent's last return, but there would be an increase in estate tax, and an eventual income tax to the recipient of the payment.

In many cases, the net result of the change of the Enright rule would be an increase in total tax liability. It became necessary, therefore, to make provision for a deduction from the income tax eventually due of the amount of the estate tax which was paid on the income payment. The net result of all of this is 10 pages in the Revenue Bill.

A simple question is in fact quite complex. It is solved satisfactorily only with a large amount of labor. Similarly, the amendment regarding the amortization of bond premium occupies 8 pages of the bill. The amendment as to alimony requires 6 pages, the complications here resulting chiefly from the necessity of providing for the cases where payments are made through trusts and in the form of annuities.

Another problem arose in connection with the estate tax amendments. For some time it has been apparent that the present provision relating to powers of appointment is inadequate, and allows an unnecessary amount of tax avoidance. Accordingly, the Treasury recommended to the House Committee a provision which would tax the exercise or non-exercise of all powers of appointment except those which are limited to the spouse or issue of the donee, or to the spouses of his issue, or to charity. In addition to general powers, this operates to tax a considerable number of special powers. Since special powers have not heretofore been taxed at all, it was felt that some provision should be made by way of relief to those who now hold special powers which were created at a time when it was thought that they would not be taxable. Accordingly, the House bill includes a section which provides that a special power shall not be taxable if it is released by the donee within two years after the date of enactment of the amendment. A corresponding provision is included in the gift tax amendments so that such a release will not be subject to gift tax.

This provision for release was intended to be a relief provision, but it has led to curious difficulties. In the first place, it soon appeared that many special powers could not be released, or at least that there was considerable doubt as to whether they could be released. In order to take care of this situation, it was suggested that the new amendments should not apply if the power is released within two years, or if within that time, a statement is filed with the Commissioner by the donee declaring the donee's intention not to exercise the power, and if in fact he does not exercise it. This would take care of the non-releasable powers, but then another problem was encountered. Some special powers are held by infants or incompetent persons, and others are now wholly contingent until the happening of some future event. Various expedients were considered to deal with

these situations, such as allowing the filing of a statement by the guardian or committee of the donee, or providing for the filing of a statement within two years after the donee attains majority, or regains competence, or within two years after the power vests. This is all pretty complicated, as you can see, and would probably lead to a good deal of litigation. And it all results from the Treasury's effort to provide a really effective relief provision in view of the change in the law.

The Treasury would prefer to require an actual complete release, but the fact remains that many special powers probably cannot be validly released under applicable state law. Thus the filing of some sort of a statement with the Commissioner to take the place of a release seemed a necessary expedient. What would be the effect of such a statement? It would apparently have no legal effect at all. The donee would still be free to exercise the special power if he wanted to. If he did exercise it, a tax would, of course, be due. But he would be free to exercise it, which he could not do if he had actually released the power. Though the statement might be legally ineffective, would it nevertheless have some moral value? Very likely it would. Many donees who had formally declared their intention to the Commissioner not to exercise their powers might feel a very considerable obligation not to violate that statement. On the other hand, they would be just the persons who might not find it possible to file such a statement because they would feel that it was violating the trust imposed on them by the donor of the power.

Perhaps the way to handle this situation is to provide that the new amendment shall not apply to any special power outstanding on the date of enactment of the amendment unless the special power is in fact exercised. This would do away with all questions of release and releasability, and filing statements with the Commissioner, and would eliminate possible litigation over difficult questions such as when a person regained competence, or when a power vests. It does not have the conclusive effect of a release; but most powers may not be releasable. It does not have the moral value of a statement filed with the Commissioner; but that may not be very great. It would seem to achieve in the great majority of cases, the same result as the more complex methods. It is very simple and should lead to almost no litigation. It does leave the donee free to exercise the power, but only at the cost of paying the tax. Powers hereafter created would in any event be fully subject to the amended law.

I will not bother you with more illustrations of this sort. You are tax lawyers and are undoubtedly familiar with

the problems and with what has been done to meet them. You may not think that enough has been done and you may not like the way it has been done, but I think that you, more than any other group of citizens, will appreciate the fact that what has been done, for good or bad, is the product of a very large amount of real labor.

These are the technical problems. They have been worked out by the staff of the Tax Legislative Counsel in the Treasury and in cooperation with the staff of the Division of Tax Research. The conclusions of these men are then cleared through Mr. Paul and are presented to the staff of the Joint Committee on Internal Revenue Taxation. When all of these groups have agreed and approved them, the recommendations are ready for presentation to the Committee of the Congress.

These problems are important. They are the every day grist of tax lawyers. We should make the details of our tax laws as fair and as sound as possible. In no bill in recent years, I think, has so much progress been made in this direction. But this, too, is clear: These matters are not the most important problems to be faced in the formulation of a revenue bill.

Policy Problems

I would like to turn, then, to a consideration of some of the basic problems of policy with which the Treasury and Congress have been confronted.

During the present fiscal year the Federal Government will spend about \$77 billion. Under the rates of tax fixed by the bill passed by the House of Representatives, we will raise about \$23 billion of this sum by taxation in a full year. This is obviously not enough. It leaves some \$54 billion to be raised by borrowing, and the problems thus presented for our economy are very real.

Thus, we have presented the basic problem with which the Treasury has been confronted in the development of the present tax program. We must have a great increase in revenue, both to pay a part of the costs of the war, and as a means of combating inflation. With these facts in mind, the Treasury put before the Ways and Means Committee of the House of Representatives a program which on an annual basis would add \$8,700,000,000 to our tax revenues. That was the chief policy decision in this revenue bill. The Treasury believed that decision was a sound one, and has stuck to it in its presentation before the Committees of Congress.

Obviously, taxes of this magnitude cannot be raised without imposing a burden on someone. The problem is then presented: How can this burden be most equitably shared? One of the certain things about taxes is that nearly everyone thinks that somebody else ought to pay them. This has often been true in the present bill. The Treasury concluded that the fairest way to spread the burden in time of war was through a large increase in the excess profits tax and income tax on corporations, and a further increase in the income tax on individuals. It is true that the income tax does not directly reach every individual in the land, but under the rates fixed in the House bill, it does reach every single person with a net income of \$11 a week or more, and every married couple with an income of \$23 a week or more. How much of the tax burden should in fairness be borne by persons whose incomes are less than these amounts, having in mind that they already bear a considerable portion of the burden through the indirect effect of taxes which are passed on to them in the things they buy?

Sales Tax

At this stage of the problem, it became necessary for the Treasury to make an important policy decision. There was pressure for a sales tax. The Treasury decided to oppose this because it concluded that a sales tax was not an equitable way to distribute the wartime tax burden. At its very best, a sales tax is regressive. It distributes the burden most heavily on those least able to bear it. The little man with a sub-standard scale of living pays at the same rate as the big man who has an ample surplus.

A retail sales tax large enough to take 10% of the income of a person with an income of \$500, would amount to 6% on an income between \$2,000 and \$2,500, and 3% of an income over \$10,000. It would have an effect similar to imposing an income tax without exemption at the rate of 10% on an income of \$500, at 6% on an income of \$2,500, and at 3% on an income above \$10,000. Such a tax would, of course, be fantastic, and there seems to be no reason for achieving the same distribution of the tax burden through a sales tax.

But this was not the only reason why the Treasury decided to oppose the sales tax. In the first place, the yield from a sales tax is disappointing unless it is applied without qualification or exception to absolutely everything that is sold. Even at that, a large part of the present volume of transactions would not result in any tax because it consists of goods which are made directly or indirectly for the Government. The

effective tax base, therefore, consists of that diminishing supply of goods which is not being furnished ultimately to the Government for war purposes. Chief among these is food. Should the sales tax apply to food? Many advocates of the tax think that it should not. How about fuel and clothing and medicines and such items which can be classified as necessities of life? If these things are eliminated, the yield of the sales tax falls disastrously. Should we impose a sales tax on items which are already subjected to heavy excise taxation, such as tobacco and liquor? If these are eliminated, there is a further fall in revenue.

The yield question is not the only factor. There are at least two more elements which must be considered. These are the problems of administration, and the effect of a sales tax on the whole problem of stability of prices and inflation. A manufacturers' sales tax would be relatively easy to administer. There would only be a few hundred thousand taxpayers, and they would almost all have adequate books and records, so that payment would be fairly sure, and checking up would be fairly easy. A tax at the wholesale level would be more difficult. It would be paid directly by some 306,000 taxpayers, but it could be administered with a relatively small force.

A wholly different problem is presented, though, when we come to consider a retail sales tax. There are over $2\frac{1}{2}$ million business units selling at retail in this country. A tax on retail sales would require constant tax collections and frequent tax returns from every one of these more than $2\frac{1}{2}$ million taxpayers. The administrative force required would be very large. Not only is the problem one of number of employees, but it is one of their skills, and of giving them the special training they would need. Personnel of the type needed are in great demand by war industries and by many branches of the Government in connection with the management of the fighting effort. Accounting and business machines, desks, chairs, filing cases, stationery, forms, office space, and transportation for the field staff all raise additional problems.

Now let us look at the effect of a sales tax on the price control problem. It is very easy to see that a tax imposed at any other stage than the final retail sale plays havoc with our whole system of price control. A tax imposed at the manufacturing or wholesale stage would have to be treated as an ordinary cost of doing business. Mr. Henderson wrote to the Ways and Means Committee that "I confess that I shudder at the thought of how our office would be swamped if such a tax were passed." These arguments are so forceful and persuasive as to make it very plain that in the present circumstances a general

sales tax can be imposed only on retail sales. Quite apart from the question of who should bear the burden, we are thus forced squarely up against the major problems of administration which have been outlined before. These problems are such in the judgment of the Treasury as to make the imposition of a retail sales tax a matter of the very last resort.

Now let me consider with you certain other questions of policy on which the Treasury has been working.

Tax on Increased Income of Individuals

I may mention first, the proposals sometimes made for an individual excess profits tax, or what might perhaps be better called a tax on the increased income of individuals. It has been suggested that those whose incomes have increased during these war years should pay an extra tax on that increase, much the way that corporations which have increased incomes pay an excess profits tax. Such a tax has considerable charm. It is urged that it would impose the burden where the burden can best be borne, and where it should in fairness be borne, upon those who have profited from wartime wage and profit increases. It is plainly true that a mere increase in ordinary income tax rates is far from equal in its operation. Large elements of our population have reduced income at this time resulting from the many wartime dislocations. To impose increased income taxes upon them is to add to the burden which they already carry. This is recognized, and some system which would throw a larger part of this burden on incomes which have in fact increased would have elements of appeal.

Nevertheless, such a tax would present very serious problems. It would mean that two persons receiving, say, \$4,000 a year would pay very different amounts of tax because one of the persons had always received \$4,000 a year, while the other had only made an average of \$2,000 in the years before the tax period. It would not be easy to tell the \$2,000 a year man that he must now pay more taxes than the \$4,000 man even though their incomes are the same, because his had formerly been less. He would be likely to reply, and with some reason, that he was less able to pay the tax now than the other man because he had gone through the previous years with much less margin.

The administrative difficulties of such a tax would also be very great. It would introduce into every individual income tax return many of the complexities of the excess profits tax, with determinations of pre-war base period income, with complicated adjustments analogous to those in the corporation excess

profits tax, and so on. It is hard to believe that it would not be widely evaded. It would certainly greatly increase the problems of auditing and policing in the case of the small individual income tax returns.

Collection at the Source

Another important question has been presented by the problems of collecting the tax at the source. One of the major difficulties here is the "hump", that is, the fact that a mere change to collection at the source means that taxpayers must pay two years' liability out of one year's income, for this year's tax would be collected at the source while last year's tax is still due to the Government. The House bill solves this by a compromise; it includes a provision for withholding at the source but at the low rate of 5%, with the expectation that this rate will be increased in later years.

It is not surprising that efforts have been made to find some other way to meet this situation, and to put the individual income tax on a wholly current basis. The most prominent presentation of a scheme towards this end is the so-called Ruml, or the pay-as-you-go, tax plan. Under this plan, the taxpayer would pay in 1943 a tax based upon his 1942 income, but this payment would be a tentative tax payment on his 1943 income to be credited against 1943 liability, with an adjustment to be made at the end of the year to take care of any excess or deficiency in the tax.

The major obstacle to the Ruml plan is the fact that it calls for the outright cancellation of one year's tax liability. This would confer a windfall on persons who had abnormally high incomes in the year of cancellation. There are several ways in which this defect could be reduced, but not eliminated. All of them, however, are complicated. The Ruml plan, itself, involves a great deal of complexity, particularly in view of the adjustments which must be made at the end of the year. A combination of the Ruml plan with collection at the source, and various other modifications, offer interesting possibilities.

Debt Relief

Another problem has been insistently presented in connection with the current tax bill. This is the question of debt relief. Taxpayers who have principal payments to make on outstanding debts are confronted with a serious problem in view of increasing tax rates which they did not contemplate when the debts were incurred.

Interest on the debts is deductible, and accordingly does not present a serious tax problem; but the principal payments are not deductible. The taxpayer must not only pay the principal but the income tax on the principal as well. This may leave him far less to live on than he had anticipated, and leave him with no alternative but to find some way to reduce his principal payments, if he can.

The problem is presented both to corporate and to individual taxpayers. In the case of corporations, it arises chiefly where they have outstanding obligations payable serially, or through a sinking fund with a fairly heavy annual charge. It is also presented in the case of corporations who have undertaken to make payments on debts measured by a percentage of gross sales, or by a percentage of net income before taxes. In some cases, adjustments of one sort or another can probably be made. Where such adjustments cannot be effected, these corporations will be confronted with a very serious problem directly resulting from the incidence of wartime taxes.

In the case of individuals, the problem arises in various forms. The individual may have a mortgage on his house with annual principal payments due. He may have an outstanding indebtedness resulting from some liability he has incurred or for which he was responsible, such as the defalcation of an employee or an automobile accident. Somewhat related is the situation where he has insurance premiums to pay. These are not strictly debts, but there may be a certain element of compulsion about them particularly where policies have already been obtained.

Many of the debt cases present situations with real hardship. It would be a great saving for many taxpayers to allow a deduction for amounts used to pay debts. You can readily see what an effective form of relief such a deduction would be. But it raises serious problems. In the first place, it would cost the Treasury a great deal of money unless it were very narrowly confined. Perhaps even more important, such a deduction would be a very serious discrimination against those who were not in debt. Why should a man who has lived frugally, and never bought anything unless he could pay for it in cash, pay a tax on all of his income without deduction, while his neighbor who has splurged and bought various things on time and margin is allowed to deduct from his taxes the amounts he now pays for his purchases? The only fair solution, it seems, is to treat debt payments as a form of saving and to allow to all taxpayers a deduction for amounts saved whether by way of debt payment or insurance premiums or war bonds or otherwise.

Unless some limitation were imposed, this would obviously be a very serious drain on the revenue. As an inducement to saving, it might have a very considerable anti-inflationary effect, and that is an element of importance in these days. If deductions for debt payments and savings are allowed without restriction or limitation, the scheme would amount in substance to a spendings tax, that is, a tax on the amount which a person spends without including what he saves. In this way, it might be a satisfactory substitute for a sales tax, because it could have adequate exemptions and be graduated in amount. Perhaps such a spendings tax could be superimposed upon the income tax, but if that were all that was done, there would be little relief for the taxpayer in debt.

There is a very serious administrative difficulty with any of these plans. That is the question of shifting of assets. What is to keep a man from selling asset A to get the money to pay off debt B and thus get credit on his tax return for the payment of a debt? What is to keep a man from borrowing from A in order to pay B, and then borrowing from C to pay A, thus getting a series of debt payment deductions although he remains constantly in debt? As a matter of fact, what is to prevent a man today from redeeming a war bond to get the money to buy another war bond to fulfill his 10 percent pledge? The only way to prevent these shifts is to require the taxpayer to file with his tax return a complete balance sheet listing all of his assets and liabilities, and to allow the deduction only for a net decrease in outstanding liabilities, or increase in assets. Obviously, this is very complicated. Many individual taxpayers could not file the data for such a return. The problem of checking up on the data they did file would be very great.

Any effort to deal with the debt problem has so far foundered on these difficulties, but it remains a problem which is very real in the case of many individuals, and some corporations.

How Should Corporations Be Taxed?

I would like to close with the presentation of one final problem which is more or less in the nature of long-range tax policy. The problem of the proper way to tax corporations is one of great seriousness and difficulty. At the present time, we have a heavy excess profits tax, and an ordinary income tax on corporations at the rate of 45 percent under the House bill. Among other things, this places a tremendous premium on debt financing. A corporation with outstanding bonds can deduct the interest on the bonds in computing its taxes. If the same amount were outstanding in preferred stock, it would have to pay not only the

dividend on the stock, but also the tax on the income used to pay the dividend, so that the ultimate cost to it might be increased anywhere from 50 to 80 percent. There is some effect the other way because equity capital would be included in full in invested capital under the excess profits tax, while debt capital is counted only 50 percent. But this is not important where the average earnings method is used, and it is not of first importance even under the invested capital method.

There are two ways of dealing with this question. One would be to deny any deduction for interest paid, thus putting interest on an equality with dividends. Obviously, this would be disastrous. Many corporations would be quickly thrown into bankruptcy at the current tax rates. The only other alternative is to allow a deduction for dividends as well as for interest. If we could approach this question with an open mind, it seems to me that there are many reasons why this solution should be an attractive one to all concerned. The difficulty is that it amounts largely to an undistributed profits tax, that is, the corporation would be allowed to deduct in computing its tax all of the amounts which it distributed either as dividends or interest. It would thus remain taxable only on that portion of its total income which it did not distribute.

The undistributed profits tax has become surcharged with emotion, and it is difficult to get a dispassionate appraisal of the question. It seems hard to think, though, that businessmen in general would not be interested in a plan which allowed them to deduct their dividends as well as interest payments in computing corporate taxes, and thus eliminated all existing discrimination between debt and equity financing. Certainly, it would be in the general public interest to encourage equity financing, and our present tax laws work heavily in the other direction. If businessmen should come to feel that a tax which provided for the deduction of dividends as well as interest was a desirable thing even though it resembled the unlamented undistributed profits tax, it seems not unlikely that they might find a sympathetic ear at the Treasury.

Conclusion

I have tried to outline some of the problems which have been faced in formulating the current tax bill. There is one more point which I would especially like to try to put before this audience as earnestly and as pleasantly as I can. What is the function of the organized bar, particularly of the organized tax lawyers in our bar associations, in solving these problems of war taxation? I have felt for some time, and I know

that Mr. Paul shares this view, that the Bar Association might play a more important role in these matters than it has in the recent past. We have here a great reservoir of highly specialized knowledge held by men of known public spirit who often give freely of their time in many public causes. Yet, the recommendations of the Bar Association in the federal tax field are often confined to the smallest matters, and very often are limited to points which primarily affect lawyers themselves as a class in the community, or the particular interests of their clients.

Except for those of us who take refuge on the public payroll, we must all have private clients. That is all to the good. Lawyers who appear avowedly for clients perform a real service in the legislative process. But the bar is also a public calling, as Chief Justice Stone once emphasized in the title of his important address: "The Public Influence of the Bar."

The organized bar is one of the important means by which lawyers can bring their powers to bear on public questions. It seems not impossible that the usefulness of the organized tax bar would be enhanced, and its influence extended, if it could find a way to approach many of these questions from the broadest point of view. Its recommendations would then rise above the atmosphere of special pleading for a limited group. They would strike at the heart of the basic problems with which we are now confronted. The bar might thus assume a position of leadership in the development of our tax program.

TREASURY DEPARTMENT
Washington

FOR RELEASE, MORNING NEWSPAPERS,
Tuesday, August 25, 1942.
8/24/42

Press Service
No. 32-96

The Secretary of the Treasury announced last evening that the tenders for \$350,000,000, or thereabouts, of 91-day Treasury bills to be dated August 26 and to mature November 25, 1942, which were offered on August 21, were opened at the Federal Reserve Banks on August 24.

The details of this issue are as follows:

Total applied for - \$891,602,000
Total accepted - 352,883,000

Range of accepted bids:

High - 99.925 Equivalent rate approximately 0.297
percent
Low - 99.906 Equivalent rate approximately 0.372
percent
Average price - 99.907 Equivalent rate approximately 0.369
percent

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

TREASURY DEPARTMENT
Washington

FOR IMMEDIATE RELEASE,
Monday, August 25, 1942.

Press Service
No. 32-97

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 June 30, 1942, inclusive, as follows:

Products of Philippine Islands	: <u>Established Quota</u> : Period	: <u>Quantity</u>	: Unit of : Quantity	: Imports as of : June 30, 1942
Coconut oil	Calendar year	448,000,000	Pound	31,149,515
Refined sugars	Calendar year	112,000,000)	Pound	2,346,712
)		
)		
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	209,465

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.

THIS RELEASE IS TEMPORARILY DISCONTINUED AS OF THIS DATE.

TREASURY DEPARTMENT
Washington

FOR RELEASE, MORNING NEWSPAPERS,
Friday, August 28, 1942.
8/27/42

The Secretary of the Treasury, by this public notice, invites tenders for \$350,000,000, 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 September 2, 1942, and will mature December 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, August 31, 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 September 2, 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,
Tuesday, September 1, 1942.

Press Service
No. 32-99

The Treasury Department today made public the following message from Secretary Morgenthau to the American Bankers Association which, this year, has abandoned its annual convention as a conservation measure:

We have come through a year of stress and strain since I last had the privilege of addressing the American Bankers Association on the subject of our financial and economic problems.

When I spoke to you in Chicago last October, coming events were already casting their shadow. At that time, and in the light of our financial experiences in the former World War, I reviewed the perils of inflation facing us, and I asked you to constitute yourselves sentinels of the nation, in your own banks and your own communities, to guard against any private encroachment upon the resources of materials or of credit needed for the national effort.

If this were not a moment of such deadly seriousness for our nation and for all free men, I might be tempted to think that we had not done too badly in our war financing in the year that has passed. By "we" I mean, of course, the American people, but also, in a special sense, the Treasury, the Federal Reserve System and the bankers, working together in a new partnership which we have entered into for the duration of the war -- indeed, I hope for a much longer time, for our partnership must look beyond victory to the peace we shall have to win together.

In the fiscal year that ended June 30, \$36 billion poured into the Treasury in tax revenues and in all forms of borrowing. There is no parallel in our history for this money-raising achievement, nor has the Government ever been able to draw upon such a wide variety of funds. We have not only raised \$13 billion from taxes, but we have also borrowed a net amount of \$3 billion through the sale of Tax Anticipation Notes. We have not only resorted to the conventional forms of borrowing from the banks and regular investors, but we have also enlisted additional institutional funds by issuing new types of securities, and we have sold War Savings Bonds to some 20 million Americans to a total of \$6 billion in the fiscal year just ended.

Without wishing to seem complacent -- for complacency is as dangerous as a dozen of the enemy's mechanized divisions -- I think it only right to call attention to these unprecedented borrowings, so smoothly carried out that the country as a whole has hardly become aware of their magnitude. We are surrounded at this moment by economic as well as military dangers, yet it is cause for some satisfaction that inflation has been more effectively controlled to date in this war, in the face of a production and expenditure program of immensely greater dimensions, than in the corresponding stage of our participation in the World War of 25 years ago.

I have just seen an estimate by the Department of Commerce showing that the people's savings in the first two quarters of 1942 were more than twice as great as in 1941, due partly to price ceilings, credit restrictions and to the growing shortages of many kinds of consumers' goods, but also in very large measure to the people's awareness of the need for saving. The estimate shows individual savings at an annual rate of almost \$25 billion in the second quarter of this year, as compared with an annual rate of approximately \$10 billion for the same period last year.

These results would not have been possible without the voluntary cooperation of millions of Americans representing every state and section, every occupation, every national background, race and creed.

In this voluntary program the bankers of America have stood in the forefront. They have given the equivalent of 25,000 full-time employees to the sale and promotion of War Bonds, and 85 per cent of the sales made have been through the banks. They have been fighting in the front lines of our battle on the home front by carrying out the restrictions of Regulation W on consumer credit, by keeping a careful watch on all applications for non-essential loans, and by helping to freeze foreign funds which the enemy might have used to spy upon our war effort, to sabotage our production, or to demoralize our people. They have given their time and energy to this effort without thought of any compensation except the knowledge that they were helping their country in its time of greatest need.

I have said before on repeated occasions that we at the Treasury are deeply grateful to the Federal Reserve System and to every individual banker who has helped the program of war financing, and I should like to express my thanks once more for a splendid exhibition of cooperation and patriotism.

Yet we cannot afford to congratulate ourselves at this critical stage of the war. Whatever was accomplished in the past fiscal year is of little relevance when we remember the size of the financial as well as the military job ahead of us.

It would be carrying coals to Newcastle to explain to the bankers of America the magnitude of the financial problem confronting our Government this year in meeting the many and urgent demands of the war. You

know that we shall have to borrow more than \$50 billion in one way or another in the present fiscal year, even if Congress enacts a tax bill to yield \$8.7 billion of additional revenue, as we at the Treasury have urged. Without any elaboration from me you can appreciate what the borrowing of \$50 billion will entail.

The problem itself involves more than simply raising the money to pay the bills. To begin with, we have to manage our fiscal affairs so that the financial burden is distributed equitably. In achieving this, we must avoid any maneuver that threatens to hinder the maximum efficiency of our war production.

Above all, we must find the means to devote more than half of our national income this year solely to war purposes, yet without slackening the determination of the American people to win this war and win it outright. Our taxes and our borrowings must not handcuff the hands already willing to work for victory.

You would, I suppose, like me to give you some guidance as to the methods by which the Treasury proposes to raise these truly colossal sums. I wish that I could give you that guidance, but frankly, none of us can see more than a few months ahead through the murk of this most unpredictable of all wars. Besides, the decision in all cases does not rest with the Treasury alone.

I would not venture to guess, for example, what the new tax bill will yield, although I know that the American people are ready for a courageous tax program. In fact, they are ready to bear even greater burdens than the Treasury's minimum proposals of \$8.7 billion in new revenue would impose upon them. I would not hazard a guess as to the future of rationing, although I feel deeply that we shall have to extend the scope and the severity of rationing before this year has ended.

I can, however, offer what I may call broad hints, based upon the principles which we have so far followed in our wartime financing and upon the dimensions of the task in which we are now engaged.

You may take it for granted that we shall continue to seek funds both from current and accumulated savings. In the field of taxes, we shall follow the enactment of a new revenue bill with renewed efforts to make the collection of taxes more effective. To this end we must intensify the sale of Tax Anticipation Notes, which afford millions of taxpayers the easiest possible method of saving in advance for the taxes that will be due next Spring.

In borrowing from the people directly, we intend to make every effort to reach and surpass our announced goal of \$12 billion from the sale of War Bonds and Stamps in the fiscal year that ends June 30, 1943.

As I write these lines, the sales figures for July, amounting to more than \$900 million in a month, give us real ground for encouragement. So also does the fact that the sales of Series E bonds in the smaller denominations have shown a striking increase in recent months. Most encouraging of all is the increase in the number of workers purchasing War Savings Bonds through payroll deductions.

There are now more than 110 thousand firms, employing over 25 million workers, that have a payroll savings plan in operation. In the month of July alone more than 18 million workers subscribed \$200 million out of their pay for War Bond purchases, and payroll deductions are increasing at the rate of about \$40 million per month.

We confidently expect that by the end of 1942 well over 20 million employees will be regularly investing at a rate approaching 10 per cent of their gross earnings

through payroll savings. This will mean that from \$350 million to \$400 million a month would be deducted voluntarily from payrolls next year to buy War Bonds. During 1943, on this basis, nearly \$5 billion worth of War Bonds would be purchased in this way -- all out of current wages and salaries, and all representing what we can regard as non-inflationary borrowing at its best.

Even if the War Bond sales realize all my expectations, we shall have to borrow increasingly and in utterly unprecedented amounts from other sources.

The members of the American Bankers Association are acutely aware of the hazards we run if we rely more than is necessary on the sale of government securities to commercial banks. I often think, however, that the distinction between sales of government securities to commercial banks and sales to others is over-emphasized. What we are really trying to do is to sell as large a proportion of our securities as possible in such a way that their proceeds, when spent by the Government, will not constitute a net addition to the total spending of the economy.

I think it worth remembering that sales of government securities to commercial banks do not add to the total spending of the economy if they are offset by decreases in the loans or other investments in banks, or if they are offset by the accumulation of balances in the banks which are genuine savings of depositors.

It is necessary, therefore, that we at the Treasury should go far deeper than the superficial distinction between sales of government securities to banks and those to others and that we should look closely at the real sources of the funds. The most desirable source of funds, is, of course, money borrowed from the current savings of the country. A substantial proportion of the proceeds of all classes of government securities

sold -- including some of those sold to commercial banks -- comes directly or indirectly from this source.

Yet inflation cannot be curbed merely by the passage of a courageous tax bill or by the successful borrowing of vast sums from current savings, or by a combination of bold and intelligent taxing and borrowing. We undoubtedly shall find it necessary to adopt more drastic control of consumer spending, in one form or another, than anything yet applied. I should not like to predict at this stage, for prediction is more than ever dangerous, but I do want you to be prepared for new controls and new sacrifices as the war moves into a new and more intense phase.

We have heard so much talk lately about the function of finance in winning this war and in checking inflation that I should like to clear the air on one point. Financial policies do not of themselves win wars. Wars are decided by battles. But the necessity for winning battles does not diminish the importance of raising the money to fight them. Nor does it lessen our responsibility for raising the money in a way that husbands the strength of the civilian economy instead of wasting it. For though wars may not be won by financial triumphs, they can be lost by financial blunders.

The successful financing of the war is, therefore, vital for victory. It is our job, and we must do it. It is our problem, and it is up to us to solve it.

As I told the Senate Finance Committee in July, I am convinced that the American people are ready for sacrifices greater than we imagine. I know also that American bankers as individuals and as a group are ready to put forth any effort that may be needed. Our

war effort is calling upon the skill and the resources and the leadership of the American banker as never before. It demands of him a leadership and a sacrifice above and beyond his own private interests. At the same time, its success is essential to his survival.

In another crisis that brought anxious moments and dark days to us a quarter of a century ago, Woodrow Wilson said, "America is not anything if it consists of each of us. It is something only if it consists of all of us; and it can consist of all of us only as our spirits are banded together in a common enterprise: the enterprise of liberty and justice and right." These were the words of a great American at another time when the fibre of our nation was being tested. They are a watchword for every American today.