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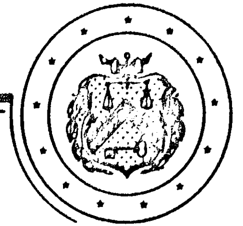

WASHINGTON, D.C.

May 1, 1961

R RELEASE A. M. NEWSPAPERS, Tuesday, May 2, 1961.

RESULTS OF TREASURY'S WEEKLY BILL OFFERING

The Treasury Department announced last evening that the tenders for two series of easury bills, one series to be an additional issue of the bills dated February 2, 1961 d the other series to be dated May 4, 1961, which were offered on April 26, were opene the Federal Reserve Banks on May 1. Tenders were invited for $1,100,000,000, or ereabouts, of 91-day bills and for $500,000,000, or thereabouts, of 182-day bills. Th tails of the two series are as follows:

NGE OF ACCEPTED MPETITIVE BIDS:	91-day Treasury bills maturing August 3, 1961		:	182-day Treasury bills maturing November 2, 1961	
	Price	Approx. Equiv. Annual Rate	:	Price	Approx. Equiv. Annual Rate
High	99.428	2.263%	:	98.800	2.374%
Low	99.416	2.310%	:	98.770	2.433%
Average	99.419	2.300% 1/	:	98.778	2.417% 1/

94 percent of the amount of 91-day bills bid for at the low price was accepted
77 percent of the amount of 182-day bills bid for at the low price was accepted

TAL TENDERS APPLIED FOR AND ACCEPTED BY FEDERAL RESERVE DISTRICTS:

District	Applied For	Accepted	:	Applied For	Accepted
Boston	$ 23,089,000	$ 11,089,000	:	$ 1,776,000	$ 1,776,000
New York	1,535,259,000	722,982,000	:	801,299,000	396,319,000
Philadelphia	26,830,000	11,822,000	:	6,980,000	1,980,000
Cleveland	28,199,000	23,199,000	:	20,206,000	14,056,000
Richmond	8,177,000	8,177,000	:	1,072,000	1,072,000
Atlanta	23,484,000	14,384,000	:	3,167,000	2,967,000
Chicago	219,893,000	117,853,000	:	77,015,000	47,785,000
St. Louis	18,751,000	13,751,000	:	4,681,000	3,681,000
Minneapolis	15,328,000	8,810,000	:	5,155,000	2,969,000
Kansas City	32,942,000	19,753,000	:	4,967,000	4,944,000
Dallas	13,059,000	13,059,000	:	3,415,000	3,415,000
San Francisco	141,975,000	135,765,000	:	19,903,000	19,288,000
	$2,086,986,000	$1,100,644,000 a/		$949,636,000	$500,252,000 b/

Includes $180,037,000 noncompetitive tenders accepted at the average price of 99.419
Includes $36,986,000 noncompetitive tenders accepted at the average price of 98.778
On a coupon issue of the same length and for the same amount invested, the return on these bills would provide yields of 2.35%, for the 91-day bills, and 2.48%, for the 182-day bills. Interest rates on bills are quoted in terms of bank discount with the return related to the face amount of the bills payable at maturity rather than the amount invested and their length in actual number of days related to a 360-day year. In contrast, yields on certificates, notes, and bonds are computed in terms of interest on the amount invested, and relate the number of days remaining in an interest payment period to the actual number of days in the period, with semiannual compounding if more than one coupon period is involved.

to achieve a sustainable equilibrium in our balance of payments.

We cannot relax, for there will be no let-up in the growing pressure of world wide competition.

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While it is difficult to make exact estimates, we believe that elimination of the tax-deferral privilege in industralized countrie and the restriction of tax havens everywhere, will yield some two hundred and fifty million dollars annually in additional taxes -- ~~and~~ plus a substantial additional amount in balance of payments savings. This represents a significant and much-needed contribution to the solution of our long-range balance of payments problem.

In conclusion, I should like to say just a few words about the relationship between our balance of payments and our domestic economy:

The two largest items by far in our international accounts are exports and imports.

As our economic activity expands, we normally may expect an increase in imports. At the same time, we may experience upward pressures on domestic prices which would bring with them a decline in exports. We must resist these pressures. This is essential if we are to maintain and improve our position in world markets. Our export prices must continue to be fully competitive if we are

The tax-deferral privilege, as it is called, has fostered the use of tax "havens", which permit enterprises to pay very little tax -- or to escape paying taxes altogether -- either to the United States or to the country in which their business is principally conducted. This is most clearly demonstrated by the stampede to Switzerland, where over two hundred new American-owned companies were established during the past year.

In addition, tax deferral inevitably favors investment abroad over investment at home. Other things being equal, companies are naturally inclined to invest where tax rates are lowest. Corporate income tax rates in some European countries are a bit lower than in the United States -- although in Germany, France, and England, the differential is virtually non-existent. The elimination of tax deferral will not have a substantial effect on companies operating in these countries and it will promote equity by placing investment at home and abroad on a fully equal footing.

present and future net income from abroad. Indeed, in 1960, we received two billion four hundred million dollars from this source. But we must realize that, while the earnings remitted from investmen which we have built up abroad over the years are substantial, they still are being offset to a very sizeable extent by yearly outflows of new capital. This is particularly true in the case of the industralized countries. For instance, new capital outflows to Western Europe and Canada generally exceed the return flow from these same areas.

While it is in our national interest to continue to promote direct United States investment in countries in the earlier stages of devèlopment so that they may benefit from American capital, technical know-how, and managerial skills, we do not see any reason why we should continue to provide special incentives for United States investment in the prospering industralized countries. We believe the time has come to terminate incentives in our tax laws that enable American companies to defer payment of United States income tax on the unremitted earnings of their subsidiaries in these countries.

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Although we must spare no effort to strengthen our export surplus, we cannot overlook other possibilities for strengthening our position. A major area is capital transactions, including long-term investments, which have an important impact on our international payments.

Our past direct investments have built a strong base for

international cooperation so as to moderate the size and violence of shifts of short-term capital.

The combination of these measures will, we hope, do a great deal to solve our balance of payments problem. As for the immediate outlook, I am sure you will want to know how we are doing so far in 1961. Since only preliminary figures are at hand, all that I can tell you is necessarily tentative. We have had a substantial improvement in our payments position during the first quarter of 1961. Our export surplus remains high. Confidence in the dollar has been restored. Gold stopped flowing out after February and there was a small inflow during March. It is probable that our usual "basic" deficit was replaced by a modest surplus for the first quarter of this year. But, because of the continuing outflow of short-term funds -- even though at a much lower rate -- we still recorded an overall loss of gold and dollars for the period. This relatively modest loss was, however, in sharp contrast to the very large loss of the previous quarter.

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- The President has requested tax legislation as an investment incentive to American business designed to help modernize our plant and improve our competitive position in export markets.

- Our military and economic assistance programs are being administered so as to place primary emphasis upon procurement of American goods.

- The Congress is preparing to act on Administration legislation cutting down on duty-free tourist allowances in order to reduce the encouragement to United States travellers to spend their dollars abroad.

- Through the promotion of foreign travel to the United States and of foreign investment in the United States, we are endeavoring to increase our receipts on service and capital accounts.

- We are examining the possibilities of strengthening the international monetary system.

- We are seeking through the Organization for Economic Cooperation and Development to encourage increased economic development contributions by other industrialized countries, as well as to improve

For instance in 1960, it is estimated that over two billion dollars of our two billion eight hundred million dollar total of foreign economic assistance represented payments for United States goods and services. As a matter of fact, taking merchandise alone, goods shipped from the United States under our foreign economic aid programs were equivalent to nearly half of our merchandise export surplus.

In attacking our basic payments problem, the Administration is seeking to avoid damage to our national security and to take actions consistent with our international obligations. President Kennedy has been moving on many fronts:

- The Export-Import Bank is expanding its export credit guarantee program.

and developing countries is critically necessary to our own survival as members of the free world. It is fallacious because most of our foreign economic assistance is in the form of United States goods and services which would not otherwise enter our export picture. These goods and services are a vital contribution to the developing countries and go to areas which cannot afford to pay cash for them. They are also an important contribution to our export surplus, since foreign aid shipments are included in our commercial export statistics.

How is this basic deficit created? By the simple circumstance that, even though we have large export surpluses, they have not been sufficient to meet the expenditures we must make abroad in our national interest to maintain our military installations, to conduct our foreign economic assistance programs, and to cover the investmen of private capital and the transfer of private remittances. In 1960, our export surplus of goods and services amounted to almost seven billion dollars. But our major non-trade expenditures were over eight and a half billion dollars: three billion dollars for our military forces abroad, two billion eight hundred million dollars for economic assistance, two billion dollars for net long-term United States private investment abroad and foreign investment in this country, and, finally, eight hundred million dollars for remittances.

The cry is sometimes raised that we could solve our payments problem by curtailing our programs of economic aid to needy peoples in Asia, Africa, and Latin America. This is as unrealistic as it is fallacious. It is unrealistic because our assistance to the new

Nevertheless, heavy short-term capital outflows can, and last year did, result in large transfers of gold. They pose a severe threat to international financial relationships because they can bring loss of confidence in their wake. Closer international co-operation is therefore required to prevent excessive differentials in interest rates and other conditions which may stimulate such out-flows. Hence, we are now regularly consulting with friendly finan-cial and central bank officials in order to achieve the needed co-ordination. We hope to continue and improve these consultations through the new Organization for Economic Cooperation and Development and in other appropriate ways.

Now, as to our "basic" deficit:

If estimated short-term capital movements are excluded from the international accounts of the United States, we find that our basic deficit in 1960 was not three billion eight hundred million, but nearer one billion five hundred million dollars. It is this deficit which is the persisting hard core of our balance of payments problem.

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To put it simply, when an American transfers his money from New York to invest at short-term in London or Frankfort, he purchases sterling or deutsch marks with dollars -- thus increasing the United States "deficit" in the conventional sense. However, he also acquires a short-term claim in the same amount against sterling or deutsch marks -- a claim that can be quickly reconverted to dollars whenever he decides to shift his funds back home. Consequently, to include such short-term capital outflows in our deficit is to record liabilities without recording equivalent assets. This has the effect of making the payments position of recipient countries appear stronger than they really are, and of making our position appear weaker than it really is.

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In 1958, we returned again to a deficit, but this time on a very large scale: a deficit of three billion five hundred million dollars, almost triple the 1951-56 average. The following year, our deficit rose to three billion eight hundred million dollars. And last year it once again reached three billion eight hundred million.

In contrast to the pre-Suez years, the deficits of 1958-60 were accompanied by substantial outflows of gold from the United States which in part reflected the decision of some foreign countries to revert to their customary practice of holding in gold a larger share of their over-all monetary reserves.

In looking back at 1960, when there was a large outflow of short-term capital, it is quite apparent that our traditional method of measuring a deficit can be misleading in this new era of convertible currencies. Because of currency convertibility, short-term capital movements last year were on a scale not seen since

trade and payments from exchange controls. This convertibility of th major currencies -- which is of great benefit to the export trade of th United States, but which had not existed since before World War II -- was achieved for all practical purposes at the end of 1958, and was formally recognized by the International Monetary Fund just last February.

The deficits of 1951-56 generated only a small outflow of gold from the United States. They were reflected, instead, by increases in foreign liquid dollar holdings -- which became a part of the monetary reserves of our friends and allies abroad. The importance of the dollar as a reserve currency was thereby greatly increased. So, consequently, was the responsibility of the United States to maintain the value of the dollar as a reserve currency.

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The facts of our international payments position have been widely discussed in the past two years. At times they have been both over-dramatized with unfounded alarm and underplayed with unwarranted complacency. To help put them into proper focus, let me review them briefly:

From the beginning of 1951 to the end of 1956, when European currencies were approaching convertibility, the United States ran a deficit in its balance of payments which averaged one billion two hundred million dollars a year. The total deficit for these six years was seven billion two hundred million dollars.

During that critical period of recovery from the ravages of World War II, these deficits played a useful role. They helped to rebuild the shattered financial structures of other free nations. They helped to bring the world-wide dollar shortage to an end. They gave to Western Europe ~~and Japan~~ the extra reserves needed to restore convertibility to their currencies -- thus releasing free wo

TREASURY DEPARTMENT
Washington

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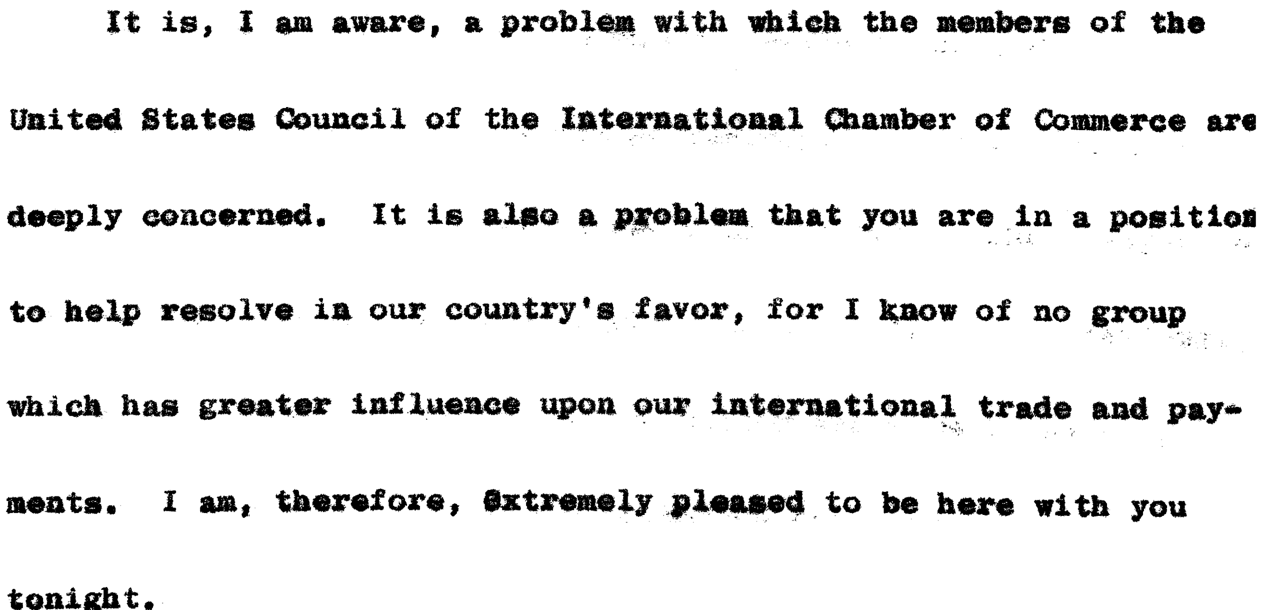
FOR RELEASE: 6:30 PM.,EDT May 2, 1961

**REMARKS OF THE HONORABLE DOUGLAS DILLON,
SECRETARY OF THE TREASURY,
AT ANNUAL DINNER OF UNITED STATES COUNCIL
OF THE INTERNATIONAL CHAMBER OF COMMERCE,
SHERATON EAST HOTEL, NEW YORK CITY
TUESDAY, MAY 2, 1961, 7:00 P.M., EDT**

The most important single problem confronting our Nation in the field of international finance today is how to achieve and maintain over-all balance in our international payments -- the accounting which shows the results of all of our trade and financial relations with the rest of the world.



It is, I am aware, a problem with which the members of the United States Council of the International Chamber of Commerce are deeply concerned. It is also a problem that you are in a position to help resolve in our country's favor, for I know of no group which has greater influence upon our international trade and payments. I am, therefore, extremely pleased to be here with you tonight.

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Washington, D.C.

IMMEDIATE RELEASE
May 2, 1961

The Treasury Department today announced the appointment of Mr. Carl W. Clewlow, effective May 22, 1961, as Deputy Administrative Assistant Secretary and Director of the Office of Management and Organization. Mr. Clewlow will assist the Administrative Assistant Secretary in the discharge of his responsibilities and will give personal direction to the Department's Management Improvement Program.

Mr. Clewlow, in the Federal career service for nearly twenty-two years, was selected from a panel developed by the Civil Service Commission from its newly established Career Executive Roster. For the past several years, he has been Director of the Office of Analysis and Review in the Office of the Under Secretary of the Army.

Mr. Clewlow began his career with the Federal Government in 1939 after several years with Servel, Inc., of Evansville, Indiana. His service has been primarily in the Army, both as a civilian and in uniform during World War II, though he had several assignments in the Executive Office of the President as Assistant Director, Production Division, National Security Resources Board; Assistant to the Director, Office of Defense Mobilization; and Deputy for Programs, National Security Resources Board.

While with the Department of the Army, Mr. Clewlow received the Meritorious Civilian Award. He also received the Arthur S. Flemming Award from the U.S. Junior Chamber of Commerce as one of ten outstanding young men in Government.

Mr. Clewlow was born at Evansville, Indiana, June 25, 1916. He received his A.B. and A.M. degrees from George Washington University, and is now completing his Ph.D. at American University. He has been active in community organizations. He has been a visiting lecturer at Syracuse University, the University of Pittsburgh, American University, and Florida State University, and a Professorial Lecturer at George Washington University, teaching graduate courses in Advanced Management, Management Engineering and Office Management.

Mr. Clewlow was married to Beulah Hutchinson in 1940. They have four children and live at 203 Poplar Drive, Falls Church, Virginia.

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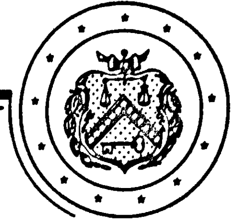
TREASURY DEPARTMENT



WASHINGTON, D.C.

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Mr. Clewlow began his career with the Federal Government in 1939 after several years with Servel, Inc., of Evansville, Indiana. His service has been primarily in the Army, both as a civilian and in uniform during World War II, though he had several assignments in the Executive Office of the President as Assistant Director, Production Division, National Security Resources Board; Assistant to the Director, Office of Defense Mobilization; and Deputy for Programs, National Security Resources Board.

While with the Department of the Army, Mr. Clewlow received the Meritorious Civilian Award. He also received the Arthur S. Flemming Award from the U.S. Junior Chamber of Commerce as one of ten outstanding young men in Government.

Mr. Clewlow was born at Evansville, Indiana, June 25, 1916. He received his A.B. and A.M. degrees from George Washington University, and is now completing his Ph.D. at American University. He has been active in community organizations. He has been a visiting lecturer at Syracuse University, the University of Pittsburgh, American University, and Florida State University, and a Professorial Lecturer at George Washington University, teaching graduate courses in Advanced Management, Management Engineering and Office Management.

Mr. Clewlow was married to Beulah Hutchinson in 1940. They have four children and live at 203 Poplar Drive, Falls Church, Virginia.

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TREASURY DEPARTMENT
Washington

May 3, 1961

FOR RELEASE: UPON DELIVERY

STATEMENT BY THE HONORABLE DOUGLAS DILLON,
SECRETARY OF THE TREASURY
BEFORE THE COMMITTEE ON WAYS AND MEANS
OF THE HOUSE OF REPRESENTATIVES,
ON THE PRESIDENT'S MESSAGE ON TAXATION
WEDNESDAY, MAY 3, 1961, 10:00 A.M., EDT

The central objectives of the President's current tax program are:

First, to encourage modernization and expansion of American industry;

Second, to remove tax advantages no longer justified that are now enjoyed by some American firms with investments overseas;

Third, to correct certain evident flaws in our income tax structure;

Fourth, to extend present corporation income and excise tax rates so as to maintain needed revenues during the coming years; and

Fifth, to improve important aspects of tax administration.

This program will bring substantial gains to the American economy. Its prompt enactment is urgently needed to stimulate the gathering forces of economic recovery, to create new jobs, to strengthen the competitive position of American enterprise, and to reduce our balance of payments deficit.

The program will also take us an important first step towards our longer run objectives of tax reform, which are to adapt our tax system to the requirements of a dynamically expanding economy, to provide for a broader and more uniform tax base, and, as a consequence, to permit reconsideration of the entire rate and bracket structure.

I. Tax Incentives for Modernization and Expansion

The President's message urges that "modernization and expansion of the nation's productive plant and equipment are essential to raise productivity, to accelerate economic growth, and to strengthen our competitive position in world markets." For this purpose, he proposes that an investment credit be provided under the income tax. This credit offers the most powerful and efficient type of tax incentive.

Why We Need a Tax Incentive

As we look back over the past century we see that our record of economic growth has been unmatched anywhere in the world. But of late we have fallen behind. From an historic growth rate of 3 percent per annum in gross national product (1909-1956, in constant prices), we have fallen to 2 percent in the latter part of the 50's. In the last five years Western Europe has grown at double or triple our recent rate and Japan has grown even faster. While there is some debate as to the precise annual growth rate of the Soviet economy, CIA estimates that their GNP grew at a rate of 7 percent in the 50's. Clearly, we must improve our performance. Otherwise, we cannot maintain our national security, we cannot maintain our position of leadership in the eyes of the world and we cannot achieve our national aspirations. The pressing task before us, then, is to restore the vigor of our economy and to return to our traditionally high rate of economic expansion and growth.

I am confident this can be accomplished. But it will require a major effort by all of us.

I have been impressed during recent travels abroad by the great progress our friends overseas have made in reconstructing their economies since World War II and by the highly modern and efficient plants they now have at their disposal. We can take justifiable pride in our contribution to their recovery, for all of us stand to gain from economic progress anywhere in the free world. But we must recognize that our friends are once again our vigorous competitors. And we cannot overlook the challenge which their competition represents to our economy.

Obviously, we cannot hope to meet this challenge with aging and obsolescent plant and equipment. The average age of our plant today is 24 years. While this is an improvement over the immediate post-war years, our plant is much older than during the 20's. Much more serious is the fact that the average age of our business machinery and equipment has been rising over the past decade. It now averages more than nine years, and from 1954 to 1959, the stock of equipment over ten years old rose by 50 percent. While no comparable figures are available for Western Europe, all the information we do have indicates that the plant and equipment of our friends and competitors are considerably younger than ours.

Although this difference reflects the rebuilding of the shattered European economies, I think it important to emphasize

that it was due in good part to the vigorous policies of the European governments. Tax incentives for investment played a significant role, including accelerated depreciation, initial allowances and investment credits. Accelerated depreciation now provides for twice the straight-line rate under the double declining balance method in West Germany for equipment only and in Canada for plant and equipment -- as we also do in the United States for both plant and equipment. It provides for 2-1/2 times the straight-line rate in France. The United Kingdom permits several depreciation deductions from income of 5 percent of the cost of plant in the first year, and 10 percent in the case of machinery, with the balance depreciated under normal procedures concurrently. Holland permits 33-1/3 percent of the cost of machinery to be deducted over the first 4 years (for buildings, 5-1/2 years), while Italy permits 40 percent over the same period, and in both cases the balance depreciated concurrently. The most liberal provisions are found in Sweden, where the entire cost of equipment may be written off in five years. Three Western European countries provide for deductions from income of special investment allowances above cost, which are similar to the technique we are now recommending. These include a 10 percent allowance over 2 years in Holland, an allowance of 10 percent on plant and 20 percent on equipment in the United Kingdom, and in Belgium, a 30 percent allowance spread over three years on expenditures in excess of depreciation and proceeds from sale of depreciable assets.

All of our citizens will benefit from modernization of our industry. A basic fact of economic life is that modernization and expansion are essential to higher productivity. Rising productivity will provide us with a rising level of per capita income, with resultant and widely shared benefits in the form of rising real wages and rising investment incomes. Rising productivity will also permit us to hold prices down. But rapid economic change is not without cost. Progress alters established modes of production and creates hardships of transition. As noted in the President's message, this imposes serious responsibilities on government to facilitate readjustment and spread these hardships equitably.

A most important contribution can be made by maintaining a high level of employment and capacity utilization. The fruits of modernization and capital expansion are increasingly realized as fuller use is made of all our productive resources. Moreover, the higher level of capital formation which will be induced by our proposed investment credit, will generate added demand, which is much needed at this time to raise our over-all economic activity. The resultant increase in jobs is estimated in the President's message at about five hundred thousand.

The investment credit is needed this year to stimulate modernization of our plant so that we can secure a higher rate of growth, create jobs and stabilize the dollar both at home and abroad. There is not a moment to lose.

Proposed Method of Investment Stimulus

The tax credit provides the most powerful stimulant at the lowest cost in revenues for a given incentive effect. The investment credit, while new to tax practice in the United States, is not a novel invention of this Administration. As I noted earlier, similar approaches are found in the United Kingdom, the Netherlands, and Belgium. The proposed investment credit follows their general approach but is adapted to the needs of our own economy.

We propose, therefore, that the investor be given a credit against tax equal to 15 percent of eligible investment expenditures in excess of depreciation allowance; and in addition that he be given a credit of 6 percent of investment between 50 percent and 100 percent of depreciation. As a floor, in lieu of these credits, a credit would be provided of 10 percent on the first $5,000 of investment, regardless of whether it was more or less than depreciation. As an upper limit, the credit would not be allowed to exceed 30 percent of tax liability, but a 5-year carryover of unused tax credit would be provided. The credit would apply to investment expenditures made after January 1 of this year and would be available to individually owned firms as well as to corporations. It would be separate from and in addition to subsequent depreciation of the asset under existing depreciation rules.

Let me illustrate the method of computing the credit. Suppose a firm has depreciation deductions of $100,000. If it spends $150,000 on new plant and equipment or $50,000 in excess of its depreciation, its credit would amount to 15 percent on the $50,000 excess or $7,500 plus 6 percent or $3,000 on the $50,000 expenditures between 50 and 100 percent of depreciation. This would give it a total credit of $10,500. If the firm spent $100,000, it would not qualify for the 15 percent credit, but would receive the 6 percent credit or $3,000 on the $50,000 expenditures between 50 and 100 percent of depreciation. If the firm spent less than $50,000, it would qualify for neither the 6 percent nor the 15 percent credit, but would have a minimum credit of 10 percent on the first $5,000 of its investments.

The 15 percent credit is very substantial. It is the equivalent of a deduction of 29 percent of the cost of an asset for a corporation subject to the 52 percent tax rate; a deduction of 50 percent of cost for small corporations subject to the 30 percent tax rate; and a deduction of 75 percent for an individually owned firm subject to the first bracket rate under the personal income tax. As noted later, it is largely because of this advantage to the small firm that we favor the credit over the deduction method.

The details of the proposed investment credit are set forth in the detailed explanation which has just been submitted to you. As shown there, appropriate provisions for averaging would be

made to avoid undesirable bunching of investment and inequities between firms. The method would consist of carrying over as an addition to depreciation in future years the excess of current-year depreciation over current-year investment. This carryover would be for a 5-year period. Thus, firms would have to offset current depreciation plus cumulated deficiencies in investment over a five year period starting with 1961.

In order to obtain the maximum contribution to modernization and capital expansion, eligible investment expenditures would be limited to expenditures on new plant and equipment, and to assets with a life of six years or more. Investment in plant and equipment located outside the United States would be excluded as would be investment by public utilities, other than transportation, and investment in residential construction, including hotels and apartment buildings. As stated in the President's Message, the credit should become a useful and continuous part of our tax structure. While it would be subject to periodic review, it is not intended as a temporary measure. The estimated revenue cost of the credit would be $1.7 billion per annum.

Advantages of Investment Credit

As stated in the President's message, "The proposed credit is designed to give the greatest inducement to investment for the revenue loss involved." The intent is to stimulate investment, not to give general relief to one particular group of taxpayers.

For this purpose, the credit is superior to certain alternative measures involving equal revenue loss, such as a corresponding cut in the rate of corporation tax, or a corresponding allowance for more rapid depreciation on new assets.

The proposed credit is altogether superior to a general cut in the rate of corporation tax. The benefits from a cut in the corporate rate would be received by all companies, whether they invested or not. Our purpose is to stimulate new investment, not to give general tax reduction. Therefore, we reject this approach.

A speed-up in depreciation on new assets, like the investment credit, is directly aimed at new investment. However, the investment credit is a more potent stimulus. It goes markedly further in increasing the rate of return on new investment for the same revenue loss. Where the investment credit results in outright tax reduction over and above present depreciation allowances, a speed-up in depreciation only postpones, for any particular asset, the due date for the investor's tax liability on the earnings from this asset. This tax postponement raises the rate of return to be sure, but the gain is very much less than under the credit. Consider a 20-year asset which yields 10 percent after tax using straight-line depreciation or about 11 percent using double-declining balance depreciation. The 15 percent credit would raise its rate of return to nearly 14 percent or by 27 percent, assuming use of the double-declining balance method of depreciation. The percentage

gain in yield would be even greater for a lower yielding asset or a shorter lived asset. To get approximately the same effect for the above twenty-year asset, over 50 percent of additional depreciation in the first year (applied to investment in excess of depreciation) would be necessary, and the initial revenue cost would be more than twice as great. The revenue loss under the depreciation approach would remain higher, even if the total revenue loss over a period of, say, 10 years is considered. Therefore, for any given cost in revenue to the Treasury over a substantial period, the increase in rate of return, and hence the stimulus to investment, would be much greater under the credit approach.

This conclusion may seem surprising. While the credit clearly involves a permanent revenue loss, it is frequently said that the speed-up of depreciation involves no permanent revenue loss to the Treasury but merely a tax postponement. This is true for revenues from earnings on any particular asset, but it is wrong with regard to effects on the Treasury's total revenue over time. Assuming a constant stream of investment, the revenue loss from accelerated depreciation is also permanent. While the annual net revenue loss from a speed-up in depreciation declines as postponed tax payments come due in later years, the earlier losses are never recouped.

Since the net revenue loss from accelerated depreciation declines over the years while that from the credit remains constant (I still refer to the assumed case of constant investment), it follows that the advantage of the credit over accelerated depreciation, given equal revenue cost, is greater if a fairly short period is considered. However, as I have just stated, the credit would still remain superior -- more effective in raising profitability for a given revenue loss -- for a period of at least 10 years. And if investment should constantly grow, as is more likely to be the case, long-run comparisons become even more favorable to the investment credit as the revenue cost of accelerated depreciation falls off more slowly with growing investment than with constant investment.

Not only is the investment credit superior in raising profitability, it has other advantages as well. In the first place, it is a tax offset, not a deduction from income. The credit will not be booked in corporate records as a cost of operation as would increased write-offs under accelerated depreciation. Thus, the credit avoids distortion of the costs on which a firm bases its pricing and other business decisions. Since one of our major goals is to hold the price line so as to strengthen the dollar, this advantage of the credit is of very great significance.

In the second place, the investment credit does not confuse the problem of stimulating investment with that of properly defining taxable income. Depreciation constitutes a major cost in arriving at taxable income. The amount deducted depends on the

38

method of depreciation and the depreciable lives of the assets, and both of these are subject to differences of opinion and debate. Some believe that present procedures inevitably produce inadequate amounts of depreciation by failing realistically to measure the amount of asset cost used up in any current period. This question is now under intensive study in the Treasury in connection with next year's tax recommendations, and it is as yet too early to anticipate what our findings will be. In any event, the investment credit here proposed will in no way prejudice the case for such depreciation reform as may prove to be desirable to improve income measurement.

Incentive for Additional Investment

I repeat that the purpose of the investment credit is not to provide general tax reduction for recipients of profit income. Rather, it is to stimulate investment in the most efficient manner. The credit, therefore, should be focused on investment which would not have been undertaken without this inducement, and which will be most responsive to the stimulus which it provides. A higher credit on such strategic investment will stimulate modernization and expansion more than will a credit granted to all new investment at a lower rate. Holding the revenue cost constant, the proposed credit of 6 and 15 percent may be compared with a credit to all new investment of 7 percent. The proposed credit is superior because it gives a greater stimulus to the undertaking of investment that was not previously planned, and is less likely to give a credit for investment that would have been undertaken in any event.

The strategic area for investment stimulus cannot be determined precisely investor by investor, and must necessarily be delimited by some general standard. In our view it may best be defined as investment in excess of depreciation allowances. This threshold marks the dividing line between a firm's traditional level of investment -- depreciation being, after all, but an indicator of the firm's average level of investment in the past -- and a more ambitious policy of modernization and expansion. Also, it marks the dividing line between the level of investment which can be financed from depreciation, funds accumulated free of income tax, and that which requires other sources for finance, either external or internal.

This type of credit would focus the incentive on the most responsive area of investment. At the same time, it would bring benefits to a broad range of American business. The Treasury's recent depreciation survey indicates that nearly 80 percent of small businesses and about 85 percent of large corporations made investment expenditures which averaged in excess of depreciation over the six-year period 1954 to 1959. In any particular year, the fraction of qualifying firms would be different. In the current year 1961 it is estimated* that the expenditures of 94 percent of

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On the basis of the Department of Commerce and SEC survey of anticipated expenditures on plant and equipment, by projecting the depreciation deductions shown in tax returns in most recent years.

all business firms will be substantially covered by the minimum credit. Of the remaining 6 percent of firms which account for the greater part of our national production over sixty percent are expected to be eligible for the 15 percent credit and an additional twenty-five percent for the 6 percent credit. Thus over 85 percent of these larger firms will benefit this year from our proposal.

While it is desirable to have the incentive within reach of a large number of firms, breadth of coverage is not the only criterion. The purpose, as noted before, is not to provide general tax reduction for the recipients of profit income. The purpose is to encourage modernization and expansion. It is only right, therefore, that firms which respond less should benefit less. The greatest benefit should go to the most favorable investment response.

The proposed stimulus will be of particular advantage to new and growing firms engaged in a high rate of capital expansion. It will also be of particular advantage to small firms whose investment is largely covered by the 10 percent credit. Moreover, small firms will benefit from the proposal to express the investment allowance as a credit against tax, rather than as a deduction from taxable income. Under the credit approach the tax saving per dollar of eligible investment is the same for small and large firms. Under a deduction approach the tax reduction would be greater for large firms which are subject to a higher rate of tax.

Relation to Next Year's Tax Revision

Before leaving this topic, let me relate the proposed investment credit to our longer-run objectives of tax reform. In important part these will center on provision for a broader and more uniform base but, as I have noted above, attention must also be given to the requirements of a growing economy. As the President states in his message, "Some departures from uniformity are needed to promote desirable social or economic objectives of overriding importance which can be achieved most effectively through the tax mechanism." As indicated by the President, such is clearly the case with the proposed investment credit.

The importance of stimulating modernization and capital expansion and of doing so right now is beyond doubt. Also, it is clear that tax policy can make a vitally needed contribution to this end. The proposed credit offers the best approach and achieves this incentive in a powerful and efficient way. Just how powerful this incentive is can be measured by the equivalence in effect on profitability of the 15 percent credit to a 50 percent initial write-off. The tax credit, at the same time, is least likely to waste itself in benefits which do not serve the purpose of inducing modernization and expansion and is directed most squarely to those who are prepared to respond to an incentive.

II. Equal Taxation of Foreign Investment Income

The President in his Tax Message has cited the strains in our balance-of-payments position as one of the factors which have led us to re-examine our tax treatment of foreign income. Earlier, in his Balance-of-Payments Message, the President made it clear that our concern relates to the preferential treatment of foreign investment income, tax treatment that has favored United States private investment abroad compared with investment in our own country. There is no thought of penalizing private investment abroad which rests upon genuine production or market advantages.

Role of Tax Deferral

The most important feature of our tax system giving preferential treatment to U.S. investment abroad is the privilege of deferring U.S. income tax on the earnings derived through foreign subsidiaries until those earnings are distributed as dividends. The lower the rate of foreign income tax, the more significant is this privilege of tax deferral.

I have here a table showing in the first line of figures the statutory income tax rates imposed by various industrialized countries in Europe. It shows a range of rates from 28½ percent in Belgium to 31 percent in Italy, 51 percent in Germany and 53.5 percent in the United Kingdom. If one were to take into account variations in the methods of computing taxable income, the range of effective rates would be somewhat lower, but similar adjustments

Comparison of tax rates applicable to income derived in selected foreign countries under alternative assumptions concerning form of organization

Assumptions	Belgium	Denmark	France	Germany	Italy	Netherlands	Sweden	U. K.
1. Corporation organized by U.S. parent in country where all operations are conducted, and all profits are retained by subsidiary	28.5% 1/	44% 2/	50%	51% 3/	31% 4/	47%	40%	53.5% 5/
2. Corporation organized in country where manufacturing is conducted as a subsidiary of a U.S.-owned Swiss parent; parent makes sales and derives half the total profits, and receives dividends from the subsidiary 6/	29.1	28.5	31.5	32.9	22.0	30	28	32.0

See page 18 for footnotes

1/ Taxes paid in the previous year are deductible in every case, thus lowering the effective tax burden. Assuming 100 percent distributions each year, this latter adjustment reduces the 40 percent nominal Belgian tax rate to 28.5 percent.

2/ Because of a special deduction measured by a percentage of capital stock outstanding and allowed to all Danish corporations, the rate may be reduced as low as 22 percent. The average rate for most corporations is 36 percent.

3/ The German corporate rate of 51 percent is reduced to approximately 22 percent if all profits are distributed. This tax plus the creditable portion of the capital tax would amount to a total combined rate of approximately 37 percent.

4/ Includes some allowance for excess profits tax imposed at the rate of 15 percent on profits in excess of 6 percent of capital plus certain allowable reserves.

5/ Taking into account the increase announced in the 1961-62 Budget Message.

6/ The Swiss Federal tax rate is 8 percent. In addition, income taxes are also imposed in varying degrees by the Cantons. However, substantial tax concessions may be granted by the Cantons. In the Canton of Geneva, for instance, the granting of such concessions would result in an aggregate tax rate of 15 percent, or 13 percent taking into account the fact that taxes paid in the preceding year are allowed as a deduction. Foreign source dividends are not taxable in Switzerland.

would have to be made for U.S. tax rates, and for present purposes the statutory rates would seem to be the appropriate ones to use. As you can see, in most of these countries, and particularly those countries which are our more important competitors, the tax rates are substantially at the same level as the U.S. corporation income tax. Tax deferral with respect to profits earned in these countries does not, of course, have any material effect on U.S.-owned firms.

However, to the extent that business operations are conducted in countries with lower tax rates, there is considerable leeway for deferring U.S. tax. With a foreign tax rate of 28½ percent, for example, a company can defer U.S. tax payments equal to 23½ percent of total pre-tax profits. It thus can through deferral retain nearly an extra dollar out of every four that it earns.

These statutory rates, however, do not give adequate weight to the variety of arrangements that have been made by American firms in their foreign operations which may bring down rather substantially the rates of tax imposed on income from their foreign operations. Thus, an American company operating in West Germany through a German subsidiary will be subject to tax there at the West German income tax rate of 51 percent, and hence it cannot benefit significantly from U.S. tax deferral. However, to the extent that the profits of the German subsidiary can be diverted from the sweep of the German tax system, a lower tax on

profits can be attained. And this is precisely what is achieved through a proliferation of corporate entities in tax haven countries like Switzerland.

The tax haven companies are given the right to license patents developed by their parent organizations or sister corporations. They supply the services of technicians of their corporate affiliates to firms in various other countries. They acquire the distribution rights of products manufactured by their affiliates. The transfer of these various activities to tax haven entities means a transfer of income to them. Since the income taxes in these tax haven countries are very low or non-existent with respect to income derived outside their own borders, the result of these arrangements is to bring about a substantial reduction in tax on the total income derived from the foreign operations. Switzerland, for example, has a federal income tax ranging from 3 percent to 8 percent. While local income taxes vary widely, there are opportunities for the negotiation of tax liability to the Cantons. With U.S. tax deferral operating simultaneously, tax payments over-all can be and often are very substantially reduced.

If $100 of income of a German subsidiary can be segmented so that $50 is attributed to the entity in Germany and $50 attributed to a selling entity in Switzerland, half the profit would be subject to the 51 percent German tax rate but the other half would

be subject to a Swiss national tax of only 8 percent. The over-all rate of tax would thus be reduced to less than 30 percent. The table I last referred to shows on the second line the aggregate income tax in cases where manufacturing subsidiaries are organized in various European countries but which effect their sales through a Swiss sales corporation so that taxable profits are divided equally between the country of manufacture and Switzerland. As a consequence of such arrangements, and taking into account withholding taxes on dividends transferred from the manufacturing company to the Swiss sales company, the resulting tax rates range from about 22 percent to 33 percent.

The reductions in tax that can be achieved through the use of tax haven operations assume that the incomes attributed to the tax haven companies are fair and reasonable. But the problem is compounded by the fact that incomes are often allocated to tax haven companies which are not economically justifiable. United States companies frequently attribute a disproportionate share of profits to the trading, licensing, and servicing companies established in tax haven countries -- a practice that is extremely difficult if not impossible for the Internal Revenue Service to police effectively.

This is not simply a question of allocating the profits of foreign operations to tax haven countries. It is a problem that significantly affects U.S. taxation of domestic profits. The technique that is used for diverting profits from one company to

another among European affiliates is also used to divert income from U.S. companies to foreign affiliates. Income that would normally be taxable by the United States is thrown into tax haven companies with the object of obtaining tax deferral. This is done, for example, by placing in a Swiss or Panamanian corporation the activities of the export division of a U.S. manufacturing enterprise. A very substantial volume of exports is required merely to offset the loss in foreign exchange which the retention abroad of export profits entails.

The recent growth of U.S. subsidiaries in tax haven countries -- and Switzerland and Panama are but two examples -- suggests that their importance as a means of tax reduction and avoidance will rapidly increase if the deferral privilege is continued. An examination of the public records in Switzerland alone indicates that there are more than 500 firms there which can be identified as being owned by U.S. interests. About 170 of these were created in the year ending March 31, 1961. United States officials on the spot are of the opinion that in addition to these firms there are a substantial number of other U.S.-owned firms in Switzerland which cannot be readily identified as such on the basis of the presently available data. Increasingly, U.S. manufacturing subsidiaries operating elsewhere in Europe are being linked to subsidiaries in the tax haven countries. Parenthetically, I might note that the information returns filed by U.S. shareholders or officers of foreign corporations indicate that there are only 92 U.S.-owned corporations in Switzerland all-told. There is

little doubt that these information returns are inadequate and incomplete. The tightened requirements for filing information returns on new foreign corporations which were adopted by the Congress last year will doubtless give us more accurate information in the future.

Proposal Regarding Advanced Countries and Tax Haven Operations

To avoid artificial encouragement to investment in other advanced countries as compared with investment in the United States, we propose that American corporations be fully taxed each year on their current share in the undistributed profits realized by subsidiary corporations organized in economically advanced countries. This change in the method of taxation should be achieved over 2 years, with only half of the profits affected in 1962. Deferral of tax would also be eliminated for individual shareholders controlling closely held foreign corporations in the industrialized countries. The proposed change will not alter the principle that companies may credit income taxes paid abroad against U.S. income tax liability.

In view of the national objective of aiding the development of less advanced countries, we do not propose the same change in the tax treatment of income from investments in less developed countries. Tax deferral will continue to apply with respect to operations in those areas, except that we propose to eliminate deferral in the case of tax haven companies even in the less

industrialized countries. For this purpose, a tax haven company would be defined generally as one receiving more than 20 percent of its gross profit from sources outside the country in which it is created.

This test would reach such typical tax haven activities as export and import companies, licensing companies and insurance companies. However, the general test would be qualified so as not to affect manufacturing companies operating in less developed regions which must look to more than one country for their markets. Other possible areas of exception may be considered in the light of forthcoming testimony before this Committee.

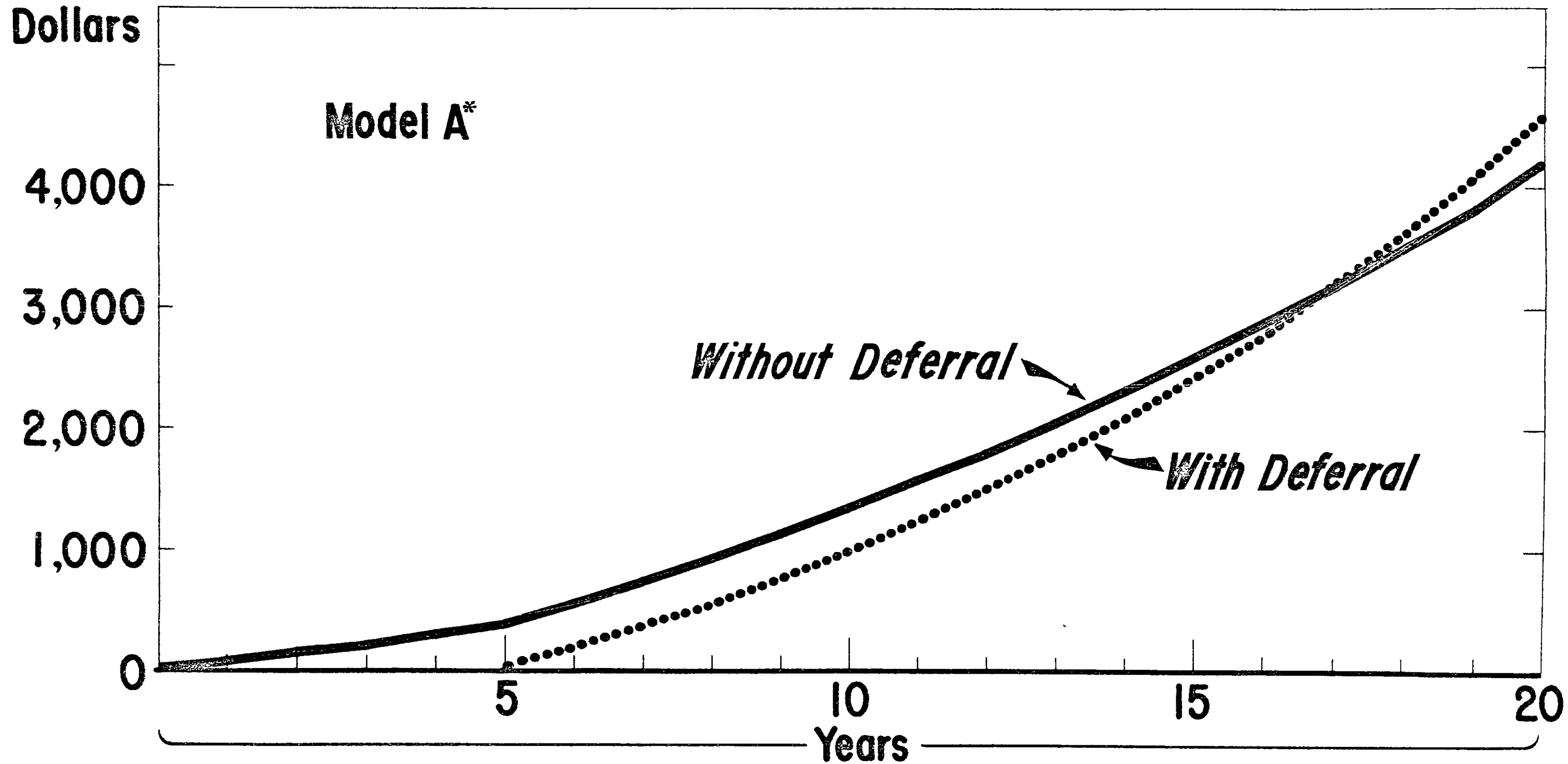
While it is difficult to estimate quantitatively by how much tax deferral has contributed to the balance-of-payment deficit, it has surely been a significant factor. Particularly when it is enhanced by the resort to tax havens, tax deferral has given artificial encouragement to foreign investment and has acted as a deterrent to the repatriation of dividend income. Deferral thus adversely affects our balance-of-payments position by increasing payments and reducing receipts. For the four years 1957 through 1960, the U.S. capital outflow to Western European subsidiaries amounted to $1.7 billion, raising the total investment in these subsidiaries to $6.2 billion at the end of 1960. Earnings from these subsidiaries in the same period were $2.4 billion, of which $1.1 billion were reinvested abroad and $1.3 billion were remitted to the United States in dividends. On balance, the outflow for the four year

period exceeded dividend remittances by $400 million. Much the same picture applies to Canada. The capital outflow in the same four years amounted to $1.3 billion, bringing our investment there to $9.3 billion. Earnings were $2.4 billion, but $1.3 billion were reinvested and only $1.1 billion were remitted in dividends. Thus, capital outflow exceeded dividend remittances by $200 million.

It is true that deferral causes U.S. assets abroad to rise more rapidly than they would otherwise, so that dividend remittances would also tend to rise over a long span of years. But the time span is apt to be very long. The attached chart shows how the tax deferral privilege can result in a slower remittance of earnings from investment in a foreign subsidiary, as compared with a situation in which the deferral privilege did not exist. Suppose an investment of $1,000 in a foreign subsidiary that yields 20 percent a year before taxes, and that the foreign tax rate is 20 percent. Suppose also that the subsidiary reinvests all of its after-tax earnings for five years; and then for the next 15 years reinvests half its profits and remits half its profits to the United States as dividends.

Without the deferral privilege, as the solid line shows, the company would immediately begin to remit funds for U.S. tax payments on its earnings.

CUMULATIVE REMITTANCES TO U.S. FROM NET EARNINGS OF A U.S. FOREIGN SUBSIDIARY



**Initial investment $1,000; annual rate of earnings before taxes 20%; foreign tax rate 20%; U.S. tax rate 50%. Reinvestment of all after-tax earnings for first 5 years, and reinvestment of half after-tax earnings for next 15 years.*

Office of the Secretary of the Treasury

FO-355

With the deferral privilege, as the dotted line shows, the company reinvests the funds it would otherwise have remitted for U.S. tax payments and it remits nothing for the first five years. The greater amount of reinvestment results in a more rapid growth of its net worth, and increases its earnings and remittances, once they begin. Nevertheless, it will be 17 years before cumulative remittances to the United States equal those that would have occurred if the deferral privilege had not existed. On the chart this point is reached where the curves cross.

Actually, this is an optimistic example since it assumes that with the deferral privilege the subsidiary will begin remitting half of its after-foreign-tax earnings from the sixth year on. In practice, the existence of the deferral privilege may lead it to remit a considerably lower portion of its profits and thus prolong further the time when the two curves cross.

Today our situation is such that we must look first to the more immediate balance-of-payments results. Last fall, as you know, our balance-of-payments position led to a crisis which threatened the stability of the dollar and therefore jeopardized the economic health of the entire free world. Although returning confidence has given a temporary reprieve, it is important that we act to prevent a recurrence of last fall's situation. We must improve our balance-of-payments position. Eliminating the deferral privilege will help us to do so.

It may be estimated, although very roughly, that the elimination of the deferral privilege for subsidiaries in advanced countries and for tax haven operations in all countries would improve our balance-of-payments position by as much as $390 million per annum. This estimate includes the increase in remittances for U.S. tax payments on foreign earnings, as well as increased dividend remittances and a lower level of capital outflow than would occur if the present privilege were continued.

I have heard it said that elimination of tax deferral such as we propose will not help our balance of payments. Some people even go so far as to claim that it will injure our payments position. In my opinion this view is utterly erroneous. I would cite in support of my opinion that of the responsible financial leaders of Europe. In mid-January, during the height of our balance of payments difficulties, the Finance Ministers of the six Common Market countries met and discussed the U.S. balance of payments position. They were good enough to give us the general tenor of their thinking. In particular, the Ministers informed us of their unanimous belief that the U.S. would be justified in discontinuing the fiscal incentives which encouraged the non-remittance of profits made in Europe. This viewpoint from countries which have an interest in attracting and keeping U.S. investment is strong confirmation of our own judgment regarding the adverse impact of the deferral privilege on our balance of payments.

While relief for the balance of payments is an important reason for discontinuing tax deferral, it is not the only one. There exists, in addition, an important issue of equity which has a significant bearing on domestic employment and production, as well as an indirect bearing on our balance-of-payments position. With the present deferral privilege, an American firm contemplating a new investment and finding cost and market conditions comparable at home and abroad is impelled towards the investment opportunity overseas. This is so because it would thereafter be able to finance expansion on the basis of an interest-free loan from the U.S. Treasury, repayable at the option of the borrower. Tax deferral, after all, is just such a loan.

This issue of equity is sometimes presented in reverse -- namely, that the withdrawal of the deferral privilege would be unfair because it would change the rules on which companies have already based major investment decisions. This argument seems to me to be very questionable. During the postwar period, the promotion of private foreign investment in both advanced and less developed countries was in the public interest. Times have changed, and the need to stimulate investment in advanced countries no longer exists. Hence, there can be no proper claim that preferential treatment should be continued merely to perpetuate a private gain. This change moreover, cannot severely injure companies already abroad, for a change in the timing of

income tax liability will not normally turn a profit into a loss. At most, it may slow the growth of companies abroad or make the financing of growth somewhat more expensive. To alleviate possible problems, our proposal would remove the tax deferral privilege in two steps.

It is sometimes contended that if U.S. firms are to compete successfully abroad they must enjoy as favorable a tax treatment as their foreign competitors. I believe that this argument has been overly stressed. A difference in tax rates, I said before, should not handicap companies producing abroad, although it may slow the rate of expansion. But even if this argument were fully valid, it could not be a decisive objection to our proposal. As long as the tax systems of various countries differ -- and I venture to predict that this will be the case for years to come -- we must make a firm choice. Either we tax the foreign income of U.S. companies at U.S. tax rates and credit income taxes paid abroad, thereby eliminating the tax factor in the U.S. investor's choice between domestic and foreign investment; or we permit foreign income to be taxed at the rates applicable abroad, thereby removing the impact, if any, which tax rate differences may have on the competitive position of the American investor abroad. Both types of neutrality cannot be achieved at once. I believe that reasons of tax equity as well as reasons of economic policy clearly dictate that in the case of investment in other industrialized countries we should give priority to tax neutrality in the choice between investment here and investment abroad.

This does not mean that elimination of the deferral privilege would end U.S. investment in foreign subsidiaries. In many cases, foreign investment opportunities will remain more attractive although the same rates of tax apply to subsidiary earnings as to income from a domestic business. Many U.S. subsidiaries in high tax countries such as the United Kingdom and Germany have not exploited tax haven opportunities and are therefore paying taxes closely comparable to those in the U.S. Yet these companies compete effectively. Curtailment of foreign investment which can survive only under the shelter of preferential tax treatment can only be in the U.S. interest and in the interest of the world economy. It will help domestic growth, strengthen our balance-of-payments position and (a matter in which I am not entirely disinterested) substantially increase tax receipts.

Crediting of Foreign Tax

The credit for foreign income taxes allowed a taxpayer under existing law operates so as to grant an excessive allowance when business activities are conducted abroad through a foreign subsidiary When a foreign subsidiary pays income tax abroad, the portion of its profits utilized for this purpose is, of course, not available for distribution as a dividend to the parent. The foreign income tax is, in effect, deducted from taxable profits. When the U.S. parent company receives dividends from its subsidiary it is allowed a credit for a proportionate part of the income tax paid by the subsidiary. Thus both a deduction and a credit are allowed for the same income tax. The result is to bring about a combined foreign and domestic effective tax rate, in the optimum case, of about 45 percent instead of the statutory rate of 52 percent.

This may be clearer from the example shown on the attached table. With a foreign income tax rate of 30 percent on the foreign subsidiary, the combined effective tax rate is 45.4 percent instead of 52 percent. The present method of computing the credit for foreign income tax thus offers a substantial inducement to investment abroad through a foreign subsidiary and produces serious tax discrimination against investment in the United States. The differential may be enlarged even further if operations abroad are arranged through two foreign subsidiaries.

To eliminate this unjustified tax advantage, it is proposed that a taxpayer be required, as a condition for obtaining the credit, to include in taxable income his share of profits before foreign tax. The resulting gain in our tax receipts on foreign earnings may be estimated at $110 million a year.

Shares in Foreign Investment Companies

Shareholders in domestic regulated investment companies are subject to tax currently on the earnings of the investment companies because the earnings must be distributed currently if the companies are to be relieved of the corporate income tax. Foreign investment companies whose shares are held by United States shareholders are not subject to U.S. tax, except on income from U.S. sources. Hence, they may accumulate earnings indefinitely. Moreover, when a shareholder receives his pro-rata portion of such accumulated earnings by submitting his shares to the company for redemption, he obtains capital gains treatment on the income.

Example

Computation of Foreign Tax Credit
for Dividends from Foreign Subsidiary

	Present Law	Proposal
Profits of subsidiary	$100	$100
Foreign Tax	30	30
Dividend to U.S. parent.......................	70	70
Plus "gross-up" of foreign taxes	-	30
Tentative U.S. tax at 52%	36.40	52
Credit for foreign taxes paid by subsidiary..	21.00	30
Net U.S. tax..................................	15.40	22
Combined foreign & U.S. tax	45.40	52

These foreign investment companies formed to attract United States shareholders are organized in localities where the companies themselves are subject to little or no tax as in Canada or Bermuda.

We propose to eliminate this preferential treatment of investments in foreign investment companies by requiring United States shareholders in such companies to pay tax currently on their share of the income derived by the foreign investment company. Since the SEC requires such companies to report their earnings currently, there is no serious administrative difficulty involved in making this change.

Limitation of Earned Income Exclusion under Section 911

Under existing law, an individual citizen of the United States who qualifies as a foreign resident is granted tax exemption on his entire earned income from outside the United States. In addition an individual who goes abroad without establishing a foreign residence and remains abroad for a period of 17 out of 18 consecutive months is exempt with respect to his earned income up to $20,000 a year.

Available evidence indicates that there were approximately 50,000 American citizens who were living abroad in 1959 and who claimed an aggregate exemption of more than $500 million for that year under these two provisions. One individual excluded earned income of almost a million dollars for one year. A number of others reported excluded income of between $100,000 and $500,000, as the attached table shows.

Individuals claiming tax exemption of earned income of $100,000 or more under Sec. 911 on tax returns filed in calendar year 1960

Taxpayer identification number	Country of residence	Adjusted gross income reported	Amount of income excluded
C-1	Canada	$32,791	$186,751
C-2	Philippines	14,739	108,638
C-3	1/	26,797	996,200
C-4	England	17,651	130,766
C-5	Australia	54,985	105,707
C-6	England	20,931	217,500
C-7	Mexico	22,813	583,087
C-8	Canada	5,976	136,700
C-9	Japan	5,111	122,260
C-10	Switzerland	8,021	160,000
C-11	Venezuela	6,729	107,000
C-12	Venezuela	8,984	107,367
C-13	Venezuela	756	184,171
C-14	Switzerland	1,345	155,360
C-15	Venezuela	48,876	119,551
C-16	France	74,586	115,523
C-17	Switzerland	122,951	156,000
C-18	Philippines	146,821	265,540
C-19	Philippines	132	111,870
C-20	Argentina	2,321	217,121
C-21	Venezuela	0	161,083
C-22	Lebanon	0	151,167
C-23	Ecuador	0	122,307
C-24	Venezuela	431	153,078
C-25	Brazil	331	449,803
C-26	Philippines	3,182	131,950
C-27	Venezuela	282	129,570
C-28	Germany	240	160,450
C-29	Brazil	4,493	144,833
C-30	Dominican Republic	0	150,059
C-31	Switzerland	5,677	117,556
C-32	England	2,893	162,500
C-33	Venezuela	3,161	105,145

May 3, 1961

1/ Not listed to avoid disclosure

Source: United States Treasury Department, Internal Revenue Service.

I believe that it is an unsound policy for the U.S. Government generally to subsidize through tax exemption those of its citizens who wish to live abroad. This is especially so for individuals who establish their residence abroad for tax purposes even though the nature of their business does not require it. It is manifestly unfair to other taxpayers to continue these exemptions which also contribute to our adverse balance-of-payments position. For these reasons, the President has recommended that the tax exemptions now accorded the earned income of American citizens who are abroad be eliminated entirely for those living in economically developed countries.

Here, again, the less developed countries pose a different problem. It is in the public interest that Americans skilled in industry, education, medicine and other professions be encouraged to go to these countries and contribute to their economic development. It is recommended therefore that the exemption for foreign residents be continued for those resident in these areas, but only to the extent of $20,000 per year. The present exemption of $20,000 for those who remain abroad for 17 out of 18 months would also be continued for those individuals working in the less developed countries.

Estate Tax Exemption for Foreign Real Estate

The President recommended that the existing exemption of foreign real estate from the Federal estate tax be eliminated. In recent

years this also has been a subject of abuse. Primarily because of this tax feature, persons have been induced to make investments in foreign real estate in countries which, due to their very low tax rates, could be appropriately termed "estate tax havens." Under legislation adopted in 1951, credit is allowed for estate and inheritance taxes paid abroad, and there is no justification for continuing the special exemption for foreign real estate.

In addition to the changes that I have just discussed, there are several other proposals of a relatively minor nature which are covered in the technical statement.

Summary

The foregoing set of proposals is designed to place the tax treatment of foreign income on a more equal footing with that of domestic income. These proposals are estimated to increase revenues by $275 million annually. Taken together these proposals may be expected to improve our balance-of-payments position by as much as $525 million a year, of which about one-half would represent increased tax receipts on foreign earnings. Therefore, enactment of these proposals will mark a significant forward step in the battle to safeguard the dollar. It is essential that we win this battle and win it quickly. Thus, these proposals have a special significance far higher than the increase in tax receipts.

III. Correction of Other Structural Defects

We are currently examining the income tax structure, using recent studies by Congressional committees as well as materials

developed by the Treasury. Our objective is to develop a basic program of tax reform. Studies of some parts of this program have been completed, and in these areas the President has recommended action at this time.

Adoption of these recommendations will improve the equity of the tax structure and constitute an important first step towards tax reform. The President has directed the Treasury to continue with its research and studies aimed at providing a broader and more uniform tax base together with an appropriate rate structure. Additional proposals to this end will be submitted next year. I turn now to the President's recommendations for this year.

1. Tax Withholding on Dividend and Interest Income

We must face the serious and continuing problem of numerous individuals failing to report dividend and interest income for tax purposes. This results in substantial revenue losses to the Government and is unfair to those who pay all of their taxes.

General tax compliance with respect to income from salaries and wages has been largely and satisfactorily achieved by a system of tax withholding. This system has been of help not only to the Government but also to the wage earner in paying his taxes in a gradual and systematic manner. A similar system should be extended to dividend and interest income to assure and facilitate tax compliance.

This matter has been considered at various times by the Congress and withholding provisions were passed by the House of Representatives in 1942, 1950 and 1951. I believe that we have now developed a plan which overcomes the objections which have been raised previously.

Legislative action is clearly needed. The failure to report dividends and interest income cannot be dealt with adequately through education programs.

In 1959 the Treasury Department launched an extensive educational program to remind taxpayers to report their full interest and dividend income on their 1959 income tax returns which were to be filed in early 1960. Payers of interest and dividends cooperated fully with the Treasury, and tens of millions of reminder notices were distributed by them. Publicity campaigns were organized using newspapers, magazines, radio and television. The cooperative effort of corporations, banks, the stock exchanges, communications media and others in the educational campaign has been greatly appreciated by the Department.

Unfortunately, the evidence indicates that despite these substantial efforts, there has been at best only a slight improvement. While compared to 1958 returns, a larger number of taxpayers reported this type of income in the 1959 returns and while the over-all percentages of reported interest and dividends improved slightly, the absolute amounts of unreported interest and dividends actually

increased because of the larger over-all payments of interest and dividend income in 1959. The most recent Treasury study indicates that for 1959 income, taxable individuals failed to report an estimated \$834 million of dividends and \$1,995 million of interest payments, or a total of \$2,829 million. By including the unreported interest and dividend incomes of those filing nontaxable returns, the total nonreporting gap for 1959 is increased to \$3,777 million.

It is further estimated that 11 percent of nonreported dividends were received by taxpayers with incomes below \$5,000, 18 percent by those with incomes between \$5,000 and \$10,000, and 71 percent by those with incomes in excess of \$10,000. The corresponding percentages for nonreported interest income were 29, 42, and 29 percent. The failure to report 1959 interest and dividends is estimated to have cost the Government \$864 million.

The problem cannot be solved by increased audit and enforcement procedures. Nonreporting of interest and dividends is a mass compliance problem. Some of the nonreporting is deliberate tax evasion, but much of it is due to inadvertence, forgetfulness and failure to keep records, particularly by taxpayers who receive a small portion of their incomes from such sources. Obviously, it is impracticable and inefficient to rely only on information documents combined with audit procedures to verify and to follow up on millions of interest and dividend transactions. The Government, at best, can be expected to recover at a high cost only a small proportion

of the unreported tax by this method. An inordinate amount of time and money would have to be spent in the attempt to close the gap, and little would be gained by it.

To meet this need for compliance, we recommend instead that a 20 percent withholding rate be applied to interest and dividends. Withholding would be applicable to dividends paid by domestic corporations, interest paid on deposits in savings institutions, such as banks, savings and loan associations and building and loan associations, interest paid on United States Government and corporate securities other than short-term discount obligations, and to patronage dividends allocated by cooperatives.

The withholding system we recommend would not impose any substantial burden on the payers of dividends and interest. In fact, there would be little additional work as compared to their present operations. The withholding agent would be asked to withhold on a simple flat rate basis without exemptions and he would not be required to prepare withholding statements to be sent to recipients. Remittance to the Internal Revenue Service of amounts withheld would be by lump sum, without requiring the listing of individual payees as is required under wage withholding.

Exemption from withholding of certain payees such as exempt organizations and nontaxable individuals would increase payer burdens. Across-the-board withholding with no exemptions is therefore recommended to make the task of payers as simple and as inexpensive as possible. Provision would be made in turn to

prevent hardship due to overwithholding in the case of tax-exempt organizations and individuals not subject to tax. Tax-exempt organizations, such as pension trusts, charitable foundations, and educational institutions, would be allowed to offset currently the amounts withheld from their interest and dividends against the amounts they withhold from their employees for income and social security tax purposes. Where these credits would be insufficient to provide a full offset, quarterly refunds would be provided. In order to simplify the refunding of small amounts withheld from nontaxable minors, provision would be made for a parent of a dependent minor to claim credit on the parent's annual tax return for amounts withheld from the minor, if the parent so wishes. Individuals not subject to tax (other than minors) would be allowed to claim their refunds on a quarterly basis. These refunds can be paid promptly. Although withholding statements would not be used, it is not expected that their absence would result in baseless claims for refunds. An excessive claim for refund is a fraudulent act; this fortunately is not commonplace among our taxpayers. Moreover, the Service would institute a special audit enforcement program to verify the incomes reported by individuals claiming refunds. Spot checks of refunds would be made by having payers confirm the reported incomes on those claims.

The adoption of this practicable system of withholding on dividends and most forms of interest would, on the basis of 1959

results, increase revenues by an estimated $613 million, the bulk of the estimated revenue loss. For most dividend and interest recipients, withholding would cover the bulk of their tax liabilities on such income. We would then be in a position to concentrate enforcement efforts on inadequate tax compliance among higher bracket taxpayers to insure collection of the total amounts of tax properly due. The out-of-pocket cost to the Government to recoup the $613 million by withholding is estimated to be $18 million or 3 percent of the revenue gain. Ten million dollars of this total would be the cost of additional return and refund processing; $6 million would be the cost to the Treasury for check issuance and fiscal service activities as payer; and $2 million would be the cost of policing the refund system.

2. Repeal of the Dividend Credit and Exclusion

Under the law enacted in 1954 the first $50 of dividends may be excluded from income and a credit against tax of 4 percent taken on dividends in excess of this amount. By providing the exclusion and the credit against tax, it was intended to stimulate investment in the economy through tax relief for dividend income, and to partially remove the so-called double taxation of dividend income. In my view, the investment credit is a much more direct and effective method of encouraging investment. As an attempt to coordinate the personal and the corporate tax on dividend income, the 1954 technique has proved to be discriminatory and inequitable.

Whether there is, in fact, double taxation of dividends has been the subject of much controversy. However, even assuming the existence of such double taxation the fact remains that the dividend credit and exclusion give a considerably larger relative reduction in the burden of double taxation to the dividend recipient with high income than to the dividend recipient with low income.

This point may be made clear by considering the average stockholder in a particular income class. The corporate tax imposes an extra tax burden, over and above the personal tax on dividends, of 52 cents per dollar of corporate profit before tax for shareholders not liable to income tax, 42 cents per dollar of corporate profits before tax for stockholders in the 20 percent tax bracket (for example, married couples with less than $5,000 income), and of but 5 cents per dollar of corporate profits on those with incomes of over $1 million. On the average, the credit and exclusion combined reduce this extra burden by 3 cents per dollar of corporate profit before tax for married couples with income of $5,000, and by 2 cents for those with income over $1 million. The percentage reduction of the so-called double tax is thus only 8 percent for low income stockholders, while it is 41 percent for high income stockholders. This deficiency of the credit and exclusion has been noted widely. Surely a technique as discriminatory as this has little to recommend it.

The dividend credit represents a dead-end approach toward the equitable taxation of dividends. In 1954 the provisions were represented as only a first step toward full relief, which was eventually to be achieved by raising the credit to 15 percent of dividends. However, it is not possible to increase the credit to such a level without giving those in the high tax brackets reductions exceeding the extra burdens they are presumed to bear as a result of the corporate income tax. For example, the tax relief granted by a 15 percent credit would amount to 7.2 cents per dollar of corporate earnings before tax -- or about 25 percent more than the extra burden presumed to fall on those with incomes of $250,000 because of the corporate tax. With a 20 percent credit, which has been recommended by some, the tax relief at high income brackets could be twice as large as the presumed extra burden of the corporate tax.

Looked at as straight tax reduction, the benefits provided by these provisions are highly concentrated in the upper income groups. In recent years less than 9 percent of the total combined tax reductions from the dividend credit and exclusion have gone to returns with less than $5,000 of income. In contrast, more than 75 percent of the total tax reductions accrue to returns with incomes of $10,000 and over and more than 54 percent to taxpayers with incomes over $20,000. In view of the fact that the dividend exclusion is frequently represented as being helpful to low-income groups, it is noteworthy that only about 15 percent of the

70

total tax reduction due to such exclusions go to returns with incomes under $5,000. About 55 percent of its tax benefits go to individuals with over $10,000 of income.

Benefits from the 1954 dividend provisions accrue more broadly at the higher income levels because shareholding is more usual at those levels. Only 6 percent of taxable returns with income under $5,000 have any dividends at all, while over 90 percent of returns with incomes of over $50,000 have dividends. Dividend income for returns under $5,000 constitutes but 1 percent of total income of this group as against 29 percent for the higher group. Putting it differently, returns with incomes under $5,000, or 40 percent of the total number of taxable returns, report only about 8 percent of the dividends included in tax returns. On the other hand, returns with incomes over $50,000, or two-tenths of 1 percent of all returns, account for 33 percent of all dividends, any way one looks at it. The over-all benefit of the dividend credit is much larger for the upper income groups.

If the dividend credit and exclusion are thought of as methods of reducing taxes, they are extremely restricted in form. Singling out a particular type of income for such reduction discriminates against all other kinds of income recipients who also face high marginal tax rates.

I am vitally interested in shaping the tax structure to stimulate investment and growth. When the dividend credit and exclusion were adopted it was hoped that they would induce new equity issues from corporations which would use the proceeds to undertake new investment in plant and equipment. However, these provisions have not proved effective in encouraging additional capital investment. They cannot begin to compare in this regard to the proposed investment credit which applies only to new investment, operates directly at the point where the decision to buy plant and equipment is made, is available to firms whether they are investing retained earnings or outside funds, and draws no distinction between incorporated or unincorporated enterprises.

Let us look at the record and see what the dividend credit and exclusion have done to increase investment. Although the number of stockholders has increased since the dividend provisions were adopted, there has been no increase at all in the annual dollar purchases of equity securities (less sales) by individuals. In both 1951 and 1952 when dividends received no relief the net purchases of stock by individuals were higher than in any other year in the past decade. In recent years, net stock purchases by individuals have also been outpaced by a number of other forms of personal savings such as time and savings deposits in banks and shares in savings and loan associations. The relative importance of stock issues to corporate external long-term financing from all sources has not risen. Department of Commerce figures show that

the relative importance of stock issues was higher in the 1949-51 period than in later years of the past decade, except for 1959. And, finally, but not least, any incentive effect could only assist those large firms well enough known to be able to tap the stock market for new funds.

According to estimates by the New York Stock Exchange, the number of shareholders rose from 6.5 million in 1952 to 12.5 million in 1959 and to 15 million in 1961. This is a healthy course for economic democracy to take, and we welcome it. However, this development does not require special tax preferences, and it is very doubtful whether the dividend credit and exclusion have played a major role in this respect. A number of other factors such as the levels of personal incomes and savings, corporate profits, dividends, and stock prices, appear to have been far more important than the dividend provisions in stimulating stock ownership.

The repeal of the dividend credit and exclusion should be enacted promptly so that the introduction of withholding on dividend and interest income may benefit from the resulting simplification. The revenue gain from the repeal of these provisions is estimated at $450 million a year.

3. <u>Expense Accounts</u>

Turning now to expense accounts, much has been said and written about the abuses in this area. Abuses through expense accounts take a variety of forms. Tax deductible entertainment

allowances frequently are a means by which business provides tax-free compensation to favored employees or business associates. The seller invites the buyer to his yacht or hunting lodge, the buyer may reciprocate with lavish parties and night club entertainment, and both then charge it off as a business expense. Some of this is done because of the businessman's own desire to obtain such luxuries tax free; much of it is done in response to a competitive pressure which has in large measure been created by our tax law and not by the dictates of business. As a result, therefore, there are few of the luxuries of life, such as vacations at fancy resorts, club memberships, and cruises which a large number of taxpayers cannot in some way deduct on tax returns as business expenses. As the President stated, the time has come when our tax laws should cease to encourage luxury spending as a charge on the Federal treasury.

I have here a four-part document illustrating the abuses in the entertainment area. This document demonstrates that tighter enforcement of present law will not suffice; corrective legislation is necessary.

Part One of this document summarizes the result of a recent audit by the Internal Revenue Service. This audit was undertaken last September by the Treasury Department as a step in meeting the directive of the Congress, set forth in the Public Debt and Tax Rate Extension Act of 1960, that the Secretary of the Treasury make a report as soon as practicable during the 87th Congress on the

progress of an enforcement program, initiated by the Internal Revenue Service in 1960, relating to expenses for entertainment, travel, yachts, hunting lodges, club dues, and similar items. Although this audit covered only 38,000 returns, it shows that these returns claimed deductions totaling $5.7 million for club dues, $2 million for theatre tickets and similar amusements, over $1 million for hunting lodges and fishing camps, $2.6 million for yachts, and $11.5 million for business gifts. Most significantly, the audit shows that only a small portion of these expenses can be disallowed under existing law.

The difficulty in administering present law is shown by the fact that, even though most of the claimed expenditure for entertainment was allowed under the existing generous standards, almost 50 percent of the returns had to be adjusted by Internal Revenue agents. These adjustments resulted in the disallowance of $28.3 million of claimed travel and entertainment expense. In addition, it was determined that $29.5 million of the claimed deductions constituted unreported income in the nature of dividends or additional compensation to stockholders, officers, or employees.

Part Two of the document consists of a report by the Commissioner of Internal Revenue on the very serious problems encountered in administering present law relating to travel and entertainment expenses.

Part Three contains a summary of some court decisions and administrative cases illustrative of the type of entertainment expenditure which is deductible under existing law. As the introduction to this part states, when judicial decisions permit the cost of a safari to Africa undertaken by a hunting enthusiast and his wife to be deducted as an expense for advertising dairy milk, one cannot expect revenue agents to question successfully the business necessity for duck hunting or night-clubbing with business associates.

Part Four of the document contains a compilation of recent comments on expense accounts and business gifts appearing in newspapers and other periodicals. These comments illustrate the widespread public concern, shared by many in the business community, with expense account abuses.

The supplemental statement contains detailed proposals for carrying out the President's recommendation to disallow certain entertainment expenses. The characteristic feature of all of these expenses is that they confer substantial personal benefits which are in large measure a substitute for personal living expenses. Under these detailed proposals, expenses for entertaining guests at such functions as parties, night clubs, theatres, country clubs and fishing trips would be disallowed in full. So also would be expenses for luxury entertainment facilities such as yachts, hunting lodges and swimming pools, as well as for such items as country club dues. The cost of so-called "business gifts" would be

disallowed to the extent it exceeds an annual limitation of $10 for each recipient.

Expenditures for food and beverages generally would be disallowed, although several exceptions are made. One exception relates to food or beverages provided primarily to employees on business premises. Another exception covers the cost of food and beverages consumed in the course of conducting business, but not in excess of a fixed amount per day for each individual involved. This figure could be somewhere in the range of $4 to $7. A deduction for the cost of food and lodging while on business trips would be limited to twice the maximum per diem rate authorized to be paid to Federal employees. At the present time this rate for travel in the United States is $12 per day, but the Bureau of the Budget has recommended to the Congress that this figure be raised to $15. Therefore, the per diem limitation applicable to business travel would be $30 if the Congress accepts the recommendation of the Bureau of the Budget. Finally, where a business trip is combined with a vacation, a portion of the cost of travel to the business destination would be disallowed.

I believe that these are realistic recommendations which recognize the legitimate needs of business while at the same time eliminating the lavish expenditure for personal benefit which has, in the past, been charged off to the American taxpayer. They would increase revenues by at least $250 million per year.

4. Capital Gains on Sale of Depreciable Business Property

The President has recommended that capital gain treatment be withdrawn from gains on the disposition of depreciable property to the extent of prior depreciation allowances. Such gain reflects depreciation allowances in excess of the actual decline in value of the asset and under the President's proposal would be treated as ordinary income. Any gain in excess of the cost of the asset would be still be treated as capital gain. This reform will eliminate an unfair tax advantage which the law today gives to those who depreciate property at a rate in excess of the actual decline in market value and then proceed to sell the property, thus, in effect, converting ordinary income into a capital gain. This reform is particularly essential at this time in view of the recommendations to provide a tax credit for new investment in depreciable property.

Moreover, the proposed withdrawal of capital gain treatment from gains on disposition of depreciable property that reflect prior depreciation would eliminate much of the present tax advantage attaching to investment in so-called "depreciation shelters", which exist primarily in the real estate area. For example, during the first few years after acquisition of a building by a real estate syndicate, the total of depreciation allowances and mortgage interest will often exceed the rental income, so that distributions of income during this period are tax exempt in the hands of the investor. When the distributions substantially cease to be tax-exempt, the building is sold, a capital gains tax paid on the gain attributable to the depreciation allowances, and another building is acquired to provide

another depreciation shelter. Withdrawal of capital gain treatment from the gain on sale of the building, to the extent of prior depreciation allowances, will substantially eliminate this kind of tax trafficking. The gain in revenue is estimated to be $200 million per year.

5. Special Types of Institutions

In an economy characterized by a great variety of institutions, the tax law must attempt as far as possible to provide uniform and nondiscriminatory treatment among them. Various improvements of this sort are recommended in the President's message.

Cooperatives.-- The President has recommended legislation to insure that earnings of cooperatives reflecting business activities are taxed either to the cooperatives or to the patrons. Under the recommendation, cooperatives would be allowed to deduct amounts allocated in cash or scrip as patronage dividends and the patrons would be taxable on the patronage dividends allocated to them. As under present law, a patronage dividend received by a patron with respect to purchases by him of items for his personal use would not be included in his income.

In 1951, Congress enacted legislation which was intended to accomplish just this result. However, various court decisions have rendered ineffective the Congressional intent by holding certain allocations of patronage dividends to be nontaxable to the patron, although such allocations are deductible by the cooperative. As a result, substantial income from certain cooperative enterprises is not being taxed to either the cooperative or to its patrons. The President's recommendation would, in essence, fulfill the prior intention of Congress and remove a present inequity in the tax law.

The President also recommended that the withholding tax on dividends and interest at a rate of 20 percent be applied to patronage dividends. This would, in effect, assure the average patron of cash with which to pay the tax attributable to patronage dividends which he receives, since the 20 percent tax paid to the Government by the cooperative will come from its funds. The President's recommendation will result in a method of taxation of cooperative income that is fair and just to both the cooperatives and competing businesses. It is estimated to raise revenue by $25 - $30 million.

Fire and Casualty Insurance Companies.--As indicated in the President's message, the tax provisions applicable to mutual fire and casualty insurance companies, originally adopted in 1942, are outmoded and result in an inadequate and inequitable distribution of tax. Under the provisions of the present law, stock fire and casualty insurance companies are taxed essentially like other corporations, on the basis of the application of the regular corporate rates to their combined investment and underwriting income. Mutual companies in the fire and casualty insurance field, however, are generally subject to an alternative tax formula under which they pay the regular corporate rates on net investment income only or 1 percent on their gross income, consisting of the sum of the gross investment income and net premiums, whichever results in the higher tax. Reciprocals and interinsurers are excused from the 1 percent gross income tax.

We recommend that legislation be adopted which would eliminate the special provisions now applicable to mutual and reciprocal insurance companies and tax these companies on the general corporate basis in essentially the same manner as stock companies. The bills introduced in this Congress by Mr. Boggs and Mr. Baker, members of this Committee, to equalize the taxation of the various types of fire and casualty insurance companies provide a sound basis on which to effect current remedial legislation in this field.

It is estimated that the enactment of legislation along the line of the Boggs-Baker bill, effective beginning in 1962 would increase revenues by about $50 million annually in the next few years.

Mutual Savings Banks and Savings and Loan Associations.-- As the President has pointed out: "Some of the most important types of private savings and lending institutions are accorded tax deductible reserve provisions which substantially reduce or eliminate their Federal income tax liability." The President has further stated: "These provisions should be reviewed with the aim of assuring non-discriminatory treatment."

The Treasury Department in cooperation with other interested Government Agencies is now intensively reviewing these provisions in order to develop specific recommendations in accordance with the President's message. As soon as this review is completed, which we expect to be done sometime in June, we will present our recommendations to the Congress.

IV. Further Recommendations

I now turn to a final set of recommendations, including tax rate extension, taxation of aviation fuel, and taxpayer account numbers.

Tax Rate Extension.--The President, in his tax message, recommended an extension of present corporation income and excise tax rates otherwise scheduled for reduction or termination on July 1, 1961. In the absence of this legislation, the corporate tax rate would be decreased 5 percentage points from 52 percent to 47 percent, excise tax rates on distilled spirits, beer, wines, cigarettes, passenger automobiles, automobile parts and accessories, and the transportation of persons would also decline; and the excise tax on general telephone service would expire.

These scheduled reductions in corporate taxes and excise taxes would cause a revenue loss of about $2.6 billion in fiscal year 1962 and a full year revenue loss of $3.6 billion. Since we are already facing a deficit in fiscal 1962 this is entirely unacceptable. It is essential that these rates be extended promptly to maintain intact the revenue producing power of our tax system, to prevent an increase in the budget deficit, and to avoid prejudging next year's over-all tax reform.

Aviation Fuel.--The President has recommended (1) extending the present net 2-cent rate on aviation gasoline to jet fuels, (2) holding this uniform rate covering both types of fuel at the 2-cent level for fiscal 1962, and (3) providing for annual increments in this rate of 1/2 cent after the fiscal year 1962, until the portion of the cost of the airways properly allocable to civil aviation is substantially recovered by this tax.

The immediate increase in revenue from this proposal will be modest in comparison with anticipated airway cost; and the annual gradation of further increases is intended to moderate the impact of the tax on the air carrier industry.

The inclusion of jet fuel in the tax base, along with aviation gasoline, is clearly in order and is estimated to almost triple the revenue from aviation fuel. As air travel increases through the introduction of modern jet aircraft, revenues from the aviation fuel tax are declining, from $29 million in fiscal year 1960 to an estimated $17 million in fiscal year 1962. This is a topsy-turvy situation which must be corrected. If the tax were extended to jet fuel at the 2-cent rate, revenues in fiscal year 1962 would increase by $28 million to a total of $45 million. In view of the rapid transition to jet aircraft, the taxation of jet fuel is essential if the aviation industry is to contribute anywhere near its proper share to the cost of improving and operating the Federal airways system. Further, since the revenue from aviation fuel is considered a user charge for airways, the revenue from aviation fuel now going to the Highway Trust Fund should be retained in the general fund of the Treasury. Representatives of the Federal Aviation Authority are available to discuss this recommendation in detail.

Taxpayer Account Numbers.--The President has recommended that legislation should be enacted to authorize the use of taxpayer account numbers beginning January 1, 1962, to identify taxpayer accounts throughout the processing and record keeping operations of the Internal Revenue Service. This legislation would require the

use of identifying numbers for persons filing tax returns and other documents. It would also specify that such identifying numbers must be furnished to other persons who are required to file various tax documents.

The assignment of an account number to each taxpayer is indispensable to the effective operation of the system of automatic data processing which the Internal Revenue Service is now establishing. It is generally recognized that such a system utilizing modern mechanical methods of collecting and processing tax data is essential to a continued effective collection and enforcement program. A pilot processing installation located in Atlanta, Georgia, encompassing the seven southeastern States, is scheduled to begin operation in January of 1962. The need for identifying numbers is therefore apparent.

The proposed coordination of account number assignment with the existing Social Security numbering system will substantially alleviate any possible burden on taxpayers. Moreover, substantial flexibility in the requirements for using identifying numbers has been incorporated in the proposed legislation in order to permit the special problems of taxpayers in connection with information returns to be taken into account.

Conclusion

In concluding, let me repeat what I believe should be the basic principles underlying our tax policy this year and next. We must conserve and strengthen the revenue producing power of our tax

system so that its proceeds will be adequate to meet the needs of government in these crucial years. We must adapt the tax structure to the requirements of a healthy economy, an economy that makes full use of its resources, provides relative stability of prices, and which generates a steadily rising level of income, contributing thereby to its role in an expanding world economy. Finally, we must improve the equity of our tax structure so as to assure that all Americans contribute their fair and proper share to the cost of their Government. If these things are done, the tax system will be a powerful positive force in the working of our economy and in the life of our Nation. I propose to strive with you to make it such.

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Exhibits Accompanying the Statement of
Secretary of the Treasury Dillon
Before the Committee on Ways and Means
House of Representatives
May 3, 1961
in connection with the hearings on the
President's Recommendations Contained
in His Message on Taxation

EXHIBIT I. TAX INCENTIVES FOR MODERNIZATION AND EXPANSION

EXHIBIT II. FOREIGN INCOME AND THE BALANCE OF PAYMENTS

EXHIBIT III. DIVIDEND AND INTEREST NONREPORTING

EXHIBIT IV. REPEAL OF DIVIDEND RECEIVED CREDIT AND EXCLUSION

EXHIBIT V. EXPENSES FOR TRAVEL, ENTERTAINMENT, AND BUSINESS GIFTS
(This exhibit is in a separate accompanying document)

EXHIBIT VI. SALES OF DEPRECIABLE PROPERTY

EXHIBIT VII. COOPERATIVES

EXHIBIT VIII. FIRE AND CASUALTY INSURANCE COMPANIES

EXHIBIT I - TAX INCENTIVE FOR MODERNIZATION AND EXPANSION

Table 1 - Estimated expenditures on new depreciable assets, 1961

This table shows expected investment during 1961, in depreciable assets, by industry, separately for corporate and unincorporated firms within each industry, and separately for those industries which are eligible for the proposed credit and for those which are being excluded.

The total shown in the table is larger than the anticipated expenditures for 1961 on new plant and equipment as published in the Survey of Current Business, U. S. Department of Commerce. The Commerce-Securities and Exchange estimates do not include expenditures of farm businesses, professional firms, real estate operators and lessors, nor all business purchases of automotive equipment. Estimatedamounts for these categories are included in Table 1.

Table 2 - Estimated distribution of benefits under investment incentive credit, by industry, 1961

This table shows for 1961 how the total estimated revenue cost of the proposed investment incentive credit, $1,700 million, is distributed percentagewise among various eligible industries.

Also shown is the separate breakdown of each industry percentage between corporate and unincorporated firms. For example, the manufacturing industry is estimated to receive 42 percent of the total benefits; corporate manufacturing firms will receive 38 percent, and unincorporated firms 4 percent.

Table 3 - Estimated number of firms covered and amount of investment incentive credit, 1961

This table shows estimates for 1961 of the number of firms covered and amounts of tax credit falling within the three forms of the credit:

(1) Minimum credit of 10 percent on the first $5,000 of investment.

(2) Credit of 6 percent for firms with investment between 50 percent and 100 percent of depreciation allowances.

(3) Credits of 6 percent and 15 percent for firms with investment in excess of depreciation allowances.

Numbers covered and amount of tax credit are shown separately for corporate and unincorporated firms, under each form of credit.

Exhibit I
- 2 -

Table 4 - Examples showing computation of investment tax incentive credit for a business with $2,500 depreciation assuming varying levels of expenditures on new plant and equipment ranging up to $7,500

Table 5 - Examples showing computation of investment tax incentive credit for a business with $100,000 depreciation assuming varying levels of expenditures on new plant and equipment ranging up to $100,000

These are companion tables illustrating the principles of the computation of the investment incentive credit on portions of expenditures qualifying for the 6 percent and 15 percent rates, and the interrelationship between the 6 and 15 percent credits and the 10 percent minimum credit on the first $5,000 of expenditures. An explanatory note accompanying each table indicates the simplifying assumptions used as a basis for these illustrative computations in the interest of clearer exposition.

Table 6 - Capital expenditures and depreciation for large corporations from Question 7 of Treasury Department depreciation survey

Table 7 - Capital expenditures and depreciation for small businesses from Question 7 of Treasury Department depreciation survey

These are companion tables showing how capital expenditures on plant and equipment compared with tax allowances for depreciation and amortization over a 6-year period 1954-9, for large corporations and for small businesses responding to the Treasury's depreciation survey questionnaire. The tables show the numbers of businesses with expenditures in excess of depreciation and with expenditures less than depreciation, the amount of such excess or deficiency, and the ratios of expenditures to depreciation for each group, as well as for the aggregate. The figures are also broken down by broad industry classification.

Among other things, these tables show that for the large corporations, excluding public utilities not eligible for the investment incentive credit, 1,369 or approximately 85 percent of the 1,618 total would qualify for the 15 percent credit, based on their average 6-year experience. For the small businesses, 806 or approximately 78 percent of the 1,027 total would have qualified on the average for the 6 years.

Table 8 - Schematic illustration of permanent revenue impact of accelerated depreciation, 10-year asset

This table presents a simplified schematic analysis of the annual pattern of revenue losses and the cumulative total revenue losses,

Exhibit I
- 3 -

assuming the application of (a) 5-year amortization and (b) 100 percent initial write-off (expensing of capital outlays in the first year) to a stabilized depreciable property account, previously on the straight-line method, with constant annual capital expenditures of $1,000. This shows that the transitional revenue losses following introduction of accelerated depreciation build up to a cumulative total which is never recouped as long as expenditures continue and the acceleration formula remains in effect.

Table 9 Present discounted value of future tax deductions

This table provides a basis for comparing the value to the investor of a 15 percent investment incentive credit with the value of various illustrative formulas for accelerated depreciation, assuming a $1,000 investment in depreciable assets with various selected service lives ranging from 6 to 40 years. In computing the present discounted value of the depreciation deductions, a 5 percent interest or discount rate is assumed.

These figures show, for example, that the present value of $1,000 of depreciation deductions for a 20-year asset using the double-declining balance method is $376. Using 5-year amortization, the present discounted value of $1,000 of deductions is $473. The difference, or $97, represents the value to the investor of using 5-year amortization as against the double-declining balance method. This may be compared with the value of adding a 15 percent investment credit to double-declining balance depreciation, shown to be $143 ($519 - $376). The net value of the credit as shown in this instance is slightly less than $150 due to the offset against the qualifying expenditure of the first year's depreciation allowance on the new investment.

Table 10 - Average annual rate of return on investment after tax under the proposed 15 percent investment incentive credit and alternative depreciation methods

This table provides a basis for appraising the incentive value of the proposed 15 percent investment credit compared with selected accelerated depreciation formulas, in terms of their effects in increasing the average annual rate of return on investment after tax. The figures shown are for 10 and 20 year assets, respectively, using as benchmarks alternative earnings situations producing 5 and 10 percent after-tax for an investor using the straight-line method of depreciation.

The method of computation used, which is essentially the same as the method used in determining bond yields (given the price of a bond, its coupon rate, and maturity), is described in some detail in a note accompanying the table.

The table shows, for example, that for an investor with a 20-year asset yielding 10 percent after tax with the straight-line depreciation method, the adoption of the double-declining balance method raises his rate of return after tax to 10.9 percent; the addition of a 15 percent investment credit for the investor on the double-declining balance method increases the rate of return to 13.8 percent, or an increase in after-tax profitability of 2.9 percentage points or about 27 percent (2.9 percent ÷ 10.9 percent). By comparison, the addition of a 50 percent initial write-off under the double-declining balance method results in a smaller increase in the rate of profitability--from 10.9 percent to 13.4 percent, or 2.5 percentage points, an increase of 23 percent.

Table 11 - Effects on annual rate of return after tax for 20-year asset, with corresponding total revenue losses under the proposed investment incentive tax credit and alternative methods of accelerated depreciation methods (Assuming asset and industrial eligibility similar to that under investment incentive proposal)

This table (based in part on the computation of rates of return after tax for a 20-year asset yielding 10 percent after tax under the straight-line depreciation method, as shown in the preceding Table 10) provides a convenient basis for comparing the incentive effect of the proposed investment credit and selected accelerated depreciation formulas in relation to their revenue effects. The revenue losses under the investment incentive credit and under the different acceleration formulas are shown for the first year, over the first 5 years, and over the first 10 years of operation. The 20-year service life was selected as representing approximately that of an average investment.

Table 11 shows, for example, that the proposed 15 percent investment credit would increase the average rate of return on a qualifying 20-year asset by more than a 50 percent initial allowance, yet would involve only a fraction of the revenue losses resulting from such an initial write-off, either in the first year, the first 5 years, or the first 10 years.

This table also shows that the proposed investment incentive credit would provide incentive effects comparable to a 5-year write-off on the assumed 20-year asset, with only about 40 percent of the revenue cost of 5-year amortization over the first 5 years and only about one-third the revenue cost over the first 10 years.

Table 12 - Growth of net stock of business plant and equipment, 1949-59

This table shows the percentage growth, year by year, of the net stock of business plant and equipment in the United States from 1949 through 1959. Average annual increases are shown separately for the first and second halves of the decade and for the decade as a whole. These figures show, for example, that the average annual rate of increase in the net capital stock (business plant and equipment combined) was about 3.1 percent for the second half of the decade, as against 4.7 percent for the first half.

Table 13 - Receipts, deductions, net income, and depreciation and amortization of all active corporations, 1940-58

Table 14 - Total assets, gross depreciable assets, and depreciation and amortization reserves for active corporations with balance sheets, 1940-58

Table 15 - Gross depreciable assets, depreciation, amortization, and average depreciation rate for active corporations with balance sheets, 1940-58

These three companion tables provide basic background information, taken from corporate statistics of income, on the amount of depreciation deductions taken by corporations on their income tax returns for the period 1940-58. The tables also furnish information on the amount of depreciable property, depreciation reserves, the importance of depreciable property in relation to total corporate assets, and the importance of depreciation deductions in relation to other deductions and net earnings of corporations.

Table 13 shows, for example, that the total depreciation and amortization deductions of corporations on their 1958 tax returns was $20.7 billion. This represented only 2.8 percent of total corporate receipts and 3 percent of total corporate deductions but amounted to 34.5 percent of net income before depreciation and nearly 53 percent of net income after depreciation allowances. The figures show the substantial rise in depreciation allowances over the years, as well as some tendency for depreciation to increase in relation to receipts, deductions, and net earnings.

Table 14 shows that while depreciable property has increased severalfold since 1940, both net depreciable assets and gross depreciable assets have declined as a percentage of total corporate assets. The decline has been proportionately greater in the case of net depreciable assets,

reflecting the increase in depreciation and amortization reserves as a percent of gross depreciable property. As this suggests, corporate depreciable property in 1958 was more fully "reserved" (subject to relatively larger accumulated depreciation and amortization reserves) than it was in 1940, although less fully reserved than at the close of World War II.

Table 15 shows, among other things, that the average depreciation rate has approximately doubled since 1940. This computation of the average depreciation rate was made with adjustments to exclude amortization and property subject to accelerated amortization. While the rise in average depreciation rates has been due in part to the use of liberalized depreciation methods, these figures suggest that the 2.6 percent average depreciation rate in 1940 was equivalent to an average service life on the straight-line basis of about 39 years, while the 5.1 percent rate for 1958 was equivalent to an average service life on the straight-line basis of slightly less than 20 years.

Exhibit I

Table 1

Estimated expenditures on new depreciable assets, 1961
(In billions of dollars)

	Total	By corporate firms	By noncorporate firms
Eligible industries, total 1/	34.0	22.7	11.3
Agriculture	4.0	.0	4.0
Manufacturing	14.1	13.6	.5
Durable goods	6.7	6.4	.3
Nondurable goods	7.4	7.2	.2
Mining	1.0	.8	.2
Railroads	.6	.6	.0
Other transportation	1.9	1.4	.5
Professional firms	1.2	.0	1.2
Lessors of nonresidential property	1.5	1.3	.2
Commercial and other	9.7	5.0	4.7
Excluded industries, total	12.9	12.4	.5
Lessors of residential buildings	3.7	3.3	.4
Communications	3.0	3.0	.0
Other public utilities	6.2	6.1	.1
Total, all industries	46.9	35.1	11.8

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May 3, 1961

Source: Based in part on data from Commerce-Securities and Exchange Commission survey of anticipated expenditures on new plant and equipment. However, the estimated totals in this table are larger than those published by Commerce-S.E.C., because the Commerce-S.E.C. estimates do not include expenditures of farm businesses, professional firms, real estate operators and lessors, nor all business purchases of automotive equipment.

1/ Includes approximately $5.0 billion of assets with lives under 6 years.

Exhibit I

Table 2

Estimated distribution of benefits under investment incentive credit, by industry, 1961

(Percent of total revenue loss of $1,700 million)

Industry	Total	Corporate firms	Noncorporate firms
Agriculture	14	0	14
Manufacturing	42	38	4
Durable goods	18	16	2
Nondurable goods	24	22	2
Mining	3	2	1
Railroads	1	1	0
Other transportation	5	3	2
Professional firms	4	0	4
Lessors of nonresidential property ...	9	8	1
Commercial and other	22	9	13
Total	100	61	39

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May 3, 1961

Exhibit I

Table 3

Estimated number of firms covered and amount of investment incentive credit, 1961

Separately for each form of credit

Form of credit	Numbers covered	Tax credit
	(000)	($000,000)
Minimum credit of 10 percent on first $5,000 of investment:		
Credit available at 6 and 15 percent rates, total	7,580	435
Corporate firms	700	35
Noncorporate firms	6,880	400
Additional credit for these same firms because they used the 10 percent minimum credit, total		205
Corporate firms		40
Noncorporate firms		165
Credit of 6 percent, for firms with investment falling within 50 percent and 100 percent of depreciation allowances, total	120	100
Corporate firms	110	90
Noncorporate firms	10	10
Credits of 6 percent and 15 percent for firms with investment in excess of depreciation allowances, total	300	960
Corporate firms	240	880
Noncorporate firms	60	80
Total, all firms	8,000	1,700
Corporate firms	1,050	1,045
Noncorporate firms	6,950	655

Office of the Secretary of the Treasury,
Office of Tax Analysis

May 3, 1961

Examples showing computation of investment tax incentive credit for a business with $2,500 depreciation assuming varying levels of expenditures on new plant and equipment ranging up to $7,500

Example	Expenditures	15 percent credit: Base 1/	15 percent credit: Credit	6 percent credit: Base 2/	6 percent credit: Credit	Minimum credit: Base 3/	Minimum credit: Credit	Applicable credit
1	-0	0	0	0	0	0	0	0
2	$500	0	0	0	0	$500	$50	$50
3	1,000	0	0	0	0	1,000	100	100
4	1,500	0	0	$250	$15	1,500	150	150
5	2,000	0	0	750	45	2,000	200	200
6	2,500	0	0	1,250	75	2,500	250	250
7	3,000	$500	$75	1,250	75	3,000	300	300
8	3,500	1,000	150	1,250	75	3,500	350	350
9	4,000	1,500	225	1,250	75	4,000	400	400
10	4,500	2,000	300	1,250	75	4,500	450	450
11	5,000	2,500	375	1,250	75	5,000	500	500
12	5,500	3,000	450	1,250	75	5,000	500	525
13	6,000	3,500	525	1,250	75	5,000	500	600
14	7,500	5,000	750	1,250	75	5,000	500	825

Treasury Department, Office of Tax Analysis — May 3, 1961

1/ Expenditures as shown less $2,500 depreciation.
2/ Expenditures as shown up to $2,500, less $1,250 depreciation.

3/ Expenditures as shown up to $5,000.

Note: The above examples are designed to illustrate the principal rules for the computation of the credit. In the interest of simplified exposition, they are set forth as independent examples, based on different amounts of expenditures but a fixed amount of depreciation. On this basis, the examples do not reflect the changes in depreciation and resulting minor adjustments in the credit due to the first year's depreciation (generally half of a full year's depreciation) on the capital acquisitions of the current year, which would occur if a particular firm, starting with a given amount of depreciation, raised its expenditures.

Examples showing computation of investment tax incentive credit for a business with $100,000 depreciation assuming varying levels of expenditures on new plant and equipment ranging up to $200,000

Example	Expenditures	15 percent credit		6 percent credit		Minimum credit		Applicable credit
		Base 1/	Credit	Base 2/	Credit	Base 3/	Credit	
1	0	0	0	0	0	0	0	0
2	$ 1,000	0	0	0	0	$1,000	$100	$ 100
3	5,000	0	0	0	0	5,000	500	500
4	50,000	0	0	0	0	5,000	500	500
5	60,000	0	0	$10,000	$ 600	5,000	500	600
6	75,000	0	0	25,000	1,500	5,000	500	1,500
7	100,000	0	0	50,000	3,000	5,000	500	3,000
8	125,000	$ 25,000	$ 3,750	50,000	3,000	5,000	500	6,750
9	150,000	50,000	7,500	50,000	3,000	5,000	500	10,750
10	200,000	100,000	15,000	50,000	3,000	5,000	500	18,000

Treasury Department
Office of Tax Analysis

May 3, 1961

1/ Expenditures as shown less $100,000 depreciation
2/ Expenditures as shown up to $100,000, less $50,000 depreciation
3/ Expenditures as shown up to $5,000

Note: The above examples are designed to illustrate the principal rules for the computation of the credit. In the interest of simplified exposition, they are set forth as independent examples, based on different amounts of expenditures but a fixed amount of depreciation. On this basis, the examples do not reflect the changes in depreciation and resulting minor adjustments in the credit due to the first year's depreciation (generally half of a full year's depreciation) on the capital acquisitions of the current year, which would occur if a particular firm, starting with a given amount of depreciation, raised its expenditures.

Table 6

Capital Expenditures and Depreciation for Large Corporations
from Question 7 of Treasury Department Depreciation Survey

(amounts in thousands of dollars)

	Manufacturing	Non-manufacturing other than Public Utilities	Public Utilities: Eligible for Credit	Public Utilities: Ineligible for Credit	Total 1/	Total Excluding Ineligible Public Utilities
Corporations with expenditures in excess of depreciation:						
Number of corporations	902	409	54	87	1,456	1,369
Expenditures	$44,587,951	$8,820,157	$4,458,201	$26,415,567	$84,861,109	$58,445,542
Depreciation	27,958,076	4,473,074	2,722,726	9,642,546	45,130,583	35,488,037
Excess of expenditures over depreciation	16,629,875	4,347,083	1,735,475	16,773,021	39,730,526	22,957,505
Ratio of expenditures to depreciation	159%	197%	164%	274%	188%	165%
Corporations with expenditures less than depreciation:						
Number of corporations	130	65	53	-	249	249
Expenditures	$ 1,156,031	$ 194,551	$1,657,209	-	$ 3,009,885	$ 3,009,885
Depreciation	1,416,452	282,857	2,096,703	-	3,798,235	3,798,235
Amount by which expenditures fell short of depreciation	260,421	88,306	439,494	-	788,350	788,350
Ratio of expenditures to depreciation	82%	69%	79%	-	79%	79%
Aggregate:						
Number of corporations	1,032	474	107	87	1,705	1,618
Expenditures	$45,743,982	$9,014,708	$6,115,410	$26,415,567	$87,870,994	$61,455,427
Depreciation	29,374,528	4,755,931	4,819,429	9,642,546	48,928,818	39,286,272
Excess of expenditures over depreciation	16,369,454	4,258,777	1,295,981	16,773,021	38,942,176	22,169,155
Ratio of expenditures to depreciation	156%	190%	127%	274%	180%	156%

Treasury Department
Office of Tax Analysis

May 3, 1961

1/ Includes 5 corporations for which business activity not identified

Note: For most firms the capital expenditures and depreciation cover a six-year period from 1954-1959. Capital expenditures include all expenditures on depreciable property. Depreciation allowances as reported include amortization.

Table 7

Capital Expenditures and Depreciation for Small Businesses from Question 7 of Treasury Department Depreciation Survey

(amounts in thousands of dollars)

	Manufacturing	Non-manufacturing	Total 1/
Corporations with expenditures in excess of depreciation:			
Number of corporations	396	240	806
Expenditures	$178,897	$108,503	$394,601
Depreciation	96,369	61,119	213,434
Excess of expenditures over depreciation	82,528	47,384	181,167
Ratio of expenditures to depreciation	186%	178%	185%
Corporations with expenditures less than depreciation:			
Number of corporations	101	85	221
Expenditures	$ 19,251	$ 9,590	$ 33,946
Depreciation	32,226	14,558	53,483
Amount by which expenditures fell short of depreciation	12,975	4,968	19,537
Ratio of expenditures to depreciation	60%	66%	63%
Aggregate:			
Number of corporations	497	325	1,027
Expenditures	$198,148	$118,093	$428,547
Depreciation	128,595	75,677	266,917
Excess of expenditures over depreciation	69,553	42,416	161,630
Ratio of expenditures to depreciation	154%	156%	161%

Treasury Department
Office of Tax Analysis

May 3, 1961

1/ Includes 205 businesses for which activity not identified

Note: For most firms the capital expenditures and depreciation cover a six-year period from 1954-1959. Capital expenditures include all expenditures on depreciable property. Depreciation allowances as reported include amortization.

Table 8

Schematic illustration of permanent revenue impact of accelerated depreciation

10-year asset

Constant level of expenditure $1,000

Year	Depreciation on old assets (straight-line)	Depreciation on acquisitions beginning year 1			Excess depreciation (over straight-line)			
		Straight-line	5-year amortization	Expensing in year of acquisition	5-year amortization		Expensing in year of acquisition	
					Annual	Cumulative	Annual	Cumulative
1	$900	$100	$200	$1,000	$100	$100	$900	$900
2	800	200	400	1,000	200	300	800	1,700
3	700	300	600	1,000	300	600	700	2,400
4	600	400	800	1,000	400	1,000	600	3,000
5	500	500	1,000	1,000	500	1,500	500	3,500
6	400	600	1,000	1,000	400	1,900	400	3,900
7	300	700	1,000	1,000	300	2,200	300	4,200
8	200	800	1,000	1,000	200	2,400	200	4,400
9	100	900	1,000	1,000	100	2,500	100	4,500
10	0	1,000	1,000	1,000	0	2,500	0	4,500
11(and subsequent)	0	1,000	1,000	1,000	0	2,500	0	4,500

Treasury Department, Office of Tax Analysis May 3, 1961

Table 9

Present discounted value of future tax reductions
5 percent rate of discount
$1,000 asset, 52 percent tax rate

	Life of asset					
	:6 years	:10 years	:15 years	:20 years	:25 years	:40 years
pensing in year of purchase	$520.00	$520.00	$520.00	$520.00	$520.00	$520.00
raight-line depreciation	461.89	421.61	377.82	340.22	307.81	234.22
n of the years digits depreciation	480.64	452.34	420.45	391.97	366.44	304.17
ıble declining balance depreciation 2/	480.12	446.14	408.58	376.33	348.04	282.10
% tax credit with straight-line depreciation 1/	599.39	564.11	522.82	486.47	454.81	382.35
% tax credit with sum of the years digits depreciation 1/	609.21	588.70	561.08	534.83	510.67	450.51
% tax credit with double declining balance depreciation 1/ 2/	605.12	581.14	548.58	518.83	492.04	428.35
year amortization	472.78	472.78	472.78	472.78	472.78	472.78
30% first-year deduction, balance depreciated by straight-line method	479.33	451.13	420.47	394.15	371.47	319.96
40%	485.13	460.96	434.69	412.13	392.69	348.54
50%	490.94	470.80	448.91	430.11	413.90	377.11
60%	496.77	480.64	463.13	448.09	435.13	405.69

Treasury Department, Office of Tax Analysis

May 3, 1961

1/ The tax credit has been computed on the assumption that one-half year's depreciation is claimed on the acquisition in the first year.

2/ Computed with switch to straight-line method.

Note: Present discounted values are computed as of the end of the year in which the investment is made, using the compound discount formula $P = \frac{A_n}{(1+r)^n}$

(assuming a 5% rate of discount)

Average annual rate of return on investment after tax under the proposed 15% investment incentive credit and alternative depreciation methods

	Rate of return, after tax			
	Assuming 5% return under straight-line method		Assuming 10% return under straight-line method	
	10-year asset	20-year asset	10-year asset	20-year asset
Depreciation method:				
Straight-line	5.0%	5.0%	10.0%	10.0%
Double declining balance 1/	5.6	5.5	11.1	10.9
5-year write-off	6.5	7.5	12.4	13.9
30% initial write-off, remainder on straight-line	5.8	5.9	11.4	11.5
50% initial write-off, remainder on straight-line	6.4	6.6	12.6	12.8
30% initial write-off, remainder on double declining balance 1/	6.3	6.3	12.4	12.3
50% initial write-off, remainder on double declining balance 1/	6.9	7.0	13.4	13.4
Investment incentive credit:				
15% investment credit with straight-line depreciation	8.6	7.3	14.0	12.8
15% investment credit with double declining balance depreciation 1/	9.5	8.0	15.3	13.8

Treasury Department, Office of Tax Analysis May 3, 1961

1/ Computed with shift to straight-line method.

Note: The above computations are made on the basis of the standard formula for computing the average annual yield or rate of return on an investment. These computations assume (a) the amount of money invested and (b) the amount of net revenues and the dates of their receipt. On these assumptions, it is possible to calculate the average annual rate of return or rate of profit on the investment using the following interest equation:

$$P = \frac{A_1}{(1+r)} + \frac{A_2}{(1+r)^2} + \dots + \frac{A_n}{(1+r)^n}$$

where P represents the investment, r the rate of return, and A_1, A_2, etc. the net revenues. The pattern of net revenues used assumes a constant rate of decline of net revenues before income taxes consistent with loss of economic usefulness at the end of the service life. For purposes of the computations a level of net revenues before income tax was established which produced, under the straight-line depreciation method, a rate of return after tax of (a) 5 percent and (b) 10 percent. Using this same pattern of net revenues before income taxes, the net revenue pattern after taxes under the various depreciation and investment credit methods was computed. The rate of return after tax for this pattern of net revenues was then computed. In the interest of simplification, a 50 percent tax rate was assumed for the computations.

Exhibit I

Table 11

Effects on annual rate of return after tax for 20-year asset, with corresponding total revenue loss under the proposed investment incentive tax credit and alternative methods of accelerated depreciation

(Assuming asset and industrial eligibility similar to that under investment incentive proposal)

Method	Rate of return after tax, 20-year asset	Revenue loss		
		1st year	First 5 years	First 10 years
	(percent)	($ billions)		
1. Present law				
Straight line method	10.0%	--	--	--
Double declining balance method	10.9	--	--	--
2. 5-year amortization	13.9	1.4	21.8	50.5
3. 30 percent initial allowance, with double declining balance depreciation	12.3	3.3	15.4	27.2
4. 50 percent initial allowance, with double declining balance depreciation	13.4	5.3	23.6	40.2
5. Proposed investment incentive credit with double declining balance depreciation (assuming 15 percent credit at the margin on qualifying investment)	13.8	1.7	8.5	17.0

Treasury Department
Office of Tax Analysis

May 3, 1961

Table 12

Growth of net stock of business plant and equipment, 1949-59
(In billions of constant 1955 dollars)

Note: Net stock equals gross stock less accrued depreciation

End of year	Plant			Equipment			Total plant and equipment		
	Net stock	Increase 1/ $	Increase 1/ %	Net stock	Increase 1/ $	Increase 1/ %	Net stock	Increase 1/ $	Increase 1/ %
1949	$116.3			$ 96.0			$212.3		
1950	119.6	3.3	2.8	104.9	8.9	9.3	224.5	12.2	5.7
1951	123.3	3.7	3.1	112.8	7.9	7.5	236.1	11.6	5.2
1952	128.0	4.7	3.8	120.0	7.2	6.4	248.0	11.9	5.0
1953	132.7	4.7	3.7	127.4	7.4	6.2	260.1	12.1	4.9
1954	136.4	3.7	2.8	131.0	3.6	2.8	267.4	7.3	2.8
1955	140.6	4.2	3.1	134.9	3.9	3.0	275.5	8.1	3.0
1956	146.5	5.9	4.2	136.0	1.1	.8	282.5	7.0	2.5
1957	152.5	6.0	4.1	145.3	9.3	6.8	297.8	15.3	5.4
1958	156.9	4.4	2.9	144.4	- .9	- .6	301.3	3.5	1.2
1959	160.2	3.3	2.1	152.0	7.6	5.3	312.2	10.9	3.6
Arithmetic average of annual percentage increases 1949-59			3.3			4.7			3.9
1949-54			3.2			6.4			4.7
1955-59			3.3			3.1			3.1

Treasury Department, Office of Tax Analysis

May 3, 1961

Source: Based on plant and equipment estimates for 1949-55 in Machinery and Allied Products Institute, Capital Goods Review No. 23, August, 1955, and other estimates supplied by the Institute for 1956-59. Plant and equipment relate to private business only, including agriculture but excluding the ownership and operation of residential property.

1/ Over preceding year.

Exhibit I

Table 13

Receipts, deductions, net income, and depreciation and amortization of all active corporations

1940-1958

(Dollar amounts in millions)

Year	Number of active corporations	Total receipts	Total deductions	Net income	Depreciation and amortization	Depreciation and amortization as percent of: Total receipts	Total deductions	Net income before deduction for depreciation and amortization	Net income
1958	990,381	$735,338	$696,114	$39,224	$20,676	2.8%	3.0%	34.5%	52.7%
1957	940,147	720,414	675,340	45,073	19,432	2.7	2.9	30.1	43.1
1956	885,747	679,868	632,456	47,413	17,579	2.6	2.8	27.0	37.1
1955	807,303	642,248	594,299	47,949	16,009	2.5	2.7	25.0	33.4
1954	722,805	554,822	518,102	36,721	13,691	2.5	2.6	27.2	37.3
1953	697,975	558,242	518,441	39,801	12,026	2.2	2.3	23.2	30.2
1952	672,071	531,307	492,572	38,735	10,435	2.0	2.1	21.2	26.9
1951	652,376	517,039	473,240	43,800	9,121	1.8	1.9	17.2	20.8
1950	629,314	458,130	415,299	42,831	7,901	1.7	1.9	15.6	18.4
1949	614,842	393,450	365,063	28,387	7,222	1.8	2.0	20.3	25.4
1948	594,243	410,966	376,378	34,588	6,338	1.5	1.7	15.5	18.3
1947	551,807	367,746	336,130	31,615	5,279	1.4	1.6	14.3	16.7
1946	491,152	288,954	263,555	25,399	4,266	1.5	1.6	14.4	16.8
1945	421,125	255,448	234,102	21,345	5,928	2.3	2.5	21.7	27.8
1944	412,467	262,201	235,654	26,547	4,931	1.9	2.1	15.7	18.6
1943	420,521	249,682	221,556	28,126	4,607	1.8	2.1	14.1	16.4
1942	442,665	217,681	194,292	23,389	4,325	2.0	2.2	15.6	18.5
1941	468,906	190,432	173,757	16,675	3,879	2.0	2.2	18.9	23.3
1940	473,042	148,237	138,889	9,348	3,528	2.4	2.5	27.4	37.7

Treasury Department, Office of Tax Analysis

Source: Statistics of Income.

May 3, 1961

Gross depreciable assets, depreciation, amortization, and average depreciation rate for active corporations with balance sheets
1940-1958

(Dollar amounts in millions)

	Number of active corporations with balance sheets	Gross depreciable assets	Depreciation	Amortization	Total depreciation and amortization	Average depreciation rate 2/
1958	927,635	$370,218	$18,513	$1,992	$20,505	5.1%
1957	879,106	344,245	16,820	2,458	19,278	5.1
1956	827,916	315,824	14,789	2,621	17,410	4.9
1955	746,962	288,807	13,240	2,572	15,812	4.8
1954	667,856	266,934	11,486 3/	2,000 3/	13,486	4.5
1953	640,073	260,460 1/	10,386	1,508	11,894	4.1 1/
1952	615,698	243,859	9,493	827	10,320	4.0
1951	596,385	227,882	8,733	291	9,024	3.9
1950	569,961	209,098	7,754	43	7,797	3.7
1949	554,573	195,024	7,064	30	7,094	3.6
1948	536,833	180,562	6,201	39	6,240	3.4
1947	496,821	163,744	5,124	58	5,182	3.1
1946	440,750	148,968	4,131	63	4,194	2.8
1945	374,950	138,444	3,921	1,931	5,852	3.0
1944	363,056	137,020	3,891	974	4,865	2.9
1943	366,870	136,351	3,857	681	4,538	2.9
1942	383,534	135,249	3,832	408	4,240	2.9
1941	407,053	133,500	3,664	113	3,777	2.8
1940	413,716	130,685	3,459	7	3,466	2.6

Treasury Department, Office of Tax Analysis

May 3, 1961

1/ Prior to 1954 includes depletable assets and related reserves.
2/ Represents the ratio of depreciation (exclusive of amortization) to gross depreciable assets (adjusted for estimated amount of assets subject to amortization). This adjustment was made by reducing gross depreciable assets by five times the amount of the amortization deduction.
3/ Allocation between depreciation and amortization estimated.

Exhibit I

EXHIBIT II - FOREIGN INCOME AND THE BALANCE-OF-PAYMENTS

Foreign Investment and Income

Chart 1 shows that while we have built up a large investment in subsidiaries in Western Europe, the contribution of this investment in the form of dividend receipts in our balance of payments has been more than offset by new U.S. capital outflow.

Table 1 shows the relevant data for Chart 1.

Chart 2 shows the same pattern for Canada as Chart 1 shows for Western Europe.

Table 2 shows the relevant data for Chart 2.

Table 3 shows actual data on financial flows between U. S. firms and subsidiaries abroad for the period 1957 through 1959 with a country breakdown. The bottom line entitled "International" represents shipping company transactions. Among other things it shows that a very considerable portion of earnings have been reinvested abroad rather than remitted to the United States.

Chart 3, based on reasonable assumptions about earnings and reinvestment, shows that accumulative earnings remitted to the United States by a company without the deferral privilege will be greater for a period of 17 years than such remittances would be if the company had the deferral privilege.

Table 4 shows the relevant data for Chart 4.

Tax Rates

Table 5 shows that the corporation income tax rates imposed by the national government in industrialized countries range from 8 percent in Switzerland to 53½ percent in the United Kingdom.

Table 6 shows that because of tax treaties, income flowing into Swiss parent corporations from abroad is subject to little or no income tax at source.

Investment Companies

Table 7 shows the 14 foreign investment companies registered with the SEC and their net assets as of the most recent available date in 1960.

Table 8 shows the sales and redemptions of the foreign investment companies by year since 1954 and indicates that redemptions exceeded sales in the last two years.

Table 9 shows the amount of income and its disposition by foreign investment companies for the period since 1954.

Investment Companies (continued)

Table 10 shows the sources which contributed to the $339 million of net assets of foreign investment companies on the latest reporting dates in 1960.

Chart 4 reproduces a page from a Bermuda investment company prospectus that discusses taxes.

Earned Income Exemption

Table 11 is a list of 33 individual taxpayers, identified by symbols, claiming exemption of earned income ranging from over $100,000 to nearly $1 million and shows them to be resident in many different countries.

Table 12 shows a similar list of 94 taxpayers claiming exemptions of between $50,000 and $100,000.

Table 13 shows the number of returns and the amount of earned income reported as being exempt from tax, by size of exempt income and by continents.

Estate Tax

Table 14 shows that the marginal estate tax rates in the United States are substantially higher than in several other nearby countries.

Tax Havens

Table 15 shows the growth in U.S. companies created in tax haven countries in recent years.

Exhibit II

page 1

Chart 1

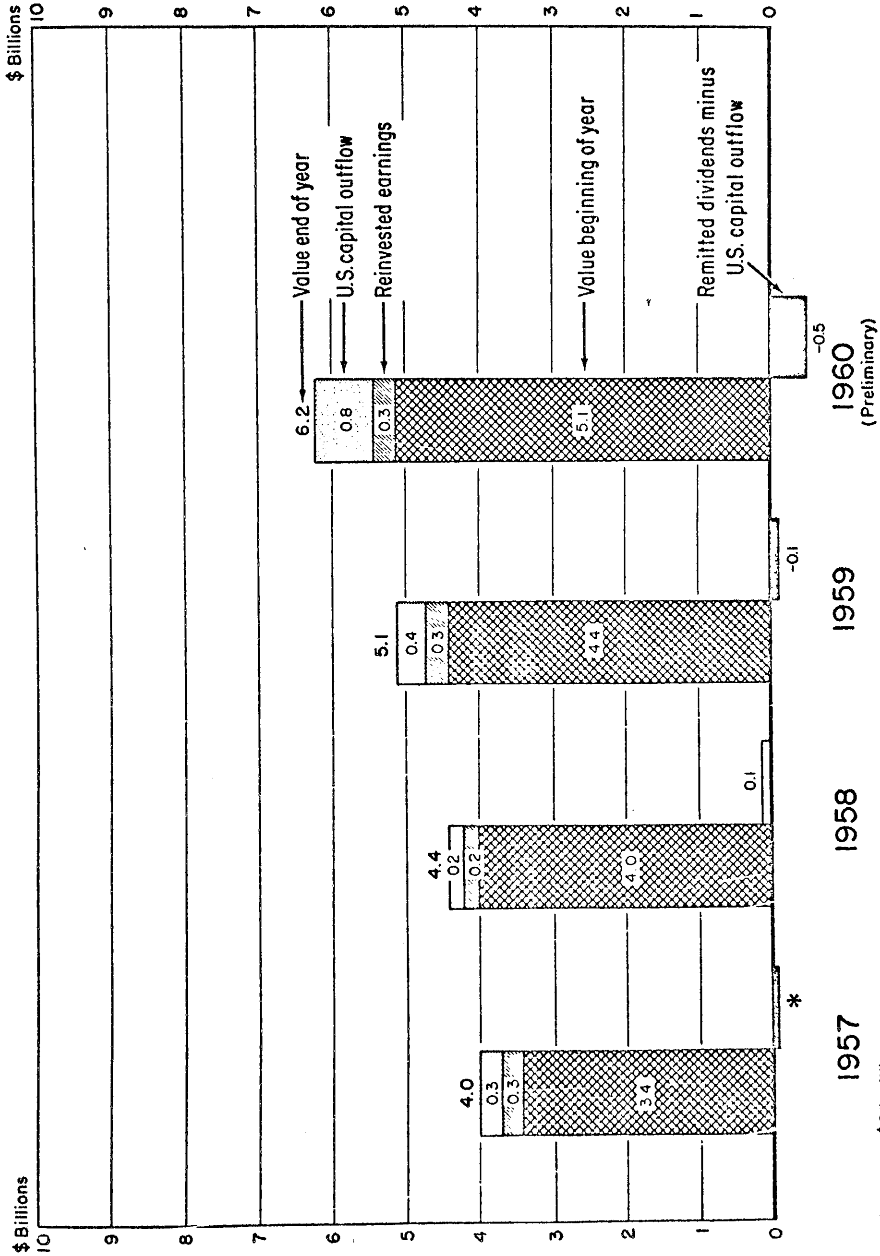


Exhibit II
page 2
Table 1

U.S. Direct Investment in W. European Subsidiaries

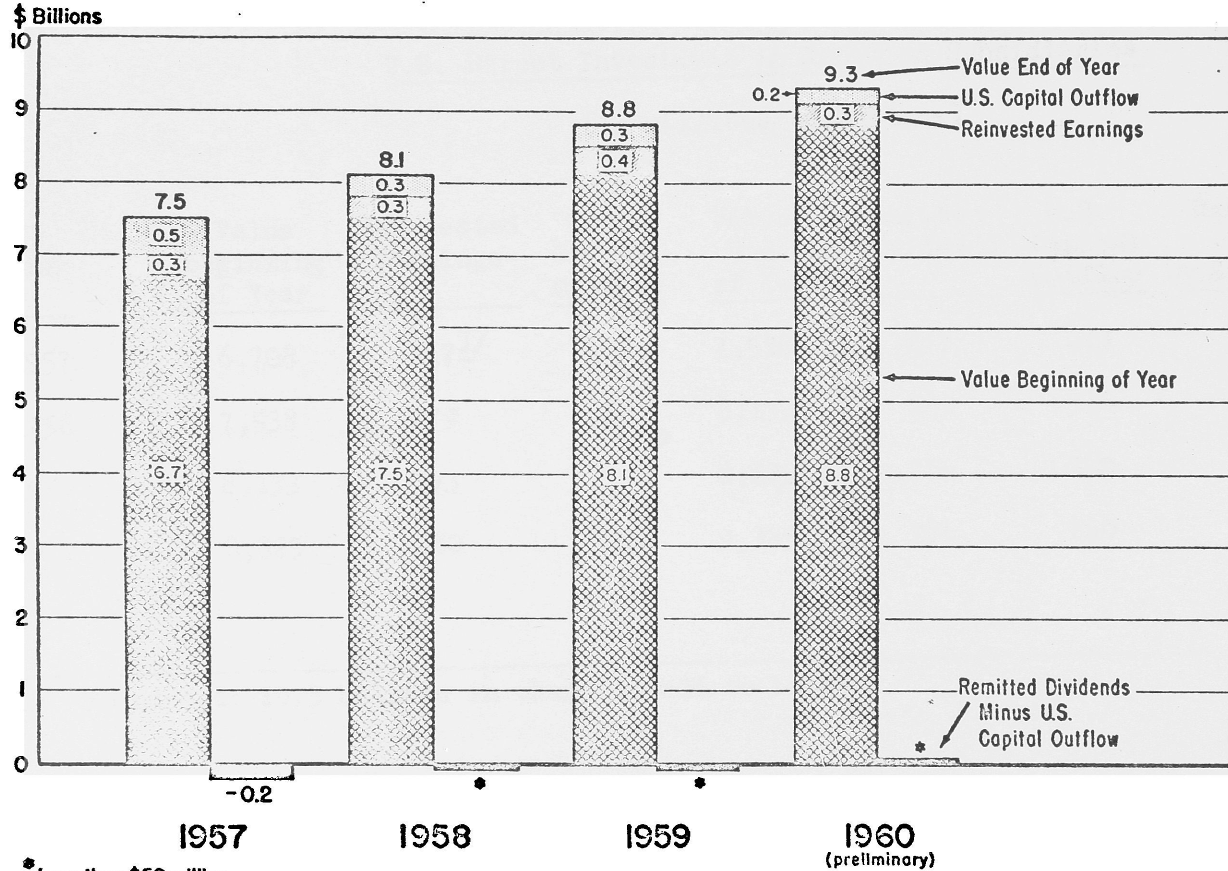
(In millions of dollars)

Year	Value beginning of Year	Reinvested Earnings	U.S. Capital Outflow	Value End of Year	Remitted Dividends	U.S. Capital Outflow	Remitted Dividends minus U.S. Capital Outflow
1957	3,383	294	281	3,958	245	281	-36
1958	3,958	238	161	4,357	301	161	140
1959	4,357	258	447	5,062	392	447	-55
1960 (prel.)	5,062	275	860 1/	6,197	390	860	-470

1/ Rounded to $0.8 billion in chart to add to total.

April 12, 1961

U.S. DIRECT INVESTMENT IN CANADIAN SUBSIDIARIES



*Less than $50 million

Exhibit II
page 3
Chart 2

U.S. Direct Investment in Canadian Subsidiaries

(In millions of dollars)

Year	Value beginning of Year	Reinvested Earnings	U.S. Capital Outflow	Value End of Year	Remitted Dividends	U.S. Capital Outflow	Remitted Dividends minus U.S. Capital Outflow
1957	6,708	357 1/	473	7,538	257	473	-216
1958	7,538	279	316	8,133	269	316	-47
1959	8,133	393	299	8,825	284	299	-15
1960 (prel.)	8,825	280	240	9,345	284	240	+44

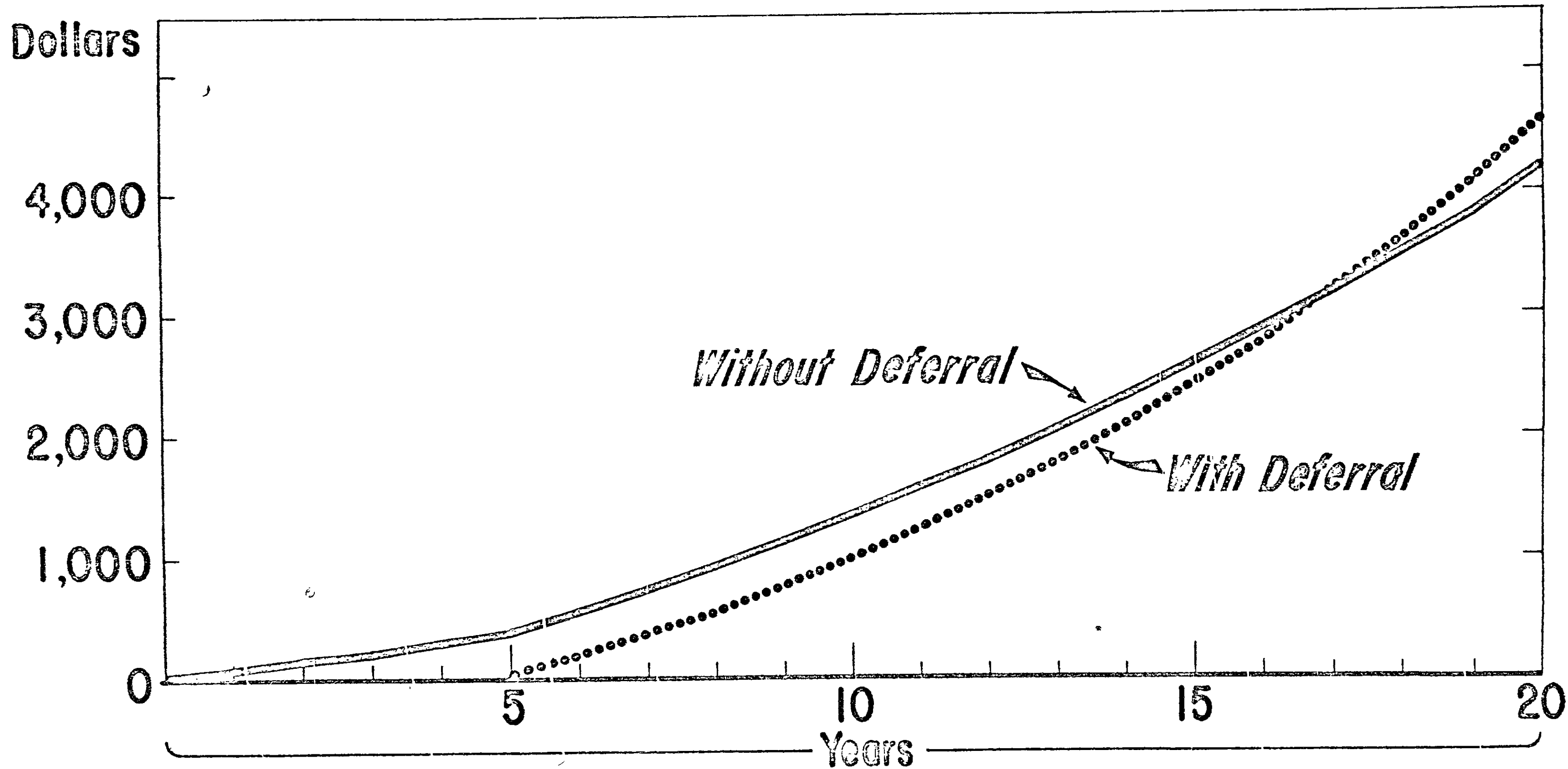
1/ Rounded to $0.3 billion in chart to add to total.

April 12, 1961

Area and Country	Value-end of 1959				Capital flows 1957-59				Earnings1/ 1957-59				Reinvested Earnings 1957-59				Common Dividends 1957-59			
	Total	Manu-fac-tur-ing	Petro-leum	Other	Total	Manu-fac-tur-ing	Petro-leum	Other	Total	Manu-fac-tur-ing	Petro-leum	Other	Total	Manu-fac-tur-ing	Petro-leum	Other	Total	Manu-fac-tur-ing	Petro-leum	Other
All areas......	22,306	9,343	6,204	6,759	2,911	1,108	1,103	700	6,357	2,809	1,711	1,837	3,389	1,493	733	1,163	2,813	1,229	952	632
Canada.........	8,835	4,473	1,788	2,574	1,083	385	358	340	1,906	1,112	283	511	1,029	588	151	290	811	489	116	206
Europe.........	5,083	2,880	1,419	784	891	431	344	116	1,767	1,065	408	294	790	541	96	153	938	496	307	135
Belgium......	200	120	53	27	3	2/	2	1	68	48	13	7	39	28	8	3	22	16	3	3
Denmark......	46	15	22	9	5	2/	4	1	6	7	-2	1	1	2	-3	2	6	5	2/	1
France.......	608	328	201	79	84	44	35	5	166	88	45	33	96	42	32	22	56	36	12	8
Germany......	771	479	199	93	171	55	90	26	275	228	8	39	148	130	-5	23	112	87	11	14
Italy........	287	122	123	42	38	28	6	4	59	39	3	17	27	21	-4	10	32	18	7	7
Netherlands..	228	55	130	43	56	20	30	6	42	10	16	16	16	3	8	5	25	6	8	11
Norway.......	60	10	25	25	6	2/	5	1	6	4	-1	3	4	3	-1	2	1	1	2/	2/
Spain........	48	25	14	9	3	1	1	1	14	9	3	2	10	8	2	2/	4	2	1	1
Sweden.......	114	38	55	21	21	7	11	3	10	6	-2	6	-4	2	-3	-3	13	4	1	8
Switzerland..	157	66	11	80	78	34	4	40	40	22	-5	23	24	9	-5	20	15	14	--	1
United Kingdom.....	2,417	1,584	490	343	418	240	141	37	1,041	593	313	135	407	288	54	65	634	305	258	71
Latin America..	4,576	1,271	1,070	2,235	556	208	233	115	1,139	295	286	558	747	197	150	400	371	91	135	145
Argentina....	286	144	3/	3/	42	10	3/	3/	50	32	3/	3/	27	19	3/	3/	22	12	3/	3/
Brazil.......	672	373	9	290	116	109	2/	7	122	92	3	27	86	70	3	13	29	18	2/	11
Chile........	263	20	3/	3/	4	-1	3/	3/	29	6	3/	3/	23	5	3/	3/	4	1	3/	3/
Colombia.....	227	57	122	48	16	11	8	-3	15	8	-3	10	1	4	-12	9	13	6	4	3
Cuba.........	516	80	135	301	39	15	46	-22	91	15	18	58	54	9	13	32	36	5	6	25
Mexico.......	686	345	11	330	45	17	-1	29	128	83	3	42	50	47	1	2	73	34	2	37
Panama.......	255	8	24	223	67	5	8	54	125	1	10	114	115	1	10	104	10	2/	--	10
Peru.........	161	29	74	58	21	10	2	9	46	5	24	17	15	2	11	2	27	2	11	14
Venezuela....	655	160	267	228	139	27	71	41	261	44	112	105	192	40	66	86	69	4	46	19
British dependencies	633	19	3/	3/	119	7	3/	3/	189	2	3/	3/	154	1	3/	3/	35	2/	3/	3/
Africa.........	642	112	170	360	9	8	-38	39	302	60	51	191	140	19	42	79	156	40	9	107
Liberia......	112	1	3/	3/	2	1	3/	3/	96	--	3/	3/	61	--	3/	3/	35	--	3/	3/
Union of South Africa	312	102	3/	3/	-29	6	3/	3/	146	57	3/	3/	54	18	3/	3/	91	39	3/	3/
Asia...........	1,026	204	588	234	40	36	-4	8	670	83	496	91	245	55	127	63	414	23	366	25
India........	96	36	3/	3/	7	5	3/	3/	37	14	3/	3/	27	9	3/	3/	8	4	3/	3/
Japan........	161	52	3/	3/	17	10	3/	3/	41	16	3/	3/	29	14	3/	3/	12	2	3/	3/
Philippines..	285	74	3/	3/	29	8	3/	3/	114	38	3/	3/	72	25	3/	3/	34	11	3/	3/
Oceania........	835	403	342	90	54	40	7	7	287	194	62	31	167	93	55	19	108	90	6	12
Australia....	702	388	3/	3/	37	41	3/	3/	260	182	3/	3/	157	93	3/	3/	91	77	3/	3/
New Zealand..	50	15	3/	3/	2/	-1	3/	3/	22	12	3/	3/	5	2/	3/	3/	17	13	3/	3/
International..	1,309	--	827	482	278	--	203	75	286	--	125	161	271	--	112	159	15	--	13	2

1/ Earnings on common stock.
2/ Less than $500,000.
3/ Included in totals.

CUMULATIVE REMITTANCES TO U.S. FROM NET EARNINGS OF A U.S. FOREIGN SUBSIDIARY



*Initial investment $1,000; annual rate of earnings before taxes 20%; foreign tax rate 20%; U.S. tax rate 50%. Reinvestment of all after-tax earnings for first 5 years, and reinvestment of half after-tax earnings for next 15 years.

Office of the Secretary of the Treasury

FO-355

Exhibit II
page 7
Table 4

Remittances to U.S. from Net Earnings of a U.S. Foreign Subsidiary

(In dollars)

Year	With Deferral		Without Deferral	
	Annual	Cumulative	Annual	Cumulative
1	-0-	-0-	60.0	60.0
2	-0-	-0-	66.0	126.0
3	-0-	-0-	72.6	198.6
4	-0-	-0-	79.9	278.5
5	-0-	-0-	87.8	366.3
6	168.0	168.0	177.1	543.4
7	181.5	349.5	186.0	729.4
8	196.0	545.5	195.2	924.6
9	211.7	757.2	205.1	1,129.7
10	228.6	985.8	215.3	1,345.0
11	246.9	1,232.7	226.0	1,571.0
12	266.7	1,499.4	237.4	1,808.4
13	288.0	1,787.4	249.2	2,057.6
14	311.0	2,098.4	261.6	2,319.2
15	335.9	2,434.3	274.8	2,594.0
16	362.7	2,797.0	285.5	2,879.5
17	391.8	3,188.8	302.9	3,182.4
18	423.1	3,611.9	318.1	3,500.5
19	456.9	4,068.8	334.0	3,834.5
20	493.5	4,562.3	350.7	4,185.2

* Remittances of U.S. tax and income on following basis: initial investment $1,000; annual rate of earnings before taxes 20%; foreign tax rate 20%; U.S. tax rate 50%. Reinvestment of all after-tax earnings for first 5 years, and reinvestment of half after-tax earnings for next 15 years.

April 13, 1961

Exhibit II - page 8

Table 5

Comparison of Maximum Rates of Corporate Income Tax * on Profits of Corporations in Selected Industrial Countries

Country	Rate
Australia	40%
Belgium	28.5 1/
Canada	50
Denmark	44 2/
France	50
West Germany	51 3/
Italy	31 4/
Japan	38
Luxembourg	42
Netherlands	47 5/
Sweden	40
Switzerland	8 6/
United Kingdom	53.5 7/

*See notes on next page

(1) Income tax paid in the previous year is deductible so that the nominal tax rate of 40 percent is reduced to approximately 28.5 percent.

(2) Because of a special deduction measured by a percentage of capital stock outstanding and allowed to all Danish corporations, the rate may be reduced as low as 22 percent. The average rate for most corporations is 36 percent.

(3) The German corporate rate of 51 percent is reduced to approximately 22 percent if all profits are distributed.

(4) This rate of tax is increased by 15 percent on profits in excess of 6 percent of capital plus certain allowable reserves. The Italian corporate tax is limited to profits from domestic sources.

(5) The Netherlands does not impose tax on profits derived abroad.

(6) In addition to this tax, income taxes are also imposed in varying degrees by the Cantons. Zurich imposes tax at rates ranging from 5 percent to 26 percent and Geneva up to 27 percent. However, substantial tax concessions, and in many cases complete exemption from tax may be granted by the Cantons, particularly with respect to foreign income.

(7) Takes into account tax rate increase announced in 1961-62 Budget Message.

Exhibit II - page 10

Table 6

Effect of Swiss Treaties upon Withholding Taxes of Selected Countries

	Dividends		Interest on Commercial Obligation		Royalties other than Mineral	
ource ountry	General Rule	To Swiss Parent Companies	General Rule	To Swiss Parent Companies	General Rule	To Swiss Parent Companies
ustria	17.7	0	17.7	0	17.7	0
enmark	0 to 60	0	0	0	0	0
'inland	15	5	0	0	0	0
'rance	22	0	Various	0	22	0
ermany	25	under revision	25 to 60	0	25	0
etherlands	15	0 to 5	0	0	0	0
orway	25	5	0	0	0	0
weden	30	5	0	0	50	0
J.K.	1/	1/	38.75	0	38.75	0

1/ The British impose a 38.75 percent income tax on corporate profits but it is treated as if it were a tax on the shareholder. No additional withholding tax is levied on dividends paid by the corporation.

Table 7. LIST OF REGISTERED FOREIGN INVESTMENT COMPANIES

Name 1/	Net Assets	As Of	Date Commission Granted Order Permiting Registration	Releas Number
American-South African Investment Company, Ltd. (South Africa)	$ 37,090,000	3/31/60	8/13/58	2756
Canada General Fund (1954) Ltd.	72,616,749	6/30/60	8/16/54	2007
Canadian International Growth Fund, Ltd.	11,166,126	6/30/60	7/ 6/56	2386
Electronics International Capital Ltd. (Bermuda)	14,400,000	12/31/60	9/16/60	3115
Investors Group Canadian Fund, Ltd.	110,260,000	6/30/60	3/30/55	2124
Keystone Fund of Canada Ltd.	15,996,800	6/30/60	8/18/54	2008
Loomis-Sayles Fund of Canada Ltd.	13,826,367	12/31/59	7/ 6/59	2895
Multnomah Canadian Fund, Ltd. 2/	110,440	4/30/60	12/10/57	2641
New York Capital Fund, Ltd.	29,972,778	6/30/60	8/11/54	2006
Scudder Fund of Canada Ltd.	53,864,897	5/31/60	4/27/54	1975
Axe Templeton Growth Fund of Canada Ltd.	5,238,780	6/30/60	10/ 7/54	2020
UBS Fund of Canada, Ltd.	3,486,560	12/31/60	4/ 1/60	3002
United Funds Canada Ltd.	15,715,000	6/30/60	8/ 4/54	2003
United International Fund Ltd. (Bermuda) 3/			3/ 9/60	2981

1/ Unless otherwise indicated, all companies are incorporated in Canada

2/ Being liquidated

3/ Not yet engaged in operations

Table 8.-Sales and Redemptions of Capital Stock of Foreign Investment Companies

(In millions of dollars)

Calendar Year 1/	Total Fourteen Companies			Eleven Canadian Companies			One South African and Two Bermudian Companies		
	Sales	Redemptions	Net Proceeds	Sales	Redemptions	Net Proceeds	Sales	Redemptions	Net Proceeds
1954..........	124	*	124	124	*	124			
1955..........	83	15	68	83	15	68			
1956..........	80	19	61	80	19	61			
1957..........	85	21	64	85	21	64			
1958..........	68	31	37	37	31	7	31 3/	-	31 3/
1959..........	51	64	-12	51	64	-12			
1960 (to latest available dates 2/)	28	46	-18	14	46	-32	14 4/	-	14 4/
Total...	520	195	325	475	195	280	45	-	45

1/ Data for four companies are included on basis of fiscal quarters ending closest to end of the calendar year.

2/ Data for nine companies are available only through a portion of 1960 (ranging from April 30 to September 30).

3/ South African company.

4/ Bermudian companies (one of which has issued only a nominal amount of capital stock).

* Less than $500,000.

Note: Detail may not add to totals because of rounding.

Source: Based on material made available by the Securities and Exchange Commission.

March 24, 1961

Table 9. Analysis of Net Investment Income of Foreign Investment Companies 1/
(In Millions of dollars)

Year 2/	Eleven Canadian Companies: Net Investment Income	Eleven Canadian Companies: Undistributed Net Inv. Income — Accumulated Year-End Amount	Eleven Canadian Companies: Undistributed Net Inv. Income — Annual Change	Eleven Canadian Companies: Income Distributed 3/	One South African Company: Net Investment Income	One South African Company: Undistributed Net Inv. Income — Accumulated Year-End Amount	One South African Company: Undistributed Net Inv. Income — Annual Change	One South African Company: Income Distributed 4/
1954	.9	.9	.9	*				
1955	4.0	4.7	3.7	.3				
1956	5.8	9.8	5.1	.7				
1957	7.6	15.8	6.0	1.6				
1958	8.1	22.4	6.6	1.5	.6	.6	.6	-
1959	8.0	27.6	5.1	2.9	1.6	1.8	1.1	.5
1960 (to latest available dates) 5/	6.4	~~29.5~~ 29.9	2.3	4.1	.9	2.4	.6	.2
Total	40.8	-	29.9	11.0	3.1	-	2.4	.7

1/ Canadian and South African companies only; no income has been reported for the Bermudian companies.
2/ Data for five companies are included on basis of half-year ending closest to end of the calendar year.
3/ Derived by subtracting the annual change in undistributed net investment income from net investment income for the year.
4/ Cash dividends.
5/ Data for six companies are available only through a portion of 1960 (ranging from June 30 to November 30).

* Less than $50,000.
Note: Detail may not add to totals because of rounding.
Source: Based on material made available by the Securities and Exchange Commission.

March 24, 196

Table 10.--Sources of Net Assets of Foreign Investment Companies as of Latest Available Dates in 1960

(In millions of dollars)

	Total	Eleven Canadian Companies 1/	One South African Company 2/	Two Bermudian Companies 3/
Net proceeds from sale of capital stock....	327	282	31	14
Accumulated net realized gain on investments	17	16	*	-
Unrealized appreciation of investments......	13	12	1	-
Total..................................	357	310	33	14
Undistributed net investment income..........	32	30	.2	-
Net assets applicable to outstanding shares..................................	389	340	35	14

Note: Detail may not add to totals because of rounding.

1/ Data for nine of the eleven Canadian companies are included as of various dates ranging from March 31 to November 30.

2/ June 30.

3/ December 31.

* Less than $500,000.

Source: Based on data made available by the Securities and Exchange Commission.

March 24, 1961

Chart 4

DIVIDEND POLICY

The Fund intends to accumulate and reinvest earnings from investment income and net realized capital gains. It is the present intention of the Fund to make stock distributions from time to time. but it does not expect to declare cash dividends. The Fund's policy with respect to retaining all investment income might be changed at some time in the future, depending upon the extent and amount of income from United States sources, tax factors (including those mentioned under "The Fund") and other considerations.

TAXES AND FOREIGN EXCHANGE

Tax Status of the Fund

The Fund is subject to no income, capital gains or other tax in Bermuda, except a flat corporate tax of approximately $560 per annum and a small stamp duty on the par value of its authorized shares. Furthermore, under the Exempted Companies Act, 1956, the Fund has been guaranteed exemption by the Bermuda Government from any tax which may hereafter be enacted in Bermuda, until June 16, 1986.

Income paid to the Fund on investments in other countries, however, will be subject to such withholding taxes as may be imposed by the country of origin, including the United States. The rates of such withholding taxes vary widely.

Because it has been organized under the laws of a country other than the United States, the Fund cannot qualify as a "regulated investment company" under the United States Internal Revenue Code. However, the Fund intends to operate in such a way as to be a foreign corporation not engaged in trade or business within the United States, in which event the only tax to which it expects to be subject in the United States is the withholding tax (currently at the rate of 30 per cent) on income, if any, from sources in the United States. If so operated, no taxes will be payable on capital gains from United States investments.

Tax Status of United States Shareholders

Under Section 305 of the Internal Revenue Code there is no tax on the receipt of stock dividends. Under present law, if a United States resident surrenders for redemption by the Fund all of the shares of the Fund owned directly or indirectly by him and held for more than six months or the ownership of which is attributed to him as provided in the Internal Revenue Code, any excess of the redemption price over the cost of his shares will be taxable at capital gain rates (currently not more than 25%) and not at the higher rates applicable to ordinary income. Capital gain tax treatment also would apply upon any redemption of less than all of such shares held for more than six months if such redemption is not essentially equivalent to a dividend or includes a sufficient proportion (generally at least 20%) of such shares so as to meet certain conditions set forth in Section 302 of the Internal Revenue Code, which Section should be carefully examined in respect of any particular redemption, especially in family, partnership, and trust situations, where a shareholder may be charged with constructive ownership of shares not held in his own name.

There is no withholding tax on dividends paid by a Bermuda corporation to foreign shareholders, whether dividends be paid in stock or in cash.

If a cash dividend were paid by the Fund to its shareholders, any such dividend would be subject to U. S. tax at ordinary income tax rates, regardless of whether from income or from capital gains.

As there are no estate or inheritance taxes in Bermuda, shareholders domiciled in the United States will not be subject to any foreign estate or inheritance taxes.

Individuals claiming tax exemption of earned income of $100,000 or more under Sec. 911 on tax returns filed in calendar year 1960

Taxpayer Identification Number	Country of Residence	Adjusted Gross Income Reported	Amount of Income Excluded
C-1	Canada	$ 32791	$186751
C-2	Philippines	14739	108638
C-3	1/	26797	996200
C-4	England	17351	130766
C-5	Australia	54985	105707
C-6	England	20931	217500
C-7	Mexico	22613	583087
C-8	Canada	5976	136700
C-9	Japan	5111	122260
C-10	Switzerland	8021	160000
C-11	Venezuela	6729	107000
C-12	Venezuela	8934	107367
C-13	Venezuela	756	184171
C-14	Switzerland	1345	155360
C-15	Venezuela	48876	119551
C-16	France	74586	115523
C-17	Switzerland	122951	156000
C-18	Philippines	146821	265540
C-19	Philippines	132	111870
C-20	Argentina	2321	217121
C-21	Venezuela	0	161083
C-22	Lebanon	0	151167
C-23	Ecuador	0	122307
C-24	Venezuela	431	153078
C-25	Brazil	331	449803
C-26	Philippines	3182	131950
C-27	Venezuela	282	129570
C-28	Germany	240	160450
C-29	Brazil	4493	144833
C-30	Dominican Rep	0	150059
C-31	Switzerland	5677	117556
C-32	England	2893	162500
C-33	Venezuela	3161	105145

1/ Not listed to avoid disclosure

Exhibit II - page 15
Table II

Taxpayer Identification Number	Country of Residence	Adjusted Gross Income Reported	Amount of Income Excluded
L-1	Philippines	1,552	55,217
L-2	South Africa	3,990	64,400
L-3	France	24,602	69,920
L-4	Canada	215	55,962
L-5	Canada	6,543	70,000
L-6	Germany	5,135	70,917
L-7	Venezuela	3,903	53,731
L-8	Cuba	6,921	58,550
L-9	Canada	5,880	50,000
L-10	Mexico	5,824	52,220
L-11	Canada	900	50,225
L-12	Canada	597	51,255
L-13	Venezuela	0	74,000
L-14	Canada	0	70,072
L-15	Venezuela	8,646	52,881
L-16	England	554	53,440
L-17	Japan	0	50,345
L-18	Brazil	4,098	52,869
L-19	Canada	0	51,999
L-20	Mexico	3,645	67,906
L-21	France	0	64,885
L-22	Saudi Arabia	1,466	57,115
L-23	Canada	1,233	52,500
L-24	Panama	1,640	67,505
L-25	Mexico	16,580	56,252
L-26	Luxembourg	1,042	87,303
L-27	Saudi Arabia	0	54,115
L-28	Canada	20,579	70,579
L-29	Mexico	2,476	50,560
L-30	Canada	0	50,294
L-31	Japan	0	51,117
L-32	Italy	1,835	52,837
L-33	Venezuela	6,280	84,440
L-34	Philippines	2,445	63,750
L-35	Turkey	850	80,008
L-36	Venezuela	9,117	52,881
L-37	Canada	0	67,078
L-38	Venezuela	11,863	67,[illegible]

Table 12

Identification Number	Country of Residence	Adjusted Gross Income Reported	Amount of Income Excluded
L-39	Canada	7,775	77,115
L-40	Canada	0	60,000
L-41	Canada	7,530	70,195
L-42	Canada	3,400	54,801
L-43	Colombia	0	65,000
L-44	Brazil	0	53,000
L-45	Canada	1,283	92,666
L-46	Okinawa	0	57,139
L-47	Mexico	428	54,430
L-48	England	1,963	67,505
L-49	Mexico	924	57,077
L-50	Venezuela	5,137	95,262
L-51	Brazil	0	51,559
L-52	Venezuela	3,120	61,398
L-53	Venezuela	0	50,780
L-54	Switzerland	4,059	86,592
L-55	Venezuela	0	56,418
L-56	Canada	0	51,000
L-57	Mexico	2,873	53,500
L-58	Okinawa	0	74,000
L-59	France	0	54,317
L-60	Mexico	0	76,000
L-61	Mexico	0	57,793
L-62	Venezuela	0	55,522
L-63	Venezuela	0	53,731
L-64	Brazil	389	62,659
L-65	Venezuela	1,440	81,714
L-66	France	697	75,250
L-67	Canada	6,796	66,077
L-68	Canada	6,163	50,000
L-69	Venezuela	3,233	66,321
L-70	Spain	Loss 16,704	77,704
L-71	Colombia	0	79,822
L-72	Venezuela	0	64,925
L-73	Venezuela	1,398	52,009
L-74	Canada	0	51,626
L-75	Brazil	6,496	60,059
L-76	Venezuela	Loss 21,966	62,548
L-77	Republic of Panama	320	80,000

Taxpayer Identification Number	Country of Residence	Adjusted Gross Income Reported	Amount of Income Excluded
L-78	Venezuela	4,164	53,284
L-79	France	0	65,953
L-80	Korea	331	63,815
L-81	Canada	0	59,185
L-82	Japan	8,850	88,500
L-83	Philippines	0	87,011
L-84	Spain	4,302	52,495
L-85	Canada	5,787	55,902
L-86	Switzerland	11,049	51,839
L-87	Chile	13,425	85,366
L-88	Germany	37,085	98,291
L-89	Venezuela	7,534	94,585
L-90	Bahamas	172,463	65,597
L-91	Saudi Arabia	12,54[illegible]	57,458
L-92	Venezuela	2,100	67,351
L-93	England	18,159	66,726
L-94	Italy	300	67,742

Table 13

INCOME EXCLUDED UNDER SECTION 911 OF THE CODE ON RETURNS FILED IN 1960 AS DISCLOSED ON FORMS 2555, BY SIZE OF EXCLUDED INCOME AND CONTINENT

Continent and size of excluded income	Residence				Physical presence				Total			
	Number	Percent	Amount	Percent	Number	Percent	Amount	Percent	Number	Percent	Amount	Percent
	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)	(10)	(11)	(12)
ALL CONTINENTS												
Total..............	39,482	100.0	418,906,940	100.0	11,232	100.0	92,175,510	100.0	50,714	100.0	511,082,450	100.0
Not stated..............	1,458	3.7	-	-	373	3.3	-	-	1,831	3.6	-	-
Under $5,000..............	11,785	29.8	32,750,427	7.8	2,451	21.8	6,402,207	6.9	14,236	28.1	39,152,634	7.7
$5,000 under $10,000.....	9,076	23.0	62,650,725	15.0	4,376	39.0	32,014,862	34.7	13,452	26.5	94,665,587	18.5
$10,000 under $20,000....	13,149	33.3	186,718,941	44.6	3,896	34.7	50,538,567	54.8	17,045	33.6	237,257,508	46.4
$20,000 under $50,000....	3,768	9.5	100,000,678	23.9	130	1.2	2,794,622	3.0	3,898	7.7	102,795,300	20.1
$50,000 under $100,000...	204	0.5	12,991,339	3.1	5	-	302,945	0.3	209	0.4	13,294,284	2.6
$100,000 under $500,000..	35	0.1	5,835,576	1.4	1	-	122,307	0.1	36	0.1	5,957,883	1.2
$500,000 and over........	7	-	17,959,254	4.3	-	-	-	-	7	-	17,959,254	3.5
NORTH AMERICA												
Total..............	11,199	100.0	109,420,551	100.0	1,166	100.0	8,398,037	100.0	12,365	100.0	117,818,588	100.0
Not stated..............	510	4.6	-	-	92	7.9	-	-	602	4.9	-	-
Under $5,000..............	3,299	29.5	10,894,623	10.0	289	24.8	828,079	9.9	3,588	29.0	11,722,702	9.9
$5,000 under $10,000.....	3,068	27.4	21,447,700	19.6	464	39.8	3,171,618	37.8	3,532	28.6	24,619,318	20.9
$10,000 under $20,000....	3,309	29.5	45,767,243	41.8	306	26.2	3,997,446	47.6	3,615	29.2	49,764,689	42.2
$20,000 under $50,000....	935	8.3	25,368,822	23.2	13	1.1	275,266	3.3	948	7.7	25,644,088	21.8
$50,000 under $100,000...	73	0.7	4,603,566	4.2	2	0.2	125,628	1.5	75	0.6	4,729,194	4.0
$100,000 under $500,000..	4	-	755,510	0.7	-	-	-	-	4	-	755,510	0.6
$500,000 and over........	1	-	583,087	0.5	-	-	-	-	1	-	583,087	0.5
SOUTH AMERICA												
Total..............	9,238	100.0	121,937,893	100.0	1,398	100.0	13,382,853	100.0	10,636	100.0	135,320,746	100.0
Not stated..............	226	2.4	-	-	37	2.6	-	-	263	2.5	-	-
Under $5,000..............	1,761	19.1	4,786,298	3.9	230	16.5	692,055	5.2	1,991	18.7	5,478,353	4.0
$5,000 under $10,000.....	1,660	18.0	12,697,002	10.4	502	35.9	3,914,723	29.3	2,162	20.3	16,611,815	12.3
$10,000 under $20,000....	4,004	43.3	58,406,618	47.9	604	43.2	8,044,366	60.1	4,608	43.3	66,450,984	49.1
$20,000 under $50,000....	1,522	16.5	39,804,562	32.6	23	1.6	536,805	4.0	1,545	14.5	40,341,367	29.8
$50,000 under $100,000...	51	0.6	3,238,838	2.7	1	0.1	72,597	0.5	52	0.5	3,311,435	2.4
$100,000 under $500,000..	13	0.1	2,204,485	1.8	1	0.1	122,307	0.9	14	0.1	2,326,792	1.7
$500,000 and over........	1	-	800,000	0.7	-	-	-	-	1	-	800,000	0.6
WESTERN EUROPE												
Total..............	5,249	100.0	61,484,793	100.0	3,216	100.0	25,622,333	100.0	8,465	100.0	87,107,126	100.0
Not stated..............	263	5.0	-	-	117	3.6	-	-	380	4.5	-	-
Under $5,000..............	1,429	27.2	3,645,129	5.9	843	26.2	2,067,621	8.1	2,272	26.8	5,712,750	6.6
$5,000 under $10,000.....	1,195	22.8	8,971,965	14.6	1,125	35.0	8,643,243	33.7	2,320	27.4	17,615,208	20.2
$10,000 under $20,000....	1,746	33.3	24,132,851	39.3	1,099	34.2	14,228,547	55.5	2,845	33.6	38,361,398	44.0
$20,000 under $50,000....	559	10.6	15,406,084	25.1	32	1.0	682,922	2.7	591	7.0	16,089,006	18.5
$50,000 under $100,000...	46	0.9	3,022,909	4.9	-	-	-	-	46	0.5	3,022,909	3.5
$100,000 under $500,000..	9	0.2	1,375,655	2.2	-	-	-	-	9	0.1	1,375,655	1.6
$500,000 and over........	2	-	4,930,200	8.0	-	-	-	-	2	-	4,930,200	5.7
EASTERN EUROPE												
Total..............	22	100.0	152,781	100.0	9	100.0	42,698	100.0	31	100.0	195,479	100.0
Not stated..............	5	22.7	-	-	1	11.1	-	-	6	19.4	-	-
Under $5,000..............	5	22.7	12,378	8.1	5	55.6	18,837	44.1	10	32.3	31,215	16.0
$5,000 under $10,000.....	4	18.2	30,858	20.2	2	22.2	13,468	31.5	6	19.4	44,326	22.7
$10,000 under $20,000....	8	36.4	109,545	71.7	1	11.1	10,393	24.3	9	29.0	119,938	61.4
$20,000 under $50,000....	-	-	-	-	-	-	-	-	-	-	-	-
$50,000 under $100,000...	-	-	-	-	-	-	-	-	-	-	-	-
$100,000 under $500,000..	-	-	-	-	-	-	-	-	-	-	-	-
$500,000 and over........	-	-	-	-	-	-	-	-	-	-	-	-
ASIA												
Total..............	9,776	100.0	105,478,366	100.0	3,385	100.0	28,961,887	100.0	13,161	100.0	134,440,253	100.0
Not stated..............	238	2.4	-	-	73	2.2	-	-	311	2.4	-	-
Under $5,000..............	2,754	28.2	7,343,036	7.0	548	16.2	1,389,009	4.8	3,302	25.1	8,732,045	6.5
$5,000 under $10,000.....	2,529	25.9	15,025,362	14.2	1,416	41.8	9,685,763	33.4	3,945	30.0	24,711,125	18.4
$10,000 under $20,000....	3,549	36.3	51,046,367	48.4	1,307	38.6	17,002,372	58.7	4,856	36.9	68,048,739	50.6
$20,000 under $50,000....	665	6.8	17,141,256	16.3	40	1.2	830,628	2.9	705	5.4	17,971,884	13.4
$50,000 under $100,000...	30	0.3	1,882,159	1.8	1	-	54,115	0.2	31	0.2	1,936,274	1.4
$100,000 under $500,000..	8	0.1	1,394,219	1.3	-	-	-	-	8	0.1	1,394,219	1.0
$500,000 and over........	3	-	11,645,967	11.0	-	-	-	-	3	-	11,645,967	8.7

Exhibit II - page 20

INCOME EXCLUDED UNDER SECTION 911 OF THE CODE ON RETURNS FILED IN 1960 AS DISCLOSED ON FORMS 2555, BY SIZE OF EXCLUDED INCOME AND CONTINENT—Continued

Continent and size of excluded income	Residence				Physical presence				Total			
	Number	Percent	Amount	Percent	Number	Percent	Amount	Percent	Number	Percent	Amount	Percent
	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)	(10)	(11)	(12)
AFRICA												
Total	3,436	100.0	16,789,515	100.0	561	100.0	4,278,191	100.0	3,997	100.0	21,067,706	100.0
Not stated	184	5.4	-	-	19	3.4	-	-	203	5.1	-	-
Under $5,000	2,216	64.5	5,383,142	32.1	162	28.9	422,170	9.9	2,378	59.5	5,805,312	27.6
$5,000 under $10,000	550	16.0	3,969,610	23.6	223	39.8	1,700,307	39.7	773	19.3	5,669,917	26.9
$10,000 under $20,000	422	12.3	5,690,345	33.9	148	26.4	1,963,515	45.9	570	14.3	7,653,860	36.3
$20,000 under $50,000	62	1.8	1,617,618	9.6	9	1.6	192,199	4.5	71	1.8	1,809,817	8.6
$50,000 under $100,000	2	0.1	128,800	0.8	-	-	-	-	2	0.1	128,800	0.6
$100,000 under $500,000	-	-	-	-	-	-	-	-	-	-	-	-
$500,000 and over	-	-	-	-	-	-	-	-	-	-	-	-
OCEANIA												
Total	413	100.0	3,106,696	100.0	563	100.0	4,480,067	100.0	976	100.0	7,586,763	100.0
Not stated	22	5.3	-	-	13	2.3	-	-	35	3.6	-	-
Under $5,000	208	50.4	471,305	15.2	126	22.4	365,556	8.2	334	34.2	836,861	11.0
$5,000 under $10,000	60	14.5	443,778	14.3	231	41.0	1,749,212	39.0	291	29.8	2,192,990	28.9
$10,000 under $20,000	97	23.5	1,352,447	43.5	190	33.7	2,301,649	51.4	287	29.4	3,654,096	48.2
$20,000 under $50,000	23	5.6	618,392	19.9	3	0.5	63,650	1.4	26	2.7	682,042	9.0
$50,000 under $100,000	2	0.5	115,067	3.7	-	-	-	-	2	0.2	115,067	1.5
$100,000 under $500,000	1	0.2	105,707	3.4	-	-	-	-	1	0.1	105,707	1.4
$500,000 and over	-	-	-	-	-	-	-	-	-	-	-	-
COUNTRY NOT REPORTED												
Total	149	100.0	536,345	100.0	934	100.0	7,009,444	100.0	1,083	100.0	7,545,789	100.0
Not stated	10	6.7	-	-	21	2.2	-	-	31	2.9	-	-
Under $5,000	113	75.8	214,516	40.0	248	26.6	618,880	8.8	361	33.3	833,396	11.0
$5,000 under $10,000	10	6.7	64,360	12.0	413	44.2	3,136,528	44.7	423	39.1	3,200,888	42.4
$10,000 under $20,000	14	9.4	213,525	39.8	241	25.8	2,990,279	42.7	255	23.5	3,203,804	42.5
$20,000 under $50,000	2	1.3	43,944	8.2	10	1.1	213,152	3.0	12	1.1	257,096	3.4
$50,000 under $100,000	-	-	-	-	1	0.1	50,605	0.7	1	0.1	50,605	0.7
$100,000 under $500,000	-	-	-	-	-	-	-	-	-	-	-	-
$500,000 and over	-	-	-	-	-	-	-	-	-	-	-	-

Comparison of Marginal Estate and Inheritance Tax Rates in the U.S. and in Selected Foreign Countries for Estates up to $1 million

Taxable Estate	United States	Argentina *	Bahamas	Canada	Venezuela **
$100,000-$ 250,000	30	20	4	15	8
250,000- 500,000	32	20	4	15	$10\frac{1}{2}$
750,000-1,000,000	37	20	4	15	$10\frac{1}{2}$

* These are the rates of inheritance tax applicable to descendants, ascendants and spouses.

** This is the rate of inheritance tax applicable to parents, children or spouses.

U. S.-OWNED CORPORATIONS ORGANIZED ABROAD
IN SELECTED COUNTRIES, 1954-1960

	1954	1955	1956	1957	1958	1959	1960	Total
Bahama Islands	-	3	4	2	13	19	64	105
Canada	45	37	50	67	67	57	82	405
Liberia	65	109	163	113	82	59	47	638
Mexico	3	2	8	5	7	15	19	59
Panama	46	40	63	96	95	134	95	569
Puerto Rico	2	5	2	7	5	5	7	33
Switzerland		(Information not available)					170	517
Venezuela	1	10	17	23	14	7	16	86
All countries 1/	187	233	338	339	332	413	741	2,894

April 26, 1961

Note: Except in the case of Switzerland, these figures are based upon information returns filed pursuant to section 6046 of the Internal Revenue Code of 1954. The degree of compliance with this provision for prior years is uncertain. The figures for Switzerland are based on information furnished by the Consulate General in Zurich. This information indicates that as of March 31, 1961, approximately 517 American-owned corporations were created in Switzerland. Of these, 170 were created in the period between March 31, 1960 and March 31, 1961.

1/ The figures for the specific years from 1954 to 1959 do not include Switzerland, but they are inc[illegible]d in the "total" column.

Exhibit II - page 22
Table 15

EXHIBIT III - DIVIDEND AND INTEREST NONREPORTING

Treasury estimates indicate that a substantial gap exists between the amount of dividend and interest income which should be reported by individuals on income tax returns and the amount they actually report. In addition, findings in special case-by-case studies conducted in recent years by the Service give additional evidence of substantial nonreporting.

Gap estimates

The dividend and interest underreporting gaps are estimated from aggregate figures of the amounts of such payments to individuals and of the amounts reported by individuals on their tax returns. Since the components of the calculation are derived from sample data or are estimates involving considerable elements of judgment, the final gap figure represents general approximations. This method has also been used by the New York Stock Exchange and independent tax experts whose estimates have in the past corresponded closely with Treasury estimates.

1. Dividends (Table 1)

For dividends the estimate is based on cash distributions to stockholders by domestic corporations, as reported in the Internal Revenue Service *Statistics of Income*, and adjustments are made to add foreign dividends received by individuals, and to exclude dividend payments to corporations, tax-exempt organizations, and persons not required to file tax returns and to exclude distributions which are not taxable or are capital gains. The balance presumably should appear on individual tax returns if there were complete compliance in tax reporting. This type of calculation is shown in Table 1 for the years 1955 to 1959, inclusive. The 1959 underreporting gap of $940 million is still a preliminary estimate since the *Statistics of Income* figure for dividend payments by domestic corporations is not available. 1/ The reporting gap attributable to taxable individuals was estimated at $834 million for 1959.

1/ The 1959 estimate of dividends paid to individuals is an extrapolation of the 1958 figure, with the same changes as is currently estimated by the Department of Commerce for the 1958 to 1959 increase in dividends received by individuals. The final Commerce Department figure for dividends received by individuals has in recent years varied from their preliminary estimate by ± $200 million, and present indications are that a revision of the preliminary figure for 1959 will probably be to increase it by about $100 million.

Table 1. Estimated dividend gap 1955 to 1959

(In millions of dollars)

	1955	1956	1957	1958	1959
Cash distributions to stockholders by domestic corporations, Statistics of Income	13,592	14,498	14,914	14,952	16,159 1/
Domestic dividends received by domestic corporations, Statistics of Income, less dividends received from Federal Reserve Banks .	-2,563	-2,677	-2,669	-2,816	-2,990 1/
Net dividends paid by domestic corporations	11,029	11,821	12,245	12,136	13,169 1/
Domestic dividends paid abroad	- 302	- 284	- 321	- 403	- 442
Foreign dividends received by individuals	+ 171	+ 119	+ 114	+ 114	+ 115
Distributions paid to individuals, fiduciaries and tax-exempt organizations	10,898	11,656	12,038	11,842	12,842 1/
Distributions of small business corporations taxed as partnerships	--	--	--	- 67	- 103
Distributions exempt from tax	- 125	- 150	- 175	- 200	- 200
Distributions taxable as capital gains	- 278	- 368	- 349	- 329	- 506
Dividends received by corporate pension funds 2/	- 174	- 229	- 271	- 318	- 365
Dividends received by other tax-exempt organizations 2/	- 454	- 479	- 491	- 481	- 501
Dividends received by persons not required to file or who use 1040A	- 94	- 101	- 104	- 107	- 117
Dividends retained by estates and trusts	- 340	- 346	- 365	- 365	- 396
Total deductions	-1,465	-1,673	-1,755	-1,867	-2,188
Dividends includable on individual tax returns	9,433	9,983	10,283	9,975	10,654
Dividends reported on individual tax returns	8,100	8,892	9,432	9,058	9,714
Dividend reporting gap	1,333	1,091	851	917	940
Attributable to nontaxable filers	153	125	98	104	106
Attributable to taxable filers	1,180	966	753	813	834

Office of the Secretary of the Treasury
Office of Tax Analysis

May 3, 1961

1/ Estimated by relationship to Commerce Department estimates.
2/ Estimate limited to corporate pension funds as defined by SEC. Joint, union controlled and non-profit institution funds are included with other tax-exempt organizations.

2. Interest (Table 2)

The interest underreporting gap has at times been estimated starting from the Commerce Department's estimate of interest receipts by individuals, unincorporated businesses and nonprofit institutions. The Commerce Department's concept of personal interest income includes about $10 billion of imputed interest (largely interest assumed to be earned on bank deposits, which is not paid to individuals but is absorbed by the bank in lieu of service charges). The large adjustments involved in the Commerce Department concept cast a good deal of doubt upon such a gap estimate. In consequence, the Treasury has used a different approach, namely, estimating directly amounts of interest payments to individuals and then deducting certain relatively small amounts of interest received by sole proprietors as business income, by individuals not required to file tax returns, and by tax-exempt organizations. This type of calculation for the years 1956 to 1959, inclusive, is shown in Table 2. The interest underreporting gap for 1959 was estimated at $2,837 million; the gap attributable to taxable individuals was $1,995 million.

3. Relative dividend and interest gaps (Tables 3 and 4)

The estimated dividend gap as a percent of dividends includable on individual income tax returns is presented in Table 3 for the years 1955 through 1959. It would appear that for the period 1957-1959, the annual percentage gaps were somewhat lower than in the period 1955-1956. For 1959, however, while the percentage of nonreporting declined somewhat from 1958, the absolute amounts of unreported dividends increased because of the larger over-all payments of dividends in 1959 over 1958.

The estimated interest gap as a percent of interest includable on individual returns was relatively stable in the years 1956-1958 (Table 4). There appears, however, to have been a slight decrease in the percentage gap in 1959. 1/ It should be noted that while the percentage interest gap declined in 1959, the absolute amounts of unreported interest rose by more than $200 million because of the larger amounts of interest paid in 1959.

4. Revenue effect (Table 5)

To estimate the revenue effect of dividend and interest underreporting, a further adjustment is made to exclude the amount assumed to go to persons required to file tax returns but who would not be taxable

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1/ The 2.7 percent decrease is based on preliminary data; the final Statistics of Income figure for interest reported by individuals for 1959 is not available at this date.

Table 2

Estimated interest income of individuals not accounted for on tax returns for 1956, 1957, 1958 and 1959

An analysis of payments to individuals of interest includable in taxable income, by source of payment, and the amounts reported and not reported on Federal tax returns

	1956	1957	1958	1959
	(In millions of dollars)			
Interest payments to individuals:				
Cash interest paid on Government securities 1/	1,200	1,400	1,200	1,600
Interest paid on corporation bonds and notes 1/	746	837	883	945
Interest on time and savings deposits 1/	1,564	1,976	2,231	2,522
Interest on savings shares 1/	1,120	1,384	1,627	1,939
Interest paid on holdings of foreign bonds	50	58	62	70
Interest on farm mortgages paid to non-farm individuals	181	198	214	240
Interest paid on non-farm mortgages	1,000	1,100	1,220	1,400
Interest paid to unincorporated brokers and dealers	71	69	86	109
Interest paid to unincorporated consumer credit companies	144	155	155	161
Interest paid on life insurance dividends left to accumulate	74	80	87	94
Interest paid to retail auto dealers	50	48	51	59
Total payments	6,200	7,305	7,816	9,139
Deduct:				
Interest reported as business income by sole proprietors	331	383	407	462
Interest received by low income individuals not required to file	133	154	166	188
Interest receipts of non-profit organizations	211	244	260	295
Total deductions	675	781	833	945
Interest includable in individual tax returns	5,525	6,524	6,983	8,194
Interest reported as such on tax returns:				
Individuals - Form 1040	2,872	3,319	3,659	4,542
Individuals - Form 1040-A	3	3	8	8
Partnerships	232	268	285	324
Fiduciaries	346	400	426	483
Total	3,453	3,990	4,378	5,357
Estimated amount of interest payments not accounted for	2,072	2,534	2,605	2,837
Attributable to nontaxable filers	622	760	782	842
Attributable to taxable filers	1,450	1,774	1,823	1,995

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Office of Tax Analysis

May 3, 1961

1/ These items include payments to nonprofit organizations.

Exhibit III

- 5 -

Table 3

Estimated Dividend Gap 1955 to 1959

(In millions of dollars)

	1955	1956	1957	1958	1959
DIVIDENDS INCLUDABLE on individual tax returns	$9,433	$9,983	$10,283	$9,975	$10,654
DIVIDENDS REPORTED on individual tax returns	8,100	8,892	9,432	9,058	9,714
DIVIDEND REPORTING GAP	1,333	1,091	851	917	940
			Percent		
DIVIDEND REPORTING GAP as a percentage of dividends includable on individual tax returns	14.1	10.9	8.3	9.2	8.8

Table 4

Estimated Interest Gap 1956 to 1959

(In millions of dollars)

	1956	1957	1958	1959
INTEREST INCLUDABLE on individual tax returns	$5,525	$6,524	$6,983	$8,194
INTEREST REPORTED on individual tax returns	3,453	3,990	4,378	5,357
INTEREST REPORTING GAP	2,072	2,534	2,605	2,837
		Percent		
INTEREST REPORTING GAP as a percentage of interest includable on individual tax returns	37.5	38.8	37.3	34.6

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Office of Tax Analysis

May 3, 1961

Exhibit III

Table 5

Revenue effect of withholding on dividends and interest, 1959

(In millions of dollars)

	Dividends	Interest	Total
A. Total estimated gap	940	2,837	3,777
To nontaxable filers	106	842	948
To taxable filers	834 1/	1,995	2,829
B. Revenue gain from complete enforcement	342 2/	522	864 2/
C. Revenue gain from 20 percent withholding rate only	167 2/	333	500 2/
Difference (B-C) due to:	175	189	364
Certain unreported interest not subject to withholding	-	85	85
Tax on unreported interest and dividends of taxpayers with marginal rates higher than 20 percent	175	104	279
D. Revenue gain from withholding plus estimated improvement in upper income brackets 3/	254 2/	359	613 2/
Estimated improvement in upper income brackets 3/ (D-C)	87	26	113

Office of the Secretary of the Treasury
Office of Tax Analysis

May 3, 1961

1/ Assumes repeal of dividend exclusion.
2/ Assumes repeal of dividend exclusion and credit.
3/ For dividends, it is assumed that withholding will result in one-half of the dividend gap being fully reported and bearing a 41 percent effective rate, and the other half of dividends being taxed only at the withholding rate. For interest, it is assumed that only 25 percent of the interest gap subject to withholding will be fully reported and bear a 26 percent effective rate, and 75 percent would be taxed only at the 20 percent withholding rate.

even if they had reported properly. Table 5 shows these adjustments for dividends and interest for 1959. The table shows an estimated revenue gain of $864 million by complete elimination of interest and dividend nonreporting. The table also shows the estimated $500 million revenue gain from the application of the 20 percent withholding alone, and the estimated $613 million revenue gain if in addition to withholding there is an improvement in tax compliance by persons subject to individual income tax rates above the 20 percent bracket.

Special case studies

Another method of measuring nonreporting of interest and dividend income is through survey of specific cases. Such case studies provide insights into the frequency and extent of nonreporting which supplement aggregate gap measures. The Internal Revenue Service has conducted several such case studies during the fifties. Some dividend and interest studies utilized the information documents filed by payers which report the interest and dividends paid to individuals. One case study of the reporting of interest paid on savings deposits was based on bank records. The reporting of Series E savings bond interest was studied using Treasury bond redemption records.

1. Case studies of interest and dividend reporting utilizing information documents (Tables 6 and 7)

The most recent survey utilizing information documents was conducted for 1959. The study started out from scientific samples of information documents submitted to the Service by payers of dividends and interest. In the case of dividends, these documents covered payments of $10 or more a year. In the case of interest, the documents largely covered payments of $600 or more a year, although some documents were filed for smaller payments. No documents are required under the regulations for corporate bond interest.

The information documents selected in the samples were matched against the income tax returns to determine whether the interest and dividends were accurately reported on the tax returns.

Among the cases studied for dividend reporting, the Service found that one out of every three cases had some nonreporting of dividends. In 10 percent of the cases no dividends whatever were reported on tax returns. About one out of every four taxpayers partially reported their dividends for 1959. (See Table 6)

Corresponding figures for all interest recipients were not available, but for the group studied whose interest was reported on information documents (usually $600 or more from each source), one out of

Exhibit III

- 8 -

Table 6

Tax Compliance in Reporting Dividends in 1959 --

Sample Survey Based on Information Documents

	Number	Percent of Total
Number of Cases 1/		
Total in survey	2,289	100
With dividends fully reported	1,455	64
With dividends partially reported	616	27
With no dividends reported	218	10
Amount of Dividends on Information Documents 1/		
Total in survey	$2,192,893	100
Reported on returns	1,990,317	91
Unreported on returns	202,576	9

Internal Revenue Service
Research Division

May 3, 1961

1/ Limited to taxpayers who filed Form 1040.

Exhibit III

Table 7

Tax Compliance in Reporting Interest in 1959 --

Sample Survey Based on Information Documents

	Number	Percent of Total
Number of Cases		
Total in survey	2,841	100
With interest fully reported	2,179	77
With interest partially reported	200	7
With no interest reported	462	16
Amount of Interest on Information Documents		
Total in survey	$3,105,000	100
Reported on returns	2,559,000	82
Unreported on returns	546,000	18

Internal Revenue Service
Research Division

May 3, 1961

every four taxpayers had not reported interest that should have been reported. Sixteen percent of the taxpayers failed to report any interest on their tax returns. It should be noted that these were sizeable payments of interest, usually more than $600. In 7 percent of the cases, the taxpayers partially underreported their interest. (See Table 7.) It is apparent from other studies that if information documents had also been available for interest paid in amounts less than $600 for each source, the compliance picture would have been worse.

In terms of amount of dividends underreported among the cases studied, about 9 percent of the dividends reported on information documents were not included in the tax returns. It is noteworthy that this percentage closely approximates the relative size of the aggregate dividend nonreporting gap discussed above.

The understatement of interest was much larger than the understatement of dividends. About 18 percent of the interest reported on information documents was not included on the income tax returns. Here, again, the extent of noncompliance would have been greater if small interest payments (less than $600) were included on information documents.

2. Case studies of reporting of bank deposit interest (Table 8)

The Service undertook to study the reporting of interest credited to bank deposit accounts during 1958. A random sample of depositors was selected in eight banks in three New England States. The amount of interest paid or credited to each depositor's account was compared with the amount reported on the income tax return of the depositor.

The Service found that in more than half of the cases studied the depositor failed to report the deposit interest on his tax return (Table 8). In 5 percent of the cases, the depositor understated the amount of interest paid or credited.

In terms of amounts of interest, 38 percent of the interest recorded by the banks for the cases studied was not reported on tax returns.

3. Case studies of the reporting of Series E savings bond interest (Table 9)

During 1953 and 1954, the Service studied bond redemption cases to determine the extent to which those who redeemed Series E savings bonds in 1951 reported the interest on 1951 tax returns. The names and addresses of those who redeemed the bonds were noted and the amount of

Table 8

Tax Compliance in Reporting Savings Account Interest in 1958 --

Sample Survey Based on Depositors in Mutual Savings Banks

in New England

	Number	Percent of Total
Number of Cases		
Total in survey	1,279	100
With interest fully reported	539	42
With interest partially reported	69	5
With no interest reported	671	53
Amount of Interest on Savings Accounts		
Total in survey	$129,790	100
Reported on returns	80,644	62
Unreported on returns	49,146	38

Internal Revenue Service
Research Division

May 3, 1961

143

Table 8

Tax Compliance in Reporting E-Bond Interest by Taxpayers

Who Redeemed Bonds in 1951 -- Sample Survey 1/

	Number (Thousands)	Percent of Total
Number of Individuals Redeeming Bonds		
Total number earning interest, where tax return was located for inspection	4,060	100
With interest fully reported	449	11
With interest partially reported	128	3
With no interest reported	3,483	86
Amount of Interest on E-Bonds (thousand dollars)		
Total paid out by Treasury, where tax return was located for inspection	$246,357	100
Reported on returns	71,930	29
Unreported on returns	174,427	71

Internal Revenue Service
Research Division

May 3, 1961

1/ The survey sample results have been "blown up" to represent all taxpayers who redeemed E-bonds in 1951.

interest received. The income tax returns of these individuals were traced to determine whether the bond interest was reported.

In the case of a few taxpayers no returns could be located, probably largely because they were not required to file returns. For those whose returns were located, it was found that 86 percent failed to report any savings bond interest whatsoever. In only 11 percent of the cases was the interest fully reported, and in three percent partially reported. In terms of amounts, 71 percent of the bond interest that should have showed up on tax returns went unreported and untaxed.

Selected cases of substantial nonreporting (Tables 10, 11 and 12)

To provide explicit evidence of purposeful underreporting of interest and dividends, the Treasury selected recent fraud prosecution cases in which substantial amounts of such income were unreported. Table 10 summarizes 33 recent fraud cases which were prosecuted and convictions secured during 1960 for all except one case. 1/ Persons with incomes as high as $400,000 a year, and evasion by underreporting of more than $100,000 a year are represented in these selected cases. Occupations, such as real estate broker, investor, dentist, physician, attorney, turn up in the list.

In addition, the Treasury selected cases of substantial underreporting from its 1959 study of interest and dividend underreporting in which interest and dividends reported on information documents filed by payers were checked against such incomes reported on the 1959 tax returns filed by the recipients. Table 11 summarizes 38 selected cases of interest underreporting. Table 12 summarizes 21 selected cases of dividend underreporting.

Results of the Treasury's educational program

Experience has proven that the mass nonreporting of interest and dividends cannot be dealt with adequately by means of taxpayer education.

The Treasury Department launched in 1959 a taxpayer education program to remind taxpayers to report their interest and dividend income on their 1959 income tax returns. Interest and dividend payers cooperated with the Treasury. Tens of millions of reminder notices were distributed. Publicity campaigns were organized using newspapers, magazines, radio and television. The Treasury is very appreciative of the cooperation of corporations, banks, stock exchanges, the communications media, and others for their assistance in the campaign.

1/ One case resulted in an acquittal for fraud. Nevertheless, civil deficiencies and assessments were made for unreported incomes.

Table 10

Selected Examples of Substantial Under-reporting of Dividends and/or Interest in Recent Fraud Prosecution Cases

Case No.	Dividends and/or Interest: Determined to be Reportable	Dividends and/or Interest: Reported on Return	Dividends and/or Interest: Under-reported	Tax Year	Adjusted Gross Income Per Return	Occupation of Taxpayer
1	$ 6,110	$ 250	$ 5,860	1954	$ 1,582	Farmer
	5,779	0	5,779	1955	1,641	
	5,705	0	5,705	1956	1,605	
	5,388	0	5,388	1957	1,621	
2	4,490	397	4,093	1954	22,432	Ptr. Theater
3	1,962	871	1,091	1954	3,109	Maintenance Service
	1,994	837	1,157	1955	4,079	
	927	0	927	1956	4,912	
	2,194	1,686	508	1957	8,379	
4	3,143	0	3,143	1953	1,490	Broker-Sales
	5,695	0	5,695	1954	1,501	
	6,046	0	6,046	1955	1,402	
5	7,371	0	7,371	1953	4,366	Home Builder and Farmer
	10,459	0	10,459	1954	24,464	
6	16,321	3,449	12,872	1955	19,062	Furniture Store
7	7,009	3,030	3,979	1951	11,766	Attorney
	5,947	3,439	2,508	1952	12,563	
	5,631	2,899	2,732	1953	(831)	
	11,725	7,709	4,016	1954	20,841	
8	20,785	5,183	15,602	1954	8,403	Rental Property
	45,682	9,466	36,216	1955	33,776	
	47,689	29,046	18,643	1956	45,069	
9	3,186	75	3,111	1954	4,249	Dentist
	4,283	75	4,208	1955	4,400	
	4,828	75	4,753	1956	7,720	
	5,665	92	5,573	1957	8,322	
	5,292	0	5,292	1958	10,892	

Exhibit III

Case No.	Dividends and/or Interest: Determined to be Reportable	Reported on Return	Under-reported	Tax Year	Adjusted Gross Income Per Return	Occupation of Taxpayer
10	$ 1,396	$ 0	$ 1,396	1953	$ 3,289	Self-Employed
	1,576	0	1,576	1954	2,764	
	1,835	0	1,835	1955	2,695	
	2,400	0	2,400	1956	4,240	
11	2,377	0	2,377	1953	(863)	Cattle Dealer
	3,610	0	3,610	1954	4,736	
12	12,473	6,128	6,345	1955	80,661	Executive
	15,216	6,442	8,774	1956	79,800	
	21,777	18,947	2,830	1957	96,223	
13	2,961	1,961	1,000	1953	12,438	Salesman and Salesgirl
	3,171	2,035	1,136	1954	12,637	
	3,677	2,269	1,408	1955	10,400	
14	100,457	0	100,457	1953	?	Real Estate
	78,673	0	78,673	1954	9,554	
	69,086	0	69,086	1955	8,558	
	74,496	22,649	51,847	1956	382,043	
15	3,140	0	3,140	1953	2,000	Extractor
	3,109	0	3,109	1954	2,117	
	3,269	755	2,514	1955	2,945	
	3,231	1,420	1,811	1956	1,557	
16	28,693	0	28,693	1953	No Ret.	Not Stated (Delinquent Return)
	26,143	0	26,143	1954	70,347	
17	1,778	325	1,453	1953	1,660	Farming
	1,939	350	1,589	1954	2,124	
	2,341	365	1,976	1955	1,960	
18	2,347	1,119	1,229	1956	7,450	Not Stated
19	7,163	0	7,163	1955	16,876	Farmer
	12,827	0	12,827	1956	16,239	
20	14,647	0	14,647	1952	No Ret.	Not Stated
	14,989	0	14,989	1953	"	
	15,412	0	15,412	1954	"	
	16,704	0	16,704	1955	"	
	18,852	0	18,852	1956	"	
	19,101	0	19,101	1957	"	

Exhibit III

Case No.	Dividends and/or Interest: Determined to be Reportable	Reported on Return	Under-reported	Tax Year	Adjusted Gross Income Per Return	Occupation of Taxpayer
21	$ 11,718	$ 0	$ 11,718	1954	$ No Ret.	Not Stated
	15,266	0	15,266	1955	"	
22	3,132	0	3,132	1955	No Ret.	Not Stated
	2,640	0	2,640	1956	"	
23	97	0	973	1953	5,800	Store Manager
		0	1,117	1954	7,446	
		0	1,423	1955	7,652	
		0	3,609	1956	24,659	
24	422	0	422	1953	?	Farming
	1,669	658	1,011	1954	3,923	
	2,520	792	1,728	1955	2,907	
	2,424	1,436	988	1956	424	
25	2,239	0	2,239	1953	6,615	Tax Assessor and Movie Operator
	2,486	0	2,486	1954	9,045	
	3,113	0	3,113	1955	10,638	
26	7,504	4,976	2,528	1952	16,161	Mdse. Warehousing and Trading
	5,303	5,271	32	1953	14,409	
	7,456	5,646	1,810	1954	15,969	
27	2,334	361	1,973	1954	12,212	Physician and Surgeon
	2,086	611	1,975	1955	13,668	
	3,203	2,310	893	1956	14,203	
	3,664	2,580	1,084	1957	16,336	
	3,714	2,697	1,017	1958	15,445	
28	4,550	0	4,550	1953	1,632	Retired Mail Carrier
	4,654	0	4,654	1954	1,632	
	6,010	0	6,010	1955	1,664	
	7,308	0	7,308	1956	1,824	
29	12,721	4,043	8,678	1954	8,514	Dentist
	12,082	6,469	5,613	1955	11,247	
	12,877	6,892	5,985	1956	11,950	
	14,902	8,390	6,512	1957	13,612	

Exhibit III

Case No.	Dividends and/or Interest: Determined to be Reportable	Reported on Return	Under-reported	Tax Year	Adjusted Gross Income Per Return	Occupation of Taxpayer
30	$ 5,504	$ 523	$ 4,981	1953	$ 7,863	Not Stated
	7,128	873	6,255	1954	9,038	
	8,453	1,023	7,430	1955	8,558	
	10,262	1,523	8,739	1956	6,761	
31	7,226	121	7,105	1953	3,288	Self-Employed
	6,706	1,508	5,198	1954	7,600	
	9,811	164	9,647	1955	10,652	
	18,671	336	18,335	1956	10,762	
	15,848	476	15,372	1957	13,610	
32	117,367	89,940	27,427	1953	89,940	Investments
	113,671	93,532	20,139	1954	409,516	
	66,592	60,325	6,267	1955	163,899	
	112,950	91,410	21,540	1956	140,116	
33	5,515	2,548	2,967	1953	6,105	Printer
	4,903	2,023	2,880	1954	6,494	
	6,015	2,885	3,130	1955	7,846	
	6,803	3,426	3,377	1956	9,100	

Exhibit III- 18 -

Table 11

Selected Examples of Substantial Under-reporting of Interest on 1959 Income Tax Returns

Case No.	Taxable Interest: On Information Doc's.	Taxable Interest: Reported on Return 1/	Taxable Interest: Under reported	Adjusted Gross Income per Return	Occupation of Taxpayer
1	2,100	470	2,100	5,815	Renting of Property
2	774	26	774	3,972	Executive
3	657	0	657	13,201	Steel Cutter
4	986	0	986	14,811	Executive
5	1,680	513	1,680	8,934	Not Stated
6	907	0	907	7,044	Retired
7	992	94	992	2,581	Farmer
8	801	0	801	4,058	Farmer
9	606	0	606	7,201	Not Stated
10	8,000	3,790	8,000	15,105	Student
11	32,570	27	32,570	62,617	Lawyer
12	8,400	706	8,400	1,713 (Loss)	Not Stated
13	1,800	495	1,305	4,952	Not Stated
14	650	0	650	6,224	Not Stated
15	738	0	738	8,688	Switchboard Operator
16	719	0	719	10,212	Corp. Officer
17	607	0	607	1,185	Not Stated

1/ Unreported interest is the amount reported on information returns but not reported on the return. The interest reported on the return may cover amounts not covered by information documents, especially in the case of joint returns where documents for only one spouse were available. As a result, the "underreported" amount may not equal the difference between the document and the return amounts.

150

Case No.	Taxable Interest On Information Doc's.	Reported on Return 1/	Under-reported	Adjusted Gross Income per Return	Occupation of Taxpayer
18	1,157	133	1,157	3,617	Teacher
19	2,344	1,152	2,344	11,141	Housewife
20	1,001	0	1,001	4,336	Not Stated
21	679	0	679	10,463	Farmer
22	1,375	555	1,375	2,016	Retired
23	1,425	706	1,425	9,720	Merchant
24	649	0	649	10,932	Orchardist
25	729	51	729	10,283	Janitor & Custodian
26	3,066	1,650	3,066	3,399	Cattle
27	682	0	682	6,658	Farmer
28	2,562	0	2,562	10,839	Real Est.&Ins.Agt.
29	678	0	678	7,843	Farmer (Ret.)
30	792	0	792	10,066	Merchant
31	1,364	858	506	4,036	Dairyman
32	780	0	780	24,780	Dist. Manager
33	1,182	0	1,182	1,940	Not Stated
34	3,250	0	3,250	25,615	R. E. Broker
35	6,152	3,948	3,064	32,574	Hotel Executive
36	2,839	0	2,839	23,691	Farming
37	765	0	765	4,059	Packing Plant
38	1,273	0	1,273	8,996	Insurance Clerk

Internal Revenue Service
Research Division

May 3, 1961

1/ Unreported interest is the amount reported on information returns but not reported on the return. The interest reported on the return may cover amounts not covered by information documents, especially in the case of joint returns where documents for only one spouse were available. As a result, the "underreported" amount may not equal the difference between the document and the return amounts.

Table 12

Selected Examples of Substantial Under-reporting of Dividends on 1959 Income Tax Returns

Case No.	Taxable Dividends: On Information Doc's.	Taxable Dividends: Reported on Returns 1/	Taxable Dividends: Under-reported	Adjusted Gross Income per Return	Occupation of Taxpayer
1	871	231	640	7,866	Mechanic
2	1,470	572	898	2,016	Factory Worker
3	1,361	421	940	4,182	Clerk
4	344	0	344	11,804	Clerk
5	343	0	343	3,971	Collector
6	2,087	1,125	1,152	5,715	Barber
7	1,711	22,172	1,711	43,561	Not Stated
8	590	0	590	5,035	Clerk
9	558	241	453	4,467	Dressmaker
10	3,214	3,676	2,900	34,728	Cert.Public Acc't.
11	405	0	405	4,335	Not Stated
12	918	519	467	716	Clerk
13	5,546	3,020	3,253	12,970	Not Stated
14	2,448	408	2,040	40,895	Geologist
15	6,814	1,796	6,147	2,435	Not Stated
16	12,573	0	12,573	11,222	Lawyer

1/ Unreported dividends are the amounts reported on information returns but not reported on the return. The dividends reported on the return may cover amounts not covered by information documents, especially in the case of joint returns where documents for only one spouse were available. As a result, the "underreported" amount may not equal the difference between the document and the return amounts.

152

Case No.	Taxable Dividends: On Information Doc's.	Taxable Dividends: Reported on Returns 1/	Taxable Dividends: Underreported	Adjusted Gross Income per Return	Occupation of Taxpayer
17	2,661	3,067	702	19,089	Housewife
18	1,937	2,656	726	25,880	Not Stated
19	324	0	324	28,963	Real Estate Broker
20	6,657	5,479	1,865	6,821	Not Stated
21	761	425	336	4,120	Laborer

Internal Revenue Service
Research Division

May 3, 1961

1/ Unreported dividends are the amounts reported on information returns but not reported on the return. The dividends reported on the return may cover amounts not covered by information documents, especially in the case of joint returns where documents for only one spouse were available. As a result, the "underreported" amount may not equal the difference between the document and the return amounts.

The Treasury finds some evidence of slight improvement in the number of taxpayers properly reporting this income. It can be expected that improvement would arise from the educational campaign. However, the Treasury has found no evidence to indicate that there has been a substantial reduction in the nonreporting dollar gaps. As was presented above, almost $4 billion of interest and dividends (taxable and nontaxable) went unreported for 1959.

This conclusion was substantiated by new data that became available earlier this year as a result of a study specifically directed at determining the extent of nonreporting of interest and dividends and the improvement in 1959 over 1958. The Internal Revenue Service conducted two surveys on 1959 tax returns, one on dividends and one on interest. The 1959 results were compared with the results of two similar surveys on 1958 returns, conducted a year earlier to measure any improvement in reporting by taxpayers.

These studies were representative surveys that attacked the problem of nonreporting directly and on a broad scale, at all levels of amounts of dividend and interest income, and all income levels of taxpayers. Information documents selected in random samples were matched against income tax returns to see whether the dividends or interest on the information documents were reported on the tax returns.

The Commissioner of Internal Revenue summarized the results of the surveys in a report to Senator Harry F. Byrd on March 10, 1961:

"Reviewing the evidence given above, I think we can say that in the dividend area the educational campaign resulted in some minor improvement in reporting, in terms of numbers, particularly among the low- and moderate-income groups, where much of the nonreporting has always been thought to be due to ignorance or carelessness. This improvement in numbers reporting made little impression on the total amount of dividends reported, since there was practically no change -- a slight fall, if anything -- in the percentage of amounts received that was reported on tax returns. There was enough decline in the middle income brackets to overcome the improvement in the lower income groups. The picture of improvement in dividend reporting cannot be regarded with much optimism.

"It is even more difficult to generalize in the case of interest, because of the fact that such a small sector of interest income is within the sample of information documents -- mostly those payments in excess of $600 per annum, and exclusive of many types of interest. But within the field covered in the surveys, we find the same tendency as in dividends for the improvement to be confined to the low- and moderate-income brackets: also to those receiving small amounts of interest. Again we find a tendency to retrogress, both in percent of

numbers reporting and in amounts reported, among some income groups; this time both of the high income groups in excess of $10,000. Overall there is no appreciable change in the compliance picture as measured by numbers, and only a small change, if any, when measured by amounts of interest reported. The indication of the sample survey is toward a slight decline; but the amount is too small to be very significant in this type of sample survey.

"Some of these conclusions from the surveys are confirmed by the other evidence: the improvement in reporting dividends and interest by some classes of taxpayers, particularly those receiving small amounts. None of the data, carefully evaluated, contradict the conclusion that overall, in terms of total amounts of dividends and interest reported, the improvement has probably been very modest, if, indeed it is appreciable.

"Completely aside from any improvement in the reporting of dividends and interest from 1958 to 1959, it is important to note the nonreporting still present. In 1959, according to the sample survey, 36 percent of taxpayers were not putting all their dividends into their tax returns, and they were omitting about 10 percent of the total amounts received.

"We cannot make such definite estimates of the total nonreporting of interest, for we know that our sample, derived largely from information documents with a $600 minimum, is not representative of all taxpayers who receive interest. From other studies we know that compliance in reporting interest is materially lower in those types not subject to information document submission. It seems certain that the compliance rate on the reporting of interest is even worse than in the case of dividends.

"In the light of the evidence developed above, it is clear that there is still much too much nonreporting of dividend and interest income by taxpayers."

These findings differ markedly from reports issued at the end of 1960 by Treasury officials. At that time, wide publicity was given to what was considered evidence of a remarkable improvement in the reporting of interest and dividends attributable to the educational program.

Unfortunately, these earlier interpretations were not well-founded. They were based on information from two sources. One source was enforcement data from the Service's regular audit program which pertained to persons not representative of all interest and dividend recipients. The other source was very preliminary data from 1959 tax

returns which, when the final tabulations were made, had substantial variation, enough to modify considerably the original Treasury interpretation made late in 1960. The former Treasury officials, aware of these limitations, quite correctly called attention repeatedly to the limited reliability of the data when they discussed their interpretations.

Commissioner Caplin explained in his report to Senator Byrd why conclusions cannot be drawn from the audit enforcement program as to the behavior of taxpayers in general:

"The reasons are very simple. First, this tabulation was in no sense a survey of a representative sample of taxpayers, but was limited to taxpayers where a relatively large potential tax deficiency for 1958 was anticipated. Second, the methods of selection and audit introduced certain distinct biases into the results, so that we were much more apt to include in the program taxpayers who had improved in their reporting of dividends and interest than taxpayers whose reporting had declined. In short, the program was simply a by-product of our regular audit activity designed to check up on potentially flagrant cases of nonreporting, and to bring in revenue. The results were reported for information purposes, but the study was not designed to provide a measure of the improvement among taxpayers generally in the reporting of dividends and interest. The apparent inconsistency with the survey results can be explained primarily on the basis of the unrepresentative character of the body of taxpayers whose returns were audited."

Preliminary tabulations of data from 1959 individual income tax returns, completed late in December, showed substantial increases over 1958 in the number of persons reporting dividends and interest, and in the amounts of such income reported, on their tax returns. When the data were applied to the over-all gap analysis, the 1959 dividend gap narrowed by more than one-half. These data were transmitted to the Chairman of the Senate Finance Committee by the Treasury on December 22 of last year, and released to the press at the same time. The figures were interpreted as indicating a considerable degree of success in the Treasury's drive to improve taxpayer reporting of dividend and interest income.

During April 1961, however, tabulations were completed of dividends and interest reported on 1959 individual income tax returns. The figure tabulated for dividends reported by individuals was found to be $9.714 billion as contrasted to the $10.294 billion which was issued as a preliminary figure in December 1960. The difference of $580 million would increase the 1959 dividend nonreporting gap to $940 million. As a result the gap analysis now shows no appreciable change in the nonreporting gap from 1958 to 1959.

Differences between advance and final data are always present. In this case, several factors in the preliminary data such as size of the sample, error in population estimate, and error in stratification of several large returns contributed to the difference. The final data were derived from a sample of returns more than four times as large as the sample used for the preliminary data. Anticipating some revision, Treasury officials indicated in their December 22, 1960 release that their interpretations were based on advance data subject to change.

EXHIBIT IV - REPEAL OF THE DIVIDEND RECEIVED CREDIT AND EXCLUSION

Table 1 - Number of individual income tax returns with dividends and amount of such dividends in 1958

This table shows that the receipt of dividends is highly concentrated in high income groups. In 1958 only 6 percent of the taxable returns with incomes under $5,000 reported dividends and for such returns dividends amounted to less than 1 percent of income. In contrast, 96 percent of the returns with incomes between $200,000 and $500,000 reported dividends amounting to about 44 percent of the total income reported by returns in this income group.

Table 2 - Extra burden on stockholder, assuming double taxation of dividends
(For a single dollar of corporate earnings before tax)

This table shows that the extra burden of "double taxation" per dollar of corporate earnings is greater for stockholders with low incomes than for stockholders with high incomes. The extra burden is the sum of (1) the corporate income tax on the dollar of profits, plus (2) the individual income tax on the dividends received from the profits remaining after the payment of corporate tax, minus (3) the individual income tax that would be incurred if the entire dollar of corporate profits were distributed to the individual in the absence of a corporate income tax.

Table 3 - Relief from "double taxation" of dividends provided by the 4 percent dividend credit
(For a single dollar of corporate earnings before tax)

This table shows that the 4 percent dividend credit removes a very substantial part of the extra burden of "double taxation" at high income levels but only a small portion of the extra burden at low income levels.

Table 4 - Relief from "double taxation" of dividends provided by a 10 percent dividend credit

Table 5 - Relief from "double taxation" of dividends provided by a 15 percent dividend credit

Table 6 - Relief from "double taxation" of dividends provided by a 20 percent dividend credit
(For a single dollar of corporate earnings before tax)

Tables 4, 5 and 6 indicate how much of the extra burden of "double taxation" would be removed for shareholders at various income

levels if the present 4 percent credit were increased to 10 percent, 15 percent, or 20 percent. They show that at high income levels credits of these magnitudes would produce tax savings exceeding the extra burden that the shareholder is presumed to bear under the double taxation concept. In other words, with credits of this size shareholders at high income levels would be in a better position than if there were no corporate income tax and the entire earnings were taxed to them directly.

Table 7 - Relief from "double taxation" of dividends provided by the $50 exclusion
(For a single dollar of corporate earnings before tax)

This table illustrates how the absolute amount of tax reduction granted by the present $50 dividend exclusion increases with the size of the taxpayer's income. At high income levels the relief provided per dollar of dividend eligible for the exclusion exceeds the extra burden resulting from the corporate income tax.

Table 8 - Relief from "double taxation" of dividends provided by the dividend credit and exclusion for taxpayers receiving the average amount of dividends reported at their income level on 1958 returns with dividends
(Per dollar of pretax corporate earnings attributed to taxpayer)

This table shows the effect of the credit and exclusion on shareholders who are assumed to have the average amount of dividends reported on 1958 returns with dividends at comparable income levels. On the average, because of the effect of the exclusion, the 1954 dividend provisions, taken as a package, grant somewhat larger reductions per dollar of corporate earnings at the low income levels than at the high income levels. However, the important point is that at low income levels the combined credit and exclusion remove only a small part of the extra burden of "double taxation" while at high income levels they remove a very substantial part of this extra burden.

Table 1

Number of individual income tax returns with dividends and amount of such dividends in 1958

Adjusted gross income	Number of returns with dividends 1/	Dividends on returns 1/	All returns	Adjusted gross income, all returns	Number of returns with dividends as a percent of all returns	Dividends on returns as a percent of adjusted gross income
		(dollar amounts in thousands)				
Taxable returns						
Under $5	1,053,591	$ 646,428	24,129,298	$ 74,263,196	6.4%	.9%
5-10	1,724,929	1,201,103	17,702,182	120,222,881	9.7	1.0
10-20	1,109,027	1,648,580	3,072,449	39,218,752	36.1	4.2
20-50	439,837	2,055,025	634,002	18,189,272	69.4	11.3
50-100	80,701	1,328,965	91,605	6,042,852	88.1	22.0
100-200	16,453	747,995	17,894	2,302,842	92.0	32.5
200-500	3,792	483,445	3,934	1,109,680	96.4	43.6
500-1,000	515	171,000	531	356,220	97.0	48.0
1,000 and over	227	252,739	236	482,640	96.2	52.4
Nontaxable returns	696,741	522,486	13,433,048	18,965,757	5.2	2.8
Total	5,125,813	9,057,766	59,085,182	281,154,092	8.7	3.2

Treasury Department, Office of Tax Analysis

May 3, 1961

1/ Covers domestic and foreign dividends before dividend exclusions. Does not include data for Form 1040A returns which do not specify the amount of dividends received.

Table 2

Extra burden on stockholder, assuming double taxation of dividends

For a single dollar of corporate earnings before tax

Adjusted gross income (1)	Corporation income tax on $1 of earnings (2)	Individual income tax on 48¢ of dividends (3)	Total present tax (4) (2)+(3)	Individual income tax if corporate earnings of $1 were distributed with no corporation income tax (5)	Extra burden due to double taxation (6) (5)-(4)
$ 1,500	52¢	0¢	52¢	0¢	52¢
5,000	52	10	62	20	42
10,000	52	11	63	22	41
25,000	52	16	68	36	32
50,000	52	25	77	54	23
100,000	52	32	84	68	16
250,000	52	40	92	86	6
500,000	52	43	95	90	5

Treasury Department
Office of Tax Analysis

May 3, 1961

Note: Table assumes that the 48 cents of corporate earnings remaining after payment of the 52 percent corporate income tax are distributed and are eligible for the credit. It also assumes that the stockholder has a spouse and two children.

Table 3

Relief from "double taxation" of dividends provided by the 4 percent dividend credit

For a single dollar of corporate earnings before tax

Adjusted gross income (1)	Extra burden from "double taxation" of dividends (2)	Dividend credit (4% of 48¢) (3)	Extra burden after dividend credit (2) - (3)	Percent of extra burden removed by dividend credit (3) ÷ (2)
$ 1,500	52.0¢	0.0¢	52.0¢	0.0%
3,000	41.6	1.9	39.7	4.6
5,000	41.6	1.9	39.7	4.6
10,000	40.6	1.9	38.6	4.7
15,000	38.5	1.9	36.6	5.0
20,000	36.4	1.9	34.5	5.3
25,000	32.2	1.9	30.3	6.0
50,000	22.9	1.9	21.0	8.4
100,000	16.1	1.9	14.2	11.9
250,000	5.7	1.9	3.8	33.6
500,000	4.7	1.9	2.8	41.0
1,000,000	4.7	1.9	2.8	41.0

Treasury Department
Office of Tax Analysis

May 3, 1961

Note: Table assumes that the 48 cents of corporate earnings remaining after payment of the 52 percent corporate income tax are distributed and are eligible for the credit. It also assumes that the stockholder has a spouse and two children.

Table 4

Relief from "double taxation" of dividends provided by a 10 percent dividend credit

For a single dollar of corporate earnings before tax

Adjusted gross income (1)	Extra burden from "double taxation" of dividends (2)	Dividend credit (10% of 48¢) (3)	Extra burden after dividend credit (2) - (3)	Percent of extra burden removed by dividend credit (3) ÷ (2)
$ 1,500	52.0¢	0.0¢	52.0¢	0.0%
3,000	41.6	4.8	36.8	11.5
5,000	41.6	4.8	36.8	11.5
10,000	40.6	4.8	35.8	11.8
15,000	38.5	4.8	33.7	12.5
20,000	36.4	4.8	31.6	13.2
25,000	32.2	4.8	27.4	14.9
50,000	22.9	4.8	18.1	21.0
100,000	16.1	4.8	11.3	29.8
250,000	5.7	4.8	.9	84.2
500,000	4.7	4.8	-.1 a/	102.1 a/
1,000,000	4.7	4.8	-.1 a/	102.1 a/

Treasury Department
Office of Tax Analysis

May 3, 1961

Note: Table assumes that the 48 cents of corporate earnings remaining after payment of the 52 percent corporate income tax are distributed and are eligible for the credit. It also assumes that the stockholder has a spouse and two children.

a/Extra burden converted to tax savings.

Exhibit IV

Table 5

Relief from "double taxation" of dividends provided by a 15 percent dividend credit

For a single dollar of corporate earnings before tax

Adjusted gross income (1)	Extra burden from "double taxation" of dividends (2)	Dividend credit (15% of 48¢) (3)	Extra burden after dividend credit (2) - (3)	Percent of extra burden removed by dividend credit (3) ÷ (2)
$ 1,500	52.0¢	0.0¢	52.0¢	0.0%
3,000	41.6	7.2	34.4	17.3
5,000	41.6	7.2	34.4	17.3
10,000	40.6	7.2	33.4	17.8
15,000	38.48	7.2	31.28	18.7
20,000	36.4	7.2	29.2	19.8
25,000	32.2	7.2	25.0	22.3
50,000	22.9	7.2	15.7	31.5
100,000	16.1	7.2	8.9	44.7
250,000	5.7	7.2	-1.5 a/	125.9 a/
500,000	4.7	7.2	-2.5 a/	153.8 a/
1,000,000	4.7	7.2	-2.5 a/	153.8 a/

Treasury Department
Tax Analysis

May 3, 1961

Note: Table assumes that the 48 cents of corporate earnings remaining after payment of the 52 percent corporate income tax are distributed and are eligible for the credit. It also assumes that the stockholder has a spouse and two children.

a/Extra burden converted to tax savings.

Table 6

Relief from "double taxation" of dividends provided by a 20 percent dividend credit

For a single dollar of corporate earnings before tax

Adjusted gross income (1)	Extra burden from "double taxation" of dividends (2)	Dividend credit (20% of 48¢) (3)	Extra burden after dividend credit (2) - (3)	Percent of extra burden removed by dividend credit (3) ÷ (2)
$ 1,500	52.0¢	0.0¢	52.0¢	0.0%
3,000	41.6	9.6	32.0	23.1
5,000	41.6	9.6	32.0	23.1
10,000	40.6	9.6	31.0	23.6
15,000	38.5	9.6	28.9	24.9
20,000	36.4	9.6	26.8	26.4
25,000	32.2	9.6	22.6	29.8
50,000	22.9	9.6	13.3	41.9
100,000	16.1	9.6	6.5	59.6
250,000	5.7	9.6	-3.9 a/	168.4 a/
500,000	4.7	9.6	-4.9 a/	204.3 a/
1,000,000	4.7	9.6	-4.9 a/	204.3 a/

Treasury Department
Office of Tax Analysis

May 3, 1961

Note: Table assumes that the 48 cents of corporate earnings remaining after payment of the 52 percent corporate income tax are distributed and are eligible for the credit. It also assumes that the stockholder has a spouse and two children.

a/Extra burden converted to tax savings.

Exhibit IV
- 9 -
Table 7

Relief from "double taxation" of dividends provided by the $50 exclusion

For a single dollar of corporate earnings before tax

Adjusted gross income (1)	Extra burden from "double taxation" of dividends (2)	Reduction under exclusion (3)	Extra burden after exclusion (2) - (3)	Percent of extra burden removed by exclusion (3) ÷ (2)
$ 1,500	52¢	0¢	52¢	0.0%
3,000	42	10	32	23.8
5,000	42	10	32	23.8
10,000	41	11	30	26.8
15,000	38	12	26	31.6
20,000	36	14	22	38.9
25,000	32	18	14	56.2
50,000	23	27	-4 a/	117.4 a/
100,000	16	33	-17 a/	206.2 a/
250,000	6	43	-37 a/	716.7 a/
500,000	5	44	-39 a/	880.0 a/
1,000,000	5	44	-39 a/	880.0 a/

Treasury Department
Office of Tax Analysis

May 3, 1961

Note: Table assumes that the 48 cents of corporate earnings remaining after payment of the 52 percent corporate income tax are distributed and are eligible for the exclusion. It also assumes that the stockholder has a spouse and two children.

a/Extra burden converted to tax savings.

Table 8

Relief from "double taxation" of dividends provided by the dividend credit and exclusion for taxpayers receiving the average amount of dividends reported at their income level on 1958 returns with dividends

Per dollar of pretax corporate earnings attributed to taxpayer

Adjusted gross income (1)	Extra burden from "double taxation" of dividends (2)	Dividend credit (3)	Reduction under exclusion (4)	Combined credit and exclusion (5) (3) + (4)	Percent of extra burden removed by: Credit (3) ÷ (2)	Exclusion (4) ÷ (2)	Combined credit and exclusion (5) ÷ (2)
$ 1,500	52.0¢	0.0¢	0.0¢	0.0¢	0.0%	0.0%	0.0%
5,000	41.6	1.7	1.5	3.2	4.0	3.6	7.6
10,000	40.6	1.7	1.2	2.9	4.2	3.0	7.2
25,000	34.3	1.9	.5	2.4	5.5	1.4	6.9
50,000	24.6	1.9	.3	2.2	7.7	1.1	8.8
100,000	17.5	1.9	.1	2.0	10.9	.7	11.6
250,000	8.8	1.9	*	2.0	21.9	.5	22.4
500,000	5.3	1.9	*	1.9	36.4	.4	36.8
1,000,000	4.7	1.9	*	1.9	40.9	.2	41.1

Treasury Department, Office of Tax Analysis

May 3, 1961

Note: Figures for columns (2), (3), (4), and (5) represent the respective dollar totals for each of these columns divided by the amount of corporate earnings attributed to the stockholder at each income level on the basis of the average dividends received at that level by returns with dividends. Table assumes corporate earnings are for distribution. Computations are based on the tax liabilities of a married couple with two dependents.

*Less than .1 of a cent.

EXHIBIT VI SALES OF DEPRECIABLE PROPERTY

Another defect in existing law is the treatment of gain on the sale of depreciable property. Under existing law, a taxpayer deducts his depreciation allowances against ordinary income and upon sale of the property the gain from the sale is taxed at capital gains rates. In those cases in which allowances for depreciation exceed the actual decline in economic value of the property the taxpayer is allowed, in effect, to convert ordinary income into capital gain.

Despite the requirement of existing law that the taxpayer in computing depreciation make an adjustment for estimated salvage value of an asset at the end of its useful life, the Service is constantly faced with cases in which depreciation allowances exceed the actual decline in economic value. This is due in part to the fact that for administrative reasons salvage value is determined at time of acquisition rather than annually, and in part to the fact that assets are frequently sold before the end of their useful life. Generally, salvage value must be taken into account either by a reduction of the amount subject to depreciation or by a reduction in the rate of depreciation. However, in no event is an asset to be depreciated below a reasonable salvage value.

Examples taken from actual situations in which depreciation allowances exceed the actual decline in economic value are as follows: A taxpayer acquired a hotel in 1953 at a cost of slightly in excess of $13 million. After three years, the property was sold for $20 million. During the 3-year period, the taxpayer had taken a little over $2,700,000 in depreciation allowances. Thus, almost $3 million of the gain on the sale of this property is represented by depreciation deductions which had been taken against ordinary income. Another taxpayer in 1953 acquired a store and office building at a cost slightly in excess of $1 million. This real estate was sold in 1959 for $1,150,000. Over the six years, using straight-line depreciation, the taxpayer had deducted a little over $174,000. Thus again, most of the gain from the sale of this real property is represented by depreciation deductions. Another taxpayer in 1953 acquired an office building costing approximately $925,000. The property was sold in 1958 for approximately $973,000 and over the 5-year period the taxpayer had taken as deductions for depreciation $192,000.

Examples of such conversion of ordinary income into capital gain are not limited to the sales of real property. For example, in the area of personal property, a taxpayer in the auto leasing business sold some of the automobiles used in his business, costing in the aggregate $729,636, for $577,218 thus realizing a gain after adjustment for

depreciation of $233,734. Depreciation of approximately $386,000 had been taken with respect to these automobiles. Thus, a major portion of the gain is represented by the excess of depreciation deductions taken by the taxpayer over the actual decline in the value of the asset sold.

The foregoing are just a few of the many cases which have come to the attention of the Internal Revenue Service. Not only does existing law allow, as shown in the examples, a conversion of ordinary income into capital gain, but a new concept of business has evolved which was fostered and encouraged by existing law. For example, corporation A, which is in the business of owning and leasing hotel buildings, stated in a prospectus in connection with an issue of its stock that beginning in the year 1955 and for 11 years thereafter the Board of Directors planned to distribute all rentals received, less interest and principal requirements, to its stockholders. A study made of this corporation's contemplated depreciation practices indicates that the combined effect of deductions for interest and depreciation will give rise to net operating losses which will wipe out all taxable income through the year 1967. If the corporation continues its plan to distribute all earnings to the stockholders, the result will be that the earnings so distributed and represented by deductions against ordinary income of the corporation will be first passed on to the stockholders tax-free as a reduction in the basis of their stock and any excess would be subject to capital gains rates. At the point at which the corporation's deductions will not be sufficient to wipe out most of the rental income the corporation probably will sell its properties at a capital gains rate, replace them with other property, and the process will be started again.

As another corporation stated in a report to its shareholders:

> "In short, the company would be able to repeat the process of annual depreciation write-offs and thus add nontaxable cash flow income for distribution to shareowners and acquire still more income producing properties.
>
> "It is anticipated that this continuing process of purchase and leaseback of new properties to offset rising taxable income as the 'depreciation' runs out on existing properties will meet the investment objectives of the company and its shareowners for an indefinite time. When properties have eventually lost their attractiveness as depreciation shelters, the company may elect to dispose of them to others with similar investment objectives, replacing them with new acquisitions."

Exhibit VI

Such corporations are not engaged in the business of real estate investment with the usual objective of looking to rental income for the return on investment; rather, their business is principally one resting upon present provisions of the tax law which allow them to buy property, take depreciation, distribute nontaxable earnings or earnings which would be taxed to shareholders only at the capital gain rate, sell the property at a capital gain, and repeat this process. The present law does not encourage investment in new building but rather appears to favor the retention of old buildings which are readily available for this new type of operation which has been generated by our tax laws.

This process is not limited to real property. Such corporations will also buy personal property such as airplanes, beer kegs, machinery, etc., lease them, depreciate the property, and sell at a capital gain rate. These practices rest upon an economics supplied by our tax laws. This defect in our tax structure should be eliminated. The President's Tax Message recommends that the gain on the sale of depreciable property be taxed as ordinary income to the extent of prior depreciation allowances. Any gain in excess of such allowances should continue to be taxed at the capital gain rates.

The following are additional examples, taken from actual situations.

Beer Kegs

Example 1

Corporation A, engaged in the brewing business, acquired beer kegs in 1947 to 1949 at a total cost of slightly over $3 million. In 1958, Corporation A sold the beer kegs to Corporation B for $2,800,000. After adjustment for depreciation allowances of slightly over $2,875,000, Corporation A realized a profit slightly in excess of $2,500,000 taxable as capital gain under section 1231. Thus, the entire capital gain of slightly in excess of $2,500,000 reflected depreciation allowances in excess of actual decline in economic value of the beer kegs. Corporation B then turned around and leased the beer kegs back to Corporation A and began the depreciation process all over again.

Oil Tools

Example 2

Corporation A is a large supplier to the oil industry and a large portion of its business is renting various oil tools manufactured under its patents to oil well drillers. The rental agreements carry a

stipulation that if tools are lost, destroyed or not returned, they will be billed to the customer at manufacturing cost plus reasonable market. In such cases, the proceeds are treated as sales of 1231 assets. These tools are depreciated on the basis of a 4-year life. In 1956, the taxpayer sold tools in the manner described at a gain of approximately $295,000 while the depreciation allowances with respect to such tools were approximately $155,000. In 1957, the taxpayer sold tools in the manner described at a gain of approximately $274,000 while the depreciation allowances with respect to such tools were approximately $99,000. In the 5 years preceding 1956, the taxpayer had disposed of tools with respect to which depreciation allowances averaged in excess of $84,000 each year while the gain was considerably in excess of the depreciation allowances. Over the period from 1951 to 1957, the taxpayer was able in the manner described to have an amount of $675,000, reflecting prior depreciation, treated as capital gain for a net tax saving of approximately $182,350.

Construction Equipment

Example 3

Corporation A, after having depreciated certain equipment from an initial cost of $175,000 down to $8,000, sold the equipment in 1954 to Corporation B for $173,000 and then leased the equipment back from Corporation B. Corporation A thus had a gain of $165,000 on the sale of equipment with respect to which it had depreciation allowances of $167,000. Corporation B depreciated the equipment from $173,000 to $4,000 over a period of 3 years, and then sold the equipment back to Corporation A for approximately $142,000. Thus, Corporation B had the benefit of depreciation allowances of approximately $169,000 with respect to the same equipment while realizing a gain of approximately $138,000 on the resale of such equipment.

Small Shovel

Example 4

Corporation A purchased a small shovel for $8,500, depreciated the shovel in full and sold the shovel to Partnership B for $3,000. Partnership B depreciated the shovel in full and sold it back to Corporation A for $8,000. Thus Corporation A realized a capital gain of $3,000, attributable to depreciation allowances in excess of actual decline in economic value of the shovel, and Partnership B realized gain of $8,000 of which $3,000 reflected depreciation allowances in excess of the actual decline in economic value of the shovel.

Mobile and Logging Equipment

Example 5

In 1954, Corporation A, in the timber business, realized gain of approximately $361,000 on the sale of depreciable mobile and logging equipment with respect to which it had claimed prior depreciation of approximately $825,000. In 1955, Corporation A realized gains of approximately $791,000 on the sale of depreciable mobile and logging equipment with respect to which it had claimed depreciation in excess of $1,250,000. In 1956, Corporation A realized gains of approximately $306,000 on the sale of depreciable property with respect to which it had claimed prior depreciation of slightly over $1 million. Thus, over a period of 3 years, Corporation A was able to have an amount in excess of $1,458,000, reflecting prior depreciation, treated as capital gain for a net tax saving of approximately $393,660.

Highway Construction Equipment

Example 6

In 1958, Corporation A realized gains of slightly over $60,000 on the sale of 6 pieces of depreciable equipment, mostly shovels and scrapers, with respect to which depreciation allowances of $108,000 had been claimed. The entire gain of $60,000 reflected depreciation allowances in excess of the actual decline in economic value of the depreciable equipment.

Auto Rental

Example 7

In 1956, Partnership A realized gain of approximately $138,000 on the sale of automobiles with respect to which prior depreciation of approximately $218,000 had been claimed. In 1957, Partnership A realized a gain on the sale of rental autos of approximately $119,000 with respect to which prior depreciation was approximately $212,000. In 1958, Partnership A realized gain on the sale of rental autos of approximately $178,000 with respect to which prior depreciation of $343,000 was claimed. Thus, over a period of 3 years, Partnership A realized capital gain of approximately $435,000 reflecting depreciation allowances in excess of the actual decline in value of rental autos which were sold.

Exhibit VI

Airplanes

Example 8

In 1957, Corporation A realized a gain of approximately $702,000 on the sale of an airplane with respect to which prior depreciation in the amount of approximately $609,000 had been claimed. Thus, Corporation A realized capital gain of $609,000 reflecting depreciation allowances in excess of the actual decline in economic value of the airplane.

Elevator Equipment

Example 9

In 1958, Partnership A realized gain of approximately $245,000 on the sale of elevator equipment with respect to which prior depreciation of approximately $222,000 had been claimed. Thus, Partnership A realized capital gain of approximately $222,000 reflecting depreciation allowances in excess of actual decline in economic value.

Construction Rental Equipment

Example 10

In 1958, Corporation A realized capital gain of approximately $68,000 on the sale of rental equipment costing $128,000 and with respect to which prior depreciation had been claimed in the amount of approximately $46,000. Thus approximately $46,000 of the capital gain reflected depreciation allowances in excess of the actual decline in economic value of the rental equipment which was sold.

Road Contractor

Example 11

In 1957, this taxpayer realized a gain of $41,447 on the sale of depreciable equipment costing $63,352 and with respect to which prior depreciation was $62,383. In 1958 the taxpayer realized a gain of $20,000 on the sale of equipment costing $20,772 and with respect to which prior depreciation had been claimed in the amount of $19,772. Over the two year period the taxpayer was able to have an amount of $61,219, reflecting prior depreciation, treated as capital gain for a net tax saving of approximately $20,500.

Auto Rental

Example 12

In 1958, this taxpayer realized a gain of approximately $34,000 on the sale of automobiles with respect to which depreciation had been claimed in the amount of approximately $66,600. This taxpayer had a net tax saving of $16,000 as a result of capital gain treatment of the $34,000 gain which reflected depreciation allowances in excess of economic decline in value.

Trucks and Trailers

Example 13

In 1958, Corporation A realized a gain of approximately $275,000 on the sale of trucks and trailers with respect to which depreciation had been claimed in the amount of approximately $335,000. Although this gain was nontaxable, since the sale was followed by a liquidation under section 337, it reflected depreciation allowances in excess of actual decline in value of the trucks and trailers.

Hotel

Example 14

In 1955, Corporation A acquired a hotel at a cost of $1,965,000 and sold it the next year, in 1956, at a gain of about $1,390,000, after taking depreciation in the amount of about $197,000. Since Corporation A realized such a large gain it is clear that the entire first year's depreciation of approximately $197,000 was in excess of the actual decline in value.

Office Building

Example 15

In 1958, Partnership A realized gain of approximately $212,000 on the sale of an office building acquired in 1953 at a cost of $925,000 and with respect to which depreciation had been claimed of $192,000. Thus, $192,000 of capital gain realized in 1958 reflected depreciation allowances claimed with respect to the building when there had been no actual decline in the economic value of said building.

Exhibit VI

Shopping Center

Example 16

Corporation A, in 1959, realized a gain of about $323,000 on the sale of the shopping center acquired in 1956 at a cost of approximately $2,200,000 and with respect to which depreciation had been claimed over the 3-year period of approximately $150,000. Thus, Corporation A realized a capital gain of approximately $150,000 reflecting depreciation allowances taken over a period of 3 years which were in excess of the actual decline in economic value of the shopping center.

Hotel

Example 17

In 1955, Corporation A realized a gain of approximately $3,500,000 on the sale of the hotel costing approximately $8,750,000, and with respect to which prior depreciation had been claimed in the sum of about $4,850,000. Thus, the entire gain of $3,500,000 reflected depreciation allowances in excess of actual decline in economic value of the hotel.

Airplanes

Example 18

In 1957, a joint venture, composed of individuals, L, S, H and P, realized a gain of nearly $400,000 on the sale of two used airplanes acquired approximately 14 months earlier, after having claimed approximately $625,000 in depreciation deductions. The $400,000 gain reflected depreciation allowances in excess of the actual decline in economic value of the used airplanes. The net tax savings to members of the joint venture as a result of this capital gain treatment was as follows: L, in the 87 percent bracket, saved slightly over $144,000; S, in the 35 percent bracket, saved over $1,800; H, in the 87 percent bracket, saved slightly over $42,000; and P, in the 87 percent bracket, saved slightly over $42,000.

EXHIBIT VII COOPERATIVES

STATEMENT ON RECOMMENDED TAX TREATMENT OF COOPERATIVES

In his recent tax message, the President recommended that the tax law be clarified to insure that all cooperative earnings, reflecting business activities, are taxable either to the cooperatives or their patrons, assessing the patron on the earnings that are allocated to him as patronage dividends in scrip or cash. The President also recommended that the withholding system proposed for dividends and interest generally also be applied to patronage dividends so that the average patron receiving scrip will, in effect, be given the cash to pay his tax on his patronage dividend. Before discussing the President's recommendation in more detail, a few general observations about the cooperative form of doing business and how the present need for corrective legislation came about might be helpful.

Operation of Cooperatives

A cooperative is a type of business organization formed for the purpose of providing goods to its patron-owners, or selling their products. While farmers' cooperatives are the principal type of cooperative association, there are other cooperatives in this country which are not engaged in business relating to farming. These include urban consumer cooperatives, cooperative wholesaling business owned by retailers, and the like.

Broadly speaking, the major tax difference between cooperatives and other forms of doing business lies in the treatment by cooperatives of amounts allocated as patronage dividends. Ever since 1914, cooperative organizations have been allowed to exclude from gross income patronage dividends paid or allocated to patrons on the basis of business done with the cooperative, if such payments or allocations are made pursuant to pre-existing contractual obligations. This treatment is based on long-standing Treasury rulings which hold that the refund payments or allocations are to be regarded as discounts or rebates which reduce the taxable net income of the cooperative. Under their articles of association, by-laws or other document, cooperatives obligate themselves to return their net margins or savings to their patrons.

Testimony before the Ways and Means Committee in the past indicates that stock in a cooperative is not as attractive to the average investor as is stock in an ordinary corporation. Provisions commonly found in State cooperative statutes limit dividends on capital stock, prohibit payment of cumulative dividends, and require that control of the cooperative shall be in the members. Typically members each have one vote regardless of the amount of stock owned. The capital stock of a cooperative

does not have the attributes of growth stock, since enhancement, if any, in value above par is limited by the cooperative's obligation to allocate most of its income to its patrons. In many cooperatives there is no growth, for amounts paid in redemption of stock may be limited to the par value of the stock. Therefore, the patrons of a cooperative often agree that the cooperative may retain portions of their share of the net margins as reinvestments. Such amounts are allocated to the patron in the form of scrip which is received by the patron as evidence of his reinvestment. In practice, the average farm cooperative pays more than half of its patronage dividends in the form of scrip.

In connection with reinvestments through the use of scrip, cooperatives often use a system called the "revolving fund" plan of financing. When a cooperative determines it has built up sufficient capital, it may use current margins to retire the oldest outstanding scrip, i. e., revolving fund contributions. The Department of Agriculture indicated in a 1957 publication that of 1,157 farmers' cooperatives studied, 62 percent were using the revolving fund plan of financing. 1/ While cooperatives differ, on the average cooperatives retain earnings 9 or 10 years before redeeming the scrip which was issued against those earnings under the revolving fund plan.

The Department of Agriculture study, and a tabulation by the Treasury of cooperative income tax returns for 1953, indicates that in each of the years 1953 and 1954 farmers' marketing and purchasing cooperatives retained about $125 million of earnings by making allocations in scrip. In each of those years the cooperatives probably redeemed in cash about $60 or $65 million of the previously issued scrip, or an amount equal to about 50 percent of the new retentions (Table 1).

The Department of Agriculture estimated that in 1954 farmers' marketing and purchasing cooperatives had assets of $3.6 billion. The Department also estimated that their gross volume of business was $14.0 billion in 1957. (Table 2) About $10.5 billion of this represented sales of farm products, or $8.3 billion on a net basis after eliminating sales between cooperatives. 2/ This $8.3 billion is over 25 percent of farmers' receipts from farm marketings and Government payments in that year. 3/

1/ Farmer Cooperative Service, U.S. Department of Agriculture, "Methods of Financing Farmer Cooperatives", p.39 (General Report 32, June 1957).
2/ Department of Agriculture, "Statistics of Farmer Cooperatives, 1957-58", p. 19.
3/ Department of Agriculture, "The Farm Income Situation".

Present Tax Treatment

For income tax purposes, cooperatives are divided into three categories. Certain cooperatives are fully exempt from income tax under section 501 of the Internal Revenue Code. Generally, the fully exempt cooperatives are public utility type organizations, the most notable being the rural electrification cooperatives. These section 501 or fully exempt cooperatives and their patrons are not affected by the President's recommendation and no further mention will be made of them. A second group consists of the so-called exempt farmers' marketing and purchasing cooperatives which are described in section 521 of the Code. All other cooperatives are commonly referred to as taxable cooperatives, although they are not specifically mentioned in the Internal Revenue Code. Taxable cooperatives will be discussed first, since their tax treatment is basic to the whole existing approach to cooperative taxation.

A taxable cooperative, irrespective of its exact legal form, is considered a corporation for Federal income tax purposes. Its income and expenses are computed in the same manner as those of an ordinary corporation with the very important exception of the treatment of patronage dividends. The excess of receipts over costs constitutes the income of the organization and is taxable at ordinary income tax rates. Thus any dividends paid on capital stock must be paid from income previously subject to corporate income tax. Income from sources not directly related to the business carried on with patrons, such as capital gains, interest, rents, dividends on stock, and business done with the United States, also is taxable at the cooperative level. Income derived from business carried on with or for patrons is taxable at the cooperative level unless it is paid or allocated as a patronage dividend pursuant to a pre-existing obligation in the year in which earned or by the time the corporate income tax return must be filed for such year.

As previously indicated, ever since 1914 cooperative organizations have been allowed to exclude from gross income patronage dividends paid or allocated to patrons on the basis of business done with the cooperative if such payments or allocations are made pursuant to pre-existing contractual obligations. At the cooperative level, no attempt has been made by the Treasury to draw a distinction between patronage dividends paid in cash and in the form of stock, revolving fund certificates or other scrip allocations.

The exempt farmers' cooperative is a farmers', fruitgrowers', or like association which meets certain statutory requirements as to operation

and financial structure. Prior to the Revenue Act of 1951 such a cooperative was fully exempt from income tax. As a result of legislation contained in the Revenue Act of 1951, the exempt farmers' cooperative is not actually fully tax exempt, since it may be taxed on some of its income unless allocated on the basis of patronage. It is, however, allowed deductions for the following amounts which are not allowed to the non-exempt or taxable cooperative:

(1) Amounts distributed by it in payment of dividends upon capital stock (if not in excess of 8 percent);

(2) Non-operating earnings (such as rents, interest, dividends on capital stock, etc.) distributed or allocated to its patrons upon a patronage basis; and

(3) Income derived from business with the United States and distributed or allocated to its patrons on a patronage basis.

As for the tax treatment of the patrons of the cooperative, the Treasury Department for a long time took the position that the patrons were required to report all patronage dividends (including allocations in scrip) as income provided the dividends were attributable to an income-producing transaction. Thus, if a farmer received a patronage dividend attributable to the marketing of his farm products, he was expected to take it into income as an increase in receipts from the sale of his products. On the other hand, if he received a patronage dividend from a purchasing cooperative with respect to supplies for his business which he bought, he was expected to reduce his deduction for the cost of the supplies on his return, or report the patronage dividend as income. Where the business transaction involved the purchase of a capital asset, such as a tractor, the cost basis of the asset had to be reduced by any patronage dividend received thereon. In the case of patronage dividends attributable to personal living expense items, such as the purchase of food or clothing, however, the patron was not regarded as having received taxable income.

The fact that patronage dividends often are paid in scrip which has no market value was disregarded and patrons were expected to report all patronage dividends in scrip at their face value. The theory was that the patrons had in effect received cash, or the right to cash, and then, under the terms of their contract with the cooperative,

had reinvested such cash in the noncash document actually received. This is known as the "immediate reinvestment theory".

The assumption by the Treasury Department that patronage dividends allocated in scrip were taxable at the full face value to the patron in the year of receipt was cited with approval by the Senate Finance Committee in its report on the Revenue Act of 1951. When Congress enacted the legislation in 1951 changing the tax status of the exempt farmers' cooperatives it was expected to result in current taxation at either the cooperative or patron level of all cooperative income, except that related to personal purchases by patrons. However, Congress made no specific provision in the law for the tax treatment to be given noncash patronage dividends by the patron.

Several court decisions have nullified the intent of the 1951 legislation and have held that a patron does not realize income upon receipt of scrip having no market value. As a result of the various adverse court decisions, the Internal Revenue Service announced on February 14, 1958, that it would no longer attempt to assess an income tax on patrons with respect to noncash patronage dividends having no market value. The income tax regulations, under both the 1939 and 1954 Codes, have since been revised to reflect this change in position. In view of the obvious intent of the 1951 legislation, the Treasury Department continued to allow all patronage dividends paid under pre-existing contracts to be excluded by cooperatives. Thus, at the present time, cooperatives are permitted to exclude from gross income noncash patronage dividends of a character which are not taxable to the patron.

Proposed Tax Treatment of Cooperatives

The President's recommendation would, in effect, fulfill the 1951 Congressional intent. The law would be amended to specifically provide for the tax treatment of patronage dividends in the hands of the patron.

Under the proposal an exempt farmers' cooperative would, as under present law, be allowed to deduct dividends paid on its capital stock, allocations of its income not derived from patronage and allocations of patronage dividends. The allocations of income not derived from patronage and of patronage dividends would be deductible by the cooperative whether made in the form of cash, property or scrip. Allocations in the form of scrip would include allocations of capital stock, revolving fund certificates, retain certificates, certificates of indebtedness, letters of advice, or any other written notice which discloses to the patron the dollar amount allocated to him by the cooperative. As under present law, allocations made by an exempt farmers' cooperative of income not derived from patronage and of patronage dividends after the close of a taxable year and on or before the 15th day of the ninth month following the close of such year would be considered as made on the last day of such year.

Non-exempt or taxable cooperatives would be allowed to deduct allocations of patronage dividends with respect to patronage occurring during the taxable year in which the allocation is made. As in the case of the exempt farmers' cooperative, the deduction would be allowed for allocations which are made in the form of cash, property or scrip. Allocations of patronage dividends made by a taxable cooperative after the close of a taxable year and prior to the time prescribed by law for filing the cooperative's income tax return, including any extensions which have been granted, would be considered as made on the last day of such year.

Some cooperatives allocate patronage income only to a limited group of patrons. For example, such a cooperative might allocate patronage dividends only to its member patrons. The term "patronage dividends" would be defined to exclude allocations of patronage income derived from patrons to whom no allocation is made. This would not affect the exempt farmers' cooperative which is required to make allocations of patronage income to all of its patrons. However, it would as under present law, result in such amounts being taxed to the taxable cooperative. It would also result in such amounts being taxed in the same manner as a corporate dividend to the persons receiving them from the cooperative.

The term "patronage dividends" would also be defined to exclude allocations of income not derived from patronage. Under present law

such income is taxed to the taxable cooperative and is treated by the patron of such a cooperative when he receives it in the same manner as a corporate dividend. Although, under both the proposal and present law, allocations of such income are deductible by an exempt farmers' cooperative, under present law the patron treats allocations of such income as a patronage dividend. Under the proposal the patron of an exempt farmers' cooperative would treat allocations of such income as corporate dividends.

Under the proposal, a patron of an exempt farmers' cooperative would include in income allocations of income not derived from patronage and allocations of patronage dividends which are received by him in cash, property or scrip. A patron of a taxable cooperative would include in income allocations of patronage dividends received by him in cash, property or scrip. However, as under existing law, the patron would not include in income patronage dividends allocated with respect to services rendered by, or supplies or equipment purchased from, a cooperative the cost of which was not deductible by the patron. These items would include purchases by the patron for his personal use. However, if a patronage dividend received by a patron is with respect to purchases of capital assets or property used in the trade or business, the cost or other basis of such assets or property would be reduced by the amount of the patronage dividends. To the extent that the patronage dividend is in excess of the adjusted basis of such property, or relates to such property which the patron no longer owns, the patronage dividend would be included in income.

The proposal would provide that a patron, on redemption or sale of scrip allocated to him with respect to patronage during taxable years governed by present law, should treat the excess of the amount realized over the amount previously taken into account by him in determining income for a prior year as if such excess were a patronage dividend received in cash. In order to alleviate bunching of income by reason of the new rules provided by the proposal, the proposal could include a provision providing for the spreading of income realized on such a redemption or sale, if in excess of a minimum amount, such as $3,000, equally among the taxable years of redemption or sale and the two preceding taxable years if this would result in a lower total tax.

The withholding system proposed for dividends and interest generally would also apply to allocations by a cooperative of patronage dividends and to allocations by an exempt farmers' cooperative of income not derived from patronage. In order to minimize withholding on patronage dividends with respect to purchases by a patron of items for his personal use, which patronage dividends would not be includible in his gross income, the Secretary or his delegate could be authorized to exempt from the withholding requirement a cooperative which is primarily engaged in the business of selling at retail goods or services used generally for personal living or family use.

Policy Reasons for the Proposal Tax Treatment of Patronage Dividends

The proposal continues long-standing recognition of the importance of farmers' cooperatives. Prior to the Revenue Act of 1951, farmers' cooperatives were fully exempt from tax, and under the Revenue Act of 1951 they are taxed only on their unallocated earnings. The proposal would in effect continue this tax treatment which reflects Congressional recognition of the important role cooperatives play in the farm economy.

Normally, the individual farmer is far from the principal market for his products, and alone he has no bargaining power. He is not an expert in the grading, merchandising or disposing of his products, and he has no research facilities. He generally must sell his products at wholesale but buy his business supplies and equipment at retail. Few, if any, other producers operate on such a basis. To overcome these competitive disadvantages, farmers have joined together into cooperative marketing and purchasing organizations in an effort to eliminate the middleman in their transactions. Because of the economic disadvantages under which farmers operate, Congress has long sought to aid these farmer cooperatives.

However, in 1951, Congress intended that cooperative income reflecting business activities be taxed at least once either to the cooperative if unallocated, or to the patron, if allocated to him. Congress made no specific provision in the Code as to the tax treatment to be given patronage dividends by the patron, and, as indicated earlier, as a result several court decisions held certain allocations of patronage dividends to be nontaxable to the patrons. The proposal would make clear that these allocations would be taxable to the patron. It would, therefore, fulfill the 1951 Congressional intent and correct the present inequity in the law whereby substantial amounts of income escape current taxation.

Under the proposal, patronage dividends would be treated as price readjustments. In order for the patronage dividends to be deductible by the cooperatives, they must be allocated pursuant to a legal obligation of the cooperative to do so, which must be in existence prior to the time the cooperative receives the income which is to be allocated. The patronage dividends must be allocated to the patron on the basis of business done with or for the patron. Also, they must be allocated only from the income which the cooperative derives from patronage. Even before this income exists, it is thus irrevocably earmarked for the patrons.

It is true that some cooperatives allocate patronage income only to a limited group of patrons. However, as indicated earlier, the proposal would tax income derived from patrons to whom no allocation is made in the same manner as regular corporate income. These amounts would be excluded from the definition of "patronage dividend". These amounts represent profits from persons to whom there is no obligation to pay patronage dividends and they should be treated like the earnings of any other corporation, taxable to the cooperative when earned. As they represent profits from the cooperative's transactions with others they should be taxed as corporate dividends to the persons to whom the cooperative allocates them.

The proposal would also exclude from the term "patronage dividends" allocations of income which the cooperative derives from sources other than patronage. Thus, except in the case of an exempt farmers' cooperative which allocates such income, such income would be taxed to the cooperative. These amounts would also be taxed to the patron in the same manner as a corporate dividend. As these amounts do not represent excess charges to the patron which are returned to him as a rebate, but rather income derived from sources other than the transaction with the patron, they are treated as a distribution of earnings by any other corporation.

The fact that patronage dividends are allocated after the net margins of the cooperative have been determined should not be considered as altering their character as price readjustments. This is done for reasons of business necessity. It is difficult, if not impossible, for a cooperative to anticipate the exact amount of its expenses in connection with the carrying on of its activities. In view of the cooperative's obligation to allocate and the formula for arriving at the amount allocated, the allocations can properly be regarded as retaining their character as price readjustments.

For the same reasons that patronage dividends can be regarded as price readjustments by the cooperative they can be so regarded by the patron. Under the proposal, if the patronage dividend is received by the patron with respect to the marketing of his products or to the purchase of supplies and equipment for his business, it would be included in his income. On the other hand, if the patronage dividend is received by the patron with respect to the purchase by him of an article for his personal use, he would not include it in income. This situation would be analogous to one in which the patron purchases a suit of clothes marked down from $100 to $90. At the time he does business with the cooperative, he knows it is legally obligated to return to him a portion of the cooperative's net income from patronage. For tax purposes the patronage dividend would be limited to the amount allocated to him from the income derived by the cooperative from patronage on the basis of the business he does with the cooperative.

184

The form of a patronage dividend should not affect its tax treatment. As indicated earlier, the proposal would allow a cooperative to deduct from income and require a patron to include in income patronage dividends that the cooperative is under a legal obligation to allocate. The proposal would require this treatment regardless of whether the patronage dividend is paid in the form of cash, property or scrip. Since all of the elements which must be present for a cooperative to deduct patronage dividends paid in cash must also be present for it to deduct patronage dividends paid in scrip, there does not seem to be sufficient reason for treating the two differently. If under the terms of the cooperative's obligation to the patron the cooperative may make allocations in scrip, the patron should be treated as having accepted the scrip and as reinvesting in the cooperative. The patron has, in effect, agreed to allow the cooperative to substitute one obligation for another.

It is true that some court decisions have not accepted the immediate reinvestment theory. However, those decisions arose at a time when there was no specific provision in the statute for treatment of patronage dividends by the patron. As there was no specific provision for the taxation of the patrons, the cases had to be decided under general case law. The proposal will make clear that the patron is now required by statute to include both cash and scrip allocations in income. The patron should be cognizant of the clear statutory provisions when he enters into a transaction with a cooperative. Being cognizant of these provisions and still entering into transactions with the cooperative he must be considered as having consented to this method of taxation.

Patrons and members of cooperatives do business in the cooperative form in order to obtain economic advantages. There are sound economic reasons why the patrons agree to accept scrip as an evidence of their reinvestment in the cooperative and the proposal recognizes those reasons. As indicated earlier, a cooperative has special problems in raising capital which it, like other businesses, needs. Reinvestment by patrons of part of their share of the cooperative's net margins is necessary to fulfill the cooperative's capital requirement.

When the Ways and Means Committee has had occasion to consider the tax treatment of cooperatives in the past, it was suggested by some that it would be unconstitutional to legislate the 1951 intent. However, it is believed that the proposal would be upheld by the courts. The constitutionality of a provision taxing a patron on the face amount of scrip involves the considerations presented by question whether it is constitutional to tax stockholders of a corporation on their shares of the undistributed profits of the corporation. The courts have held such a tax constitutional. Therefore, regardless of whether the courts accept the immediate reinvestment theory they would uphold the proposal.

It is true that in Eisner v. Macomber, 252 U.S. 189 (1920), the Court cast doubt upon the constitutionality of such a tax. However, language in subsequent decisions of the Supreme Court indicates clearly that the Court would now uphold such a provision. For example, in Heiner v. Mellon, 304 U.S. 271 (1938), the Court held that partners liquidating a partnership on the death of a partner were taxable on their share of partnership income, even though under State law the shares of income could not be distributed to them. In so holding, the Court cited section 220 of the Revenue Act of 1918 which taxed to the shareholders the income of a corporation improperly accumulating its earnings for the purpose of avoiding surtax on the shareholders.

In Helvering v. National Grocery Co., 304 U.S. 282 (1938), a case upholding the imposition of tax on a corporation improperly accumulating profits to avoid surtax on its sole stockholder, the Court said:

> "If the business had been carried on by Kohl individually all of the year's profits would have been taxable to him. If, having a partner, the business had been carried on as a partnership, all the year's profits would have been taxable to the partners individually, although these had been retained by the partnership undistributed. . . .Kohl, the sole owner of the business, could not by conducting it as a corporation, prevent Congress, if it chose to do so, from laying on him individually the tax on the year's profits." 304 U.S. at 288.

It is important to note that the Court in the National Grocery Co. case did not state that a shareholder may be taxed on the undistributed earnings and profits of a corporation only when substance prevails over form. The Court placed no restriction on the power of Congress to impose a tax on the shareholder for undivided corporate profits, if Congress chose to do so.

Finally, in Eder v. Commissioner, 138 F. 2d 27 (2nd Cir. 1943), the court upheld the provision of the 1939 Code which imposed on the shareholders of a foreign personal holding company a tax on their pro rata share of the income of the corporation.

Withholding on Patronage Dividends

The withholding system applicable to dividends and interest payments should apply to patronage dividends. Just as there is underreporting of dividends and interest, we believe that there is also underreporting of patronage dividends. The confusion in the

law during the past few years with respect to the includibility of scrip could not help but bring about underreporting. In view of this, withholding would assist in the collection of the revenues. It will help alert the patron to the fact that the patronage dividend which he receives may be includible in income.

Further, withholding will, in effect, assure the average patron of sufficient cash with which to pay his tax on patronage dividends which he receives. Otherwise, if a patron received an allocation only in scrip, he would have to draw upon other funds in order to pay his tax. Thus, rather than constituting a hardship withholding would assist many patrons. Withholding would result in a patron's receiving the equivalent of cash in the amount of 20 percent of an allocation which might otherwise be in scrip. Objection might be raised that withholding would result in hardship upon a large number of farmers who will have little farm income. It may be contended that many of these farmers would not otherwise be required to file returns, but would have to do so solely by reason of withholding on their patronage dividends. However, a number of farmers with little farm income receive income from other sources to supplement their farm income. Many are engaged in farming only on a part time basis and have wages subject to withholding. Others receive amounts of dividends and interest. These farmers would not be subject to additional burdens by reason of withholding on patronage dividends, for they have to file returns to claim credits or refunds for amounts which have been withheld on their salaries and they will have to file returns with respect to amounts withheld on dividends and interest.

Furthermore, the provisions relating to prompt refunds in hardship cases contained in the withholding system applicable to dividends and interest generally would also apply to withholding on patronage dividends. As patronage dividends generally are allocated only once a year by a cooperative these provisions for prompt refunds would alleviate almost completely the problems of withholding on these taxpayers. Under these provisions the taxpayer will obtain a very quick refund. In fact, if cooperatives allocate within the time prescribed by law for the filing of their returns,without requesting extensions, many patrons would be able to claim the credit or refund on their tax return for the year in which their patronage occurred. For example, assume that a cooperative on the calendar year basis makes allocation by March 15, the calendar year patrons of the cooperative could claim credits or refunds for the amounts withheld in their income tax returns which they file by April 15-- the following month.

As indicated earlier, under the proposal, the Secretary or his delegate could be authorized to exempt from the withholding requirement cooperatives which are primarily engaged in the business of selling at retail goods or services of a type which are generally used for personal living or family purposes. This would eliminate a considerable amount of withholding on patronage dividends with respect to items for personal use--patronage dividends which are not includible in income.

It may be contended that withholding should not apply to patronage dividends because they constitute items of business income as distinguished from corporate dividends which are more generally considered items of personal income. However, regardless of how described, patronage dividends can give rise to taxable income. They can represent an increase in receipts from the sale of products or a decrease in cost of goods sold. Furthermore, being outside the regular stream of farm income, patronage dividends present substantially the same compliance problems found in the case of dividends and interest generally. Therefore, since the withholding system applicable to dividends and interest can easily be expanded to cover patronage dividends, withholding should apply to patronage dividends.

Withholding would impose no undue burden upon the cooperative. The withholding system would not require the cooperative to mail receipts for the amounts withheld to the patron. Elimination of this requirement would make the withholding system even less of a burden than that presently in effect for employers paying wages and salaries. It may be claimed that patronage dividends often involve small and nominal amounts. However, while the individual amounts may be small, the aggregate is sizeable. It is estimated that enactment of the President's recommendation will raise revenues by $25 - $30 million. Furthermore, it does not seem appropriate to exclude income from a withholding requirement merely because the amount of tax involved is not great. The withholding system would also be applicable to interest, where many small amounts are involved.

Summary

There is urgent need for legislation in this area. It is believed that enactment of the President's recommendation will achieve a method of taxing cooperative income that is just and fair both to cooperatives and competing business. Application of withholding to patronage dividends will impose no undue burden on the cooperative or the patron and will, in effect, assure the average patron of sufficient cash to pay his tax on his patronage dividend.

Exhibit VII
- 14 -
Table 1

Data on net income and allocation of net income of farmers' marketing and purchasing cooperatives

(Dollar amounts in millions)

	Agriculture (1954)	Treasury 1/ (1953)
Number of cooperatives	9,793	8,311
Gross receipts	$8,500	$7,419
Net income before income tax	332	270
Less: Non-cash patronage dividends received	57	17
Net income less intercooperative non-cash patronage dividends	275	253
Less: Income tax	14	10
Net income after tax	261	243
Allocation of net income after tax		
Cash distributions:		
Dividends on capital stock	18	15
"Interest" on other equity	1	-
Patronage dividends	103	100
Total cash distributions 2/	122	115
Non-cash distributions:		
Patronage dividends (net of intercooperative)	127	123
Total distributions	249	238
Net income retained	12	5

Sources: Department of Agriculture, "Methods of Financing Farmer Cooperatives," pp. 34 and 41; Treasury Department, "Farmers' Cooperative Income Tax Returns for 1953."

1/ Returns for nonexempt cooperatives do not show patronage dividends and they are estimated on the basis of data for "exempt" cooperatives.
2/ In addition, cash distributions are made to retire patronage dividends declared in non-cash form in previous years. Such payments were about 50 percent of non-cash payments during the period 1950-1954.

Exhibit VII
- 15 -
Table 2

Number and volume of business of farmers' marketing and purchasing cooperatives, 1940-57

[Dollar amounts in millions]

Year[1]	Number of cooperatives	Volume of business[2]	
		Gross	Net[3]
1940	10,600	$2,280	
1945	10,150	6,070	
1950	10,051	10,519	8,144
1951	10,166	12,132	9,404
1952	10,114	12,299	9,517
1953	10,058	12,193	9,462
1954	9,887	12,456	9,626
1955	9,876	12,692	9,740
1956	9,872	13,484	10,359
1957	9,716	14,006	10,693

1 Figures are for the marketing seasons for crops produced in the specified year.

2 Data for 1940 and 1945 not completely comparable to subsequent years. The earlier figures are somewhere between the gross and net figures shown for later years.

3 Gross volume less the volume of business done between cooperatives. Both the gross and net figures include the total value of products handled on a commission basis.

Source: Department of Agriculture, "Statistics of Farmer Cooperatives, 1957-58", pp. 3, 18, 79, 81.

EXHIBIT VIII - FIRE AND CASUALTY INSURANCE COMPANIES

I. General Statement of Recommendations

The President, in his Tax Message to the Congress of April 20, 1961, recommended that consideration be given to taxing mutual and reciprocal fire and casualty insurance companies on a basis similar to stock companies. On April 26, two members of the Committee on Ways and Means, Mr. Boggs and Mr. Baker, introduced identical bills, H. R. 6659 and H. R. 6660, designed to carry out this proposal.

The Treasury Department favors enactment of legislation along the line proposed in the Boggs-Baker bills effective for taxable years beginning after December 31, 1961. Such legislation would be desirable on three scores: First, it would provide fair and equal tax treatment for all fire and casualty insurers. Second, it would appropriately tax this industry on the same basis as business corporations generally, thus contributing to the general objective of achieving equality of tax burdens. Third, it would provide additional revenues. To align the taxation of foreign insurance companies writing fire, casualty and other lines of insurance in the United States with the proposed increase in taxes on domestic companies, it is also recommended that the present 1 percent tax on premiums paid on foreign policies of insurance or reinsurance be increased to 2 percent.

The question of equalizing the taxation of fire and casualty insurance companies has been before the Committee on Ways and Means on a number of occasions. In 1942, the Committee approved and the House passed legislation applying ordinary corporate rates to all companies. The Senate changed the bill, substituting those provisions which now exist. The problem was most recently reviewed in presentations and discussions during the Panel Discussions before the Committee on Ways and Means in November and December, 1959. Subsequently, the Treasury conducted extensive inquiries into the whole problem. The Department gave all segments of the fire and casualty insurance industry an opportunity to meet with representatives of the Department and the staff of the Joint Committee on Internal Revenue Taxation, to present their views. It is on the basis of this study that the conclusion has been reached to recommend and support the legislative approach proposed in the Boggs-Baker bills.

All fire and casualty insurance companies, whether they be stock companies, mutual companies or reciprocal insurers, 1/ are engaged in

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1/Reciprocal insurers (including also those known as "interinsurers") are unincorporated mutual associations which originally confined their operations to particular classes of business, but which have in recent years broadened their business operations to include all classes of casualty insurance, chiefly in the automobile field.

the same kind of business. They compete vigorously with each other. All are subject to the same form of state regulation, with regard to rates and other aspects of their business. All are treated alike for these purposes. Moreover, state taxation has long been on a basis which makes no significant distinction as to the type of insurer involved, whether stock, mutual or otherwise. It is thus accepted at the state level that equality of treatment for all fire and casualty insurance companies is appropriate and equitable.

Stock companies have always paid Federal income tax on the same basis as business corporations generally. On the other hand, mutual companies have enjoyed a special taxing formula which has resulted in the mutual segment of the industry paying very substantially smaller taxes than they would had they been taxed on the stock company basis. Reciprocal insurers have enjoyed an even more favorable formula, which has resulted in their bearing not only a relatively much lighter share of the burden than stock companies, but even a lighter share than the mutual companies.

Briefly stated the present special taxing formulas are as follows:

(1) Mutual companies - are subject to an alternative tax whereby they pay either (a) 1 percent of their gross income (consisting of net premiums after dividends to policyholders plus gross investment income) or (b) the regular corporate tax applicable to their net investment income and the capital gains tax on their capital gains, whichever computation results in the higher tax.

(2) Reciprocals or interinsurers - are subject to tax at regular corporate rates on their investment income only.

These special taxing formulas do not take account of underwriting gains. This is contrary to the total income approach and the pattern of similar treatment for mutual and stock companies adopted in the life insurance field.

These differences in treatment between stock, mutual and reciprocal companies are significant to the industry, for the retained earnings of insurance companies are, to an even greater degree than in most businesses, essential to their growth. Tax preferences necessarily increase the capacity for growth of the favored companies and give them a better competitive position in the industry.

Based on the study previously mentioned, it is the Department's view that there is no adequate reason why all fire and casualty insurance companies should not be taxed substantially as business corporations generally. This seems appropriate and equitable from the viewpoint of

maintaining tax neutrality in a very competitive industry. It would also advance the broad and important objective set forth in the President's Tax Message of eliminating areas of special tax treatment where they are not justified and thus promoting "uniform distribution of the tax burden" and a taxing system that "is more equitable, more efficient and more conducive to economic growth."

The recommended change would have the further advantage of eliminating from the taxing system the present floor under the taxes of mutual insurers which, by imposing a tax based on premium volume, will cause a company to pay a tax even in a year in which adverse underwriting experience may cause an operating loss. While, over-all, the existing taxing formula favors the mutual and reciprocal companies, nevertheless, this unresponsiveness to losses can impose a hardship on a particular company in a year of bad experience. Such a result is generally indefensible in an income tax system based on the taxing of net income.

One specific aspect of the proposed legislation should be mentioned. The Boggs-Baker bills would permit an unlimited deduction in computing taxable income for dividends paid to policyholders. In this respect the proposal is more liberal than the treatment that was applied to life insurance companies by the Life Insurance Company Income Tax Act of 1959, which placed a limitation on policyholder dividend deductions based on underwriting income. Moreover, in 1942 when the Committee on Ways and Means approved legislation along the lines now proposed, it inserted a similar type of limitation on the deductibility of dividends paid to policyholders by fire and casualty companies. However, this problem as it affects fire and casualty insurance companies does not seem to parallel entirely the life insurance situation. Competitive factors, the need for additional surplus funds, and other business considerations may be adequate to discourage any persistent and unreasonable payments to policyholders for purposes of tax avoidance. At the same time, the development of equitable and acceptable limitations on the deductibility of policyholder dividends would introduce into the law some considerable additional complexity which, under the circumstances, does not appear likely to be required. Therefore, the Department does not believe it necessary at this time to recommend any amendment imposing restrictions. However, the Department would intend to keep a close watch on the situation so that if any practice should develop by which companies persistently pay dividends to policyholders in excess of underwriting profits, it will be in a position to inform the Congress and recommend the enactment of appropriate further legislation to eliminate undesirable tax avoidance practices.

The proposed legislation would materially increase revenues from this industry. The application of the proposed taxing formula in the years 1948 to 1959, inclusive, would have resulted in increased revenues to the Government in excess of $150 million. The amount of increased revenue in future years, of course, depends not only on state regulated premium rates, but even more on the underwriting loss experience of the industry, which can vary substantially from year to year. Considering past experience, steadily increasing premium volume, and increases in the state regulated rate structure during the last two or three years, the Department estimates that in a year of reasonable underwriting experience enactment of the Boggs-Baker bills would increase revenues from the fire and casualty insurance industry in the order of 50 million dollars. In unusually good years, such as were experienced by the industry in 1953 and 1954, the increase in revenues could readily exceed this amount, while in years of poor experience, such as the years 1956 and 1957, revenues could be substantially less. This amount will, of course, tend to increase further with continued growth of the industry.

With regard to the effective date of the legislation, the bills as introduced would be applicable with respect to taxable years beginning after December 31, 1960. In view of the substantial changes in present law that would be involved and because it now appears that enactment cannot be completed until well along in 1961, the Department recommends that the new law be applicable to taxable years beginning after December 31, 1961. In this connection, the bills appropriately provide that net operating loss carryovers and carrybacks will be confined entirely to years to which the new law applies.

For the further aid of the Committee on Ways and Means and the Congress in its consideration of this matter, technical background is furnished in the following sections on the structure of the fire and casualty insurance industry, the present methods of taxation and the proposed revisions.

Exhibit VIII
- 5 -

II. Present Methods of Taxation and Proposed Revision

A. Present methods of taxation

1. Stock company provisions

Stock fire and casualty insurance companies are taxed under the provisions of section 831 and 832 essentially like other corporations subject to ordinary corporate rates on their combined net income from investment and underwriting. The statute prescribes that combined gross earnings from investment and from underwriting as well as certain expenses incurred be computed in general on the basis of the underwriting and investment exhibit or other applicable portions of the annual statement approved by the National Convention of Insurance Commissioners. Certain adjustments are made where necessary to properly reflect net income. Stock companies also pay tax on their realized net capital gains in the same manner as other corporations. However, a special rule permits the deduction against ordinary income of losses sustained in liquidating capital assets in order to obtain funds to meet abnormal insurance losses, and to provide for the payment of dividends and similar distributions to policyholders.

The treatment provided for the stock companies applies also to mutual fire insurance companies operating on a perpetual basis. A perpetual company is one which charges a premium deposit sufficiently large that the investment income on the deposit will ordinarily cover all underwriting losses and expenses of operation. Thus, the policyholder in a perpetual company can expect to receive back his entire premium deposit at the end of the policy period, usually a considerable number of years. Since no part of the perpetual premium deposit is expected to be absorbed by the company, the statute provides that single deposit premiums are not to be included in gross income.

The stock company treatment is also applicable to mutual marine insurance companies.

The domestic "Lloyds" organizations, not to be confused with Lloyd's of London, are taxed like stock companies. Lloyds organizations are voluntary unincorporated associations of individuals each of whom assumes a specified portion of the liability under each policy issued. These underwriters operate through a common attorney-in-fact, as do the reciprocals and interinsurers.

2. Mutual and reciprocal company provisions

Mutual fire and casualty insurance companies since 1942 have been subject in general to an alternative tax formula set forth in sections 821 and 822. Under this formula they pay the higher of two alternatives: (1) Investment income basis: regular corporate tax rates on net investment income plus capital gains tax on realized long-term capital gains, or (2) Gross income basis: 1 percent of gross income, consisting of the sum of the gross investment income and net premiums, minus dividends to policyholders and tax-exempt interest, and exclusive of capital gains.

A mutual company pays the regular 25 percent capital gains tax if it is under the investment income alternative but nothing on capital gains if it is under the 1 percent gross income tax. It also receives the intercorporate dividend income deduction if it pays on investment income but not if it is taxed under the 1 percent provision. The special rule permitting the offset of capital losses incurred in the liquidation of investments to meet abnormal underwriting losses is available to a mutual company if it is under the investment income tax but not under the 1 percent gross income alternative. The regular net operating loss carryover provisions are not available to mutual fire and casualty insurance companies.

The statute provides special exemptions of $3,000 with respect to net investment income and $75,000 with respect to gross income for the mutual companies. These exemptions vanish at higher levels of income and notch provisions apply in the interval.

The statute provides a special exception to the operation of the alternative tax formula in the case of reciprocals and interinsurers. These organizations, operating through an attorney-in-fact, are not subject to the 1 percent gross income tax. Their tax liabilities, therefore, are determined only with respect to their net investment income in excess of $50,000 and capital gains.

Factory mutual insurance companies are taxed like other mutual fire and casualty insurance companies, although their method of operation is somewhat different. The factory mutuals charge a larger premium than an ordinary insurance company but not large enough to generate investment income sufficient to cover all of the underwriting losses and expenses. Consequently, a substantial part of the premium deposit with a factory mutual is used up during the

policy period, although there is a substantial refund. These companies, therefore, occupy a position somewhere between that of a regular mutual company and a perpetual. Because of their large premium deposits they have relatively large amounts of investment income and therefore pay tax under the investment income alternative.

3. Special provision for shipowners' protection and indemnity associations

Special treatment is provided by section 526 for certain shipowners' protection and indemnity associations. This section excludes from gross income the receipts of the shipowners' mutual protection and indemnity associations not organized for profit, no part of the net earnings of which inures to the benefit of any private shareholder. However, it provides that "such corporations shall be subject as other persons to the tax on their taxable income from interest dividends, and rents." It is understood that there are only one or two beneficiaries of section 526. The substance of the special rule under section 526 apparently is that associations qualifying under it are taxable in a manner similar to reciprocals and interinsurers under the provisions of sections 821 and 822, with the exception of the omission of royalties, business income, and other possible types of investment income from the statutory definition of the taxable income base in the case of the shipowners' associations. This provision has been in the law since 1921.

4. Foreign insurance companies

In general, a foreign insurance company licensed to do business in the United States is subject to tax in the same manner as a domestic insurance company, with respect to its U. S. business. A foreign insurance company not licensed to do an insurance business in the United States and not otherwise engaged in business in this country is not subject to income tax here.

Section 1442 applies a withholding tax of 30 percent on various items of income, including premiums, paid to a foreign insurance company not engaged in U. S. trade or business (except where the withholding rate is reduced by special tax treaty covenants). However, longstanding rulings 1/ of the Internal Revenue Service have excluded premium income paid to a foreign insurance company, such as Lloyd's of London and others not entered in the United States, from the application of the withholding tax. These rulings are

1/ I.T. 1359, C.B. 1-1, 292, 1922; I.T. 3061, C.B. 1937-1, 114.

based on the principle that such premiums contain only a small element of net income and that it would, therefore, be inappropriate to apply the 30 percent levy on such a nonincome item. Another consideration is the fact that a 30 percent withholding tax would destroy a normal and essential channel of insurance business, which is important to the American economy where only a foreign company is equipped to handle the resk.

The foreign insurers like Lloyd's of London are, however, subject to special documentary stamp taxes on the policies they issue, measured by the premium paid. The documentary stamp excise taxes imposed by section 4371 and related sections of subchapter D of Chapter 33 on policies issued by foreign insurers are levied at a rate of 4 cents on each dollar or fractional part thereof in the case of a premium charged on a direct policy of casualty insurance or an indemnity bond and at the rate of 1 cent on each premium dollar or fraction thereof on any reinsurance policy involving either casualty or life insurance and on life insurance, sickness and accident policies and annuity contracts.

B. Structure of the fire and casualty insurance industry

Income tax return data for 1958 disclose that there were 2,194 returns by fire and casualty insurance companies, with a total tax liability of about $128 million. Of this total, 841 were mutual company returns, with a total income tax liability of about $34 million. Some 1,353 were returns taxable under the stock company provisions, with a reported tax liability of about $94 million. Similar data for the period 1942-1958 are shown in the accompanying Table 1.

The 841 mutual fire and casualty insurance companies fall into various special groups as follows: 772 regular mutual companies, 8 factory mutuals, and 61 reciprocals and interinsurers. The 1,353 companies taxed under the stock company rules of sections 831 and 832 include 1,330 regular stock companies, 7 perpetuals, 15 Lloyds organizations, and 1 mutual marine. 1/

Data on the number of companies in the various categories, and the distribution of tax liability and premium volume among the various groups are summarized in Table 2.

Unlike the life insurance business, in which the major portion of the premiums are written by mutual companies, in the fire and

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1/These breakdowns are based on data from Best's Insurance Guide and and other industry sources. Statistics of Income do not provide this information.

198

TABLE 1

MUTUAL INSURANCE CARRIERS OTHER THAN LIFE, OR MARINE, OR FIRE INSURANCE COMPANIES ISSUING PERPETUAL POLICIES, AND INSURANCE CARRIERS (EXCEPT LIFE OR MUTUAL) TAXED UNDER CODE SECTION 831: NUMBER OF RETURNS AND TAXES - ACCOUNTING PERIODS ENDED 1942 THROUGH 1958

Type of company and year	Total number of returns	Number of returns with net income	Income tax	Declared value excess profits tax	Excess profits tax
			(Amounts in Thousand dollars)		
utual insurance carriers (other than life, or marine, or fire insurance companies issuing perpetual policies) taxed under Code section 821:					
1958	841	817	33,742	-	-
1957	775	750	31,771	-	-
1956	786	759	29,940	-	-
1955	766	735	28,297	-	-
1954	750	722	26,107	-	-
1953	736	696	25,378	-	-
1952	707	663	22,980	-	8
1951	686	641	19,759	-	-
1950	689	639	15,514	-	1
1949	656	612	13,250	-	-
1948	610	565	11,624	-	-
1947	541	502	10,262	-	-
1946	515	479	9,213	-	-
1945	471	436	7,642	-	-
1944	446	416	6,263	*	-
1943	438	392	5,682	-	-
1942	472	386	5,629	-	-
nsurance carriers (except life or mutual) taxed under Code Section 831:					
1958	1,353	883	94,134	-	-
1957	1,382	780	52,268	-	-
1956	1,282	758	85,217	-	-
1955	1,209	837	206,015	-	-
1954	1,165	874	257,204	-	15
1953	1,131	848	206,821	-	9,064
1952	1,033	743	150,911	-	6,529
1951	1,062	723	94,812	-	6,561
1950	1,136	812	131,635	-	6,929
1949	1,042	791	187,578	-	-
1948	1,006	757	97,818	-	-
1947	913	603	35,265	-	-
1946	834	496	24,068	-	1
1945	837	559	36,023	39	7,459
1944	815	577	44,110	24	13,355
1943	737	582	64,021	9	16,697
1942	832	621	59,110	6	11,042

Less than $500.

te: The income tax shown for mutual insurance carriers includes tax on returns thout net income computed under Section 821(a)(2).

Internal Revenue Service
Statistics Division

Table 2

Types of fire and casualty insurance companies taxed under stock and mutual provisions:

Number of companies, income tax paid, and share of premiums written, 1958

Type of company	Number of companies filing 1958 tax returns	Income tax paid (Dollars millions)	Income tax paid % of industry total	Percentage of total premiums written by the industry
Taxed under stock provisions (sections 831-832):				
Regular stock 1/	1,331	$94.0	73.5%	71.0%
Perpetuals	7	n.a.	n.a.	*
Lloyds organizations	15	.1	.1	.2
Total under stock provisions	1,353	94.1	73.6	71.2
Taxed under mutual provisions (sections 821-822):				
Regular mutuals	772	31.3	24.5	24.5
Factory mutuals	8	1.9	1.5	.8
Reciprocals and interinsurers	61	.5	.4	3.5
Total under mutual provisions	841	33.8	26.4	28.8
Grand total	2,194	$127.9	100.0	100.0

Note: Items may not add to totals, due to rounding.

1/Includes 1 mutual marine company

* Because of unique method of operation, regular concept of premiums written not applicable; investment income on premium deposits, equivalent to annual premiums, estimated at less than .1 percent.

Sources: Aggregate data on numbers of section 821 and 831 companies and income tax paid from Statistics of Income. Data on premiums and taxes paid by particular types of companies from Best's Insurance Guide, 1959 and Best's Fire and Casualty Aggregates and Averages, 1960.

casualty insurance field, the major portion of the premiums are written by the stock companies. Of the $14.1 billion of total premiums written by the fire and casualty industry in 1959, approximately 71 percent was written by stock companies. However, the proportion of the business written by the stock companies has been declining over the years. Prior to the first income tax law in 1913, stock companies wrote over 90 percent of all the fire and casualty insurance. By 1941, the last year in which the mutual and reciprocal fire and casualty insurance business was substantially exempt from income taxation, the stocks' proportion had decreased to 77 percent. Further decreases have occurred since that time. The stock companies have been subject to the full corporate tax since 1913.

As in the case of life insurance and other industries, there is considerable concentration of premium volume in the hands of a comparatively few large companies. Data for 1959 made available by persons in the industry indicate that 42 large stock companies accounted for about 59 percent of all of the premiums written by some 1,300 stock companies. Similarly, 10 large mutual companies accounted for 46 percent of the total premium volume in the hands of some 800 mutual companies.

The question of the competitiveness of the fire and casualty insurance business, the reasonableness of its rate structure and rate-setting practices, and the effectiveness of State regulation were matters of concern to the Subcommittee on Antitrust and Monopoly of the Senate Committee on the Judiciary in the course of its recent hearings. In connection with the consideration of the role of the tax laws in the insurance business, the matters of unfair competition by untaxed foreign companies and tax avoidance arrangements through foreign subsidiaries and foreign reinsurance operations were raised.

In earlier decades fire and casualty insurance companies tended to be specialized in specific lines, such as fire insurance, automobile and casualty insurance, accident and health insurance, workmen's compensation, marine insurance, and similar lines. The current trend is toward multiple line insurance, in which a company offers a wide variety of coverage to its customers. It is not entirely clear what implications the growth of multiple line business may have with respect to the re-evaluation of the present tax provisions in this area. To the extent that the multiple line trend is symptomatic of sharpened sales competition, this may imply greater sensitivity to tax differentials.

Exhibit VIII

C. Boggs-Baker Bills (H. R. 6659 and H. R. 6660):

The identical bills recently introduced by Mr. Boggs (H. R. 6659) and Mr. Baker (H. R. 6660) would tax all fire and casualty companies like stock companies, i.e. at the prevailing corporate rates on both their underwriting and investment income. Companies would be enabled to offset their underwriting losses against investment gains and thereby eliminate objections which some mutual companies have made to the existing special formulas applicable to mutual companies.

The following specific provisions should be mentioned:

(1) Exemption for small mutual and reciprocal companies.- Small mutual or reciprocal companies which are exempt under the present provisions of section 501(c)(15) would remain exempt. This section exempts mutual or reciprocal companies if the gross amount received during the year from investment income and premiums does not exceed $75,000. In lieu of the various other forms of tax relief at present afforded small mutual and reciprocal companies, these companies would be tax exempt if their taxable net income was less than $6,000, with a notch feature operating in the bracket from $6,000 to $12,000. None of the above forms of tax relief would be applicable to stock companies.

(2) Deductibility of policyholder dividends.- Existing law as to stock companies permits full deduction for all dividends paid to policyholders, and this provision would be made equally applicable to mutual and reciprocal companies.

(3) Capital gains.- All companies, as is true of stock companies under present law, would pay the regular 25 percent corporate capital gain tax on realized capital gains.

(4) Transitional rules.- The bills provide special transitional rules relating to net operating loss deductions for mutual companies. The effect of this provision is to insure that no net operating loss deduction shall be allowed to a mutual insurance company, heretofore taxed under the special provisions of section 821 of the Code, for any taxable year ending before the effective date of the bill and that no loss deduction shall be permitted for any taxable year ending after that date to the extent based on losses suffered for a taxable year ending prior to the effective date. The purpose of these provisions is to insure that mutual companies which are now to be subjected to regular corporate tax rates do not gain any special advantage from the operations of a prior year or years when the company was not subject to such tax rates.

Exhibit VIII

D. Premium tax on policies issued by foreign insurers

Although the Boggs-Baker bills contain no provision for realignment of the premium taxes on policies issued by foreign insurers in the United States market, it is recommended that the present 1 percent tax imposed by section 4371 of the Code be increased to 2 percent on policies issued after December 31, 1961. This recommendation would apply to all policies of reinsurance issued by foreign insurers covering fire or casualty insurance risks and indemnity bonds, as well as all policies of insurance or reinsurance in the case of life insurance, health and accident policies, and annuity contracts. The suggested increase would be approximately in line with the proposed increase in the taxes on domestic mutual insurance companies now averaging roughly 1 percent of gross income. This adjustment in the foreign premium tax should increase collections under the tax by about $4 million annually.

No increase is recommended at this time in the 4 percent tax now imposed on certain direct policies of casualty insurance and surety bonds. Since this tax is already imposed at a differentially higher rate which tends to discourage the sale of direct policies which involve the 4 percent tax, an upward adjustment does not seem appropriate for purposes of alignment with the Boggs-Baker legislation for resident insurers.

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203

from the sale or other disposition of Treasury bills does not have any special treatment, as such, under the Internal Revenue Code of 1954. The bills are subject to estate, inheritance, gift or other excise taxes, whether Federal or State, but are 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 is considered to be interest. Under Sections 454 (b) and 1221 (5) of the Internal Revenue Code of 1954 the amount of discount at which bills issued hereunder are sold is not considered to accrue until such bills are 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, Revised, 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.

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.

Others than banking institutions will not be permitted to submit tenders except for their own account. 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 2 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 Treasury Department 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. Subject to these reservations, noncompetitive tenders for $200,000 or less for the additional bills dated February 9, 1961, (91 days remaining until maturity date on August 10, 1961) and noncompetitive tenders for $100,000 or less for the 182 -day bills without stated price from any one bidder will be accepted in full at the average price (in three decimals) of accepted competitive bids for the respective issues. Settlement for accepted tenders in accordance with the bids must be made or completed at the Federal Reserve Bank on May 11, 1961, in cash or other immediately available funds or in a like face amount of Treasury bills maturing May 11, 1961. Cash and exchange tenders will receive equal treatment. Cash adjustments will be made for differences between the par value of maturing bills accepted in exchange and the issue price of the new bills.

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

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205

TREASURY DEPARTMENT
Washington

May 3, 1961

FOR IMMEDIATE RELEASE. XXXXXXXXXXXXX

TREASURY'S WEEKLY BILL OFFERING

The Treasury Department, by this public notice, invites tenders for two series of Treasury bills to the aggregate amount of $1,600,000,000, or thereabouts, for cash and in exchange for Treasury bills maturing May 11, 1961, in the amount of $ 1,500,379,000, as follows:

91 -day bills (to maturity date) to be issued May 11, 1961, in the amount of $ 1,100,000,000, or thereabouts, representing an additional amount of bills dated February 9, 1961, and to mature August 10, 1961, originally issued in the amount of $ 500,174,000, the additional and original bills to be freely interchangeable.

182 -day bills, for $ 500,000,000, or thereabouts, to be dated May 11, 1961, and to mature November 9, 1961.

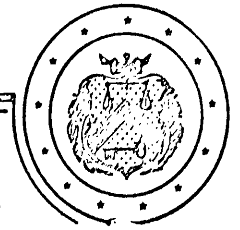
The bills of both series will be issued on a discount basis under competitive and noncompetitive bidding as hereinafter provided, and at maturity their face amount will be payable without interest. They will be issued in bearer form only, and in denominations of $1,000, $5,000, $10,000, $100,000, $500,000 and $1,000,000 (maturity value).

Tenders will be received at Federal Reserve Banks and Branches up to the closing hour, one-thirty o'clock p.m., Eastern Daylight Saving time, Monday, May 8, 1961. Tenders will not be received at the Treasury Department, Washington. Each tender must be for an even multiple of $1,000, and in the case of competitive tenders the price offered must be expressed on the basis of 100, with not more than three

D-97

TREASURY DEPARTMENT

206



WASHINGTON, D.C.

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Others than banking institutions will not be permitted to submit tenders except for their own account. 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 2 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.

D-97

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The income derived from Treasury bills, whether interest or gain from the sale or other disposition of the bills, does not have any exemption, as such, and loss from the sale or other disposition of Treasury bills does not have any special treatment, as such, under the Internal Revenue Code of 1954. The bills are subject to estate, inheritance, gift or other excise taxes, whether Federal or State, but are 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 is considered to be interest. Under Sections 454 (b) and 1221 (5) of the Internal Revenue Code of 1954 the amount of discount at which bills issued hereunder are sold is not considered to accrue until such bills are 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.

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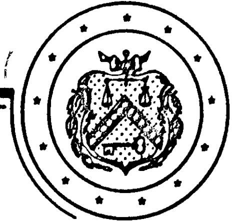
TREASURY DEPARTMENT

207



WASHINGTON, D.C.

IMMEDIATE RELEASE

May 4, 1961

RESULTS OF TREASURY'S NEW CASH OFFERING

Reports received from the Federal Reserve Banks show that subscriptions total about $13,824 million for the offering of $5,250 million, or thereabouts, of 3% Certificates of Indebtedness of Series A-1962, due May 15, 1962, and $12,889 million for the offering of $2,500 million, or thereabouts, of 3-1/4% Treasury Notes of Series D-1963, due May 15, 1963. Total subscriptions accepted amount to about $5,510 million for the certificates and $2,750 million for the notes.

The Treasury will allot in full all subscriptions, totaling about $2,379 million for the certificates and $1,258 million for the notes, from States, political subdivisions or instrumentalities thereof, public pension and retirement and other public funds, international organizations in which the United States holds membership, foreign central banks and foreign States, Government Investment Accounts, and the Federal Reserve Banks, as provided in the offering circulars.

On subscriptions for the certificates received subject to allotment, the Treasury announced a 27 percent allotment; except that subscriptions for $25,000 or less will be allotted in full, and subscriptions for more than $25,000 will be allotted not less than $25,000.

On subscriptions for the notes received subject to allotment, the Treasury announced a 12 percent allotment; except that subscriptions for $25,000 or less will be allotted in full, and subscriptions for more than $25,000 will be allotted not less than $25,000.

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

Subscriptions were divided among various investor classes as follows:

INVESTOR CLASS	3% C. of I.	3-1/4% NOTES	TOTAL
	(Amounts in millions)		
States, political subdivisions or instrumentalities thereof, public pension and retirement and other public funds, international organizations in which the United States holds membership, foreign central banks and foreign States, Government Investment Accounts, and the Federal Reserve Banks	$ 2,379	$ 1,258	$ 3,637
Commercial Banks for their own account	7,375	7,258	14,633
All others	4,070	4,373	8,443
Total	$13,824	$12,889	$26,713

D-98

May 8, 1961

FOR RELEASE A. M. NEWSPAPERS, Tuesday, May 9, 1961.

RESULTS OF TREASURY'S WEEKLY BILL OFFERING

The Treasury Department announced last evening that the tenders for two series of Treasury bills, one series to be an additional issue of the bills dated February 9, 1961, and the other series to be dated May 11, 1961, which were offered on May 3, were opened at the Federal Reserve Banks on May 8. Tenders were invited for $1,100,000,000, or thereabouts, of 91-day bills and for $500,000,000, or thereabouts, of 182-day bills. The details of the two series are as follows:

RANGE OF ACCEPTED COMPETITIVE BIDS:	91-day Treasury bills maturing August 10, 1961		:	182-day Treasury bills maturing November 9, 1961	
	Price	Approx. Equiv. Annual Rate	:	Price	Approx. Equiv. Annual Rate
High	99.444	2.200%	:	98.786 a/	2.401%
Low	99.432	2.247%	:	98.773	2.427%
Average	99.436	2.232% 1/	:	98.775	2.423% 1/

a/ Excepting one tender of $100,000
57 percent of the amount of 91-day bills bid for at the low price was accepted
76 percent of the amount of 182-day bills bid for at the low price was accepted

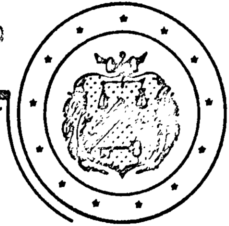
TOTAL TENDERS APPLIED FOR AND ACCEPTED BY FEDERAL RESERVE DISTRICTS:

District	Applied For	Accepted	:	Applied For	Accepted
Boston	$ 25,105,000	$ 15,105,000	:	$ 2,838,000	$ 2,428,000
New York	1,381,644,000	699,963,000	:	965,550,000	424,350,000
Philadelphia	28,273,000	13,273,000	:	8,738,000	3,713,000
Cleveland	27,947,000	22,947,000	:	23,024,000	10,664,000
Richmond	9,467,000	9,467,000	:	2,382,000	2,382,000
Atlanta	28,126,000	24,496,000	:	2,947,000	2,723,000
Chicago	225,864,000	189,714,000	:	68,139,000	30,426,000
St. Louis	23,286,000	19,286,000	:	5,677,000	4,677,000
Minneapolis	16,325,000	11,395,000	:	4,877,000	2,377,000
Kansas City	45,630,000	44,290,000	:	9,661,000	7,561,000
Dallas	14,306,000	13,606,000	:	3,638,000	3,638,000
San Francisco	50,656,000	36,796,000	:	17,683,000	5,333,000
TOTALS	$1,876,629,000	$1,100,338,000 b/		$1,115,154,000	$500,272,000 c/

b/ Includes $197,106,000 noncompetitive tenders accepted at the average price of 99.436
c/ Includes $37,129,000 noncompetitive tenders accepted at the average price of 98.775
1/ On a coupon issue of the same length and for the same amount invested, the return on these bills would provide yields of 2.28%, for the 91-day bills, and 2.49%, for the 182-day bills. Interest rates on bills are quoted in terms of bank discount with the return related to the face amount of the bills payable at maturity rather than the amount invested and their length in actual number of days related to a 360-day year. In contrast, yields on certificates, notes, and bonds are computed in terms of interest on the amount invested, and relate the number of days remaining in an interest payment period to the actual number of days in the period, with semiannual compounding if more than one coupon period is involved.

TREASURY DEPARTMENT

209



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57 percent of the amount of 91-day bills bid for at the low price was accepted
76 percent of the amount of 182-day bills bid for at the low price was accepted

TOTAL TENDERS APPLIED FOR AND ACCEPTED BY FEDERAL RESERVE DISTRICTS:

District	Applied For	Accepted	Applied For	Accepted
Boston	$ 25,105,000	$ 15,105,000	$ 2,838,000	$ 2,428,000
New York	1,381,644,000	699,963,000	965,550,000	424,350,000
Philadelphia	28,273,000	13,273,000	8,738,000	3,713,000
Cleveland	27,947,000	22,947,000	23,024,000	10,664,000
Richmond	9,467,000	9,467,000	2,382,000	2,382,000
Atlanta	28,126,000	24,496,000	2,947,000	2,723,000
Chicago	225,864,000	189,714,000	68,139,000	30,426,000
St. Louis	23,286,000	19,286,000	5,677,000	4,677,000
Minneapolis	16,325,000	11,395,000	4,877,000	2,377,000
Kansas City	45,630,000	44,290,000	9,661,000	7,561,000
Dallas	14,306,000	13,606,000	3,638,000	3,638,000
San Francisco	50,656,000	36,796,000	17,683,000	5,333,000
TOTALS	$1,876,629,000	$1,100,338,000 b/	$1,115,154,000	$500,272,000 c/

b/ Includes $197,106,000 noncompetitive tenders accepted at the average price of 99.436
c/ Includes $37,129,000 noncompetitive tenders accepted at the average price of 98.775
1/ On a coupon issue of the same length and for the same amount invested, the return on these bills would provide yields of 2.28%, for the 91-day bills, and 2.49%, for the 182-day bills. Interest rates on bills are quoted in terms of bank discount with the return related to the face amount of the bills payable at maturity rather than the amount invested and their length in actual number of days related to a 360-day year. In contrast, yields on certificates, notes, and bonds are computed in terms of interest on the amount invested, and relate the number of days remaining in an interest payment period to the actual number of days in the period, with semiannual compounding if more than one coupon period is involved.

D-99

STATEMENT BY SECRETARY OF THE TREASURY DOUGLAS DILLON ON AMENDMENT OF THE ARTICLES OF AGREEMENT OF THE INTERNATIONAL FINANCE CORPORATION BEFORE A SUBCOMMITTEE OF THE HOUSE BANKING AND CURRENCY COMMITTEE, WEDNESDAY, MAY 10, 1961, 10 A.M.

Mr. Chairman and Members of the Subcommittee:

I appear before you today in support of H.R. 6765, authorizing the approval by the United States of a proposed amendment to the Articles of Agreement of the International Finance Corporation which would permit the Corporation to make equity investments under limited conditions.

This amendment would have a significant effect in stepping up the rate at which the Corporation is able to invest in its less-developed member countries and would thereby further the purposes for which the Corporation was established.

The proposed agreement has been carefully considered by the Corporation and is unanimously recommended by its Board of Directors.

This is the first time since the IFC's creation in 1956 that a matter concerning it has been before this Committee. It may, therefore, be helpful to review the origins of the Corporation and its work:

The IFC was established as an affiliate of the International Bank for Reconstruction and Development, or World Bank, whose outstanding record the Committee knows well. Any country which is a member of the Bank may become a member of the IFC, and 59 of the Bank's 68 members have now joined the Corporation. The total authorized capital of the Corporation is $100 million. Present members have actually paid in $96.6 million, in dollars. The United States subscription, which we paid when we joined in 1956, is $35.2 million.

While the Corporation has cooperated closely with the World Bank since its inception, its relationship to the Bank will be even closer in the future. The President of the Corporation, Mr. Garner, has announced his intention to retire this fall after the annual meeting. Mr. Eugene Black, President of the World Bank, has agreed to take on the added duty of the Presidency of the International Finance Corporation at that time. This will ensure the closest possible coordination between the operations of these two important institutions.

The idea behind the Corporation is a simple one. It is that a multilateral source of capital should be available to give direct encouragement to the stimulation and growth of private enterprise in the less-developed countries of the Free World. The Corporation seeks to accomplish this by providing "seed capital" -- that extra margin which may very well determine whether private funds are willing to go in.

In practice, the Corporation has invested in small or medium private enterprise projects. What is often regarded as a small private firm in a large industrialized nation may be a good-sized undertaking in many of the less-developed countries with which the Corporation deals.

Most of the enterprises assisted by the Corporation are engaged in light and medium manufacturing in such fields as furniture, rubber products, automotive components and replacement parts, electrical equipment, steel products, and food packing. A number of firms in which IFC has invested produce basic materials such as cement, bricks, lumber products, fertilizers, and paper pulp. All of the firms have aided

local economies by providing additional employment, and all contribute importantly to the growth of the private sector of the developing economies.

During the approximately four years of its operations, the Corporation has made investment commitments totaling $44.8 million, of which $29.3 million has actually been disbursed. The average size of its investments is about one and one-quarter million dollars. Thirty-six investment commitments have been made in 17 countries. In each case additional private investment funds have been committed alongside the IFC. These private investments have amounted to over $125 million or nearly $3.00 of new private investment for each $1.00 of IFC investment.

In carrying forward its operations, the Corporation has been severely limited by the provision in Article III, Section 2(a) of its Articles that: "......financing [by the Corporation] is not to take the form of investments in capital stock."

As I indicated in my letter of April 4, 1961, to the Speaker of the House, this limitation has tended to constrict the desirable flexibility of the Corporation in making risk capital available to less-developed economies. Because of this limitation, the Corporation has had to resort to the use of convertible debentures or long-term stock options -- that is, instruments which are not themselves common stock and may be converted to common stock only under prescribed conditions and only after they have been transferred out of the hands of the Corporation. However, convertible debentures are not well-known in foreign capital markets, especially in the developing countries. In many of these countries legal provisions for the issuance of such debentures do not exist. Arrangements for long-term stock options have involved techniques which are legally complex and present substantial negotiating difficulties. A detailed explanation of these problems and of the need for authority to make equity investments is contained in a memorandum dated February 10, 1961 from the President of the Corporation which I would like to submit for the record at this point. In sum, the

charter limitation on the purchase of capital stock has severely restricted the ability of the Corporation to carry out its primary function of stimulating private enterprise in the less developed areas.

The original reason for including a prohibition against equity investment in the Articles of Agreement was to insure that the Corporation would not, as a result of stock ownership have management responsibilities in the private enterprises in which it invested. Such responsibilities properly lie with the private owners of the enterprise. This concept is a sound one and remains applicable today. However, safeguards have been incorporated in the proposed amendment to insure that the Corporation will not become involved in the operational or management decisions of the enterprises in which it invests.

The form of the proposed amendment to the Articles of Agreement is embodied in the proposed Resolution of the Board of Governors of the International Finance Corporation. It proposes that Article III, Section 2 of the Corporation's Articles--the sense of which I described

to you a moment ago--would be deleted, and a new Section 2 would be substituted, reading simply: "The Corporation may make investments of its funds in such form or forms as it may deem appropriate in the circumstances."

In order to safeguard the Corporation's role in exercising voting rights attached to capital stock which it acquires, Subsection (iv) of Article III, Section 3, which now reads:

> "The Corporation shall not assume responsibility for managing any enterprise in which it has invested"

would be amended by adding:

> "......and shall not exercise voting rights for such purpose or for any other purpose which, in its opinion, properly is within the scope of managerial control."

This formulation, in my judgment, would achieve the purpose of the original prohibition on the purchase of capital stock. Yet it would also permit the Corporation to take the necessary steps to protect its interests in the event it is legally required, as a stockholder, to vote on such matters as corporate reorganization, increase of capitalization, etc.

210

The proposed amendment represents a desirable and logical evolution in the development of the Corporation. The National Advisory Council on International Monetary and Financial Problems has recommended its adoption. It is in the interest of the U. S., as well as in the interest of the Free World as a whole, to improve the ability of the Corporation to carry out its task of promoting productive private enterprise in the developing countries. The proposed amendment is essential for this purpose.

H.R. 6765 would give me authority, as United States Governor of the IFC, to vote in favor of the proposed amendment and I earnestly recommend its approval by the Congress.

May 8, 1961

~~BETAxxMODIFIED~~

from the sale or other disposition of Treasury bills does not have any special treatment, as such, under the Internal Revenue Code of 1954. The bills are subject to estate, inheritance, gift or other excise taxes, whether Federal or State, but are 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 is considered to be interest. Under Sections 454 (b) and 1221 (5) of the Internal Revenue Code of 1954 the amount of discount at which bills issued hereunder are sold is not considered to accrue until such bills are 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, Revised, 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.

219

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.

Others than banking institutions will not be permitted to submit tenders except for their own account. 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 2 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 Treasury Department 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. Subject to these reservations, noncompetitive tenders for $ 200,000 or less for the additional bills dated February 16, 1961, (91 days remaining until maturity date on August 17, 1961) and noncompetitive tenders for $ 100,000 or less for the 182 -day bills without stated price from any one bidder will be accepted in full at the average price (in three decimals) of accepted competitive bids for the respective issues. Settlement for accepted tenders in accordance with the bids must be made or completed at the Federal Reserve Bank on May 18, 1961, in cash or other immediately available funds or in a like face amount of Treasury bills maturing May 18, 1961. Cash and exchange tenders will receive equal treatment. Cash adjustments will be made for differences between the par value of maturing bills accepted in exchange and the issue price of the new bills.

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

~~Exhibit 2-A~~

~~BETA MODIFIED~~

TREASURY DEPARTMENT
Washington

FOR IMMEDIATE RELEASE
~~IMMEDIATE RELEASE, 4:00 P.M.~~

May 10, 1961

(1)

TREASURY'S WEEKLY BILL OFFERING

The Treasury Department, by this public notice, invites tenders for two series of Treasury bills to the aggregate amount of $1,600,000,000 (2), or thereabouts, for cash and in exchange for Treasury bills maturing May 18, 1961 (3), in the amount of $1,601,214,000 (4), as follows:

91 (5) -day bills (to maturity date) to be issued May 18, 1961 (6), in the amount of $1,100,000,000 (7), or thereabouts, representing an additional amount of bills dated February 16, 1961 (8), and to mature August 17, 1961 (9), originally issued in the amount of $500,436,000 (10), the additional and original bills to be freely interchangeable.

182 (11) -day bills, for $500,000,000 (12), or thereabouts, to be dated May 18, 1961 (13), and to mature November 16, 1961 (14).

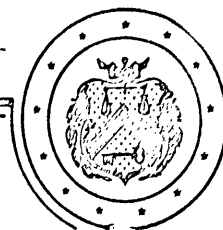
The bills of both series will be issued on a discount basis under competitive and noncompetitive bidding as hereinafter provided, and at maturity their face amoun will be payable without interest. They will be issued in bearer form only, and in denominations of $1,000, $5,000, $10,000, $100,000, $500,000 and $1,000,000 (maturit value).

Tenders will be received at Federal Reserve Banks and Branches up to the closin hour, one-thirty o'clock p.m., Eastern Daylight Saving ~~Standard~~ time, Monday, May 15, 1961 (15). Tenders will not be received at the Treasury Department, Washington. Each tender must be for an even multiple of $1,000, and in the case of competitive tenders the price offered must be expressed on the basis of 100, with not more than three

D-100

TREASURY DEPARTMENT

221



WASHINGTON, D.C.

May 10, 1961

FOR IMMEDIATE RELEASE

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Others than banking institutions will not be permitted to submit tenders except for their own account. 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 2 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.

D-100

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 Treasury Departmment 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. Subject to these reservations, noncompetitive tenders for $200,000 or less for the additional bills dated **February 16, 1961**, (91-days remaining until maturity date on **August 17, 1961**) and noncompetitive tenders for $100,000 or less for the 182-day bills without stated price from any one bidder will be accepted in full at the average price (in three decimals) of accepted competitive bids for the respective issues. Settlement for accepted tenders in accordance with the bids must be made or completed at the Federal Reserve Bank on **May 18, 1961**, in cash or other immediately available funds or in a like face amount of Treasury bills maturing **May 18, 1961**. Cash and exchange tenders will receive equal treatment. Cash adjustments will be made for differences between the par value of maturing bills accepted in exchange and the issue price of the new bills.

The income derived from Treasury bills, whether interest or gain from the sale or other disposition of the bills, does not have any exemption, as such, and loss from the sale or other disposition of Treasury bills does not have any special treatment, as such, under the Internal Revenue Code of 1954. The bills are subject to estate, inheritance, gift or other excise taxes, whether Federal or State, but are 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 is considered to be interest. Under Sections 454 (b) and 1221 (5) of the Internal Revenue Code of 1954 the amount of discount at which bills issued hereunder are sold is not considered to accrue until such bills are 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, Revised, 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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Statement by Robert V. Roosa, Under Secretary for Monetary Affairs, Treasury Department, Before the House Committee on Banking and Currency on May 11, 1961, on H.R. 5306

Mr. Chairman and Members of the Committee:

I appreciate this opportunity to appear before your Committee in support of H.R. 5306, "To authorize adjustments in accounts of outstanding old series currency".

The purpose of the proposed legislation is three-fold. First, it would free gold and silver reserves held as security for the redemption of certain types of old issues of currency. Second, it would authorize a procedure whereby old series currency could be written off the Treasury books as a liability. And third, it would authorize the retention of pieces of this currency for an historical collection.

As the members of the Committee know, the size of the paper money of the United States was changed in 1929. Since that time, the former large-size paper money has, for the most part, been replaced by the new smaller-size paper money presently in use. In fact, all but a very small fraction of the old size currency has been redeemed. In order to place what we are considering in better perspective, I would like to cite the following figures. The amount of old size currency issued prior to July 1, 1929 totaled in round figures $74 billion. Of this total, only a little more than $140 million remains outstanding at the present time. This comparatively tiny segment of old style paper money still outstanding is what we are concerned with today.

It stands to reason that the greater portion of this outstanding old style currency will probably never be presented for redemption. Some of the currency issues, such as United States notes, date back to nearly one hundred years ago. In the decades that have passed, much of the old style paper money has undoubtedly been destroyed in fires or floods or has otherwise been irretrievably lost. Other amounts are presumably held by individuals as collector's items. In such cases, the numismatic value of the currency exceeds its face value so there is no inducement to present it for redemption.

The amount of such currency presented for redemption also decreases with the lapse of time. To illustrate, a little over $1 million in Treasury notes of 1890 was outstanding in 1939. Only $25,000 of that currency has been presented for redemption since that time, a period of twenty-one years. Last year, six dollars was presented. By the way of further example, $435 million in the large size silver certificates was outstanding at the time of the change-over in 1929. In 1960, only $30 million in such certificates remained outstanding. In the past year, merely $26,000 worth of large size silver certificates was redeemed.

It is thus a relative certainty that only a minor percentage of the old style currency will ever be presented for redemption. Yet, the Treasury and the Federal Reserve System are required under existing law to carry gold and silver reserves, dollar for dollar, as security for a substantial amount of this old currency.

More specifically, $37 million in reserves is held by the Federal Reserve banks to secure Federal Reserve notes. Another $31 million in silver is held by the Treasury as security for old-size silver certificates and Treasury notes of 1890. An additional $30 million in gold is held by the Treasury as security for outstanding gold certificates. The latter figure includes $18 million in large size gold certificates and $12 million in small size certificates issued between 1929 and 1934.

The foregoing reserves held by the Treasury and the Federal Reserve System total $98 million. This amount is in effect frozen by law and cannot now be put to any beneficial use. This does not make good sense to me. In my opinion, there is little point in letting these reserves lie idle when most of the old series currency which the reserves secure will never be presented for redemption. The holding of gold reserves against gold certificates makes even less sense since the redemption of such currency in gold is prohibited by the Gold Reserve Act of 1934.

Consequently, the first purpose of the bill is to free the foregoing gold and silver reserves. The bill would accomplish that end in two ways. First, it would transfer to the general fund of the Treasury, to be credited as a public debt receipt, gold held as security for gold certificates issued prior to January 30, 1934 and standard silver dollars held as security for Treasury notes of 1890 and silver certificates

225

issued prior to July 1, 1929. Secondly, it would authorize the Board of Governors of the Federal Reserve System to require any Federal Reserve bank to pay to the Secretary of the Treasury, to be credited as a public debt receipt, an amount equal to the amount of Federal Reserve notes of any series prior to the series of 1928 issued to such bank.

In this manner, the Treasury's cash position would be improved to the extent of $98 million. This increase in its cash position would enable the Treasury to decrease its borrowing in the open market by a corresponding amount. The result would be an annual saving in interest costs to the Treasury ranging from $3 million to $4 million a year on the basis of present interest rates.

It would, of course, be unthinkable to do away with the reserves held as security for the currency without providing an alternative and equally sound method for its redemption. The United States must always stand ready to redeem its paper money or otherwise public confidence in such money would be impaired. Hence, the bill would provide for the redemption of this currency from the general fund of the Treasury. This procedure is most logical since the general fund would receive the benefit of the reserves now held as security for redemption.

Turning now to the second aspect of the bill, the old series currency we are talking about has, ever since its issuance, been carried on the books of the Treasury as a liability in the form of currency outstanding. It will continue to be so carried for time immemorial unless some provision is made for a different treatment.

As I have said earlier, the greater portion of this outstanding old style currency will probably never be presented for redemption. Consequently, there is no justification, in my judgment, in continuing to carry the total amount of such outstanding old series currency indefinitely as a Treasury liability. I feel that a gradual write-off of this liability should be permitted to the extent that it is determined that the currency will never be presented for redemption. The bill would authorize such a procedure.

Under the procedure that would be established by the bill, the old series currency would in the future be carried on the books of the Treasury as public debt bearing no interest. The Secretary of the Treasury would be authorized to determine, from time to time, the amount of such currency which, in his judgment, has been destroyed or irretrievably lost and so will never be presented for redemption. After making such a determination, the Secretary of the Treasury would be authorized to reduce correspondingly the amount carried on the books as public debt bearing no interest and credit such amounts to the appropriate receipt account.

Under this procedure, the Treasury would from time to time make estimates of the amount of this old currency which it believes has been destroyed or lost and will never be presented for redemption. It would then reduce by an equivalent amount the liability for such currency appearing on the books of the Treasury as public debt bearing no interest. An early determination of that nature can be made in the case of the

227

Treasury notes of 1890, which I have previously mentioned, because of the minor amounts of such notes that have been presented in recent years. From time to time, similar determinations would be made as to other classes of the old series currency when it appeared that only nominal amounts were being redeemed. I would venture to say that write-offs of fairly significant amounts, when considered in relation to the total amounts of old series currency outstanding, could be made in the not too distant future under this procedure. Incidentally, as these write-offs occurred in the future, they would be reflected in budget receipts.

Redeemability of the currency would not be affected in any way by the write-offs and the bill includes an express provision to that effect. Write-offs of the currency would be limited so as to assure an adequate leeway between the anticipated amounts of currency presented for redemption and the amount of the public debt liability left remaining on the Treasury books.

There is precedent for both the treatment of carrying this currency as a part of the public debt bearing no interest and for the write-offs of such currency. Under existing law, national bank notes and Federal Reserve bank notes are now carried as an item of public debt bearing no interest. With respect to write-offs of currency, over $8 million of fractional currency was written off in 1880 and nearly $5 million was written off in 1920.

As to the third and last aspect of the bill, the proposed legislation would authorize the Secretary of the Treasury to withhold from cancellation and destruction one piece of each type of the old series currency in order to provide an historical collection of such currency. In that connection, the Secretary of the Treasury would be authorized to make appropriate entries in the redemption accounts and other books of the Treasury to cover currency held for the collection.

To summarize, the bill would free reserves held as security for old series currency, thus improving the cash position of the Treasury. It would permit future write-offs of old series currency. Both of these objectives are desirable from the standpoint of the management of Treasury financial affairs.

Accordingly, I recommend favorable consideration of the proposed legislation by your Committee.

I am furnishing for the record some exhibits relating to old series currency and a Treasury memorandum on the history of coins and currency of the United States.

TREASURY DEPARTMENT
Washington, D. C.

229

IMMEDIATE RELEASE
THURSDAY, MAY 11, 1961.

D-101

PRELIMINARY DATA ON IMPORTS FOR CONSUMPTION OF UNMANUFACTURED LEAD AND ZINC CHARGEABLE TO THE QUOTAS ESTABLISHED BY PRESIDENTIAL PROCLAMATION NO. 3257 OF SEPTEMBER 22, 1958

QUARTERLY QUOTA PERIOD - April 1, 1961 - June 30, 1961

IMPORTS - April 1, 1961 - May 8, 1961

Country of Production	ITEM 391		ITEM 392		ITEM 393		ITEM 394	
	Lead-bearing ores, flue dust, and mattes		Lead bullion or base bullion, lead in pigs and bars, lead dross, reclaimed lead, scrap lead, antimonial lead, antimonial scrap lead, type metal, all alloys or combinations of lead n.s.p.f.		Zinc-bearing ores of all kinds, except pyrites containing not over 3% of zinc		Zinc in blocks, pigs, or slabs; old and worn-out zinc, fit only to be remanufactured, zinc dross, and zinc skimmings	
	Quarterly Quota Dutiable Lead	Imports	Quarterly Quota Dutiable Lead	Imports	Quarterly Quota Dutiable Zinc	Imports	Quarterly Quota By Weight	Imports
	(Pounds)		(Pounds)		(Pounds)		(Pounds)	
Australia	10,080,000	5,632,959	23,680,000	10,597,628	-		-	
Belgian Congo	-		-		-		5,440,000	330,696
Belgium and Luxemburg (total)	-		-		-		7,520,000	856,325
Bolivia	5,040,000	3,068,716	-		-		-	
Canada	13,440,000	13,225,303	15,920,000	5,041,511	66,480,000	22,145,285	37,840,000	11,839,124
Italy	-		-		-		3,600,000	-
Mexico	-		36,880,000	23,443,762	70,480,000	23,085,578	6,320,000	988,825
Peru	16,160,000	3,089,558	12,880,000	5,037,307	35,120,000	10,284,705	3,760,000	757,625
Un. So. Africa	14,880,000	14,880,000	-		-		-	
Yugoslavia	-		15,760,000	6,600,651	-		-	
All other foreign countries (total)	6,560,000	6,560,000	6,080,000	6,080,000	17,840,000	17,840,000	6,080,000	6,080,000

TREASURY DEPARTMENT
Washington, D. C.

IMMEDIATE RELEASE
THURSDAY, MAY 11, 1961.

D-101

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QUARTERLY QUOTA PERIOD - April 1, 1961 - June 30, 1961

IMPORTS - April 1, 1961 - May 8, 1961

Country of Production	ITEM 391 Lead-bearing ores, flue dust, and mattes		ITEM 392 Lead bullion or base bullion, lead in pigs and bars, lead dross, reclaimed lead, scrap lead, antimonial lead, antimonial scrap lead, type metal, all alloys or combinations of lead n.s.p.f.		ITEM 393 Zinc-bearing ores of all kinds, except pyrites containing not over 3% of zinc		ITEM 394 Zinc in blocks, pigs, or slabs; old and worn-out zinc, fit only to be remanufactured, zinc dross, and zinc skimmings	
	Quarterly Quota Dutiable Lead (Pounds)	Imports	Quarterly Quota Dutiable Lead (Pounds)	Imports	Quarterly Quota Dutiable Zinc (Pounds)	Imports	Quarterly Quota By Weight (Pounds)	Imports
Australia	10,080,000	5,632,959	23,680,000	10,597,628	-		-	
Belgian Congo	-		-		-		5,440,000	330,696
Belgium and Luxemburg (total)	-		-		-		7,520,000	856,325
Bolivia	5,040,000	3,068,716	-		-		-	
Canada	13,440,000	13,225,303	15,920,000	5,041,511	66,480,000	22,145,285	37,840,000	11,839,124
Italy	-		-		-		3,600,000	-
Mexico	-		36,880,000	23,443,762	70,480,000	23,085,578	6,320,000	988,825
Peru	16,160,000	3,089,558	12,880,000	5,037,307	35,120,000	10,284,705	3,760,000	757,625
Un. So. Africa	14,880,000	14,880,000	-		-		-	
Yugoslavia	-		15,760,000	6,600,651	-		-	
All other foreign countries (total)	6,560,000	6,560,000	6,080,000	6,080,000	17,840,000	17,840,000	6,080,000	6,080,000

231

COTTON WASTES
(In pounds)

COTTON CARD STRIPS made from cotton having a staple of less than 1-3/16 inches in length, COMBER WASTE, LAP WASTE, SLIVER WASTE, AND ROVING WASTE, WHETHER OR NOT MANUFACTURED OR OTHERWISE ADVANCED IN VALUE: Provided, however, that not more than 33-1/3 percent of the quotas shall be filled by cotton wastes other than 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:

Country of Origin	Established TOTAL QUOTA	Total Imports Sept. 20, 1960, to May 8, 1961	Established 33-1/3% of Total Quota	Imports 1/ Sept. 20, 1960 to May 8, 1961
United Kingdom	4,323,457	1,660,358	1,441,152	1,393,963
Canada	239,690	239,690	-	-
France	227,420	42,782	75,807	42,782
British India	69,627	-	-	-
Netherlands	68,240	21,442	22,747	21,442
Switzerland	44,388	-	14,796	-
Belgium	38,559	3,068	12,853	3,068
Japan	341,535	-	-	-
China	17,322	-	-	-
Egypt	8,135	-	-	-
Cuba	6,544	-	-	-
Germany	76,329	50,646	25,443	9,937
Italy	21,263		7,088	-
	5,482,509	2,017,986	1,599,886	1,471,192

1/ Included in total imports, column 2.

Prepared in the Bureau of Customs.

TREASURY DEPARTMENT
Washington, D. C.

IMMEDIATE RELEASE
THURSDAY, MAY 11, 1961

232

D-102

Preliminary data on imports for consumption of cotton and cotton waste chargeable to the quotas established by the President's Proclamation of September 5, 1939, as amended

COTTON (other than linters) (in pounds)
Cotton under 1-1/8 inches other than rough or harsh under 3/4"
Imports September 20, 1960 - May 8, 1961

Country of Origin	Established Quota	Imports
Egypt and the Anglo-Egyptian Sudan	783,816	-
Peru	247,952	50,569
British India	2,003,483	-
China	1,370,791	-
Mexico	8,883,259	8,883,259
Brazil	618,723	618,721
Union of Soviet Socialist Republics	475,124	-
Argentina	5,203	-
Haiti	237	-
Ecuador	9,333	-
Honduras	752	-
Paraguay	871	-
Colombia	124	-
Iraq	195	-
British East Africa	2,240	-
Netherlands E. Indies	71,388	681
Barbados	-	-
1/Other British W. Indies	21,321	-
Nigeria	5,377	-
2/Other British W. Africa	16,004	-
3/Other French Africa	689	-
Algeria and Tunisia	-	

1/ Other than Barbados, Bermuda, Jamaica, Trinidad, and Tobago.
2/ Other than Gold Coast and Nigeria.
3/ Other than Algeria, Tunisia, and Madagascar.

Cotton 1-1/8" or more
Imports August 1, 1960 - May 8, 1961

Established Quota (Global) - 45,656,420 Lbs.

Staple Length	Allocation	Imports
1-3/8" or more	39,590,778	39,590,778
1-5/32" or more and under 1-3/8" (Tanguis)	1,500,000	1,395,169
1-1/8" or more and under 1-3/8"	4,565,642	4,565,642

TREASURY DEPARTMENT
Washington, D. C.

233

IMMEDIATE RELEASE
THURSDAY, MAY 11, 1961

D-102

Preliminary data on imports for consumption of cotton and cotton waste chargeable to the quotas established by the President's Proclamation of September 5, 1939, as amended

COTTON (other than linters) (in pounds)
Cotton under 1-1/8 inches other than rough or harsh under 3/4"
Imports September 20, 1960 - May 8, 1961

Country of Origin	Established Quota	Imports
Egypt and the Anglo-Egyptian Sudan	783,816	-
Peru	247,952	50,569
British India	2,003,483	-
China	1,370,791	-
Mexico	8,883,259	8,883,259
Brazil	618,723	618,721
Union of Soviet Socialist Republics	475,124	-
Argentina	5,203	-
Haiti	237	-
Ecuador	9,333	-
Honduras	752	-
Paraguay	871	-
Colombia	124	-
Iraq	195	-
British East Africa	2,240	681
Netherlands E. Indies	71,388	-
Barbados	-	-
1/Other British W. Indies	21,321	-
Nigeria	5,377	-
2/Other British W. Africa	16,004	-
3/Other French Africa	689	-
Algeria and Tunisia	-	-

Other than Barbados, Bermuda, Jamaica, Trinidad, and Tobago.
Other than Gold Coast and Nigeria.
Other than Algeria, Tunisia, and Madagascar.

Cotton 1-1/8" or more
Imports August 1, 1960 - May 8, 1961

Established Quota (Global) - 45,656,420 Lbs.

Staple Length	Allocation	Imports
1-3/8" or more	39,590,778	39,590,778
1-5/32" or more and under 1-3/8" (Tanguis)	1,500,000	1,395,169
1-1/8" or more and under 1-3/8"	4,565,642	4,565,642

COTTON WASTES
(In pounds)

COTTON CARD STRIPS made from cotton having a staple of less than 1-3/16 inches in length, COMBER WASTE, LAP WASTE, SLIVER WASTE, AND ROVING WASTE, WHETHER OR NOT MANUFACTURED OR OTHERWISE ADVANCED IN VALUE: Provided, however, that not more than 33-1/3 percent of the quotas shall be filled by cotton wastes other than 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:

Country of Origin	Established TOTAL QUOTA	Total Imports Sept. 20, 1960, to May 8, 1961	Established 33-1/3% of Total Quota	Imports 1/ Sept. 20, 1960 to May 8, 1961
United Kingdom	4,323,457	1,660,358	1,441,152	1,393,963
Canada	239,690	239,690	-	-
France	227,420	42,782	75,807	42,782
British India	69,627	-	-	-
Netherlands	68,240	21,442	22,747	21,442
Switzerland	44,388	-	14,796	-
Belgium	38,559	3,068	12,853	3,068
Japan	341,535	-	-	-
China	17,322	-	-	-
Egypt	8,135	-	-	-
Cuba	6,544	-	-	-
Germany	76,329	50,646	25,443	9,937
Italy	21,263		7,088	-
	5,482,509	2,017,986	1,599,886	1,471,192

1/ Included in total imports, column 2.

Prepared in the Bureau of Customs.

TREASURY DEPARTMENT
Washington

IMMEDIATE RELEASE
THURSDAY, MAY 11, 1961

D-103

The Bureau of Customs announced today the following preliminary figures showing the imports for consumption from January 1, 1961, to April 29, 1961, inclusive, of commodities for which quotas were established pursuant to the Philippine Trade Agreement Revision Act of 1955:

Commodity	Established Annual Quota Quantity	Unit of Quantity	Imports as of April 29, 1961
Buttons............	765,000	Gross	81,743
Cigars.............	180,000,000	Number	1,629,365
Coconut oil.........	403,200,000	Pound	39,706,420
Cordage............	6,000,000	Pound	1,108,640
Tobacco............	5,850,000	Pound	5,520,199 1/

1/ Duty-free quota filled May 2.

TREASURY DEPARTMENT
Washington

IMMEDIATE RELEASE
THURSDAY, MAY 11, 1961

D-103

The Bureau of Customs announced today the following preliminary figures showing the imports for consumption from January 1, 1961, to April 29, 1961, inclusive, of commodities for which quotas were established pursuant to the Philippine Trade Agreement Revision Act of 1955:

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Coconut oil.........	403,200,000	Pound	39,706,420
Cordage.............	6,000,000	Pound	1,108,640
Tobacco.............	5,850,000	Pound	5,520,199 1/

1/ Duty-free quota filled May 2.

Commodity	Period and Quantity		Unit of Quantity	Imports as of April 29, 1961
Absolute Quotas				
Peanuts, shelled, unshelled, blanched, salted, prepared or preserved (incl. roasted peanuts but not peanut butter).....	12 mos. from Aug. 1, 1960	1,709,000	Pound	41,922*
Rye, rye flour, and rye meal.....	July 1, 1960- June 30, 1961			
	Canada	140,733,957	Pound	136,968,598*
	Other Countries	2,872,122	Pound	-
Butter substitutes, including butter oil, containing 45% or more butterfat.................	Calendar Year 1961	1,200,000	Pound	Quota Filled
Tung Oil.......................	Feb. 1, 1961- Oct. 31, 1961			
	Argentina	18,770,577	Pound	5,092,384*
	Paraguay	2,230,313	Pound	Quota Filled
	Other Countries	711,188	Pound	-

* Imports through May 8, 1961.

TREASURY DEPARTMENT
Washington, D. C.

IMMEDIATE RELEASE
THURSDAY, MAY 11, 1961

D-104

The Bureau of Customs announced today preliminary figures showing the imports for consumption of the commodities listed below within quota limitations from the beginning of the quota periods to April 29, 1961, inclusive, as follows:

Commodity	Period and Quantity		Unit of Quantity	Imports as of April 29, 1961
Tariff-Rate Quotas:				
Cream, fresh or sour............	Calendar Year	1,500,000	Gallon	243
Whole milk, fresh or sour.......	Calendar Year	3,000,000	Gallon	37
Cattle, 700 lbs. or more each (other than dairy cows)........	April 1, 1961-June 30, 1961	120,000	Head	2,120
Cattle less than 200 lbs. each..	12 mos. from April 1, 1961	200,000	Head	10,493
Fish, fresh or frozen, filleted, etc., cod, haddock, hake, pollock, cusk, and rosefish........	Calendar Year	32,600,645	Pound	14,287,730 1/
Tuna fish......................	Calendar Year	57,114,714	Pound	15,083,873
White or Irish potatoes:				
Certified seed................	12 mos. from	114,000,000	Pound	54,225,020
Other.........................	Sept. 15, 1960	36,000,000	Pound	6,535,499
Peanut oil.....................	12 mos. from July 1, 1960	80,000,000	Pound	1,440
Walnuts........................	Calendar Year	5,000,000	Pound	4,547,455
Stainless steel table flatware (table knives, table forks, table spoons)................	Nov. 1, 1960-Oct. 31, 1961	69,000,000	Pieces	Quota Filled 2/

1/ Imports for consumption at the quota rate are limited to 16,300,322 pounds during the first six months of the calendar year.

2/ Based on preliminary data; subject to adjustment.

(over)

TREASURY DEPARTMENT
Washington, D. C.

MEDIATE RELEASE
URSDAY, MAY 11, 1961

D-104

The Bureau of Customs announced today preliminary figures showing the imports for nsumption of the commodities listed below within quota limitations from the beginning the quota periods to April 29, 1961, inclusive, as follows:

Commodity	Period and Quantity		Unit of Quantity	Imports as of April 29, 1961
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eam, fresh or sour............	Calendar Year	1,500,000	Gallon	243
ole milk, fresh or sour.......	Calendar Year	3,000,000	Gallon	37
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h, fresh or frozen, filleted, ., cod, haddock, hake, pol-k, cusk, and rosefish........	Calendar Year	32,600,645	Pound	14,287,730 1/
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her..........................	Sept. 15, 1960	36,000,000	Pound	6,535,499
nut oil......................	12 mos. from July 1, 1960	80,000,000	Pound	1,440
nuts.........................	Calendar Year	5,000,000	Pound	4,547,455
inless steel table flatware able knives, table forks, able spoons)................	Nov. 1, 1960-Oct. 31, 1961	69,000,000	Pieces	Quota Filled 2/

1/ Imports for consumption at the quota rate are limited to 16,300,322 pounds during first six months of the calendar year.

2/ Based on preliminary data; subject to adjustment.

(over)

Commodity	Period and Quantity		Unit of Quantity	Imports as of April 29, 1
Absolute Quotas				
Peanuts, shelled, unshelled, blanched, salted, prepared or preserved (incl. roasted peanuts but not peanut butter).....	12 mos. from Aug. 1, 1960	1,709,000	Pound	41,92
Rye, rye flour, and rye meal.....	July 1, 1960-June 30, 1961			
	Canada	140,733,957	Pound	136,968,59
	Other Countries	2,872,122	Pound	
Butter substitutes, including butter oil, containing 45% or more butterfat.................	Calendar Year 1961	1,200,000	Pound	Quota Fill
Tung Oil........................	Feb. 1, 1961-Oct. 31, 1961			
	Argentina	18,770,577	Pound	5,092,38
	Paraguay	2,230,313	Pound	Quota Fill
	Other Countries	711,188	Pound	

* Imports through May 8, 1961.

STATUTORY DEBT LIMITATION

AS OF April 30, 1961

Washington, May 12, 1961

Section 21 of Second Liberty Bond Act, as amended, provides that the face amount of obligations issued under authority of that Act, and the face amount of obligations guaranteed as to principal and interest by the United States (except such guaranteed obligations as may be held by the Secretary of the Treasury), "shall not exceed in the aggregate $285,000,000,000 (Act of June 30, 1959; U.S.C., title 31, sec. 757b), outstanding at any one time. For purposes of this section the current redemption value of any obligation issued on a discount basis which is redeemable prior to maturity at the option of the holder shall be considered as its face amount." The Act of June 30, 1960 (P.L. 86-564 86th Congress) provides that during the period beginning on July 1, 1960 and ending June 30, 1961, the above limitation ($285,000,000,000) shall be temporarily increased by $8,000,000,000.

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			$293,000,000,000
Outstanding-			
Obligations issued under Second Liberty Bond Act, as amended			
Interest-bearing:			
Treasury bills	$38,212,646,000		
Certificates of indebtedness	11,503,147,000		
Treasury notes	57,518,237,000	$107,234,030,000	
Bonds-			
Treasury	80,863,577,550		
* Savings (current redemp. value)	47,420,137,301		
Depositary	120,636,000		
R.E.A. series	16,467,000		
Investment series	5,913,887,000	134,334,704,851	
Special Funds-			
Certificates of indebtedness	6,839,178,000		
Treasury notes	8,635,719,000		
Treasury bonds	27,537,385,000	43,012,282,000	
Total interest-bearing		284,581,016,851	
Matured, interest-ceased		349,757,944	
Bearing no interest:			
United States Savings Stamps	51,392,267		
Excess profits tax refund bonds	754,617		
Special notes of the United States:			
Internat'l Monetary Fund series	2,549,000,000		
Int'l Develop. Ass'n.	57,652,200	2,658,799,084	
Total		287,589,573,879	
Guaranteed obligations (not held by Treasury):			
Interest-bearing:			
Debentures: F.H.A. & DC Stad. Bds.	218,272,950		
Matured, interest-ceased	824,825	219,097,775	
Grand total outstanding			287,808,671,654
Balance face amount of obligations issuable under above authority			5,191,328,346

Reconcilement with Statement of the Public Debt April 30, 1961 (Date)

(Daily Statement of the United States Treasury, April 28, 1961 (Date))

Outstanding-	
Total gross public debt	287,987,166,904
Guaranteed obligations not owned by the Treasury	219,097,775
Total gross public debt and guaranteed obligations	288,206,265,679
Deduct - other outstanding public debt obligations not subject to debt limitation	397,593,025
	287,808,671,654

D-105

STATUTORY DEBT LIMITATION

AS OF April 30, 1961

Washington, May 12, 1961

Section 21 of Second Liberty Bond Act, as amended, provides that the face amount of obligations issued under authority of that Act, and the face amount of obligations guaranteed as to principal and interest by the United States (except such guaranteed obligations as may be held by the Secretary of the Treasury), "shall not exceed in the aggregate $285,000,000,000 (Act of June 30, 1959; U.S.C., title 31, sec. 757b), outstanding at any one time. For purposes of this section the current redemption value of any obligation issued on a discount basis which is redeemable prior to maturity at the option of the holder shall be considered as its face amount." The Act of June 30, 1960 (P.L. 86-564 86th Congress) provides that during the period beginning on July 1, 1960 and ending June 30, 1961, the above limitation ($285,000,000,000) shall be temporarily increased by $8,000,000,000.

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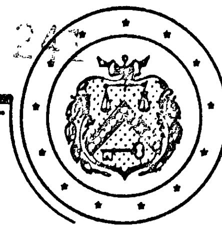
D-105

TREASURY DEPARTMENT



WASHINGTON, D.C.

FOR IMMEDIATE RELEASE

May 15, 1961.

SUBSCRIPTION AND ALLOTMENT FIGURES FOR TREASURY'S CURRENT CASH OFFERING

The Treasury Department today announced the subscription and allotment figures with respect to the current offering of $5,250 million, or thereabouts, of 3% Treasury Certificates of Indebtedness of Series A-1962, due May 15, 1962, and $2,500 million, or thereabouts, of 3-1/4% Treasury Notes of Series D-1963, due May 15, 1963.

Subscriptions from States, political subdivisions, or instrumentalities thereof, public pension and retirement and other public funds, international organizations in which the United States holds membership, foreign central banks and foreign States, Government Investment Accounts, and the Federal Reserve Banks totaled $2,381,111,000 for the certificates and $1,258,846,000 for the notes and were allotted in full, in accordance with the offering circulars. Subscriptions for the certificates from all others totaled $11,438,300,000 and were allotted 27 percent with subscriptions for $25,000 or less being allotted in full and those for more than $25,000 being allotted not less than $25,000. Subscriptions for the notes from all others totaled $11,687,659,000 and were allotted 12 percent with subscriptions for $25,000 or less being allotted in full and those for more than $25,000 being allotted not less than $25,000.

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

	CERTIFICATES OF INDEBTEDNESS SERIES A-1962		TREASURY NOTES SERIES D-1963	
Federal Reserve District	Total Subscriptions Received	Total Allotments	Total Subscriptions Received	Total Allotments
Boston	$ 465,301,000	$ 130,589,000	$ 556,244,000	$ 77,230,000
New York	7,180,114,000	3,415,846,000	5,651,942,000	1,426,581,000
Philadelphia	369,786,000	105,217,000	316,338,000	44,192,000
Cleveland	682,734,000	194,922,000	750,642,000	139,435,000
Richmond	342,123,000	120,480,000	387,500,000	93,202,000
Atlanta	442,592,000	127,309,000	449,163,000	71,728,000
Chicago	1,636,003,000	505,952,000	1,908,817,000	302,546,000
St. Louis	266,903,000	83,556,000	283,062,000	47,373,000
Minneapolis	189,429,000	56,051,000	230,150,000	38,829,000
Kansas City	343,437,000	114,520,000	441,902,000	124,766,000
Dallas	401,766,000	118,694,000	418,460,000	65,657,000
San Francisco	1,461,268,000	501,479,000	1,399,783,000	183,635,000
Treasury	7,955,000	1,955,000	15,722,000	2,251,000
Govt.Inv.Accts.	30,000,000	30,000,000	136,780,000	136,780,000
Totals	$13,819,411,000	$5,506,570,000	$12,946,505,000	$2,754,205,000

D-106

242

May 15, 1961

FOR RELEASE A. M. NEWSPAPERS, Tuesday, May 16, 1961.

RESULTS OF TREASURY'S WEEKLY BILL OFFERING

The Treasury Department announced last evening that the tenders for two series of Treasury bills, one series to be an additional issue of the bills dated February 16, 19[illegible] and the other series to be dated May 18, 1961, which were offered on May 10, were opene[d] at the Federal Reserve Banks on May 15. Tenders were invited for $1,100,000,000, or th[ere]abouts, of 91-day bills and for $500,000,000, or thereabouts, of 182-day bills. The de[tails] of the two series are as follows:

RANGE OF ACCEPTED COMPETITIVE BIDS:	91-day Treasury bills maturing August 17, 1961		:	182-day Treasury bills maturing November 16, 1961	
	Price	Approx. Equiv. Annual Rate	:	Price	Approx. Equiv. Annual Rate
High	99.440	2.215%	:	98.775 a/	2.423%
Low	99.425	2.275%	:	98.766	2.441%
Average	99.428	2.264% 1/	:	98.769	2.435% 1/

a/ Excepting two tenders totaling $1,200,000
80 percent of the amount of 91-day bills bid for at the low price was accepted
11 percent of the amount of 182-day bills bid for at the low price was accepted

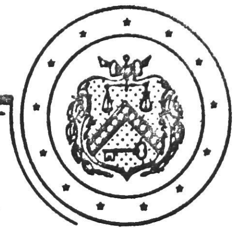
TOTAL TENDERS APPLIED FOR AND ACCEPTED BY FEDERAL RESERVE DISTRICTS:

District	Applied For	Accepted	:	Applied For	Accepted
Boston	$ 26,668,000	$ 15,798,000	:	$ 7,737,000	$ 4,309,000
New York	1,501,169,000	730,689,000	:	1,029,107,000	409,677,000
Philadelphia	27,465,000	12,465,000	:	8,333,000	2,995,000
Cleveland	34,514,000	34,414,000	:	21,031,000	15,997,000
Richmond	12,925,000	12,925,000	:	1,932,000	1,932,000
Atlanta	23,552,000	21,152,000	:	5,020,000	4,573,000
Chicago	212,463,000	136,263,000	:	79,101,000	32,279,000
St. Louis	23,242,000	18,031,000	:	5,354,000	3,854,000
Minneapolis	22,547,000	16,347,000	:	6,921,000	4,321,000
Kansas City	39,722,000	25,657,000	:	10,383,000	5,157,000
Dallas	19,816,000	18,816,000	:	2,987,000	2,987,000
San Francisco	67,961,000	57,461,000	:	23,510,000	12,645,000
TOTALS	$2,012,064,000	$1,100,018,000 b/	:	$1,201,416,000	$500,726,000 c/

b/ Includes $228,045,000 noncompetitive tenders accepted at the average price of 99.428
c/ Includes $52,026,000 noncompetitive tenders accepted at the average price of 98.769
1/ On a coupon issue of the same length and for the same amount invested, the return on these bills would provide yields of 2.31%, for the 91-day bills, and 2.50%, for th[e] 182-day bills. Interest rates on bills are quoted in terms of bank discount with the return related to the face amount of the bills payable at maturity rather than the amount invested and their length in actual number of days related to a 360-day year. In contrast, yields on certificates, notes, and bonds are computed in terms of interest on the amount invested, and relate the number of days remaining in an interest payment period to the actual number of days in the period, with semiannual compounding if more than one coupon period is involved.

243

TREASURY DEPARTMENT



WASHINGTON, D.C.

May 15, 1961

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RANGE OF ACCEPTED COMPETITIVE BIDS:	91-day Treasury bills maturing August 17, 1961		182-day Treasury bills maturing November 16, 1961	
	Price	Approx. Equiv. Annual Rate	Price	Approx. Equiv. Annual Rate
High	99.440	2.215%	98.775 a/	2.423%
Low	99.425	2.275%	98.766	2.441%
Average	99.428	2.264% 1/	98.769	2.435% 1/

a/ Excepting two tenders totaling $1,200,000
80 percent of the amount of 91-day bills bid for at the low price was accepted
11 percent of the amount of 182-day bills bid for at the low price was accepted

TOTAL TENDERS APPLIED FOR AND ACCEPTED BY FEDERAL RESERVE DISTRICTS:

District	Applied For	Accepted	Applied For	Accepted
Boston	$ 26,668,000	$ 15,798,000	$ 7,737,000	$ 4,309,000
New York	1,501,189,000	730,689,000	1,029,107,000	409,677,000
Philadelphia	27,465,000	12,465,000	8,333,000	2,995,000
Cleveland	34,514,000	34,414,000	21,031,000	15,997,000
Richmond	12,925,000	12,925,000	1,932,000	1,932,000
Atlanta	23,552,000	21,152,000	5,020,000	4,573,000
Chicago	212,463,000	136,263,000	79,101,000	32,279,000
St. Louis	23,242,000	18,031,000	5,354,000	3,854,000
Minneapolis	22,547,000	16,347,000	6,921,000	4,321,000
Kansas City	39,722,000	25,657,000	10,383,000	5,157,000
Dallas	19,816,000	18,816,000	2,987,000	2,987,000
San Francisco	67,961,000	57,461,000	23,510,000	12,645,000
TOTALS	$2,012,064,000	$1,100,018,000 b/	$1,201,416,000	$500,726,000 c/

Includes $228,045,000 noncompetitive tenders accepted at the average price of 99.428
Includes $52,026,000 noncompetitive tenders accepted at the average price of 98.769
On a coupon issue of the same length and for the same amount invested, the return on these bills would provide yields of 2.31%, for the 91-day bills, and 2.50%, for the 182-day bills. Interest rates on bills are quoted in terms of bank discount with the return related to the face amount of the bills payable at maturity rather than the amount invested and their length in actual number of days related to a 360-day year. In contrast, yields on certificates, notes, and bonds are computed in terms of interest on the amount invested, and relate the number of days remaining in an interest payment period to the actual number of days in the period, with semiannual compounding if more than one coupon period is involved.

May 5, 1961

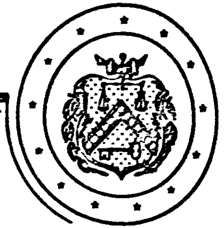
MEMORANDUM TO MR. MARTIN L. MOORE:

The following transactions were made in direct and guaranteed securities of the government for Treasury Investment and other accounts during the month of April:

Purchases..................	$249,327,500.00
Sales	229,796,000.00
Net Purchases...	$19,531,500.00

245

TREASURY DEPARTMENT



WASHINGTON, D.C.

~~April 17, 1961~~
May 15, 1961

IMMEDIATE RELEASE

TREASURY MARKET TRANSACTIONS IN ~~MARCH~~ APRIL

During ~~March~~ April 1961, market transactions in direct and guaranteed securities of the government for Treasury investment and other accounts resulted in net purchases by the Treasury Department of ~~$56,144,200~~ $19,531,500.

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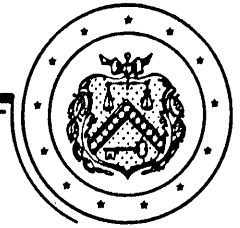
~~D-82~~
D-108

TREASURY DEPARTMENT

246



WASHINGTON, D.C.

May 15, 1961

IMMEDIATE RELEASE

TREASURY MARKET TRANSACTIONS IN APRIL

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D-108

Treasury Issues Reminder on Disposal of Gold Holdings Abroad

~~Press Release~~

The Treasury Department today called attention to the fact that, under Executive Order 6260 and the Treasury Gold Regulations, as amended effective January 16, 1961, ~~May 31, 1961 is the final date for~~ U. S. citizens and enterprises and other persons subject to U. S. jurisdiction who ~~had~~ held gold abroad or securities representing gold on deposit abroad on the effective date of the amendments to dispose of such holdings. Effective June 1, 1961, the further holding of such gold, unless licensed, and securities representing gold on deposit abroad will be prohibited. Willful violators of these prohibitions are subject to criminal penalties provided in Section 5(b) of the Act of October 6, 1917, as amended, which are a maximum fine of $10,000 or imprisonment for not more than ten years or both. Violators may also incur a civil penalty provided in the Gold Reserve Act of 1934, equal to twice the value of the gold involved.

are required

no later than May 1961.

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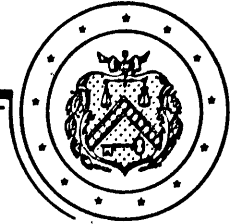
TREASURY DEPARTMENT



WASHINGTON, D.C.

May 16, 1961

IMMEDIATE RELEASE

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D-109

249

from the sale or other disposition of Treasury bills does not have any special treatment, as such, under the Internal Revenue Code of 1954. The bills are subject to estate, inheritance, gift or other excise taxes, whether Federal or State, but are 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 is considered to be interest. Under Sections 454 (b) and 1221 (5) of the Internal Revenue Code of 1954 the amount of discount at which bills issued hereunder are sold is not considered to accrue until such bills are 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, Revised, 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.

250

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.

Others than banking institutions will not be permitted to submit tenders except for their own account. 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 2 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 Treasury Department 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. Subject to these reservations, noncompetitive tenders for $200,000 or less for the additional bills dated February 23, 1961, (91 days remaining until maturity date on August 24, 1961) and noncompetitive tenders for $100,000 or less for the 183 -day bills without stated price from any one bidder will be accepted in full at the average price (in three decimals) of accepted competitive bids for the respective issues. Settlement for accepted tenders in accordance with the bids must be made or completed at the Federal Reserve Bank on May 25, 1961, in cash or other immediately available funds or in a like face amount of Treasury bills maturing May 25, 1961. Cash and exchange tenders will receive equal treatment. Cash adjustments will be made for differences between the par value of maturing bills accepted in exchange and the issue price of the new bills.

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

TREASURY DEPARTMENT
Washington

May 17, 1961

FOR IMMEDIATE RELEASE

TREASURY'S WEEKLY BILL OFFERING

The Treasury Department, by this public notice, invites tenders for two series of Treasury bills to the aggregate amount of $1,600,000,000, or thereabouts, for cash and in exchange for Treasury bills maturing May 25, 1961, in the amount of $1,602,596,000, as follows:

91-day bills (to maturity date) to be issued May 25, 1961, in the amount of $1,100,000,000, or thereabouts, representing an additional amount of bills dated February 23, 1961, and to mature August 24, 1961, originally issued in the amount of $500,145,000, the additional and original bills to be freely interchangeable.

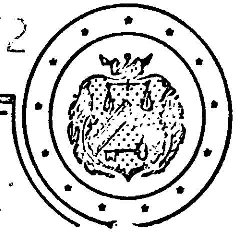
183-day bills, for $500,000,000, or thereabouts, to be dated May 25, 1961, and to mature November 24, 1961.

The bills of both series will be issued on a discount basis under competitive and noncompetitive bidding as hereinafter provided, and at maturity their 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, one-thirty o'clock p.m., Eastern Daylight Saving time, Monday, May 22, 1961. Tenders will not be received at the Treasury Department, Washington. Each tender must be for an even multiple of $1,000, and in the case of competitive tenders the price offered must be expressed on the basis of 100, with not more than three

A-110

TREASURY DEPARTMENT



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The income derived from Treasury bills, whether interest or gain from the sale or other disposition of the bills, does not have any exemption, as such, and loss from the sale or other disposition of Treasury bills does not have any special treatment, as such, under the Internal Revenue Code of 1954. The bills are subject to estate, inheritance, gift or other excise taxes, whether Federal or State, but are 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 is considered to be interest. Under Sections 454 (b) and 1221 (5) of the Internal Revenue Code of 1954 the amount of discount at which bills issued hereunder are sold is not considered to accrue until such bills are 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.

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253

3. To provide new credits to Brazil totalling $338 million. Of this amount $168 million will be provided by the Export-Import Bank, $70 million by the Treasury Exchange Stabilization Fund, and $100 million from President Kennedy's new foreign assistance program, subject to action by the Congress on the proposed foreign aid program.

Minister Mariani and Secretary Dillon have signed the Treasury Exchange Stabilization Agreement and the President of the Export-Import Bank, Harold F. Linder, has issued a letter of commitment on behalf of the Bank.

While in Washington Minister Mariani also completed discussions with the International Monetary Fund. The Fund today announced that, in order to assist Brazil in carrying out its new economic program, the Fund has agreed to reschedule Brazil's existing debt to the Fund of $140 million and, in addition, to extend to Brazil a standby credit of $160 million.

Conversations were also held by Brazilian representatives with private United States banks with a view to alleviating the burden of repayments in the next few years, which amount to $114 million, as well as to obtaining additional credits. These conversations are proceeding satisfactorily and will be concluded by the Director of Exchange of the Bank of Brazil who will stay in the United States for this purpose.

The Brazilian and United States Governments have also undertaken discussions with European countries regarding the contribution they might make in helping Brazil to overcome its financial difficulties. The two governments have been informed that a number of European countries have agreed in principle to extend to Brazil a substantial standby credit and to reschedule Brazil's existing debts to them in order to lengthen the terms of repayment and reduce substantially payments of principal due in 1961 and 1962.

During his visit to Washington, Minister Mariani and Ambassador Walther Moreira Salles, who has conducted the preparatory phase of the negotiations, were received by President Kennedy. The President expressed his great hope that assistance provided by the United States, the International Monetary Fund and European countries would help to assure the success of Brazil's new economic program.

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May 17, 1961

FOR IMMEDIATE RELEASE

May 17, 1961

FOR IMMEDIATE RELEASE

May 17, 1961

FOR IMMEDIATE RELEASE

Joint Announcement by Secretary of the Treasury Douglas Dillon and the Minister of Finance of Brazil, Clemente Mariani

Secretary of the Treasury Douglas Dillon and the Minister of Finance of Brazil, Clemente Mariani, today announced the conclusion of financial negotiations between the United States and Brazil.

In his message to the Brazilian Congress in March President Quadros announced a new economic program to bring economic growth and progress to the Brazilian people under conditions of financial stability. President Kennedy, in the spirit of Operation Pan America and the Alliance for Progress, responded by directing the appropriate agencies of the United States Government to assist the Brazilian people in carrying out Brazil's new economic program.

President Kennedy pointed out that the future of Brazil -- a nation containing half the population of South America -- was vital to the future of the Western Hemisphere. "By identifying ourselves with the economic and social aspirations of the people of Brazil," the President said, "we are identified with the hopes of half the continent." The size and importance of Brazil make it clear that the success of this nation in realizing its potential for growth and progress is a key to the maintenance of free government in Latin America.

As a result of the financial negotiations between the United States and Brazil, the United States has agreed:

1. To postpone to later years principal repayments to the Export-Import Bank, amounting to $220 million, which would otherwise have fallen due during the rest of 1961, calendar year 1962, and the first half of 1963.

2. To extend the obligation to repay over a 20-year period the existing debt to Export-Import Bank of approximately $530 million by rescheduling payments of approximately $305 million. This rescheduling includes the postponement, referred to above, of principal payments otherwise due during the next two years in the amount of $220 million.

May 17, 1961

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Secretary of the Treasury Douglas Dillon
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255

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257

TREASURY DEPARTMENT
Washington

May 18, 1961

FOR RELEASE: ON DELIVERY

REMARKS BY STANLEY S. SURREY
ASSISTANT SECRETARY OF THE TREASURY
BEFORE THE BOND CLUB OF CHICAGO,
CHICAGO, ILLINOIS,
MAY 18, 1961 - 12:00 NOON, CDT

I welcome this chance to talk to you about some present tax issues. President Kennedy's Tax Message deals with a number of critical tax problems and it is important that they be fully discussed. I won't, however, subject you to the full course, which consists of reading Secretary Dillon's statement, the detailed explanation of the recommendations, and the exhibits -- a total of 295 pages presented to the Ways and Means Committee. Instead I will give you the short course covering the highlights.

The President's proposals have three objectives -- to encourage modernization and expansion of American industry, to strengthen our balance of payments position and the ability of American industry to compete internationally, and to correct certain serious defects in our income tax structure. As to the first objective -- that of modernization of plant and equipment -- the President proposes a tax credit of 15 percent of the cost of eligible investment. As to the second objective -- strengthening our international position -- the President proposes to remove tax inducements to investment in Western Europe and other developed countries, with the general objective of removing the income tax disadvantages to investment in the United States as against that in Europe. As for the third objective -- the correction of defects -- the President's most important recommendations relate to withholding on dividends and interest, repeal of the 4 percent dividend credit and $50 exclusion, restrictions on deductions for business entertainment, business gifts and expense account travel, and remedial legislation to correct the existing undertaxation of certain institutions competitive with taxable businesses, such as cooperatives and certain mutual organizations in the insurance and savings fields.

These are such simple, clear-cut and desirable changes in our tax system that one wonders how they can even create mild controversy. And yet, we have over 250 witnesses asking to be heard by the House Ways and Means Committee in its current tax hearings. I suppose the only conclusion a casual visitor to our shores could reach is that we are an argumentative people and it really takes very little to stir up a good argument. A more discerning visitor,

D-112

258

say one who really took the time to read the President's Message and Secretary Dillon's statement, might be tempted to conclude that a large measure of the argument is based on misconceptions of the President's proposals and either a lack of understanding of the issues or an unwillingness to come to grips with them. As one reporter put it, Secretary Dillon's "2 pound book" punctured some of the fondest dreams extant regarding these aspects of our tax system. Let us, therefore, consider the major proposals and the major misconceptions.

As for the investment tax credit, the President and Secretary Dillon stressed the importance to the United States of an increase in investment in plant and equipment. There is a generally recognized need for modernization. There is also a need for increased capacity as our economy recovers and moves toward full employment. Larger investment in productive capacity -- plant, equipment, commercial buildings -- is thus required to sustain and promote our economic growth. It will also enable us to maintain and improve our worldwide competitive position as an exporter of goods.

So much for the need. The first task is to decide whether a change in the income tax is an appropriate mechanism to promote increased investment compared with other non-tax alternatives, such as a change in the interest rate. If so, the next task is to consider what tax change will provide the greatest incentive with the least cost of revenue. I gather businessmen would approach similar problems in the same fashion -- witness any carefully planned bonus plan for employees. The President indicated that in this light the focus must be on the marginal investment -- the added investment that a business would like to make but is uncertain about the risk. If a tax incentive could affect this decision and be sufficiently powerful to induce the investment, then the incentive has achieved its purpose. But this in turn means that as far as possible revenue cannot be wasted on the investment that would be made anyway. Such wastage merely reduces the revenue loss that can be devoted to strengthening the incentive in the critical area.

The President recommended a credit against tax of 15 percent of the cost of new investment in excess of current depreciation allowances. This credit would apply to all eligible investment -- plant, machinery and equipment with more than a six-year life, and commercial buildings in all businesses except public utilities other than transportation. As applied to these assets, it is more generous than any allowance in Western Europe. It should be remembered that the credit does not reduce the depreciation base, so that 100 percent depreciation remains available. The credit is thus the tax equivalent, for a 52 percent taxpayer, of a deduction of 29 percent of the cost of the new investment, for a 30 percent taxpayer of 50 percent of the cost -- and the asset can still be fully depreciated. How can an incentive this powerful be made available without huge

revenue loss? The answer lies in the effort to concentrate the incentive at the margin, through granting the 15 percent credit to investment expenditures in excess of current depreciation allowances. Since depreciation is really a long run average of prior expenditures, the credit is thus aimed at additional expenditures above a long run average. The revenue loss not wasted on an across-the-board credit is devoted to investment above the average.

No tax incentive will hit the target exactly, a weakness of any tax incentive. But other forms of incentive also will overlap the target -- lowered interest rates often are a windfall to the well-heeled company and do not help the small company that may have trouble in getting bank credit. The question for the tax incentive is one of the range of qualifying businesses if the depreciation standard is used as the measure. We find that over a six-year average 85 percent of the large corporations averaged expenditures in excess of depreciation -- 156 percent is the ratio. Even so, to increase eligibility, a lesser credit of 6 percent would be allowed for investment in excess of 50 percent of depreciation. And, finally, as an aid to small business, a minimum credit would be granted of 10 percent of expenditures up to $5,000. For 1961, we find this: the planned expenditures of 94 percent of all business firms would be substantially covered by the minimum credit. Of the remaining firms, which account for the greater part of our national production, 60 percent are eligible for the 15 percent credit and 25 percent more for the 6 percent credit. The opportunity to qualify -- to get the incentive for the marginal investment -- is thus very broad, and the incentive remains powerful since revenue is not wasted on most of the investments that would be made anyway. If an across-the-board credit were utilized instead, so that all investment qualified, the credit would be only 7 percent for the same revenue loss -- clearly a lesser incentive than the 15 percent available for most above average investment.

Why should many business organizations appear to object to this incentive? I find the question genuinely puzzling. And I may add, I am not alone in this since my colleagues in the Department of Commerce are equally puzzled. That Department, after independently considering various incentives, told the Treasury in emphatic terms that the credit device was superior to other proposals, including accelerated depreciation.

Let us look at a few of the arguments. The Chamber of Commerce says that the credit is a tax subsidy and "philosophically, we have difficulty with the idea of subsidies, direct or indirect. Only *in extremis* are they warranted. Unfortunately, a tax subsidy to one group inevitably and understandably leads to demands for comparable subsidies for other groups..... We have considered it advisable to keep on striving for neutrality in the Code." I guess my academic friends who also talk tax neutrality will be somewhat surprised that they have found a convert.

The Chamber does recommend that an additional 20 percent deduction be given on all depreciable equipment in the first year. And other groups have recommended 30 percent or higher allowances. Curiously enough, these are not regarded as subsidies by business, though their revenue loss to the Treasury is much greater than that of the credit. The answer to this strange dichotomy, if any can be found, may be in the belief that such an initial allowance or other form of accelerated depreciation does not really involve a revenue loss to the Government. This belief rests on the fact that an increase in initial depreciation means a decrease in later depreciation, so that the Government is supposed finally to come out even. Let us consider this. The initial revenue loss of accelerated depreciation is quite large -- $3.3 billion for a 30 percent initial allowance, as against $1.7 for the credit. In effect, the taxpayer under accelerated depreciation is reducing his tax payments now in return for paying more later. But he will pay more only when he makes up the difference as his depreciation deductions drop off. On any particular asset this occurs in the later life of the asset. But as respects a continuing business as a whole, a drop in depreciation on an existing asset is offset by accelerated depreciation starting all over again on other assets subsequently acquired. As a consequence, the loss is never made up until the business terminates or declines.

Suppose a business with 10 machines each costing $1,000 and each with a 10-year life. Assume the taxpayer replaces a machine a year. His total annual depreciation deduction under straight-line depreciation (10 percent of cost a year) is then $1,000. Now suppose accelerated depreciation is adopted in the form of permitting the entire depreciation deduction to be taken in the first year. In year one, the taxpayer -- following his pattern of a machine a year -- buys a machine for $1,000. His depreciation deduction is $1,000 for that machine under accelerated depreciation and $900 under normal depreciation for the old machine, or a total of $1,900 -- in contrast to $1,000. In year two, he buys another machine, and his total depreciation if $1,000 plus $800, since the first new machine is no longer depreciable. In the third year, it is $1,000 plus $700 as he buys another machine, and so on. Finally, after he has used up all his old machines in the tenth year, he will then be getting each year thereafter a deduction of $1,000 a year as he continues to buy each new machine. This is equivalent to the deduction he always had before accelerated depreciation was introduced. But over this ten-year period his depreciation deductions were increased by a total of $4,500 as a result of the operation of accelerated depreciation, and in turn the Government lost that revenue. In a growing business, the revenue loss is greater as additional machines are bought and then replaced. It is only when and if this taxpayer stops replacing machines that he starts to lose depreciation. But on the aggregate this does not happen in a stable or growing economy.

In short, where there is only a tax postponement as respects any particular asset, considering the business as a unit and assuming a constant rate of investment, the revenue loss from accelerated depreciation is permanent. While the annual net revenue loss from a speed-up in depreciation may decline as postponed tax payments come due in later years, the earlier losses are never recouped. Hence, accelerated depreciation, though it does not reduce the tax basis for depreciation, is a subsidy and involves a permanent revenue loss. As compared with the investment credit, the revenue loss of accelerated depreciation is initially much larger and continues at least as large for ten years or more.

The important and crucial question is which does the better job with the least revenue loss, and the least undesirable collateral effects. As to the better job, the 15 percent credit in terms of the profitability of a particular investment, that is, its rate of return is equivalent to 50 percent additional depreciation in the first year. Yet the revenue cost of the latter is far greater, whether applied across-the-board as most accelerated depreciation advocates desire or limited to excess investment. If you will go back and do the arithmetic under the credit for a qualifying investment, you will see its effect. It is interesting to observe that business organizations in recommending a 20 percent or even a 30 percent initial allowance are thus not even coming close to the stimulus afforded by the credit.

The credit is thus far more powerful. Secondly, the credit does not confuse incentives with the function of depreciation. The latter is to fix the return of cost over the useful life of the asset, and involves such matters as asset lives, recognition of obsolescence, and appropriate methods of depreciation. The Treasury is working on a study of these matters, one started in 1960, and will make a recommendation on this matter next year. The important point is that while we think depreciation lives must be reconsidered, we also think an incentive to new investment should be granted but the two should not be confused. If the two are confused, and depreciation is distorted to provide an incentive, we will never know what is incentive and what is depreciation. Thirdly, since the credit is not a deduction in computing net income as is a depreciation incentive, it will not be booked in the corporate records. It will thus avoid the distortion which accelerated depreciation can cause in the costs on which a firm bases its pricing and other business decisions.

The case for the credit as against accelerated depreciation incentives is clear. The remaining question is whether the credit should be on an across-the-board method or on the excess method recommended by the President. The excess method aims at the goal of reaching the strategic investment -- the investment not previously decided upon but which may be induced by the incentive. It seeks to avoid wasting its revenue on the investment that inevitably takes place year after year as business maintains its plant and equipment.

This would permit a 15 percent credit under the excess approach rather than a 7 percent credit across-the-board for the same revenue loss.

An excess approach involves, however, a standard of measurement. Necessarily, that standard cannot apply with precision in each case -- it may be too low for some, and too high for others. The proposal does have a modest but respectable incentive -- the 6 percent credit -- for those now investing under 100 percent of depreciation allowances. The excess approach is more complicated than an across-the-board credit, but the advantage of getting a 15 percent credit at the margin as compared with a 7 percent over-all credit is worth this price. The interesting fact is that the immediate revenue loss is distributed in about the same fashion among existing corporations under either approach. But the excess method concentrates that loss in the area above depreciation, and hence produces the higher 15 percent credit at the strategic level. In sum, the excess credit is superior to the across-the-board credit -- and the latter is superior to the various forms of accelerated depreciation.

So much for the investment credit. The Administration, believing it is in the interest of the country that our productive capacity be increased through modernization and expansion of our facilities, has suggested this tax incentive. It has given careful consideration to demands from labor and others for a reduction in the individual income tax. However, it believes that as far as the tax system is concerned this year, the stress should lie in seeking a method to promote sustained economic growth. The credit will do this, and at the same time give a lift to the present business recovery and to increased employment. It is hoped that business firms and groups will view the situation as realistically as has the Administration -- that they will recognize that the large revenue losses involved in the various forms of accelerated depreciation, wholly apart from the other problems associated with these devices, simply are not feasible from a budgetary standpoint. They might also recognize that the other claimants to tax relief, who place great stress on individual income tax reduction as the answer to our economic problems, are far less likely to yield their claims to expensive accelerated depreciation devices than to the investment credit. All the old proverbs about the bird in the hand have a pertinence here for the business community.

Let us turn to some of the other proposals, starting with withholding on dividends and interest. The essential facts are simple. All the relevant statistical data we can obtain show that there is a total of about $4 billion of dividends and interest not reported by individuals and that the revenue loss involved is close

to a billion dollars. About 9 percent of dividends and 35 percent of interest are not reported. A remedy clearly must be found for this persistent lack of compliance. The President has suggested that it can be most appropriately found in a system of withholding on dividends and interest at the source. The system would involve a 20 percent withholding rate, applicable to dividends, corporate bonds, government bonds and savings accounts.

So much for the proposal -- what are the misconceptions. One is that the remedy really lies not in withholding but in educational efforts designed to press on recipients of dividends and interest knowledge about the obligations of compliance. Yet the record is clear that despite the very great and generous efforts of banks, corporations, stock exchanges, and others to provide this education through millions of reminder notices, the percentage of unreported interest and dividends has improved only slightly and, indeed, the absolute amount of unreporting has increased. Resort to increased audit efforts and the use of automatic data processing is likewise not an answer to mass under-compliance -- these methods depend on detailed data to be filed by all payors of interest and dividends, a factor which has itself blocked prior withholding proposals. Even if the payors were to supply data on all interest and dividend transactions, the task of matching information with tax returns and then of trying to collect the deficiencies would be administratively wasteful.

As for withholding itself, many banks and other payors of interest have the impression that it will be unduly burdensome and complex. I believe this is because they are thinking in terms of wage and salary withholding, under which each recipient must get an individual receipt and the Government must also receive an individual statement for each employee. Yet, this is precisely not what the President has recommended. He has instead suggested a simple system under which the payor takes 20 percent of the totals of interest and dividends paid to all recipients and reports just this one figure to the Government. No individual receipts or statements are required. The return form will tell the recipient to list his interest and dividends, increase them by 25 percent and pay tax on the total -- then take a credit for the 25 percent increase. To be sure, here and there some adjustments in paying practices may be necessary, but I cannot see how the basic system can be regarded as burdensome.

Another misconception is that millions of individuals will suffer great hardships through overwithholding. Yet each year the Service pays out refunds of over $4 billion to some 35 million taxpayers, largely because of overwithholding on wages and salaries, and every one seems reasonably satisfied. Even so, to go as far as possible in the dividend and interest area to prevent any hardship for nontaxable recipients, the plan proposed involves current quarterly refunds. Since interest and dividends are usually received quarterly or semi-annually, there would thus be no serious loss of income through overwithholding. Some inconvenience, yes -- and also some explaining

by patient bank executives or some letter writing by corporations. But we would soon adjust to all this -- and collect about $600 million in taxes and be able to concentrate on the remaining upper bracket noncompliance in this area -- as well as to move on to other fields of noncompliance.

Let me proceed to another recommendation -- this time to the 4 percent dividend credit and the $50 exclusion. Here the recommendation is certainly simple -- repeal these features. They have not worked effectively to encourage investment and they have proved to be discriminatory and inequitable. The proof of their ineffectiveness lies in the fact that there has been no increase in net purchases of securities by individuals, and that the ratio of equity financing to debt financing has not risen -- though the credit was adopted to increase equity financing and investment incentives. The discrimination and inequality lie in the fact that the benefits are concentrated in the upper income groups, so that as tax reduction devices the credit and exclusion are completely unfair. 63 percent of the total benefits of the credit and exclusion go to taxpayers with incomes over $10,000, and 55 percent to those with incomes over $20,000. 55 percent of the benefits of the exclusion go to individuals with incomes over $10,000. Again, viewed as tax reduction, not only do these benefits discriminate in favor of the upper brackets but within those brackets they discriminate in favor of dividend recipients as against salaries, professional income, and other incomes. They, thus cannot be defended as appropriate ways to reduce our unduly high upper bracket taxes.

But the misconceptions are here -- many and subtle. It is said that the combination of corporate and individual income taxes constitutes double taxation of distributed corporate profits and the credit and exclusion provide relief against double taxation. But if the problem is double taxation, one can insist that the relief fairly meet the problem. Yet this is precisely what the credit and exclusion fail to do. The burden of double taxation is 52 cents per dollar of corporate profit before tax for shareholders not liable to individual income tax, 42 cents for those subject to a 20 percent tax, and 5 cents for those in the top brackets. This is simply because if there were no corporate tax -- and hence no double taxation -- wealthy individual recipients would have to pick up the increased distributions at top bracket individual rates. The dividend credit and exclusion reduce the extra burden by 3 cents per dollar at the 20 percent level and 2 cents at the 91 percent level -- so that the percentage reduction in double taxation is zero for those not subject to individual income tax, 8 percent for low income taxable shareholders and 41 percent for high income shareholders.

As a remedy for double taxation the credit and exclusion are thus inherently unfair. The proponents of these devices will not face up to this simple fact. They will argue that a credit is fairer to the low income brackets than a deduction would be -- which is of course true, but which is no answer to the argument that the credit

still remains inherently unfair and which is irrelevant since no one is urging a deduction. They will argue double taxation is bad, but again that is no answer to the contention that the credit is an improper solution. They will argue that the credit removes a greater percentage of a 20 percent tax on the dividend then of a 91 percent tax on the dividend -- but that is no answer to the fact that the penalty of double taxation is not the individual tax but the corporate tax and the real issue is the relationship of the credit to the double taxation.

I have not seen a single proponent of the credit who will meet this basic issue. In fact, the defenders of the credit go the other way and recommend extension of the credit to 20 percent. They do this without attempting to answer the point that with such a credit the 91 percent stockholder will pay less over-all tax on dividend income -- counting both corporate tax and individual tax -- than on non-dividend income. A solution for double taxation which makes it better to own a corporate business than an individual business is absurd.

Once the false support of the double taxation point disappears, the remaining misconceptions are readily apparent. It is argued that apart from double taxation, the credit and exclusion are good because they increase equity investment and encourage shareholders. This is said -- but never proved. Reference is made, for example, to an increase in shareholders since 1954. A number of things have increased since 1954 -- from babies to big league baseball teams to Democratic voters. The question is whether the dividend credit and exclusion brought about the increase in shareholders. Savings deposits in banks and shares in savings and loan associations have also increased -- without any credit or exclusion. In fact, all we probably really know is that tax conscious families have increased the shareholdings of the wife to get the maximum benefit of the $50 exclusion.

It is said that it is inconsistent to recommend an incentive for corporate investment by way of the investment credit and then to recommend elimination of the dividend credit and exclusion. But this assumes that the dividend credit and exclusion are an effective incentive to equity investment -- and here the facts do not sustain this assumption. It is said that if equity investment hasn't increased, the fault is that the credit is too low and should be increased -- again refusing to face the fact that an increase in this type of credit becomes an absurdity as a solution to double taxation.

Finally, it is said that the dividend credit was adopted after long study by the Congress in 1954 and therefore just shouldn't be reconsidered. The facts are that Congress has all along been skeptical about the credit. The Treasury proposed a 15 percent credit in 1954, the House reduced it to 10 percent, the Senate eliminated the credit, and the Congress compromised at 4 percent. Since then the Senate has twice voted to repeal the credit.

There may well be a double taxation problem. But trying to shore up a demonstrably inappropriate remedy that offers a dead end to its further use is no way of meeting the problem. It may be that the British gross-up approach will bear study since it is a fair and defensible solution. Interestingly enough, no current supporter of the 4 percent credit has offered to demonstrate to Congress the complete change in tax benefits as respects the lower and upper brackets between the gross-up approach and the 4 percent credit -- though the CED has clearly presented this in its rejection of the credit and support of the gross-up method.

The next recommendation relates to deductible business entertainment and the expense account. Here we need spend little time -- for the misconceptions we see elsewhere are not so prevalent in this area. The reason is obvious -- nearly all of us recognize, along with the President, that the deductible business entertainment and the handsome expense account have become in his words:

> "A matter of national concern, affecting not only our public revenues, our sense of fairness, and our respect for the tax system, but our moral and business practices as well. This widespread distortion of our business and social structure is largely a creature of the tax system, and the time has come when our tax laws should cease their encouragement of luxury spending as a charge on the Federal Treasury. The slogan -- 'It's deductible' - should pass from our scene."

I gather that responsible leaders in business and the professions agree. After all, the examples in Secretary Dillon's statement of what goes on today and what our revenue agents must allow under present rules are really shocking. I also gather that most of us agree that the recommendations go directly to the abuse. These are to disallow deductions for entertaining business guests at luxury facilities, as yachts, hunting clubs, and the like, or at night clubs, sporting events and country clubs; to disallow deductions for business gifts above a minimal figure, and to restrict deductions for food and beverage at a business luncheon to a modest figure, $4 - $7, and to restrict the deduction for food and lodging on business travel to twice the Government per diem, or presumably $30 a day. Any such set figures have their arbitrary aspects at the borderline, and a $30 figure may look different in Chicago or New York from a small city. But the Government's per diem also looks different from city to city -- and yet one figure is there set by the Congress for the country. It seems a little difficult to complain unduly about a figure that is over twice the Government rate and over half the weekly wage of many workers. We should not allow the way of life to which we may have grown accustomed to distort our perspective and our sense of restraint.

I may be a bit optimistic about all this. When I asked one Congressman who will testify on this point, which company will testify that it wants its executives to base their business decisions on the basis of who gives them the best entertainment, he replied: "There is a company in my district that does a lot of business entertaining, dinners, parties, and so on. But the one I will hear about and the one that will be presented as the hardship will be the annual dinner they give for the Daughters of the Confederacy". As he said, while you always know who has loaded the gun, it is always interesting to see who they get to fire it.

I come now to the last proposal I wish to discuss -- the treatment of foreign income. Here the President has recommended that the tax advantages under our system that are afforded to foreign income be withdrawn as respects the industrialized and developed countries because they are no longer needed, and that the tax rules which have promoted a thriving boom in the use of foreign tax havens be ended. The principal tax rule involved as respects foreign investment is the non-taxation of the profits of foreign subsidiaries until repatriated to the United States, the so-called tax deferral rule. The principal rule as respects individuals is the complete exemption of income earned abroad when an American citizen resides abroad. The exhibits attached to the Secretary's statement show that this exemption has become a means of tax escape for a sizeable number of persons in significant income brackets reaching up to a million dollars. The exemption has simply outlived its need and rationale as respects the developed world.

As to tax deferral, the President's recommendations were based on the need to strengthen our balance of payments position, to remove tax disadvantages to investment in the United States as compared with investment in Europe, and to obtain additional revenue. Here the misconceptions are indeed many. It is said that the proposal is an attack on investment abroad and is designed to end all such investment. But the proposal is directed only at that investment which goes overseas to Europe -- as against staying at home -- because of tax advantages now obtaining for foreign investment. It seeks to move to tax neutrality in this respect. Investment which goes abroad for business reasons and not tax reasons is not affected. After all, we estimate that the reduction in funds leaving the United States would be about $100 million a year, or less than 7 percent of the present flow. It is said that in the 1950's the Government was encouraging investment in Europe and now it is unfair to remove the tax inducement. But this fails to recognize that changing events have forced changes in our foreign economic policy. In the 1950's we were interested -- and rightly so -- in restoring the economies of Europe and in redressing their dollar shortage. Today those economies are strong competitors and we are concerned about a serious dollar drain. We simply cannot afford to induce what we do not need and what is harmful to us -- investment which leaves our shores for tax reasons.

In reply, it is said that this is a shortsighted policy, since foreign investment results in a favorable balance of payments figure as the returns from that investment are greater than the capital outflow. Here the figure often referred to is an $8 billion favorable balance in the period since 1950. But this figure is an over-all figure for our direct investment through both branches and subsidiaries, and the balance is favorable probably only because of branch operations in oil and other foreign natural resources -- operations which are not affected by the proposal. No one disputes the Secretary's figure that as respects investment through subsidiaries in Western Europe -- the point we are talking about -- new capital outflow has exceeded remitted dividends by over $400 million in the last four years. Moreover, no one seems willing to face up to the Secretary's demonstration that for nearly 20 years the remitted earnings from an investment made today in Europe will probably be greater without the tax deferral privilege than with it. And no one seems willing to recognize that the return from our existing investment will still be with us. In brief, our balance of payments will be strengthened now and for a long period to come, and that is what we need. It is no answer to say, "Be careful, we must not throw out the baby with the bath." Far too often that pat phrase prevents people from looking at the bath and finding there simply isn't any baby there.

It is next said that the host countries of Europe will resent this action and call it an interference with their plans and a disregard of their needs. Yet, as the Secretary pointed out, the finance ministers of the Common Market countries all recently informed us that the United States would be justified in discontinuing these tax incentives which encourage the non-remittance to the United States of profits made in Europe.

It is thought by some that the recommendation means that more foreign aid will be necessary. But our foreign aid goes not to Europe and developed countries but only to underdeveloped countries and here tax deferral will remain except for tax haven activities. It is said that our export trade to Europe will suffer, since our subsidiaries abroad obtain materials and supplies from the United States. This they do -- but they also increase imports to the United States, and decrease other exports through the substitution of manufacture abroad for export from the United States. On balance it is not at all clear that the ultimate trade effects of investment abroad are any more than a standoff as respects the balance of payments.

It is then said that the United States subsidiaries abroad will not be able to compete with the nationals of other countries if our subsidiaries must, in effect, pay United States taxes. This claim overlooks the fact that many United States companies operating in high tax countries abroad pay taxes comparable to those in the United States, yet they compete effectively. Elimination of deferral may slow the growth of companies abroad, although this is not necessarily

true if profit opportunities are good. In any case, we must remember that we have an interest in investment in the United States, in strengthening our economy, in strengthening our ability to compete internationally. The dollar that goes abroad is a dollar not invested at home. The National Industrial Conference Board reports that American companies with foreign operations have increased their allocation of funds for foreign investment as against domestic investment from 15 percent to 21 percent between 1959 and 1960 -- the fourth successive year to year increase. All our proposal says is that to the extent tax factors have played a part in this increase, the result is disadvantageous to the United States position. It is more important to our over-all policy that the tax induced layer of this choice of foreign investment as against domestic investment be removed than that every single American business abroad be accorded United States tax advantages which would enable it to compete in every country in every line of business conducted by nationals of that country.

One final thought on this treatment of foreign income. The Treasury last year recommended that the method of computing the credit for foreign taxes in the case of dividends from a subsidiary be corrected, to eliminate the reduced rate of tax that results if a subsidiary is used instead of a branch. This was opposed and no action resulted. This is again recommended this year and I gather that it is now recognized that its defense of this illogical result is no longer appropriate. It may not be amiss to point out that while the President this year has also recommended the elimination of the tax deferral privilege, he has not joined with those in the Congress and elsewhere who urge the withdrawal of the credit for foreign income taxes. But an attack on the President's recommendation that misconceives the issues and does not discuss the real considerations can so confuse the whole area that in the end those who urge the far more severe course of withdrawing the foreign tax credit may strongly push that objective as the only way to cut through the maze. The effort of the President to point out that while tax deferral is no longer desirable in Europe and that tax havens should end but that the solid advantages of foreign investment should not be weakened by withdrawal of the foreign tax credit -- these efforts could then well fail to the disadvantage of our foreign sector.

This then completes a review of the principal aspects of the President's Message. My purpose has been to present the issues and to remove misunderstandings and misconceptions. There is a danger, however, that in this analysis of the argumentation, in this attempt to separate debating points from real concerns, the over-all perspective may be lost. I hope that you will not lose sight of the essentials. We have here a significant allocation of tax revenues to the business sector to assist it in the modernization and expansion vitally needed to promote economic growth. We should not lose sight of the amount involved -- almost $2 billion -- or the fact that this allocation to the business sector has been made the focal point of

the first tax proposal. Moreover, in addition the President has stated that a study of depreciation lives and rules is being pursued and that the incentive credit will not foreclose later action on these aspects. In addition, the message is fiscally sound, since it seeks a balance of revenue losses and gains. The revenue gains are obtained through measures neither novel nor hastily conceived. After all, withholding on dividends and interest has several times passed the House and has been discussed for years. Repeal of the dividend credit has twice passed the Senate, and impartial students of the problem have long recognized the weaknesses of the credit and exclusion. Concern over expense accounts has been steadily mounting and a measure similar to the recommendation was adopted by the Senate last year. The proposals in the foreign income area are but the culmination of a steadily growing realization, both in Congress and elsewhere, that our country must be more prudent regarding its domestic economy and can no longer afford to be wasteful in its dollar drain. Finally, there are the significant statements of the President and the Secretary that the next step is a broad tax reform which will reconsider the top rates of individual income tax as well as the entire rate structure -- a program that other Administrations have not been willing to undertake.

It is important that we discuss and debate these matters. But the discussion should avoid misconceptions and should not lose sight of the essentials. The President's program is broadly conceived in an objective, careful and non-political approach to our tax problems. If, in turn, it is considered and examined in the same light, I am confident we will all be benefited.

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TREASURY DEPARTMENT

271

WASHINGTON, D.C.

May 19, 1961

IMMEDIATE RELEASE

TREASURY DECISION ON RAYON STAPLE FIBER
UNDER ANTIDUMPING ACT

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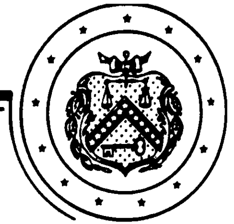
271



WASHINGTON, D.C.

May 19, 1961

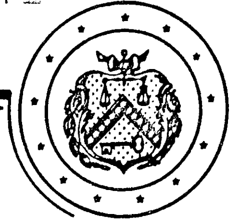
IMMEDIATE RELEASE

TREASURY DECISION ON RAYON STAPLE FIBER
UNDER ANTIDUMPING ACT

The Treasury Department has determined that rayon staple fiber from Sweden and Switzerland is not being, nor likely to be, sold in the United States at less than fair value within the meaning of the Antidumping Act. Notice of the findings will be published in the Federal Register.

The dollar value of imports received during 1960 was approximately $1,344,000 and $813,000 for Sweden and Switzerland, respectively.

TREASURY DEPARTMENT



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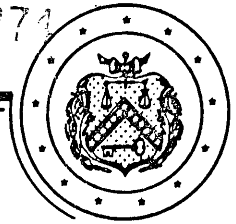
VISIT OF WILFRED BAUMGARTNER, MINISTER OF FINANCE AND ECONOMIC AFFAIRS OF FRANCE

~~Minister~~ Wilfred Baumgartner, Minister of Finance and Economic Affairs of France, and Secretary of the Treasury, Douglas Dillon, have held very useful discussions on economic developments in France and the United States and on matters of mutual interest in the international financial field. The talks, which began yesterday and were concluded today, covered a review of the general economic situation and the balance of payments trends in each country, an exploration of the relationship of the International Monetary Fund to the problem of short-term capital movements under conditions of convertibility, as well as the need for the coordination currently being developed in the framework of the future Organization for Economic Cooperation and Development. The talks themselves were part of the effort to improve consultation and coordination in the economic and financial field among the major industrial nations.

Minister Baumgartner's visit to the United States was at the invitation of Secretary Dillon. The Minister was accompanied by Ambassador Alphand, Mr. Jean Sadrin, Director of External Finance in the French Ministry of Finance, and Mr. Rene Larre, the French Executive Director in the International Bank.

D-11

TREASURY DEPARTMENT



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D-113

May 22, 1961

FOR RELEASE A. M. NEWSPAPERS, Tuesday, May 23, 1961.

RESULTS OF TREASURY'S WEEKLY BILL OFFERING

The Treasury Department announced last evening that the tenders for two series of Treasury bills, one series to be an additional issue of the bills dated February 23, 1961, and the other series to be dated May 25, 1961, which were offered on May 17, were opened at the Federal Reserve Banks on May 22. Tenders were invited for $1,100,000,000 or thereabouts, of 91-day bills and for $500,000,000, or thereabouts, of 183-day bills. The details of the two series are as follows:

RANGE OF ACCEPTED COMPETITIVE BIDS:	91-day Treasury bills maturing August 24, 1961		:	183-day Treasury bills maturing November 24, 1961	
	Price	Approx. Equiv. Annual Rate	:	Price	Approx. Equiv. Annual Rate
High	99.411 a/	2.330%	:	98.756 b/	2.447%
Low	99.401	2.370%	:	98.735	2.489%
Average	99.405	2.354% 1/	:	98.744	2.470% 1/

a/ Excepting two tenders totaling $900,000; b/ Excepting one tender of $100,000
8 percent of the amount of 91-day bills bid for at the low price was accepted
84 percent of the amount of 183-day bills bid for at the low price was accepted

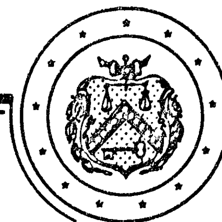
TOTAL TENDERS APPLIED FOR AND ACCEPTED BY FEDERAL RESERVE DISTRICTS:

District	Applied For	Accepted	:	Applied For	Accepted
Boston	$ 33,554,000	$ 19,554,000	:	$ 3,917,000	$ 3,917,000
New York	1,459,791,000	679,210,000	:	823,156,000	397,156,000
Philadelphia	25,708,000	10,708,000	:	7,274,000	2,274,000
Cleveland	33,887,000	21,845,000	:	14,400,000	14,400,000
Richmond	12,360,000	11,762,000	:	1,708,000	1,708,000
Atlanta	25,114,000	22,814,000	:	3,069,000	2,869,000
Chicago	297,147,000	225,912,000	:	66,621,000	40,621,000
St. Louis	21,385,000	16,385,000	:	5,631,000	4,631,000
Minneapolis	17,652,000	9,596,000	:	5,834,000	3,754,000
Kansas City	34,588,000	26,908,000	:	11,465,000	6,365,000
Dallas	14,249,000	14,249,000	:	4,873,000	4,873,000
San Francisco	72,117,000	41,297,000	:	18,013,000	17,513,000
TOTALS	$2,047,552,000	$1,100,240,000 c/	:	$965,961,000	$500,081,000 d/

c/ Includes $209,911,000 noncompetitive tenders accepted at the average price of 99.405
d/ Includes $49,788,000 noncompetitive tenders accepted at the average price of 98.744
1/ On a coupon issue of the same length and for the same amount invested, the return on these bills would provide yields of 2.40%, for the 91-day bills, and 2.54%, for the 183-day bills. Interest rates on bills are quoted in terms of bank discount with the return related to the face amount of the bills payable at maturity rather than the amount invested and their length in actual number of days related to a 360-day year. In contrast, yields on certificates, notes, and bonds are computed in terms of interest on the amount invested, and relate the number of days remaining in an interest payment period to the actual number of days in the period, with semiannual compounding if more than one coupon period is involved.

D-114

TREASURY DEPARTMENT



WASHINGTON, D.C.

May 22, 1961

FOR RELEASE A. M. NEWSPAPERS, Tuesday, May 23, 1961.

RESULTS OF TREASURY'S WEEKLY BILL OFFERING

The Treasury Department announced last evening that the tenders for two series of Treasury bills, one series to be an additional issue of the bills dated February 23, 1961, and the other series to be dated May 25, 1961, which were offered on May 17, were opened at the Federal Reserve Banks on May 22. Tenders were invited for $1,100,000,000, or thereabouts, of 91-day bills and for $500,000,000, or thereabouts, of 183-day bills. The details of the two series are as follows:

RANGE OF ACCEPTED COMPETITIVE BIDS:	91-day Treasury bills maturing August 24, 1961		:	183-day Treasury bills maturing November 24, 1961	
	Price	Approx. Equiv. Annual Rate	:	Price	Approx. Equiv. Annual Rate
High	99.411 a/	2.330%	:	98.756 b/	2.447%
Low	99.401	2.370%	:	98.735	2.489%
Average	99.405	2.354% 1/	:	98.744	2.470% 1/

a/ Excepting two tenders totaling $900,000; b/ Excepting one tender of $100,000
8 percent of the amount of 91-day bills bid for at the low price was accepted
84 percent of the amount of 183-day bills bid for at the low price was accepted

TOTAL TENDERS APPLIED FOR AND ACCEPTED BY FEDERAL RESERVE DISTRICTS:

District	Applied For	Accepted	:	Applied For	Accepted
Boston	$ 33,554,000	$ 19,554,000	:	$ 3,917,000	$ 3,917,000
New York	1,459,791,000	679,210,000	:	823,156,000	397,156,000
Philadelphia	25,708,000	10,708,000	:	7,274,000	2,274,000
Cleveland	33,887,000	21,845,000	:	14,400,000	14,400,000
Richmond	12,360,000	11,762,000	:	1,708,000	1,708,000
Atlanta	25,114,000	22,814,000	:	3,069,000	2,869,000
Chicago	297,147,000	225,912,000	:	66,621,000	40,621,000
St. Louis	21,385,000	16,385,000	:	5,631,000	4,631,000
Minneapolis	17,652,000	9,596,000	:	5,834,000	3,754,000
Kansas City	34,588,000	26,908,000	:	11,465,000	6,365,000
Dallas	14,249,000	14,249,000	:	4,873,000	4,873,000
San Francisco	72,117,000	41,297,000	:	18,013,000	17,513,000
TOTALS	$2,047,552,000	$1,100,240,000 c/		$965,961,000	$500,081,000 d/

c/ Includes $209,911,000 noncompetitive tenders accepted at the average price of 99.405
d/ Includes $49,788,000 noncompetitive tenders accepted at the average price of 98.744
1/ On a coupon issue of the same length and for the same amount invested, the return on these bills would provide yields of 2.40%, for the 91-day bills, and 2.54%, for the 183-day bills. Interest rates on bills are quoted in terms of bank discount with the return related to the face amount of the bills payable at maturity rather than the amount invested and their length in actual number of days related to a 360-day year. In contrast, yields on certificates, notes, and bonds are computed in terms of interest on the amount invested, and relate the number of days remaining in an interest payment period to the actual number of days in the period, with semiannual compounding if more than one coupon period is involved.

D-114

277

Pechman, Dr. Joseph A.
Brookings Institution
1775 Massachusetts Avenue, N.W.
Washington, D. C.

Salant, Dr. Walter S.
Brookings Institution
1776 Massachusetts Avenue, N.W.
Washington, D. C.

Samuelson, Professor Paul A.
Massachusetts Institute of
Technology
Cambridge, Massachusetts

Schultze, Professor Charles
Indiana University
Bloomington, Indiana

Shapiro, Professor Eli
Massachusetts Institute of
Technology
Cambridge, Massachusetts

Shaw, Professor Edward S.
Stanford University
Stanford, California

Shoup, Professor Carl S.
Columbia University
New York, New York

Smith, Professor Warren L.
University of Michigan
Ann Arbor, Michigan

Suits, Professor Daniel B.
University of Michigan
Ann Arbor, Michigan

ECONOMISTS

278

Angell, Professor James W.
Columbia University
New York, New York

Bernstein, Dr. Edward M.
E.M.B. Limited
1329 - 18th Street, N.W.
Washington, D. C.

Blough, Professor Roy
Columbia University
New York, New York

Brazer, Professor Harvey E.
The University of Michigan
Ann Arbor, Michigan

Brown, Professor E. Cary
Massachusetts Institute of Technology
Cambridge, Massachusetts

Caves, Professor Richard E.
University of California
Department of Economics
Berkeley, California

Colm, Dr. Gerhard
National Planning Association
1606 New Hampshire Avenue, N.W.
Washington, D. C.

Duesenberry, Professor James S.
Harvard University
Cambridge, Massachusetts

Gurley, Dr. John G.
Brookings Institution
1775 Massachusetts Avenue, N.W.
Washington, D. C.

Hansen, Professor Alvin H.
Wesleyan University
Middletown, Connecticut

Harris, Professor Seymour E.
Littauer Center
Harvard University
Cambridge 38, Massachusetts

Hart, Professor Albert G.
Columbia University
New York, New York

Humphrey, Professor Donald
Fletcher School of Law and Diplomacy
Tufts University
Medford, Massachusetts

Kareken, Professor John H.
University of Minnesota
Minneapolis, Minnesota

Kenen, Professor Peter B.
Columbia University
New York, New York

Kindleberger, Professor C. P.
Massachusetts Institute of Technology
Cambridge, Massachusetts

Kuh, Professor Edwin
Massachusetts Institute of Technology
Cambridge, Massachusets

Lary, Dr. Hal B.
National Bureau of Economic Research
261 Madison Avenue
New York, New York

Lubin, Dr. Isador
Rutgers University
New Brunswick, New Jersey

Moore, Dr. Geoffrey H.
National Bureau of Economic Research
261 Madison Avenue
New York, New York

Musgrave, Professor Richard A
Johns Hopkins University
Baltimore, Maryland

Secretary Dillon named Dr. Seymour E. Harris of Harvard University as the Senior Consultant who will coordinate the activities of the group.

The group will hold two or three general meetings each year, at which smaller working groups will be assigned to meet from time to time with Treasury officials and staff members.

This week's meetings are to be working sessions in which there will be an initial exchange of information between the economists and Treasury officials. Secretary Dillon will attend the sessions as his schedule permits. Dr. Harris said the discussions this week will be on four general topics: the economy, fiscal policy, monetary and debt policy, and the dollar problem. Dr. Harris will be available at the conclusion of each day's sessions to brief the press.

The group of consultants includes:

280

DRAFT -- 4:10 p.m.
5/19/61

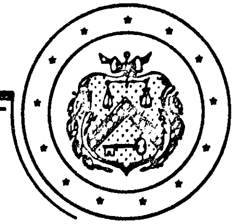
FOR RELEASE: A.M. NEWSPAPERS
Monday, May 21, 1961

Thirty Top Economists to Serve
As Treasury Consultants

Treasury Secretary Dillon announced today that thirty of the Nation's top economists have agreed to serve as consultants to the Treasury Department. They will hold their first meeting with Treasury officials in Washington on Tuesday and Wednesday, May 23 and 24.

"Thirty leading economists on the staffs of various universities and research organizations have agreed to serve the Treasury as consultants in their particular fields of study," Secretary Dillon said. "Their views on the variety of activities in which the Treasury is engaged will be of great value in carrying out our responsibilities. The availability of these authorities on such a work basis insures orderly access by the Government to new ideas and findings in the fiscal, monetary and general economic areas in which the Treasury operates -- areas of basic importance to the economic welfare and growth of the Nation."

TREASURY DEPARTMENT



WASHINGTON, D.C.

May 22, 1961

FOR RELEASE: P.M. NEWSPAPERS

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Treasury Secretary Dillon announced today that thirty of the Nation's top economists have agreed to serve as consultants to the Treasury Department. They will hold their first meeting with Treasury officials in Washington on Tuesday and Wednesday, May 23, and 24.

"Thirty leading economists on the staffs of various universities and research organizations have agreed to serve the Treasury as consultants in their particular fields of study," Secretary Dillon said. "Their views on the variety of activities in which the Treasury is engaged will be of great value in carrying out our responsibilities. The availability of these authorities on such a work basis insures orderly access by the Government to new ideas and findings in the fiscal, monetary and general economic areas in which the Treasury operates -- areas of basic importance to the economic welfare and growth of the Nation."

Secretary Dillon named Dr. Seymour E. Harris of Harvard University as the Senior Consultant who will coordinate the activities of the group.

The group will hold two or three general meetings each year. Smaller working groups will meet from time to time with Treasury officials and staff members to advise on current problems.

This week's meetings are to be working sessions in which there will be an initial exchange of information between the economists and Treasury officials. Secretary Dillon will attend the sessions as his schedule permits. Dr. Harris said the discussions this week will be on four general topics: the economy, fiscal policy, monetary and debt policy, and the balance of payments.

The group of consultants include:

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University of Michigan
Ann Arbor, Michigan

Suits, Professor Daniel B.
University of Michigan
Ann Arbor, Michigan

~~RETA -- MODIFIED~~

from the sale or other disposition of Treasury bills does not have any special treatment, as such, under the Internal Revenue Code of 1954. The bills are subject to estate, inheritance, gift or other excise taxes, whether Federal or State, but are 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 is considered to be interest. Under Sections 454 (b) and 1221 (5) of the Internal Revenue Code of 1954 the amount of discount at which bills issued hereunder are sold is not considered to accrue until such bills are 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, Revised, 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.

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.

Others than banking institutions will not be permitted to submit tenders except for their own account. 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 2 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 Treasury Department 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. Subject to these reservations, noncompetitive tenders for $ 200,000 or less for the additional bills dated March 2, 1961, (91 days remaining until maturity date on August 31, 1961) and noncompetitive tenders for $ 100,000 or less for the 182 -day bills without stated price from any one bidder will be accepted in full at the average price (in three decimals) of accepted competitive bids for the respective issues. Settlement for accepted tenders in accordance with the bids must be made or completed at the Federal Reserve Bank on June 1, 1961, in cash or other immediately available funds or in a like face amount of Treasury bills maturing June 1, 1961. Cash and exchange tenders will receive equal treatment. Cash adjustments will be made for differences between the par value of maturing bills accepted in exchange and the issue price of the new bills.

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

TREASURY DEPARTMENT
Washington

FOR IMMEDIATE RELEASE, XXXXXXXXX   May 22, 1961

XXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXX

TREASURY'S WEEKLY BILL OFFERING

The Treasury Department, by this public notice, invites tenders for two series of Treasury bills to the aggregate amount of $ 1,500,000,000 (2), or thereabouts, for cash and in exchange for Treasury bills maturing June 1, 1961 (3), in the amount of $ 1,501,190,000 (4), as follows:

91 (5) -day bills (to maturity date) to be issued June 1, 1961 (6), in the amount of $1,000,000,000 (7), or thereabouts, representing an additional amount of bills dated March 2, 1961 (8), and to mature August 31, 1961 (9), originally issued in the amount of $ 500,141,000 (10), the additional and original bills to be freely interchangeable.

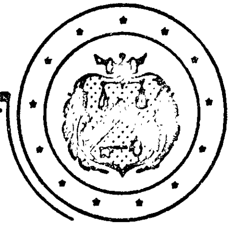
182 (11) -day bills, for $ 500,000,000 (12), or thereabouts, to be dated June 1, 1961 (13), and to mature November 30, 1961 (14).

The bills of both series will be issued on a discount basis under competitive and noncompetitive bidding as hereinafter provided, and at maturity their 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, one-thirty o'clock p.m., Eastern ~~Standard~~ Daylight Saving time, Friday, May 26, 1961 (15). Tenders will not be received at the Treasury Department, Washington. Each tender must be for an even multiple of $1,000, and in the case of competitive tenders the price offered must be expressed on the basis of 100, with not more than three

D-116

TREASURY DEPARTMENT



WASHINGTON, D.C.

May 22, 1961

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Others than banking institutions will not be permitted to submit tenders except for their own account. 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 2 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.

D-116

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 Treasury Departmment 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. Subject to these reservations, noncompetitive tenders for $200,000 or less for the additional bills dated March 2, 1961, (91-days remaining until maturity date on August 31, 1961) and noncompetitive tenders for $100,000 or less for the 182-day bills without stated price from any one bidder will be accepted in full at the average price (in three decimals) of accepted competitive bids for the respective issues. Settlement for accepted tenders in accordance with the bids must be made or completed at the Federal Reserve Bank on June 1, 1961, in cash or other immediately available funds or in a like face amount of Treasury bills maturing June 1, 1961. Cash and exchange tenders will receive equal treatment. Cash adjustments will be made for differences between the par value of maturing bills accepted in exchange and the issue price of the new bills.

The income derived from Treasury bills, whether interest or gain from the sale or other disposition of the bills, does not have any exemption, as such, and loss from the sale or other disposition of Treasury bills does not have any special treatment, as such, under the Internal Revenue Code of 1954. The bills are subject to estate, inheritance, gift or other excise taxes, whether Federal or State, but are 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 is considered to be interest. Under Sections 454 (b) and 1221 (5) of the Internal Revenue Code of 1954 the amount of discount at which bills issued hereunder are sold is not considered to accrue until such bills are 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, Revised, 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.

oOo

In order to effect a satisfactory settlement of the outstanding obligation of the Government of the Philippines to return certain peso funds (advanced to the National Defense Forces of the Republic of the Philippines by United States Armed Forces in the Philippines), and in order at the same time to provide short-term budgetary assistance to the Philippine Government, an agreement was signed on November 6, 1950, between the Republic of the Philippines and the United States Government (generally referred to as the Romulo-Snyder Agreement).

The effect of the Agreement was to make peso funds immediately available for use by the Philippine Government to meet urgent internal obligations. Pursuant to the Agreement, the obligation of the Philippine Government was funded as a dollar obligation payable over a ten-year period.

The Philippine Government discontinued payments on this obligation in 1955 as the result of a law suit brought in the Philippine courts which contested the legality of payments under the Agreement. The Philippine Supreme Court ultimately dismissed the suit as without justification and upheld the legality of the actions taken by the Philippine Government under the Romulo-Snyder Agreement.

Since that time, negotiations have been carried on to arrive at a settlement fair to both Countries. The final settlement involving a payment in the amount of $20,000,000 on april 10, 1961 by the Government of the Philippines meets this objective.

May 22, 1961

Dear Mr. Ambassador:

I have the honor to acknowledge, on behalf of the United States, receipt on April 10, 1961, of the amount of $20,000,000 from the Republic of the Philippines in full and final settlement of amounts due the United States under the Romulo-Snyder Agreement of November 6, 1950.

This payment represents the return of funds which were advanced to the National Defense Forces of the Philippines during and shortly after our common fight for freedom in World War II.

We well remember the problems your people overcame and have great admiration for your accomplishments in building a sound and stable democracy. This payment is evidence of the positive actions the Republic of the Philippines is taking as a responsible member of the free world community of nations. It also evidences a continuation of the cordial relations between our Governments and our peoples.

I am very grateful for this opportunity to express the appreciation of my Government.

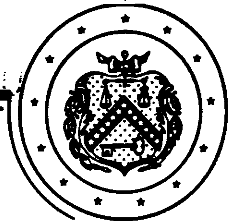
Sincerely yours,

Douglas Dillon

His Excellency
General Carlos P. Romulo
Ambassador of the Philippines

Rept of letter cleared by Mr. Lane Philippine Desk at State 5/19/61-R
Office of Information:RCCahoon:tgd 5-19-61

TREASURY DEPARTMENT



WASHINGTON, D.C.

May 22, 1961

FOR RELEASE: 3:00 P.M., EDT

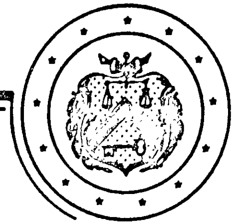
SECRETARY DILLON THANKS PHILIPPINE AMBASSADOR
FOR FINAL LOAN PAYMENT

In a brief ceremony at the Treasury Department this afternoon, Secretary Douglas Dillon presented a letter of appreciation to Philippine Ambassador Romulo expressing the thanks of the United States Government for a final loan payment of $20,000,000, received on April 10, 1961, from the Republic of the Philippines. This was the final payment on a loan agreement of November 6, 1950.

Text of Secretary Dillon's letter of appreciation to Ambassador Romulo follows:

D-117

TREASURY DEPARTMENT 291



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Sincerely yours,

/s/ Douglas Dillon

His Excellency
General Carlos P. Romulo
Ambassador of the Philippines

D-117

oOo

BACKGROUND ON ROMULO-SNYDER AGREEMENT

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The Philippine Government discontinued payments on this obligation in 1955 as the result of a law suit brought in the Philippine courts which contested the legality of payments under the Agreement. The Philippine Supreme Court ultimately dismissed the suit as without justification and upheld the legality of the actions taken by the Philippine Government under the Romulo-Snyder Agreement.

Since that time, negotiations have been carried on to arrive at a settlement fair to both Countries. The final settlement involving a payment in the amount of $20,000,000 on April 10, 1961 by the Government of the Philippines meets this objective.

oOo

Before that he was in the Department of Defense in several assignments, including that of Director of the Office of Special International Affairs. His activities involved close working relationships between the major Federal departments and the National Security Council.

In 1946 and 1947, he was with the Reconstruction Finance Corporation (later the War Assets Administration). Before serving with the U. S. Army during World War II, Mr. Sullivan was with the Treasury Department in the Foreign Funds Control Division.

Mr. Sullivan was born in Washington, D. C., November 3, 1920. He received his education at George Washington University and at Cambridge University in England, majoring in economics and business administration. He is married to the former Katharine Reynolds McCarthy. Mrs. and Mrs. Sullivan reside at 2810 Dumbarton Avenue, N.W.

oOo

Insert

serving as a Defense advisor to the Foreign Ministers Conference at Geneva in 1954 and 1955 and the Summit Conf. at Geneva in 1955 and

291

Draft ~~May 22~~, 1961
3:00 ~~p.m.~~

~~FOR IMMEDIATE RELEASE~~

CHARLES A. SULLIVAN APPOINTED
SPECIAL ASSISTANT TO SECRETARY

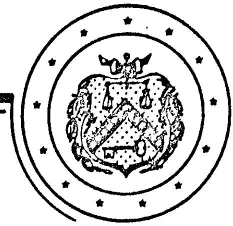
Treasury Secretary Douglas Dillon today announced the appointment of Charles A. Sullivan as Special Assistant to the Secretary for national security affairs. Mr. Sullivan was sworn ~~into office~~ in [~~by Secretary Dillon~~] at noon today.

Mr. Sullivan served with Mr. Dillon when the Secretary was Under Secretary of State, with similar responsibilities to those in his new Treasury post. Earlier, Mr. Sullivan was Deputy Special Assistant to the Secretary of State for Disarmament and Atomic Energy, in which capacity he participated in international conferences of foreign ministers and on disarmament and atomic energy affairs.

Mr. Sullivan was Assistant Director of the Office of Defense Mobilization from October 1, 1957, to February 6, 1959.

D-11

TREASURY DEPARTMENT



WASHINGTON, D.C.

May 22, 1961

FOR IMMEDIATE RELEASE

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SPECIAL ASSISTANT TO SECRETARY

Treasury Secretary Douglas Dillon today announced the appointment of Charles A. Sullivan as Special Assistant to the Secretary for national security affairs. Mr. Sullivan was sworn in at noon today.

Mr. Sullivan served with Mr. Dillon when the Secretary was Under Secretary of State, with similar responsibilities to those in his new Treasury post. Earlier, Mr. Sullivan was Deputy Special Assistant to the Secretary of State for Disarmament and Atomic Energy, in which capacity he participated in international conferences of foreign ministers and on disarmament and atomic energy affairs.

Mr. Sullivan was Assistant Director of the Office of Defense Mobilization from October 1, 1957, to February 6, 1959. Before that he was in the Department of Defense in several assignments, including that of Director of the Office of Special International Affairs.

His activities involved serving as a Defense Advisor to the Foreign Ministers Conferences at Geneva in 1954 and 1955, and the Summit Conference at Geneva in 1955, and close working relationships between the major Federal departments and the National Security Council.

In 1946 and 1947, he was with Reconstruction Finance Corporation (later the War Assets Administration). Before serving with the U. S. Army during World War II, Mr. Sullivan was with the Treasury Department in the Foreign Funds Control Division.

Mr. Sullivan was born in Washington, D. C., November 3, 1920. He received his education at George Washington University and at Cambridge University in England, majoring in economics and business administration. He is married to the former Katharine Reynolds McCarthy. Mr. and Mrs. Sullivan reside at 2810 Dumbarton Avenue, N.W.

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D-118

TREASURY DEPARTMENT

Washington, D. C.

EXCERPTS FROM REMARKS BY R. DUANE SAUNDERS, DIRECTOR OF THE OFFICE OF DEBT ANALYSIS, U. S. TREASURY DEPARTMENT, AT THE FIFTY-FIFTH ANNUAL CONFERENCE OF THE MUNICIPAL FINANCE OFFICERS ASSOCIATION, SEATTLE, WASHINGTON, MAY 24, 1961.

FOR RELEASE UPON DELIVERY:

In talking with you today on the subject of Treasury Debt Management Policies and Problems I would like to focus on these problems from a technician's standpoint - in other words to give you a view of the mechanics of debt management, which has a direct and significant relation to your own financings and interests. At the outset, however, I should like to emphasize that there is nothing really mechanical or static about debt management policies and problems; both policy objectives and techniques of implementation are subject to change and adaptation in the changing environment in which debt management operates. To illustrate, our objectives have evolved over time, from simply raising money to pay the bills, to recognition of the contribution that can be made by debt management to sustained economic growth, and, most recently, the addition of a new dimension in terms of balance of payments considerations. Similarly on the techniques side we are constantly searching for new means of assisting us to achieve our objectives in debt management -- new types of securities, new methods of marketing. In the last year we have resorted to two new marketing methods, cash refunding and advance refunding.

Reviewing first the objectives of debt management, as an integral part of Federal financial policy, there are a number of basic policy objectives or guidelines to policy:

First, to raise the money to pay the bills, to meet the Government's fiscal requirements.

Second, to borrow as cheaply as possible, keeping in mind the impact on the financial markets and the economy as a whole.

Third, to manage the debt in a way that will contribute to, or at least not inhibit, an orderly growth of the economy.

Fourth, to take account of the new dimension in debt management decisions, namely, balance of payments.

Fifth, and last, but far from least, to work toward a balanced maturity structure of the debt.

No review of objectives would be complete without pointing up the fact that these objectives are not easily reconcilable. President Kennedy pointed to the "apparently contradictory" objectives in his Economic Message of checking the decline in short rates while increasing the flow of funds into long-term markets at declining rates. Similarly, a contra-cyclical debt management objective is not always feasible or desirable; even in periods of rapid expansion, when it is clearly undesirable to add to liquidity, the Government's fiscal requirements may necessitate short-term borrowing. In recessionary times, despite the obvious desire not to pre-empt the flow of savings, considerations of maturity structure make imperative some continued long-term financing.

With this brief review of the objectives and fundamental considerations that surround debt management decisions let us put some flesh on this skeleton in the context of current problems confronting debt management. Here it seems necessary to begin with the debt itself and some of its more important aspects -- and with the organizational structure involved in reaching debt management decisions.

As to the debt itself, over the history of the United States as an independent nation we have spent around $1.4 trillion and taken in in receipts around $1.1 trillion, leaving a difference of slightly under $300 billion. Our Federal debt is the end product of financing this difference. Size alone is not a measure of the debt's manageableness however; for perspective it has declined since World War II in per capita terms and in relation to the total output of our economy. Debt is, after all, the resultant of other actions, specifically Congressional action with respect to receipts and expenditures. Here the most recent estimates indicate deficits of $2.2 billion in fiscal 1961 and $2.8 billion in fiscal 1962. The dynamics of change in the size of the debt are related directly to surpluses or deficits -- there are no bootstrap techniques in debt management. An additional aspect of the debt is the seasonal pattern of receipts, with tax collections light in the July-December period the Treasury's debt operations are largest in that period.

These facts, and our various objectives, may be related to our most recent financing. The securities maturing May 15 were $7-3/4 billion of certificates and notes carrying coupons of 4-3/8 percent and 3-5/8 percent

292

respectively. Specific areas of decision involved the choice of cash versus rights refunding, the relative weight to current economic and balance of payments considerations, the choice of maturities and the specific pricing. In the week of the financing, consultations with the market and advisory committees were underway. When all the information and advice were in the Secretary had to make a specific choice. The resolution of these was (1) a cash refunding, (2) selection of short maturities - a one-year certificate and two-year note, (3) attractive terms of 3 percent and 3-1/4 percent respectively.

Debt management involves informed judgment at every stage of process from the weighing of objectives as to the appraisal of potential demand, choice of maturities, and pricing in the case of a fixed price security; with the usual difficulties inherent in operations as opposed to generalized theory we can only conclude that debt management is "an art and not a science."

* * * * * * *

May 26, 1961

FOR RELEASE A. M. NEWSPAPERS, Saturday, May 27, 1961.

RESULTS OF TREASURY'S WEEKLY BILL OFFERING

The Treasury Department announced last evening that the tenders for two series of Treasury bills, one series to be an additional issue of the bills dated March 2, 1961, and the other series to be dated June 1, 1961, which were offered on May 22, were opened at the Federal Reserve Banks on May 26. Tenders were invited for $1,000,000,000, or thereabouts, of 91-day bills and for $500,000,000, or thereabouts, of 182-day bills. details of the two series are as follows:

RANGE OF ACCEPTED COMPETITIVE BIDS:	91-day Treasury bills maturing August 31, 1961		182-day Treasury bills maturing November 30, 1961	
	Price	Approx. Equiv. Annual Rate	Price	Approx. Equiv. Annual Rate
High	99.386	2.429%	98.703 a/	2.565%
Low	99.383	2.441%	98.685	2.601%
Average	99.384	2.438% 1/	98.689	2.593% 1/

a/ Excepting two tenders totaling $694,000
91 percent of the amount of 91-day bills bid for at the low price was accepted
90 percent of the amount of 182-day bills bid for at the low price was accepted

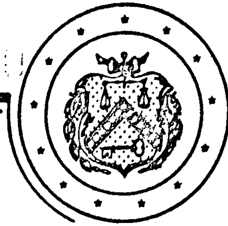
TOTAL TENDERS APPLIED FOR AND ACCEPTED BY FEDERAL RESERVE DISTRICTS:

District	Applied For	Accepted	Applied For	Accepted
Boston	$ 17,650,000	$ 6,500,000	$ 1,161,000	$ 1,161,000
New York	1,832,375,000	762,900,000	773,246,000	385,141,000
Philadelphia	23,739,000	8,310,000	6,017,000	1,017,000
Cleveland	24,134,000	23,875,000	20,551,000	15,551,000
Richmond	9,517,000	7,517,000	1,340,000	1,340,000
Atlanta	25,032,000	12,760,000	3,876,000	3,676,000
Chicago	199,694,000	94,256,000	91,837,000	57,337,000
St. Louis	13,740,000	10,040,000	5,681,000	4,881,000
Minneapolis	18,123,000	7,823,000	5,348,000	2,848,000
Kansas City	27,313,000	12,525,000	10,713,000	9,213,000
Dallas	15,370,000	14,280,000	6,156,000	2,656,000
San Francisco	80,639,000	39,392,000	23,892,000	15,347,000
TOTALS	$2,287,326,000	$1,000,178,000 b/	$949,818,000	$500,168,000 c/

b/ Includes $162,364,000 noncompetitive tenders accepted at the average price of 99.384
c/ Includes $38,855,000 noncompetitive tenders accepted at the average price of 98.689
1/ On a coupon issue of the same length and for the same amount invested, the return on these bills would provide yields of 2.49%, for the 91-day bills, and 2.66%, for the 182-day bills. Interest rates on bills are quoted in terms of bank discount with the return related to the face amount of the bills payable at maturity rather than the amount invested and their length in actual number of days related to a 360-day year. In contrast, yields on certificates, notes, and bonds are computed in terms of interest on the amount invested, and relate the number of days remaining in an interest payment period to the actual number of days in the period, with semiannual compounding if more than one coupon period is involved.

D-119

TREASURY DEPARTMENT



WASHINGTON, D.C.

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D-119

~~ADVANCE~~: For Release ~~Upon~~ A.M. Newspapers
~~Delivery, 8:30 p.m.,~~
~~Monday, May 29,~~ 1961.
Tuesday, May 30,

May 29, 961

301

TREASURY SALUTES ADVERTISING AND ENTERTAINMENT INDUSTRIES

The Treasury Department paid tribute to the advertising and entertainment industries here tonight for 20 years of patriotic support to the United States Savings Bond Program.

Under Secretary of the Treasury Henry H. Fowler presented "20th Anniversary" citations to James S. Fish, Chairman of the Advertising Federation of America, and Gene Barry, the "Bat Masterson" of television fame, who represented the entertainment industry, at the Advertising Federation's convention dinner at the Sheraton-Park Hotel in Washington.

Mr. Fowler also read a message from Treasury Secretary Douglas Dillon, who was unable to be present. In his statement, the Secretary said: "I deeply regret that I shall not have the pleasure of being with you on this important evening. The 20th anniversary of the Savings Bond Program is a significant event for the Treasury and the Nation. It is fitting that we recognize the occasion through this 'Savings Bond Night', honoring the advertising and entertainment industries for their two decades of patriotic cooperation. My thanks and best wishes go to you all -- and in particular, to the honored recipients of our 20th anniversary bond citations."

In making the awards, Under Secretary Fowler praised the two industries which, he said, have made such a major contribution to the bond program. "This recognition is given symbolically," he added, "because the hall -- or the stadium -- has not been built that could accommodate the many members of these industries who individually merit thanks.

"During the past 20 years, the United States Savings Bond Program has become a significant factor in American life. It is significant, first of all, to the millions of citizens who have taken advantage of it to learn regular habits of saving and to enjoy its fruits. It is significant to the cause of thrift in general -- a tradition which helped to build our Nation, and one which today is helping it to grow and progress, because real capital can come only from saving. Finally, it is significant in the part it plays in our Nation's economic soundness -- the foundation upon which our national strength must be built."

Earlier today, Actor Barry received the key to the city from District Commissioner Robert McLaughlin for his personal efforts in behalf of the bond program.

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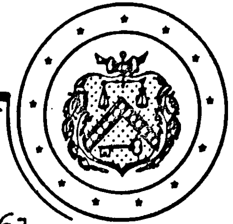
D-120

TREASURY DEPARTMENT



WASHINGTON, D.C.
May 29, 1961

FOR RELEASE A.M. NEWSPAPERS
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D-120

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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.

Others than banking institutions will not be permitted to submit tenders except for their own account. 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 2 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 Treasury Department 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. Subject to these reservations, noncompetitive tenders for $ 200,000 (16) or less for the additional bills dated March 9, 1961 (17), (91 (18) days remaining until maturity date on September 7, 1961 (19)) and noncompetitive tenders for $ 100,000 (20) or less for the 182 (21) -day bills without stated price from any one bidder will be accepted in full at the average price (in three decimals) of accepted competitive bids for the respective issues. Settlement for accepted tenders in accordance with the bids must be made or completed at the Federal Reserve Bank on June 8, 1961 (22), in cash or other immediately available funds or in a like face amount of Treasury bills maturing June 8, 1961 (23). Cash and exchange tenders will receive equal treatment. Cash adjustments will be made for differences between the par value of maturing bills accepted in exchange and the issue price of the new bills.

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

TREASURY DEPARTMENT
Washington

May 31, 1961

FOR IMMEDIATE RELEASE

TREASURY'S WEEKLY BILL OFFERING

The Treasury Department, by this public notice, invites tenders for two series of Treasury bills to the aggregate amount of $1,600,000,000, or thereabouts, for cash and in exchange for Treasury bills maturing June 8, 1961, in the amount of $1,592,655,000, as follows:

91-day bills (to maturity date) to be issued June 8, 1961, in the amount of $1,100,000,000, or thereabouts, representing an additional amount of bills dated March 9, 1961, and to mature September 7, 1961, originally issued in the amount of $500,282,000, the additional and original bills to be freely interchangeable.

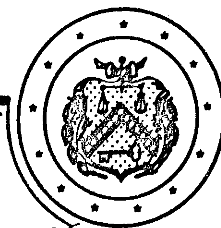
182-day bills, for $500,000,000, or thereabouts, to be dated June 8, 1961, and to mature December 7, 1961.

The bills of both series will be issued on a discount basis under competitive and noncompetitive bidding as hereinafter provided, and at maturity their 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, one-thirty o'clock p.m., Eastern Daylight Saving time, Monday, June 5, 1961. Tenders will not be received at the Treasury Department, Washington. Each tender must be for an even multiple of $1,000, and in the case of competitive tenders the price offered must be expressed on the basis of 100, with not more than three

D-121

TREASURY DEPARTMENT



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Others than banking institutions will not be permitted to submit tenders except for their own account. 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 2 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.

D-121

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 Treasury Departmment 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. Subject to these reservations, noncompetitive tenders for $ 200,000 or less for the additional bills dated March 9, 1961, (91-days remaining until maturity date on September 7, 1961) and noncompetitive tenders for $ 100,000 or less for the 182-day bills without stated price from any one bidder will be accepted in full at the average price (in three decimals) of accepted competitive bids for the respective issues. Settlement for accepted tenders in accordance with the bids must be made or completed at the Federal Reserve Bank on June 8, 1961, in cash or other immediately available funds or in a like face amount of Treasury bills maturing June 8, 1961. Cash and exchange tenders will receive equal treatment. Cash adjustments will be made for differences between the par value of maturing bills accepted in exchange and the issue price of the new bills.

The income derived from Treasury bills, whether interest or gain from the sale or other disposition of the bills, does not have any exemption, as such, and loss from the sale or other disposition of Treasury bills does not have any special treatment, as such, under the Internal Revenue Code of 1954. The bills are subject to estate, inheritance, gift or other excise taxes, whether Federal or State, but are 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 is considered to be interest. Under Sections 454 (b) and 1221 (5) of the Internal Revenue Code of 1954 the amount of discount at which bills issued hereunder are sold is not considered to accrue until such bills are 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, Revised, 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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U.S. Treasury Dept.

Press Releases

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U.S. Treasury Dept.

AUTHOR

Press Releases

TITLE

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