DIARY

Book 643

June 17 - 21, 1943

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June 17, 1943

8:45 a. m.

Present: Mr. Graves
Mr. Louis
Mr. Coyne

HM,Jr: This is what Gamble had in mind and what I had in mind and I don't want it to be here for ten days, waiting for Gamble to come back, to begin operating.

Mr. Louis is to operate directly under the Director of Sales, who is to be Mr. Gamble, and he is to have advertising, radio, press, promotion, contact with Office of War Information, contact with the War Advertising Council and the Promotion and Planning Board, etc. In other words, I want him to have everything that has to do with advertising and promotion.

You (Mr. Graves) are in charge while Ted is gone. Fix it up so he can begin to operate this morning, so the people know that anything that has to do with advertising, radio, etc., is his business. Until Ted gets back, let him look to you (Graves) and see that he gets going and that nobody gets in his way and that everybody gives him every support and, if they don't, it's their bad luck because Mr. Louis and I had an understanding on what he has come down here for and he has come down here now to help, so I want him to have every possible assistance and nobody is to get in his way. Not only not get in his way, but get behind him.

One of the first things I would like him to do is to have put on his desk, every damn thing they have in mind to put across the payroll allotment plan where we are going from 10% to 15%. I haven't seen it. They are right in it and they have me making speeches on it and going out on the end of a limb and the limb is pretty shaky. I want Mr. Louis to go into it from any angle he wants to, so he can get it.

When I get back, Tuesday, I would like in my Graph Section a lay-out of everything that has to do with promotion on the payroll allotment plan. You (Mr. Louis) can say, "I scrapped this or I added this, etc., but here it is." If you are going to be responsible and don't like -- don't let them do to you what they have done to me: "It's been in the works since last Christmas; we can't change it". If you (Mr. Louis) don't like it, kill it.

Mr. Graves: That's most important.

HM,Jr: I am right out on a limb telling them we are going up to 15% and twenty-five cents out of every dollar and all the rest of that stuff, and I have got to have a lot of high promotion to get it and we have to use every trick in the bag, labor and management. It may be wonderful. It may be lousy. I don't know. With Graves' help and Coyne's help, sit down with Houghteling and with Engelsman. I think that's what we are right up against.

Mr. Graves: That's right.

HM,Jr: Instead of trying to master the whole job, if he took that he would very quickly get everything else.

Mr. Graves: That's right.

Mr. Coyne: That's right.

HM,Jr: I would like to know, Tuesday, is it good or is it bad. As far as I am concerned, let the chips fall where they may. If we don't have the right people in the promotion end, or advertising, it's your (Mr.Louis) job to say so and let's get the right people. I am right out on the end of a limb on the payroll allotment thing. When I made a speech Saturday and was talking about getting $18 billions, Ted wouldn't let me give it. He didn't know whether we could get it.

The other thing we were talking about, about getting propaganda on voluntary against compulsory. I would say that's second.

I would like something in writing -- I will sign it -- making this assignment.

Mr. Graves: You decided with reference to Gamble and the rest of us, you wanted to postpone any order until we had ....

HM,Jr: Well, we could set him up.

Mr. Graves: You would really like to set him up before we set Gamble up?

HM,Jr: We will just make him responsible to Mr. X, Director of Sales. "Mr. Louis, under the Director of Sales".

Mr. Graves: Very good.

HM,Jr: He can't be flopping around here for ten days. Supposing somebody bucks him, he's got a piece of paper with my name on it. I don't want to wait.

Mr. Graves: Very good.

HM,Jr: The order can read "Mr. Louis, in charge of advertising, responsible to the Director of Sales".

Mr. Graves: That's all right.

HM,Jr: In this whole lay-out, the apple of Ted Gamble's eye, the motion picture theatre, not even a panel on the motion picture, so the only deduction I can draw is the motion picture industry isn't doing anything. The whole industry, with 16,000 theatres, if they are doing anything, nothing there -- a blank spot.

Mr. Coyne: They are leading up to a special activity in July. That might be the reason for it.

HM,Jr: In this job which we have set for ourselves, I talk about getting $24 billions from individuals, there isn&t any avenue of publicity we can overlook and certainly 16,000 theatres with whatever they have -- 100 million people they claim .....

Mr. Coyne: 80,000,000 a week.

HM,Jr: Here's this vast audience and, as far as I can tell, it's a blind spot.

HM,Jr: I want to repeat what I am saying: in this thing we can't overlook a medium of promotion which claims they reach 80,000,000 people a week. You can't overlook anybody if we are going to sell every man, woman and child, and that's what we have got to do. Believe me, Coyne, the heat is going to be on you people; I am going to make you sweat blood. No fooling.

Mr. Coyne: You have to sweat blood to get $18 billions from individuals.

HM,Jr: All right! You fellows put it in my speeches. I did not ask for it. I am just warning you.

Mr. Coyne: We realize what a job it is.

HM,Jr: You can't have any lame ducks around. I am not accepting the excuses again, like Saturday, I go to

Kingston -- no audience, doesn't reach the A.P. in Albany until 7 o'clock. Three men from War Bonds up there. Those things can't happen again. I talked to 25 boy scouts and there were three men there, Callahan, Shad and Ramey up there. It's not encouraging for me to go out and sweat blood ....

Mr. Coyne: Haven't you got some pretty good reports on payroll savings?

HM,Jr: No. I will qualify that. I haven't received any reports. That's another thing. Not only am I not sold so I, in turn, can sell the President, but the trouble always is the important people in War Finance don't know what's going on and the 48 State Chairmen don't know. If I don't read this stuff, that's my fault, but if I don't get the stuff, that's your fault.

Mr. Coyne: Of course, the drive only started on the 15th. Where it was presented first, in Oklahoma, it was decided the 15% was not enough.

HM,Jr: I never know when I am going to be attacked and you can't wait two or three weeks. The people who are fighting us have lots of smart people and they are on their toes every minute. So far as I know, it may be wonderful or it may be terrible. I just don't know, and the place to exhibit it to me in the chart room because that's where I go.

You, Louis, can come to me any time and say, "Mr. Morgenthau, sometime today when you have ten minutes, I want you to go across the hall." If I don't go, it's my fault, but if you don't invite me and I don't go, that's your fault.

Mr. Coyne: We can't tell you of its success because the drive only started on the 15th of the month.

HM,Jr: It's your job, Louis, to keep me sold so

I can keep the President and all the people around me sold.

Now, Harold, please give to this gentleman.

Mr. Graves: Yes, indeed.

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TREASURY DEPARTMENT

WASHINGTON

CONFIDENTIAL

June 17, 1943.

ORDER

Mr. John J. Louis, under the direction of the Director of Sales, United States Treasury War Finance Committee, will hereafter have general supervision of all publicity and advertising in connection with the sale of Government securities to the public.

H Morgenthau Jr.

Secretary of the Treasury.

CONFIDENTIAL - NO PUBLICITY PLEASE FOR THE PRESENT.

Mr. Graves read 6/17/43

June 17, 1943
9:24 a. m.

HMJr: Frank?

Frank Walker: Hello.

HMJr: Frank?

W: Hello, Henry.

HMJr: How are you?

W: All right, sir. How are you?

HMJr: Okay.

W: That's good.

HMJr: I understood from the Chief Clerk over at the White House - Forster - that you were - objected to the appointment of Harold Graves as Deputy Commissioner of Internal Revenue.

W: No, I haven't done that, Harry - Henry, but I wanted to tell you some protests that have come in. I just want to communicate them to you.

HMJr: Please - well, go ahead.

W: Uh?

HMJr: You want - go ahead.

W: A lot of the fellows complained very thoroughly about him. I - personally I think he's quite a fellow....

HMJr: Well....

W: ....if I were speaking of him.

HMJr: Where did the complaints come from, Frank?

W: Well, they said that he's anti-Administration and that he's right close to Brown....

HMJr: Uh huh.

W: ....when Brown was Postmaster General and - and that he - the only fellows he gives consideration

(Cont'd.)

W: (Cont'd.) to are - are the opposition, and not....

HMJr: Huh.

W: ....the Administration fellows.

HMJr: Well, he wouldn't have been with me for nine years, if that were so.

W: Well, I don't think so either, Henry.

HMJr: And after all....

W: If I had - if I had a personal protest, I'd tell you.

HMJr: ...and after all Helvering is a pretty good politician.

W: Yeah.

HMJr: I mean.

W: But I thought - I thought in view of the fact that these fellows were complaining that I wanted to be able to tell them that I'd told you, and that was the only reason I....

HMJr: Well, when you say "they ", do you mean....

W: Oh, quite a few fellows.

HMJr: Uh....

W: I'd rather not get them involved.

HMJr: I see.

W: I can tell you later, some of them.

HMJr: Uh huh. Well....

W: But I don't....

HMJr: The White House is - is holding it up. I - and - I....

W: Now that's the reason I tried to get a hold of you and they said you were away.

HMJr: Yeah.

W: And I thought in view of the fact they had protested, it was better to - for me to be in a position of saying that I had told you.

HMJr: Well - well, what do you want to do about it, Frank?

W: I think it's all right to clear it - Henry - and I told them that was my personal judgment, too.

HMJr: Well, would you tell that to Forster?

W: I will.

HMJr: You will.

W: Yeah.

HMJr: Thank you.

W: How is Mrs. Morgenthau?

HMJr: She's a little bit better now, but she's been awful sick.

W: So I understand. I didn't know it until - Mrs. Walker and I didn't know it until last week.

HMJr: Oh, she's been terribly sick, but the last - since Sunday, I think she's taken a turn definitely for the better.

W: It's not grave now?

HMJr: Pardon?

W: I say it's not grave now.

HMJr: Not now, no.

W: Uh huh.

HMJr: No, I think she's definitely on the road to recovery.

W:	Well, give her - her Mrs. Walker's and my love. I'm very happy to know that, Henry.
HMJr:	Thank you, Frank.
W:	All right.

June 17, 1943
11:25 a.m.

VOLUNTARY VS. COMPULSORY SAVINGS

Present: Mr. Bell
Mr. Sullivan
Mr. Smith
Mr. Graves
Mr. Haas
Mr. Murphy
Mr. Lindow
Mr. Blough
Mr. Viner
Mr. Louis
Capt. Kades
Mrs. McHugh

(Memorandum handed to the Secretary by Captain Kades, copy attached.)

H.M.JR: May I read this out loud, or not?

CAPT. KADES: As far as I am concerned.

H.M.JR: This is from Captain Kades to me in answer to a request from me.

(Memorandum read by the Secretary)

H.M.JR: Very good - excellent. For a man with an open mind it is very good. (Laughter)

MR. HAAS: I suggested a change, Mr. Secretary, as an alternative ending which I think greatly strengthens and takes care of some of Chuck's criticisms - not completely, but--

CAPT. KADES: I gave my criticisms to Mr. Lindow last evening. I haven't seen the draft since then.

H.M.JR: Go ahead, George.

MR. HAAS: I don't have the letter.

H.M.JR: Well, who has?

(Memorandum addressed to Mr. Byrnes handed to the Secretary by Mr. Lindow, copy attached.)

MR. BELL: You mean the last paragraph?

MR. HAAS: Yes.

MR. BELL: The last paragraph.

H.M.JR: I say what Kades says is pretty devastating.

MR. BELL: There isn't any doubt but what you are getting yourself in for a month or two of correspondence between the Director of Stabilization and the Treasury.

H.M.JR: What are the changes in this letter so I don't have to read seven pages?

MR. LINDOW: The main change is the ending.

H.M.JR: Let's have the changes.

MR. LINDOW: The first line reads, "It may be helpful to indicate the grounds" - before we had, "It may be helpful to submit a statement of the grounds on which I oppose a forced lending program - certainly at present or in the near future."

The paragraph numbered two on the first page - the last part of it reads, "A forced loan program would still leave a need for a voluntary program." We said yesterday, "But would greatly handicap us in carrying it out." We just tried to clarify it. Most of the changes are of that nature.

H.M.JR: Don't give me that kind.

MR. SULLIVAN: There is an entirely new idea in this last paragraph. When you are coming out for a spendings tax as between compulsory tax and spendings tax, the Congress would take the compulsory savings in five minutes.

MR. LINDOW: There is an alternate. We have the proposal of Mr. Haas in the separate two pages, and the first draft which you have there is without that - is without his proposal. So if you read the last paragraph of the draft in your hand now, it will be before his suggestion. Then the other one will be with it. (Copy of alternate attached.)

MR. PAUL: That paragraph at the top of page seven is the new material, isn't it?

MR. LINDOW: That is right.

The alternate material adds one whole new paragraph, so all you need to do is read the last paragraph.

H.M.JR: Does everybody have a copy of this letter? Doesn't that - you lawyers - it takes six pages to say you are for the volunteer plan, and then say suddenly, "Well, I am not quite so sure." Then you throw in the spendings tax just at the end. Doesn't that weaken the whole thing?

MR. SULLIVAN: I think so.

MR. VINER: May I say something, Mr. Secretary?

H.M.JR: You are not here just because you are good looking. (Laughter)

MR. VINER: In addition to that, may I say something? (Laughter)

I think myself that you ought not to think that that weakens it, because you ought not to take a position so strong that that would be a weakening of it. You ought not to say that never, or that under any circumstances - or that you can't conceive of the circumstances in which forced savings would be desirable.

I think the line you ought to take is that just now you don't think that - or that in the immediate future it might be necessary to revert to that and that you want a chance to work out other ways, but you may have to move on to it.

Now, there was something you took out of the letter yesterday that I would certainly like to see come back. In other words, you ought not to put yourself in the position that you have a moral objection to forced savings, that you can't conceive of circumstances under which you would find it acceptable, and so on. You ought to regard it as a device which may conceivably be necessary, but you don't believe it is necessary now; that if you should become convinced that it is, you would then be quite prepared to work at it, and then apply it enthusiastically under the circumstances. That is the attitude I take. You mustn't take the moral attitude that there is something evil in forced savings as such, but you think your position ought to be that you have not yet exhausted better alternatives or better expedients, or it is not yet clear that you have.

MR. SULLIVAN: I don't think it is a moral position, Jake. We are for the voluntary - not only for the moral aspect of it, but because it gets us money that the compulsory cannot get.

MR. LINDOW: Isn't there--

MR. VINER: But you are using - my point is that - it may be another argument, but use a number of arguments, and I would say that I accept that one - I accept it because you tell me it is so. Supposing it isn't so; supposing it turns out not to be so.

MR. PAUL: It is a well-known form of argument - this arguendo business.

MR. VINER: You argue one, and then you exhaust that and move on to another field. The field you ought not to take is that you are morally commited on other grounds. Supposing it does become necessary to move to it? It is conceivable.

MR. BELL: Jake, what did we take out last night that you--

MR. VINER: This was a part of the sentence in the last - the Secretary said - I don't know that wording, but nevertheless the Secretary thought it was giving away, that he was retreating at the end of the letter from the position taken in the earlier paragraphs. I don't think it was a retreat. You were realistic; you can't say now what we may have to do.

MR. LINDOW: The sentence read, "In any event, I feel strongly that no plan for compulsory lending should be proposed at least until after the Third War Loan in September."

MR. PAUL: I thought we were going to put that in with January--

MR. LINDOW: I thought the last word was we were going to leave this out.

MR. BELL: "After the end of the year."

H.M.JR: I think we said it should read "Not until after the end of this year."

MR. SULLIVAN: That was your first decision; then you said, I think, we had better take that - the first decision was the end of the year. Then you decided to take it all out.

MR. PAUL: That is right.

MR. BELL: Let's put it back. I think there is something to that - to Jake's argument, that you can't sew yourself up here.

MR. LINDOW: Mr. Secretary, the spendings tax is not a forced lending proposal. The letter argues against forced lending and then concludes that the spendings tax would be a desirable way to increase the savings of individuals. It would be perfectly compatible with the voluntary way of selling bonds.

H.M.JR: I understand that.

MR. LINDOW: So I don't think that it weakens your position on the voluntary bond sale program.

H.M.JR: We went through that all originally, the two things did dovetail into each other.

MR. SULLIVAN: I agree with that, Mr. Secretary, but you will find that the Congress is so hostile to the expenditure tax that if they had to choose today between that and compulsory savings, I don't think they would hesitate for a minute to take compulsory savings.

MR. PAUL: I don't know whether Congress is so hostile to the spendings tax, John. We got four votes out of twelve on the spendings tax last year with all our friends absent from the room.

H.M.JR: Well, the point is - the trouble on the spendings tax is, we went up there and gave it to them cold. I have always thought that was one of the best things that we have ever had, where you give the credit to the man for the volunteer bond and all that. It fits into the thing very, very well.

MR. VINER: Also, the country was cold. You see, it was not - it came to them from the Treasury, but the country hadn't thought about it. Since people are discovering there was more in it--

H.M.JR: Every person that I have sat down and talked to in all walks of life, and where I have explained it to them as I have understood it - "That is wonderful." They like it.

MR. HAAS: This may be something against it, but even the Chamber of Commerce has come out for it.

MR. LINDOW: "Fortune" magazine had an article on it.

MR. SULLIVAN: I am familiar with it, and agree; I am just saying that everybody in Congress who has mentioned it to me has been against it.

MR. PAUL: I know some that are.

MR. BLOUGH: I think the real question about putting it in this letter is whether you want to open an all summer's quarrel in the Administration over spendings tax versus compulsory lending.

MR. VINER: Does this necessarily open it? I think if the Treasury has any faith in it at all it ought to want it to be considered, that is all.

MR. SULLIVAN: You have a question of timing here, Jake.

H.M.JR: Could I get this into the letter, carrying out what Viner says, you see - what I would like to get is this - we know we can't get - I brought this out in my press conference - we know we can't get any legislation on the books before the first of January. So any decision at this time - all it can do is cause public discussions to hurt our campaign for the volunteer plan. Therefore, let the Administration give the volunteer plan its full backing for the rest of this year, and let's see what we can produce.

Now, if we can't produce as much money from the right people as we think we can during the rest of the year, I will be the first to admit it, because I am just as interested as anybody in the Administration to absorb this excess spending money, and have been for years. Now, that is the way I feel.

As I say, if we can't get the right amount of money from the right people, then I am not sold on this thing forever. But I can't have stuff coming out constantly from important people which undermines and makes it almost impossible for us to attain our goal.

MR. PAUL: May I make a suggestion there?

H.M.JR: If you please.

MR. PAUL: I think there is a good deal in that approach. I don't think we need this letter at all. I think that is a totally different approach. We were more or less having an armistice there, and there wouldn't be any objection to discussing voluntary savings privately in the room. People shouldn't make any public statements which would interfere with the voluntary program.

H.M.JR: Well, what Kades has done - and he has rendered us a service in doing this thing - this letter gives them a target to shoot at, and then - I mean, they will immediately begin to shoot at it just the way Kades did. And if he can do this - I am being serious now - he, who has no emotion on this the way Ben Cohen has, what will Ben Cohen do, who feels this thing emotionally?

Now, on the other hand, you go to a fellow like Ben Cohen and say, "Look, Ben, after all, you can't get anything. We think we can do so much and get so much money from this group. Now, in as much as you can't get anything through, for heaven's sake give us a chance; and if after the first of January we are wrong, we will say so. But in the meantime we would like to sit down and talk with you about a plan which we think supplements the volunteer plan, namely, the spendings tax as compared to the compulsory, which would ruin the volunteer plan."

MR. SULLIVAN: I am all for that.

MR. PAUL: May I ask a question which might affect timing there? There is a drive September 9 - voluntary drive. Is there another drive in the calendar year '43?

MR. SULLIVAN: There is very apt to be one in December.

MR. PAUL: That affects your timing.

H.M.JR: We have to have one in December in order to get the money. There are two schools of thought in the Treasury. One thinks we should go in before Christmas, make the appeal, and get the money rather than let them spend it. The others say, "Wait until the money flows in and go after it afterwards." I am leaning a little bit towards before Christmas; make the drive "Buy a bond instead of something in the black market."

MR. PAUL: That has something of an effect on your timing.

MR. VINER: As to how much leeway you need as to timing before you have tried your thing out.

H.M.JR: But I mean, after all--

MR. BELL: You have to close the third drive before you undertake anything on the enforced lending publicly. You won't know whether or not you have reached your goal until after the next drive - the fourth drive, really.

MR. VINER: You don't think the September test will be an adequate test?

MR. PAUL: The reason I suggested that, Dan, is that the next bill might be over with by December, and you would miss that chance to get compulsory savings in if you were waiting to see the results of the December drive.

MR. HAAS: Maybe in the interim sell them on the spendings tax.

MR. PAUL: But the way you phrase it, the ultimate time is affected by that consideration.

MR. BELL: Would it help this letter any to say that we should drop enforced savings at this time, at least with a view to getting a bill on it, but concentrating all of our efforts on getting a tax bill with as high taxes as we can get through Congress; and then if we have failed in our attempts to get the goal, we can then consider enforced savings the beginning of the next session of Congress?

MR. PAUL: With one amendment, Dan, in the meantime privately discussing it.

MR. BELL: I mean publicly.

H.M.JR: My inclination is to do what the English do, come in with a memoir from the British Treasury which they read; then they say, "Now, this isn't official; we are just reading this, of course, for your memory. If you would like to have a copy of what we have said, we would be very glad to leave it with you." Then they go through this thing of reading the thing.

Well now, I would be very glad to furnish Mr. Paul, who would represent the Treasury, with a memoir which he can read from.

MR. PAUL: I would be glad to read from it, but I wouldn't leave it there. (Laughter)

H.M.JR: That is all right. You might find Drew Pearson under the table. (Laughter)

MR. PAUL: That is right, and furthermore, I wouldn't even have it with me. I would have a little rough summary in my handwriting - littles notes, to summarize it. I wouldn't want to have anything that I might be asked to leave.

H.M.JR: The way I feel right now, I would rather give you a memorandum of the way the group feels here and have you present that verbally, you see.

MR. PAUL: Wouldn't you rely on me to memorize from a few notes instead of having that thing in my possession at the time?

H.M.JR: I said that.

MR. PAUL: I am sorry; I didn't understand you.

H.M.JR: I said that. Then you go over and simply say: "Mr. Morgenthau feels that if the Administration gets behind him and stops sniping, he really believes, with his organization, he can get the money that you people want from the right kind of people on the volunteer plan. If he can't get it, he will be the first to say so. But during this period he would like to study jointly with you the spendings tax as an adjunct to the volunteer plan as opposed to the compulsory savings."

MR. PAUL: I think that is a fine decision.

H.M.JR: But we need the rest of this year. We need the rest of this year.

Now, I would play for that, you see. Then if they say, "We will have to get it in the next tax bill," we can trade a little bit on that, Randolph.

MR. PAUL: Yes, I understand. Remember what Doughton said the other day, that the Congress - we would bring that up at the end after we saw what else we could do at the end of the consideration of the tax bill.

H.M.JR: But I am scared to get this memorandum out.

MR. SMITH: I think so. I think you would just be reading the rebuttal in the newspapers two days later without benefit of having turned your argument over.

H.M.JR: Who disagrees? Who would like to improve, add to, or subtract from what I have just told Paul?

What do you think, Chuck?

CAPT. KADES: I agree with what Dan said originally, that this will start a controversy and a series of exchange of letters. I don't know anything about the merits of the proposal, Mr. Secretary, but it seems to me that that is the effect it is going to have on anyone who favors forced lending.

H.M.JR: But I mean - you don't want to comment on the tentative instructions I have given Mr. Paul - do you want to comment on that?

CAPT. KADES: Yes, sir, I hope he carries them out. (Laughter)

MR. PAUL: I must register an objection to that. (Laughter)

H.M.JR: You (Kades) stick around. Isn't this a good enough battle for you? What do you want to go out on the front for? (Laughter)

MR. PAUL: That is like Leon Henderson's definition of coward.

H.M.JR: What was that?

MR. PAUL: A man who leaves an OPA job and joins the Commandoes. (Laughter) I am not sure Kades isn't that.

MR. SULLIVAN: I think this is a good idea, dispensing with this letter and having Paul do that. It has the added advantage of two bites to the apple, because if they are not willing to go along with Randolph, then you have a chance to get them all over here and make a purely personal appeal.

MR. BLOUGH: My comment was, I think you possibly would have somewhat better response over there if instead of making it spendings tax versus compulsory savings, that we discuss alternatives in meeting this program of spendings tax and compulsory savings and any other alternatives which may be available.

H.M.JR: That is all right.

MR. BELL: I wouldn't be opposed to discussing an enforced lending program if they keep it within the family for the next four or five months.

MR. VINER: Not only that, but I think it would be very good preparation if a hand was tried at drafting a bill to see what the real problems would be here in the Treasury in attacking it.

MR. PAUL: We have drafted a bill, but the more important part is to outline - we have done that.

H.M.JR: Well, I think I would like to keep it just the way it is for the moment, I mean, if you don't mind. But I would say that we have alternative suggestions such as the spendings tax. Is that all right, Roy?

MR. BLOUGH: That is all right.

H.M.JR: All right, don't let's--

MR. PAUL: I want to report to you then - did you tell him, Dan? I told you that I talked with Ben last night.

H.M.JR: He reported it. Tell the group.

MR. PAUL: I talked to Ben last night. I felt, what is the use of working on this subsidy message, and what about the tax message? I said to Ben, "In view of the President's interview, is there going to be any subsidy message? And in view of the decision of the meeting yesterday morning" - it was yesterday, wasn't it - the legislative leaders?

MR. BELL: Tuesday morning.

MR. PAUL: "What is the use of talking about a tax message now? It would be bad timing."

Ben's general answer was, "I don't know; I don't know what is going to happen now." He talked along for quite a while. It was a very amusing conversation. I said, "Your chin is on the gutter; I am going to talk to you when you are in a better mood than you are today."

I couldn't get anywhere with him. He was discouraged at the lack of coordination between you (the Secretary) and Byrnes - the fact that you two didn't sit down in the same room and talk it over together. He wasn't blaming you, either.

H.M.JR: He wasn't?

MR. PAUL: Not any more than Byrnes. He felt just as bad about Byrnes. He felt that the two of you--

H.M.JR: I can't be up in New York at a hospital and attend a meeting here with Byrnes when I have such an able representative as Mr. Paul.

MR. PAUL: No, he was not talking of any one meeting that you--

H.M.JR: Well, we had these meetings and had everybody concerned over here and gave them a supper and everything else. I invited Mr. Byrnes six months ago. Mr. Byrnes wouldn't come here.

MR. PAUL: Byrnes has been sulking in his tent for months; Ben recognizes that.

H.M.JR: Mr. Byrnes was to come over here, but he was too important to come here. Everybody else came.

MR. PAUL: Including Eccles.

H.M.JR: And Harold Smith, and so on.

MR. SULLIVAN: And Leon.

H.M.JR: Everybody came - if he wasn't a stuffed shirt.

I think it was a very good meeting. I am very much pleased. I am particularly indebted to Captain Kades for both his report and his remarks to Mr. Paul. (Laughter)

MR. PAUL: I will get him later. (Laughter)

MR. BELL: After the war. (Laughter)

We have this subsidy message.

H.M.JR: Oh, gawd, why don't you do that in your room?

MR. BELL: I have--

H.M.JR: Don't let's write any messages.

MR. BELL: I prefer not to write one, but then we have been asked for our comments, and we have rewritten the draft that was sent over.

H.M.JR: How long is it?

MR. BELL: How long is it, Roy?

MR. BLOUGH: Five pages.

H.M.JR: I can't do five pages.

MR. BELL: Do you want to leave it to us?

H.M.JR: Yes.

MR. BELL: Paul has to find out what kind of a letter we can write, anyhow.

H.M.JR: I will leave it to you boys. Let Kades take this one and be Ben Cohen. (Laughter)

MR. PAUL: I have a good excuse for writing a memorandum.

H.M.JR: Seriously, let him "Ben Cohen-ize" this one.

MR. BELL: This one is all right because when we send it over it will go into the wastebasket and they will prepare their own message. (Laughter)

H.M.JR: Take it and go into your own office. I will leave it with you. I just can't do any more.

THE SECRETARY OF THE TREASURY
WASHINGTON

Dear Mr. Byrnes:

It may be helpful to indicate the grounds on which I oppose a forced lending program -- certainly at present or in the near future. In my judgment a proposal at this time for forced lending would seriously impair both the tax program and the voluntary lending program.

The chief considerations on which I rest this judgment are as follows:

(1) Such a proposal would tend to defeat our efforts to get the taxes which the Government needs -- and which the country is well able to stand -- by encouraging substitution of forced lending for new taxes, with a great loss of anti-inflationary effectiveness.

(2) No forced loan program yet offered promises to raise as much as half of the $25 billions we plan to raise this year from individual citizens by the voluntary route. A forced loan program would still leave a need for a voluntary program, but would greatly handicap us in carrying out that program.

(3) The voluntary way offers the necessary flexibility of adaptation to citizens' varying situations. A compulsory program could cope with this problem only by the use of unmanageably complex schedules of exemptions and rates.

(4) Voluntary lending as an expression of war participation by individuals has morale values which would be largely sacrificed by making it play second fiddle to a compulsory program.

The remainder of this letter will take up in order the four points just made.

(1) <u>Adverse effect of compulsory lending on prospects for additional taxation.</u>

The present tax revenue, on an annual basis, is just about one-third of our annual budget. I think taxes ought to cover something like half of our expenses. The economy is well able to stand additional taxation, including additional income taxation, at this time. Our estimates indicate that national income payments, after payment of individual taxes (including State and local), amounted to $109 billions in the calendar year 1942, whereas income payments after individual taxes for the calendar year 1943 will amount to $125 billions. This indicates a large increase in the capacity to pay taxes.

But I fear very much that a proposal for compulsory lending would destroy our chances of getting the new taxes which we need. Statements have already been made that the slight increase in taxes payable in March 1944 and 1945 as a result of the pay-as-you-go legislation should bar further increases in income taxation in the near future. The Treasury, of course, has not made any such statements and rejects this view. I believe a recommendation for enforced lending at this time would be widely interpreted as an abandonment of any intention on the part of the Administration to get additional income taxes.

Substitution of forced loans for taxes is undesirable because of the much lower anti-inflationary efficiency of forced loans. To begin with, a very large proportion of the funds brought in would be funds already scheduled for voluntary investment in war bonds. It is likely that the loans individual citizens would be required to make under compulsion would, in many instances, be fully offset by cancellations in payroll allotment and other voluntary savings arrangements. At best, there would be only a small net gain in the total loaned to the Government.

Even this small net gain in the total loaned will overstate the effect of the compulsory program in reducing consumer expenditure; for the citizens can count their loans as assets available in the future and will thus be less inclined to make savings in other forms. Allowing for the combined effect of the conversion of voluntary bond purchases and conversion of other savings, it is plain that a forced loan program would help much less against inflation than a tax program involving very much smaller amounts.

(2) Only the voluntary method offers a program which is big enough to do the job.

The Treasury's program calls for $25 billions of voluntary sales of securities to individuals this calendar year. The $5.3 billions goal for the January-April financing period was exceeded. The total goal of $25 billions for the year compares with $14 billions for the estimated Federal income tax liability of individuals this year. This means that the present tax rates would have to be multiplied almost three times on the average if we were to get the same total of $39 billions through taxes and compulsory loans. No program yet offered for compulsory lending has been anywhere near this size.

A compulsory lending program which is not large enough to replace voluntary loans completely could not be regarded in full as a net addition to the voluntary lending now in sight. The greater part of the funds obtained through compulsory loans would be at the expense of voluntary loans.

The effect of forced lending would certainly be to interfere very seriously with our payroll savings plan and other regular purchases of war bonds and our future drives for funds in large amounts, but it would not relieve us of the necessity of continuing this steady solicitation and these periodic drives. The difficulties of raising funds in both these types of campaigns would be immeasurably increased by a savings levy which would create in the mind of the average wage earner the strong impression that he had done his full duty with respect to the purchase of Government securities through the enforced deduction from his pay. I think the same effect would be observed with respect to other regular purchasers who are not on the payroll deduction plan.

(3) Greater flexibility and equity of the voluntary system.

Enforced lending would be levied through the tax mechanism and of necessity would be subject to the same limitations as apply in the case of income taxes. This means that the amount of enforced levies which we could apply in any income group would be limited by the capacity to pay of those in that group who are least able to pay. When it is remembered that the total amount which we expect to draw from individuals in taxes and the present voluntary program this year is almost three times the amount of taxes alone, this limitation threatens to become a fatal handicap to compulsory lending. It is impossible to raise compulsory levies -- taxes plus compulsory lending -- in the higher brackets to three times their present level without going over 100 percent, with the result that levies in the lower brackets would have to be more than three times present rates on the average.

The application of such rates would be very unfair to a great many people. Ability to save and to make savings available to the Government is affected not only by size of income but by a variety of other factors.

At any income level there are many people who have reason to expect a drop in income after the war and who, therefore, have stronger reasons to save than people whose incomes are permanently at that level. This is particularly true of families which have more wage earners than usual. Ability to save is affected by the wide variations in the cost of living between war centers and other parts of the country, and between large and small communities -- also in some cases by sheer inability to spend because of the lack of things to buy. Moreover, ability to use savings for Government bonds is affected by prior obligations, such as life insurance and the repayment of mortgage debt.

The compulsory method does not readily lend itself to adjustments providing flexibility for these variations. In principle, most of these elements of difference could be taken care of by the use of elaborate schedules for determining compulsory lending quotas; but the formulation and administration of such schedules would involve tremendous difficulties. The voluntary program, on the other hand, offers the necessary flexibility to take care of individuals in different situations and with varying obligations.

(4) The morale value of voluntary lending.

The voluntary program has been one of the major channels of participation in the war effort on the home front. It is estimated that close to a million people acted as volunteer workers in the Second War Loan. A volunteer force of this size, moreover, means that large numbers of our people are developing an increased sense of community responsibility which will carry over into the peace years.

It is not only in the selling effort, however, that civilian participation is involved. The patriotic urge to help finance the war through buying bonds is an important factor as well. The adoption of compulsory lending would seriously affect this sense of participation. It would, I think, go a long way toward killing the enthusiasm and the high morale among workers to which we have been able to contribute through our voluntary payroll savings plan for the purchase of war bonds.

. . . . .

In conclusion, it is pertinent to note that the participation by individuals in the voluntary purchase of Government securities has been increasing substantially. From January to June 1942, the net purchases of Government securities by individuals (redemptions deducted) were $4.4 billions. The purchases from July to December 1942 were $5.8 billions. Individual net purchases from January to May 1943, inclusive, were $6.3 billions, and with the minimum figure estimated for June of $0.7 billions added, the total for January to June 1943 will amount to not less than $7 billions.

Without any increased selling efforts and without anticipating a continuance of this growth, we could confidently rely on individual sales for the calendar year 1943 of not less than $14 billions. As a matter

TREASURY DEPARTMENT

INTER OFFICE COMMUNICATION

DATE

TO Secretary Morgenthau June 17, 1943

FROM Captain Kades

If I were Ben Cohen writing a memorandum to Mr. Byrnes after reading the draft of letter opposing forced lending, I would say (but more pungently) something like the following:

"1. The Treasury rests its case against forced lending on four grounds. Since each ground is based on a fundamental misconception, the conclusion of the letter cannot be justified, unless you reach the same conclusion for different reasons from those stated in the letter.

"2. The first point of the letter is that forced lending will defeat new taxes and that 'The economy is well able to stand additional taxation, including additional income taxation, at this time.'

"No one has seriously proposed that any new income taxes be made effective until after the first of next year. Any thought of additional income taxation at this time flies into the teeth of the realities of the legislative process. This first point has validity only if you assume the conclusion which the letter tries to prove; namely that voluntary savings plus taxes is a better weapon in the fight against inflation than voluntary savings plus taxes plus forced savings.

"3. The second point of the Treasury letter is that forced lending will not raise as much as half of the $25 billion which, according to the letter, 'we plan to raise this year from individual citizens by the individual route.'

"Once before it was glibly stated by the Chief Executive 'We planned it that way,' much to his later embarrassment.

"Moreover, not a shred of evidence is submitted in this letter to support the belief that a $25 billion goal will be achieved. The fact that the money is available is no proof. It was also available during the Second War Loan Drive, when, incidentally, the impact of the 20% withholding tax had not been felt.

"The $25 billion is a laudable goal. But it is an estimate neither supported by facts nor figures nor cold logic. And you can be sure that if Secretary Morgenthau had any substantial basis for this prophecy which would stand the light of day, he would have used it to forestall forced lending.

"4. The third point of the Treasury letter is that forced lending is not sufficiently flexible to meet various family situations.

"Fifty years ago the Boston lawyer Choate, who argued to the Supreme Court that the income tax was 'communistic in its tendencies', used that same reason in opposing any income tax legislation.

"The additional income taxes the letter urges be imposed at this time are open to that same objection. So are excess profits taxes. So are OPA regulations.

"5. The fourth point of the Treasury letter is that voluntary lending is of high morale value. Nevertheless, in the absence of post-war credit provisions, taxes do not provide a nest egg for the wage earner, as such provisions make possible for a corporation under the excess profits tax and for an individual under the Victory tax.

"The letter fails to explain why extensions of this principle to the income tax would injure the morale of wage earners more than payment of the higher taxes which the Treasury fears may not be levied if forced lending is adopted."

D.L.K.

of fact, however, we are wholly confident that the voluntary sales to individuals will far exceed that sum. We have set a goal for the remainder of the year of $18 billions in voluntary war bond purchases by individuals. The program calls for the Third War Loan drive to begin September 9, and a subsequent drive probably in December, as well as continuing sales, especially through payroll savings. This program, if achieved, would give us a total for 1943 of approximately $25 billions.

There are at this moment 27 million persons employed in industry, by the Government and in the armed forces who are participating in the regular payroll deduction plan of investment in war savings bonds. The average deduction from the salaries and wages of all these private and public employees is in excess of 9 percent of their total pay. Payroll deduction alone, not including other forms of regular and occasional voluntary investment, accounts for $425 millions a month.

We put this payroll savings plan into effect early last year and in the first six months of 1942 we raised $539 millions by this method. In the last six months of the year subscriptions through payroll savings amounted to $1,697 millions. From January to May 1943, $1,945 millions were raised and if $425 millions are added as an estimate for the month of June, the total for the first six months of 1943 will be $2,370 millions by the payroll deduction plan alone.

I am confident that we will be able to achieve the goal we have set down for sales to individuals under the voluntary program this year. The organization work for the Third War Loan is now being undertaken. Any official proposals for a compulsory lending program will confuse the volunteer workers and the public, and may cause serious injury to the drive. I trust we will have the wholehearted support of the Administration behind us.

Sincerely,

Honorable James F. Byrnes
Director of War Mobilization
The White House
Washington, D.C.

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Although I am vigorously opposed to a forced lending program, I have felt for some time that there is a real need for legislation which would encourage additional new savings by individuals. A graduated spendings tax would be an effective measure to accomplish this result, and would be consistent with the voluntary program for sales of war bonds.

Sincerely,

Honorable James F. Byrnes
Director of War Mobilization
The White House
Washington, D.C.

TREASURY DEPARTMENT

INTER OFFICE COMMUNICATION

DATE June 17, 1943

TO Secretary Morgenthau

FROM Fred Smith FS

Last week we brought Harold Fleming, of the Christian Science Monitor, to Washington to talk about getting a financial writer. While he was here we gave him the story of our new setup. He wrote the three attached stories, which I believe are quite fair and yet could not be criticized as propaganda from our side.

Fleming has a great following among conservative bankers and is an ardent Republican. When he was leaving he said that he agreed entirely with your new bond setup, and that this is the first time he has seen eye to eye with the Administration in five years.

Treasury Plans on Pay Roll Drives in Future War Loans

(First of three articles on war financing.)

By Harold Fleming

Staff Correspondent of The Christian Science Monitor

NEW YORK — Recent changes in the Treasury's plans for future war loan drives are important and the reason behind them make a good story.

Most important change is that Wall Street loses the control which it was beginning to gain during the December and April loan drives: the program is no longer to be organized by Federal Reserve districts, but by states; and the sales to what might be called professional investors, including institutions, are to be separated from the main part of the Treasury's selling machinery, which is to concentrate on sales of Series E war bonds to that part of John Public which has unaccustomed money, hardly knows what to do with it, and at present appears to be accumulating it in the form of folding money ("money in circulation"). This means pay-roll drives and "general community" promotions.

Story back of the change is something like this.

The Treasury began offering "baby bonds" in 1935. In the summer of 1941, changing their name to "defense bonds," it set up a growing volunteer selling organization which became the "War Savings staff."

Volunteer Organization

This was a grass-roots volunteer organization set up by states, and operating through employers, labor unions, post offices, moving picture houses, chain and department stores, radio stations, and so on. It gradually gained several hundred thousand helpers, and its purpose has been to reach the people with a family income up to $5,000 whom the Treasury says have ...en-eighths of the country's income today. As some of the Treas... people put it, the purpose has ...n not so much to sell bonds as ...ell the war to the American ...lic; and these Treasury people ... that the Treasury's war sav... staff has perhaps done more ...elling the war" to the public ... any other agency.

...st autumn, when the machin... was being set up for the first ...ory Loan, the financial com...ity organized the Victory Fund ...mittees. Their task was chiefly ...ell "the big stuff," to banks, ...rations, insurance companies, ...ngs banks, estates, trust funds, ... large investors with idle funds ...e habit of buying securities.

The Victory Fund people, particularly in New York City, did a thumping good job. In fact, they overwhelmingly outsold the war savings people, as the following figures of sales in that drive indicate, in millions of dollars.

	Dec. Victory Loan Sales
Commercial banks	$5,087
Insurance Companies	1,700
Savings banks	620
Dealers and brokers	769
Corporations	2,654
Series "E" (War Savings Bonds)	726

Except for the Series E sales, which were entirely the work of the war savings staff, most of the above sales were the work of the Victory Fund Committees.

When the April drive came along the Victory Fund people went to work and beat their own figures very sharply. The war savings people also outdid themselves, doubling the Series E sales, but still an estimated 85 per cent of the total dollar sales were claimed by the Victory Fund people and nobody seems to dispute the claim.

As a result of their success in December, the Victory Fund people, including the Federal Reserve people, asked for and got a larger authority in the April drive, which was set up largely on the basis of federal reserve districts, the now traditional map division in the financial world.

And then as a result of the even greater success of the April drive, they are said to have asked the Treasury to set the whole thing up on a Reserve district basis, to subordinate the war savings committees to the Victory Fund and Reserve authorities, and to have the Reserve system as the intermediary for the entire operation in future.

Difference of Opinion

Whatever the details of the proposals, there developed quite a difference of opinion between the Treasury authorities and the Wall Street people over how the future loan drives should be run—and particularly, by whom.

The upshot was the new arrangement.

The gist of the Treasury people's arguments seems to have been this. It is true that the Victory Fund people sold most of the bond—on a dollar count. But on a count of number of "pieces" sold the proportion runs all the other way. In the April drive something over [illegible]-000,000 separate "pieces" or securities, big and little, were sold. It is very doubtful whether the Victory Fund people sold 500,000 of these. Most of the money they raised came in extremely large bites, running sometimes up into the millions, and even hundreds of millions of dollars.

More than that, without abating the credit due to the Victory Fund people for the hard and unpaid work they put in, theirs was a considerably easier selling job per million dollars of bonds sold. Much of it could be done over the telephone. Most of the customers knew in advance the details of the securities they could buy, and their comparative values. The banks were so eager to buy that a sharp limit had to be put in the sales to them; in fact, they got only 18 per cent of the certificates they bid for and 8 per cent of the 2 per cent bond issue they were allowed to buy.

On the other hand, the overwhelming proportion of the actual sales work, doorbell pulling, speech-making, and bench-to-bench solicitation of factory pay roll savings allotment, had of course to be done by the war savings people. It was the difference between Tiffany and dime-store selling.

THE CHRISTIAN SCIENCE MONITOR - June 14, 1943

War Bond Program to Be Set Up On a State-by-State Basis

(Second of three articles on war financing and the Treasury's bond-selling methods.)

By Harold Fleming

Staff Correspondent of The Christian Science Monitor

NEW YORK—The previous article related how the Treasury's war bond program is being set up entirely on a state basis and with a subordinate position assigned to the Federal Reserve banks and the Victory Fund Committees, despite the enormous dollar volume of sales the latter made in the December and April Victory Loan drives.

The Treasury obviously has no intention of dispensing with the Victory Fund people. It probably couldn't even if it wanted to. If they are referred to as the "prima donnas" of the bond selling program, it has been truly said that "when you are singing for billions you have to have prima donnas."

Using Old Fund Setup

Some members of these committees have resigned, or threatened to resign, but the intention is to continue these committees, or at least to accept their very valuable services during drives, and the recent meeting of the governors of the Investment Bankers' Association in New York, attended by Secretary Morgenthau and a considerable number of his henchmen, seems to have resulted in a satisfactory concord, with the brass-hats of the I. B. A. apparently pledging their full co-operation, though some of the members still grumble privately and off the record that the new setup is not a good one.

Second to the quite understandable complaint that "after having done a bang-up job" the bankers are again being shoved aside by the Treasury," the chief criticism of the new arrangement seems to be that it has the makings of another nice political machine for the next election.

Of course the Treasury people can't disprove this, any more than critics can prove it. It is a matter of opinion. However, there is considerable argument for the state-line organizations, chiefly for psychological reasons.

Many of the outfits through which the campaign must work are already organized on state lines, like state labor organizations, women's clubs, state administrative organizations, etc. It is probably easier to develop enthusiasm for putting Maine or California "over the top" of a drive, than for developing emulation and friendly rivalry between the second and third Federal Reserve districts.

And in fact some 16 states are split between reserve districts, including Pennsylvania, Illinois, Michigan, Kentucky and Tennessee.

District Competition

Of course it really is imaginable that competition could be developed between Federal Reserve districts—so far as bond groups looking for the big money are concerned.

But the essential point of the whole thing is that the Treasury is chiefly concerned with sales to the small-income people who never even heard of federal reserve districts. And its war savings staff, which in numbers far exceeds the victory fund staffs, always have been organized along state lines, as, in fact, are most civic, professional, trade and fraternal organizations, through whom the Treasury wants to work.

Getting down to finer points, the opponents of the state type of organization have a further criticism. They say that the federal reserve officials carry more prestige with the banks than anyone else, including commercial bankers themselves. A word from the Fed, it is argued, carries more weight than from a banker chairman.

Against this it is argued that, on the other hand, the Fed is not so popular with some commercial bankers, particularly in the middle west, where many banks are still not members of the Federal Reserve System. Also it is argued that the Fed is too remote from some states, particularly in the far west, where the San Francisco Federal has authority over a district stretching from San Diego to Montana.

But a stronger argument is that the choice is not between Federal Reserve officials and commercial bankers; and that while the Fed has great prestige among the banks it might not find it so easy to work with, for instance, state labor officials. This again goes back to the major goal of the Treasury, which is to reach the non-financial public.

Banks to Be By-Passed

A number of other policies are also involved in the picture.

For instance it has been decided that the Federal will still direct the program so far as it is aimed at large investors, including such institutions as banks, insurance companies, and so on.

This is criticised on the ground that sales to commercial banks are distinctly inflationary (since they are paid for with additional book-credits) while sales to savings banks, life companies, estates, etc., may be deflationary or at least "anti-inflationary" since they mop up funds that might otherwise go elsewhere. But the Treasury's view seems to be that this distinction is not so important as the main goal of separating off the fund-raising which involves the financial community from that which reaches the lower-income non-investing brackets.

A further problem, that of timing, is involved. It is now decided that sales to banks will not be included in the next drive. And perhaps sales to other large investors may also be handled separately.

This means that the next Victory Loan drive will be aimed chiefly at the nonfinancial public, and as a result, the over-all goal will be sharply smaller. Against the $13,000,000,000 raised in December and $18,500,000,000 in April, it is possible that the next goal might be only around $10,000,000,000 or even less, depending on which types of securities for which types of investors are included.

Some students of the matter think this will not sound so well. They feel that it will look like a sharp come-down. But others think it will be much better. It will make the noninvesting public's part in war financing stand out much more sharply. And that is what the Treasury obviously wants.

(To be continued)

Treasury Struggles to Divert Public's Spare Cash Into Bonds

(Third and last of a series on war financing and the Treasury's bond-selling methods.)

By Harold Fleming

Staff Correspondent of The Christian Science Monitor

NEW YORK — Two previous articles outlined the issues involved in the recent change in the war financing program, by which the whole organization is to be set up on a state-by-state basis instead of on the Federal Reserve System.

A further question has been raised about the propriety of having banks use their depositor lists as means of solicitation of war bond purchases. It is argued first that this is unethical, at least, if the banks put any pressure on their depositors or give their depositor-lists to other persons to be solicited. It is also argued that it is unwise, because customers might, under pressure, withdraw their funds and keep them "in the old sock," i. e. in the form of "money in circulation."

Already the total of "money in circulation," i. e. of currency withdrawn from the banks, has mounted to staggering proportions, around $17,000,000,000, and it continues to grow. The total is now around $125 per capita and it seems to mean that wage earners are holding large sums of cash unspent. The Treasury wants to "mop" up this kind of money with war bond sales, and is therefore not likely to encourage any policy which might drive money out of the banks.

Status of Series E Bonds

A further difference of opinion exists over the form of the Series E bonds. They are now non-negotiable and redeemable on demand. Some people object to both these characteristics. They would like to see the bonds negotiable, i. e. marketable, so that the owner could borrow money on them, and they would like to see them no longer redeemable on demand, because that makes them potential demand obligations of the Treasury, and as they are already outstanding to a total of nearly $20,000,000,000, and the public debt is already heavily loaded with early maturities, they consider this unsafe for the Treasury. In a postwar period of hard times the Treasury might be deluged with demands for redemption.

Secretary Morgenthau, however, has said he is "unalterably opposed" to making the Series E bonds negotiable. The Treasury people keep bringing up the story of how in 1921 Liberty bonds dropped to 82 and the records show that very many indeed of the smaller bonds were converted at that time into larger pieces, which could only mean that they were sold by little fellows and bought by bigger ones, and the Treasury doesn't want it to happen again. It doesn't want the "little fellow" to run that risk once more.

Against this it is argued first that a bond-buyer always takes this kind of risk anyway and if he doesn't know he is taking it he should learn.

Also it is pointed out that such declines merely reflect a change in interest rates; though the answer to that is that such niceties of money theory could probably never be explained to little fellows in a bad bond market so that they would accept them.

Gist of the matter is that if there is a postwar depression or tight money market, either the bondholder or the Treasury will have to take the rap. If the bonds are negotiable and not cashable on demand at the Treasury the bond-holder will take it, but if they continue to be as they now are, the Treasury will have to take it. As a matter of fact the best Street guesses seem to be that there will not be much change in money rates in future years.

Another postwar depression is hardly likely since all the old rules are changed and it would not only hurt the Treasury, the banks, the insurance companies, the building and loan societies, the real estate market, and so on, but would bust the political party in power.

The Treasury is very much concerned about the war savings bond program. It figures that the overwhelming proportion today of spare cash which might cause inflation is in the hands of families making under $5,000 a year, and particularly of those whose family incomes has jumped sharply.

Bond Sales Outlook

War bond sales in May were [illegible],000,000. For the last 11 months they have averaged about $1,000,000,000 a month. But the Treasury is now shooting for far higher figures; Mr. Morgenthau says $18,000,000,000 should come from individual bond purchases the rest of this year, which would be nearly $3,000,000,000 a month, and would probably mean something round $2,000,000,000 in war bonds of Series E, F, and G. This clicks fairly well with the figure he has mentioned of 25 per cent of family income after taxes.

National income is now running round $10,000,000,000 a month, and taxes around $2,000,000,000, leaving $8,000,000,000 after taxes, of which 25 per cent would be round $2,000,000,000. These figures are not very reliable, but such big figures are largely theoretical anyway.

It seems ironical that the Treasury has opposed taxes on the little fellow yet is now so eager to borrow from him. The very arguments the Treasury people use for their war bond program—i. e., the fact that most of the loose change nowadays is in the hands of the income brackets below $5,000 — would seem like a first-class argument for higher taxes on these brackets.

There is, however, one partial explanation of the seeming contradiction. Some people in these lower brackets have no spare cash; their incomes are no better than they were. Others, however, are rolling in new money. Taxes would cut across both the new-rich and those squeezed down by the war; a voluntary system, i. e., bond sales, would be more selective.

This, in turn, would seem a good theoretical argument for some kind of "excess profits" tax on personal incomes over those of 1936-1939. The Treasury people have said this would be administratively too difficult. They do not, however, seem to balk at the administrative difficulties in the newfangled idea of the "spending tax."

UNITED STATES WAR SAVINGS BONDS

SERIES E

1943
Department Circular No. 653, Revised
First Amendment

TREASURY DEPARTMENT
Office of the Secretary
Washington, June 17, 1943

Fiscal Service
Bureau of the Public Debt

Sections IV and V of Department Circular No. 653, Revised, dated June 1, 1942, are hereby amended to read as follows:

"IV. LIMITATION ON HOLDINGS

The amount of War Savings Bonds of Series E originally issued during any one calendar year to any one person that may be held by that person at any one time shall not exceed $5,000, maturity value, computed in accordance with the provisions of the regulations governing United States Savings Bonds currently in force. Any bonds acquired on original issue which create an excess should immediately be surrendered for refund of the issue price as provided in such regulations.

V. REGISTRATION

1. Bonds of Series E may be registered only in the names of natural persons (that is, individuals), whether adults or minors, in their own right, as follows: (a) in the name of one person; (b) in the names of two (but not more than two) persons as coowners; and (c) in the name of one person payable on death to one (but not more than one) other designated person. Registration on original issue and authorized reissue is restricted to residents of the United States (which for the purposes of

this section shall include the territories, insular possessions and the Canal Zone), citizens of the United States temporarily residing abroad, and to nonresident aliens employed in the United States by the Federal government or an agency thereof, whether as owners, coowners or designated beneficiaries: Provided, however, That on original issues of bonds, but not on reissues, a nonresident alien (not a citizen of an enemy nation) may be named as coowner or designated beneficiary, and Provided further, That a nonresident alien, whether owner, coowner or beneficiary, succeeding to title on death of the owner, or succeeding to title upon the death of the surviving coowner or beneficiary will be entitled only to request and receive payment either at or before maturity.

2. Full information regarding authorized forms of registration will be found in the regulations currently in force governing United States Savings Bonds."

H. Morgenthau Jr.

HENRY MORGENTHAU, Jr.,
Secretary of the Treasury

TITLE 31 - MONEY AND FINANCE
CHAPTER II - FISCAL SERVICE
SUBCHAPTER B - BUREAU OF THE PUBLIC DEBT
PART 315 - REGULATIONS GOVERNING UNITED STATES SAVINGS BONDS

1943
Cumulative Amendment to
Department Circular No. 530,
Fifth Revision, dated
June 1, 1942

TREASURY DEPARTMENT,
Office of the Secretary,
Washington, June 17, 1943

Fiscal Service
Bureau of the Public Debt

Note: This is a cumulative amendment to Department Circular No. 530, Fifth Revision. It includes all amendments now or heretofore made to that revision. Section 315.10, as amended by the First Amendment, which is now in force unchanged, is printed herein in order that this cumulative amendment may be complete.

To Owners of United States Savings Bonds, and Others Concerned:

Sections 315.2, 315.3, 315.20 (b), 315.25, 315.26, 315.27, 315.32, 315.36, 315.37, 315.52 and 315.65 of Department Circular No. 530, Fifth Revision, dated June 1, 1942 (7 F.R. 5158), are hereby revised to read as hereinafter set forth; Sections 315.29 and 315.35 of said circular, as amended by the First Amendment dated November 23, 1942 (7 F.R. 9772), are hereby further amended to read as hereinafter set forth:

"Sec. 315.2. General. - United States Savings Bonds will be issued only in registered form. The name and complete post office address of the owner, as well as the name of the coowner or designated beneficiary, if any, and the date as of which the bond is issued will be inscribed thereon at the time of issue by an authorized issuing agent.[1/] The form of registration used must express the actual ownership of and interest in the bond and, except as otherwise specifically provided in these regulations, will be considered as conclusive of such ownership and interest. The Treasury Department can recognize no notices of adverse claims to savings bonds and will enter no stoppages or caveats against payment in accordance with the registration of the bonds. No designation of an attorney, agent or other representative to request or receive payment on behalf of the owner, nor any restriction on the right of such owner to receive payment of the bond, other than as provided in these regulations, may be made in the registration or otherwise."

"Sec. 315.3. Restrictions.- Only residents (whether individuals or others) of the United States (which for the purposes of this section shall include the territories, insular possessions and Canal Zone), citizens of the United States temporarily residing abroad, and nonresident aliens employed in the United States by the Federal government or an agency thereof, may be named as owners, coowners or designated beneficiaries on bonds originally issued on or after April 1, 1940, or on authorized reissues thereof: Provided, however, That on original issues of bonds, but not on reissues, a nonresident alien (not a citizen of an enemy nation) may be named as coowner or designated beneficiary, and Provided further, That a nonresident alien, whether owner, coowner

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1/ The date of maturity is also inscribed on Savings Bonds of Series A, Series B, and Series D.

or beneficiary succeeding to title on the death of the owner, or succeeding to title upon the death of a surviving coowner or beneficiary, will be entitled only to request and receive payment either at or before maturity.[2] "

"Sec. 315.10 Calculation of amount.- In computing the amount of savings bonds of any one series issued during any one calendar year held by any one person at any one time for the purpose of determining whether the amount is in excess of the authorized limit as set forth in the next preceding section, the following rules shall govern:

(a) The holdings of each person, as defined in the next preceding section, individually and in a fiduciary capacity, shall be computed separately.

(b) In the case of bonds of Series A, B, C, D and E, the computation shall be based upon maturity values. In the case of bonds of Series F and G, the computation shall be based upon issue prices.

(c) There must be taken into account: (1) all bonds originally issued to and registered in the name of that person alone; (2) all bonds originally issued to and registered in the name of that person as a coowner or reissued to add his name as coowner under the provisions of Section 315.29 (a), or to designate him as coowner instead of as a beneficiary

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2/ Under the terms of Executive Order No. 8389, as amended, and the regulations issued thereunder, bonds may not be issued or paid to nationals (as defined in said Order) of blocked countries or to nationals of enemy countries, whether or not residing in the United States, unless such nationals are generally or specially licensed under the terms of the Order.

under the provisions of Section 315.35 hereof: Provided, however, That with respect to bonds of Series E held in co-ownership form, the amount thereof may be applied to the holdings of either of the coowners, but will not be applied to both, or the amount may be apportioned between them; and (3) all bonds acquired by him before March 1, 1941, upon the death of another or the happening of any other event.

(d) There need not be taken into account: (1) bonds of which that person is merely the designated beneficiary; (2) those in which his interest is only that of a beneficiary under a trust; or (3) those to which he is entitled as an heir or legatee of the deceased registered owner, or by virtue of the termination of a trust or the happening of any other event unless he became entitled to any such bonds in his own right before March 1, 1941.

(e) Nothing herein contained shall be construed to invalidate any holdings within or, except as provided in subsection (c) above, to validate any holdings in excess of, the authorized limits, as computed under the regulations in force at the time such holdings were acquired.

"Sec. 315.20 (b) Banks, trust companies and branches. - Any officer of any incorporated bank or trust company or branch thereof, domestic or foreign, including banks or trust companies incorporated in the United States or its organized territories, those doing business in the organized territories or insular possessions of the United States and the Commonwealth of the Philippines under Federal charter or organized under Federal law, Federal Reserve Banks, Federal Land Banks, and Federal Home Loan Banks; any employee of any such bank or trust company expressly authorized by the corporation to sign on behalf of, or for, any officer thereof, and who should sign over the title 'Designated Employee'; and Federal Reserve Agents and Assistant Federal Reserve Agents, located at the several Federal Reserve Banks. Certifications by any of these officers or designated employees should be authenticated by either a legible impression of the corporate seal of the bank or trust company or, in the case of banks or trust companies and their branches which are authorized and duly qualified issuing agents for bonds of Series E, by a legible imprint of the issuing agent's dating stamp."

"Sec. 315.25. Payment to legal guardians.- If the form of registration of a savings bond indicates that the owner is a minor or has been judicially declared to be incompetent to manage his estate and that a guardian or similar representative has been appointed for the estate of such minor or incompetent by a court having jurisdiction or is otherwise legally qualified, payment will be made only to such guardian or similar legal representative. In such case the request for payment appearing on the back of the bond should be signed by the guardian or other legal representative as such, for example, 'John A. Jones, guardian (committee) of the estate of Henry W. Smith, a minor (an incompetent)'. Unless the form of registration gives the name of the representative, there must be submitted in support of the request a certificate or a certified copy of the letters of appointment from the court making the appointment under the seal of the court, establishing that the appointment is in full force. Such certificate or certification (except in the case of corporate fiduciaries) should be dated not more than six months prior to the date of presentation of the bond for payment. See Subpart M hereof for payment provisions applicable to bonds registered in the names of guardians and similar fiduciaries. Where the form of registration does not indicate that the owner is a minor for whose estate a guardian has been appointed, a notice that such guardian has been appointed will not be accepted by the Treasury for the purpose of preventing payment to the minor or his parent as provided in the two following sections."

"Sec. 315.26. Payment to minors.-Unless the form of registration of a savings bond indicates that the owner is a minor for whose estate a guardian or similar legal representative has been appointed or is otherwise duly qualified, payment will be made direct to such minor, provided he is, at the time payment is requested, of sufficient competency and understanding to sign his name to the request and to comprehend the nature of such act. In general the fact that the request for payment has been signed by a minor and duly certified in accordance with Subpart H hereof will be accepted as sufficient proof of such competency and understanding."

"Sec. 315.27. Payment to parents of minors.- If the owner of a savings bond is a minor and the form of registration does not indicate that a guardian or similar legal representative of the estate of such minor owner has been appointed or is otherwise legally qualified, and if such minor owner is not of sufficient competency and understanding to execute the request for payment, payment will be made to either parent of the minor with whom he resides, or if the minor does not reside with either parent, then to the person who furnishes his chief support. The parent or such other person should sign the request for payment in his own name, on behalf of the minor, in the form "Mrs. Mary Jones, on behalf of John C. Jones", and should sign a certificate, in substantially the following form, which may be typed on the back of the bond:

> 'I certify that I am the ______ (relationship) of John C. Jones and the person with whom he resides. He is _____ years of age and is not of sufficient competency and understanding to sign this request'.

If a person other than a parent signs the request on behalf of the minor he should also certify that the minor does not reside with either parent and that he furnishes his chief support. The Treasury Department may in any particular case require further proof that the minor is not of sufficient competency and understanding to execute the request for payment and of the right of the person executing the request to act on behalf of the minor."

" Sec. 315.29. Reissue for certain purposes.- A savings bond of any series registered in the name of one person in his own right, or to which one person is shown to be entitled in his own right under these regulations, may be reissued upon appropriate request for the following purposes:

(a) Addition of coowner. - Reissue in the name of the owner with that of another natural person as coowner, provided that bonds reissued in accordance with this subsection will be considered for the purposes of computation of holdings under Subpart D of these regulations as originally issued in both names and no reissue will be effective which results in any one person holding bonds in excess of the established limitation for the series to which the bonds belong. Requests for reissue under this subsection should be made on Form PD 1762.

(b) Addition of a beneficiary. - Reissue in the name of the owner with the name of another natural person as designated beneficiary. Applications for reissue under the provisions of this subsection should be made on Form PD 1077.

(c) Reissue in living trust.- Reissue in the name of a trustee of a living trust created by the registered owner for his benefit in whole or in part, during his lifetime whether or not containing an absolute power of revocation in the grantor; but such reissue will be allowed only in the case of bonds of those series which may be originally issued in the name of a trustee."

"Sec. 315.32. Payment or reissue.-A savings bond registered in the names of two persons as coowners in the form 'John A. Jones OR Mrs. Mary C. Jones', will be paid or reissued as follows:

(a) During the lives of both coowners.- During the lives of both coowners the bond will be paid to either coowner upon his separate request without requiring the signature of the other coowner; and upon payment to either coowner the other person shall cease to have any interest in the bond. The bond will also be paid to both coowners upon their joint request, in which case payment will be made by check drawn to the order of both coowners in the form, for example, 'John A. Jones and Mrs. Mary C. Jones', and the check must be endorsed by both payees. The bond will not be reissued in any form during the lives of both coowners except as specifically provided in these regulations.

(b) After the death of one coowner.- If either coowner dies without having presented and surrendered the bond for payment to a Federal Reserve Bank or the Treasury Department, the surviving coowner will be recognized as the sole and absolute owner of the bond, and payment will be made only to him: Provided, however, That if a coowner dies after he has properly executed the request for payment and after the bond has actually been received by a Federal Reserve Bank or the Treasury Department, payment of the bond, or check if one has been issued, will be made to his estate (see Subpart P hereof). Upon proof of the death of one coowner and appropriate request by the surviving coowner (unless a nonresident alien, in which case see Section 315.3) the bond will be reissued in the name of such survivor alone, or in his name with another individual as coowner, or in his name payable on death to a designated beneficiary.

(c) On death of both coowners in common disaster. - If both coowners die in a common disaster under such conditions that it cannot be established, either by presumption of law or otherwise, which coowner died first, the bond will be considered as belonging to the estates of both coowners.

(d) After the death of a surviving coowner. - If a surviving coowner who became solely entitled to the bond under the provisions of subsection (b) of this section dies without having submitted the bond for payment or reissue, the bond will be paid or reissued as though it were registered in the name of such last deceased coowner alone. In this case proof of the death of both coowners and of the order in which they died will be required."

"Sec. 315.35. Reissue during the lifetime of registered owner. - A bond registered in the name of one person payable on death to another may be reissued, on the duly certified request of the registered owner, to name a beneficiary designated on the bond as coowner subject to the same restrictions and conditions contained in Section 315.29 (a). A bond may also be reissued upon the duly certified request of the registered owner, together with the duly certified consent of the designated beneficiary, to eliminate such beneficiary or to substitute another person as beneficiary, or to name another person as coowner. If the beneficiary should predecease the registered owner, upon proof of such death and upon request of the registered owner the bond may be reissued in his name alone or in his name with another individual as coowner, or in his name payable on death to a designated beneficiary. Requests should preferably be made upon the forms provided for such purpose."

"Sec. 315.36. Payment or reissue to beneficiary.- If the registered owner dies without having presented and surrendered the bond for payment or authorized reissue to a Federal Reserve Bank or the Treasury Department, and is survived by the beneficiary, upon proof of such death and survivorship, the beneficiary will be recognized as the sole and absolute owner of the bond, and it will be paid only to him at or before maturity, or (unless such beneficiary be a nonresident alien, in which case see Section 315.3) may be reissued in his name alone, or otherwise reissued in accordance with Subpart J as though it were registered in his name alone: Provided, however, That if the bond with a properly executed request by the registered owner for payment or authorized reissue has actually been received by a Federal Reserve Bank or the Treasury Department, payment of the bond, or check, if one has been issued, will be made to the estate of the deceased owner in accordance with Sec. 315.49."

"Sec. 315.37. Payment or reissue after death of the surviving beneficiary.- After the death of a surviving beneficiary who became entitled under the provisions of this Subpart, the bond will be paid or (except in the case of a nonresident alien) reissued in accordance with Subpart J as though it were registered in the name of the surviving beneficiary alone. In this case proof of the death of both the registered owner and the beneficiary and of the order in which they died will be required."

"Sec. 315.52. Determination of interest as between owner and coowner or beneficiary.- Conflicting claims as to ownership of or interest in a savings bond, as between the registered owner and the coowner or the registered owner and a designated beneficiary may be determined by valid judicial proceedings, in which case the bond upon surrender by the party requesting reissue may be reissued in the names of the respective parties to the extent of their respective interests as determined by such proceedings, but only in authorized denominations. The Treasury can accept no notices of pending judicial proceedings and cannot undertake to protect the interests of litigants who do not have possession of the bonds."

"Sec. 315.65. Correspondence, certificates, notices and forms.- Correspondence in regard to any transactions in United States Savings Bonds under the provisions of these regulations, certificates of court and other certificates, as well as notices of intention to redeem, and the like (which must be in writing), should be addressed to a Federal Reserve Bank or to the Treasury Department, Bureau of the Public Debt, Merchandise Mart, Chicago, Illinois. Notices or documents on file with other bureaus of the Department will not be recognized. Appropriate forms for use in connection with transactions may be procured from any Federal Reserve Bank or from the Division of Loans and Currency."

H. Morgenthau Jr.

HENRY MORGENTHAU, Jr.,
Secretary of the Treasury.

UNITED STATES SAVINGS BONDS

SERIES F AND SERIES G

1943
Department Circular No. 654, Revised
Second Amendment

TREASURY DEPARTMENT
Office of the Secretary
Washington, June 17, 1943

Fiscal Service
Bureau of the Public Debt

Section V of Department Circular No. 654, Revised, dated June 1, 1942, is hereby amended to read as follows:

" V. AUTHORIZED FORMS OF REGISTRATION

1. United States Savings Bonds of Series F and Series G may be registered as follows:

(1) In the names of natural persons (that is, individuals) whether adults or minors, in their own right, as follows:

(a) In the name of one person,

(b) In the names of two (but not more than two) persons as coowners, and

(c) In the name of one person payable on death to one (but not more than one) other designated person;

(2) In the name of an incorporated or unincorporated body, in its own right (except a commercial bank, which, for this purpose, is defined as a bank that accepts demand deposits);

(3) In the name of a fiduciary; and

(4) In the name of the owner or custodian of public funds.

2. Restrictions.- Registration on original issue and authorized reissue is restricted to residents (whether individuals or others) of the United States (which for the purposes of this paragraph shall include the territories, insular possessions and the Canal Zone), citizens of the United States temporarily residing abroad, and to nonresident aliens employed in the United States by the Federal government or an agency thereof, whether as owners, coowners or designated beneficiaries: Provided, however, That on original issues of bonds, but not on reissues, a nonresident alien (not a citizen of an enemy nation) may be named as coowner or designated beneficiary, and Provided further, That a nonresident alien, whether owner, coowner or beneficiary, succeeding to title on death of the owner, or succeeding to title upon the death of the surviving coowner or beneficiary will be entitled only to request and receive payment either at or before maturity and will not be entitled to reissue.

3. Full information regarding authorized forms of registration will be found in the regulations currently in force governing United States Savings Bonds."

H Morgenthau Jr

HENRY MORGENTHAU, Jr.,
Secretary of the Treasury.

TREASURY DEPARTMENT

INTER OFFICE COMMUNICATION

DATE June 17, 1943

TO Secretary Morgenthau

FROM Fred Smith FS

The story back of Crider's New York Times' article is as follows:

A letter to employers was originally prepared for John Sullivan, and contained a great deal of bond publicity. This is the letter you saw and didn't like.

We revised that letter, reducing the bond publicity to a paragraph. A copy of the final form is attached.

Through some slip, a copy of the original letter was used in the preparation of a release, which went out yesterday. Incidentally, all the material we cut out was used in the Crider story.

THE SECRETARY OF THE TREASURY
WASHINGTON

June 4, 1943.

TO THE EMPLOYERS OF THE UNITED STATES:

At this time when the method of collecting the Federal Income Tax is undergoing such a complete change, many of your employees will not understand the new system. In spite of the very widespread discussion of the withholding feature, many of them will wonder and may ask why their pay is "short."

A simple leaflet in their pay envelopes may be helpful. Here is a sample explanation which, if you care to do so, you can print and enclose in the pay envelope from which the tax is first withheld.

PAY-AS-YOU-GO INCOME TAX

The new "Pay-As-You-Go" income tax law became effective July 1, 1943. It requires your employer to withhold a certain proportion of your pay. This amount is not a new tax, but is in payment of your regular Federal Income and Victory Tax.

Beginning with the pay you are receiving today your employer has withheld this tax from your wage. Therefore, you have now begun to pay your regular Income and Victory Tax as you earn the income subject to that tax.

The money withheld is not kept by your employer, but is turned over to the United States Treasury. It is *your* money, and stands to your credit as a *prepayment* of your Federal Income and Victory Tax.

After the close of the year your employer will give you a receipt showing exactly how much of your money has gone to the United States Treasury toward the payment of your taxes. Keep that receipt. It is your evidence of tax paid.

Any Federal income tax payments you made during the first two quarters of this year (March 15th and June 15th) stand to your credit as payment on *this* year's income tax.

With the beginning of withholding some of your employees may be inclined to offset their apparent loss of income by reducing their regular subscription to War Savings Bonds. It is vitally important that every effort be made to maintain or even increase the present rate of War Bond purchases. I will appreciate anything you can do to help.

I believe that any additional burden placed upon you as an employer or upon us at the Treasury will be more than offset by the benefits to be derived. Let me thank you in advance for your assistance, and assure you that we will do everything possible to promote the smooth operation of this new Income Tax machinery.

Sincerely yours,

Henry Morgenthau Jr.

Secretary of the Treasury.

U. S. GOVERNMENT PRINTING OFFICE : 1943 16—34850-1

HOW TO USE TABLE B

Employers who use the wage bracket withholding method (Tables A-1 to A-5) for determining the amount of tax to be withheld do not need to refer to the following Table B.

For the convenience of employers who do not elect to use the wage bracket withholding table, there has been constructed a table which shows the lowest amounts of wages by family status and payroll periods at which the family status withholding exemption and the 20 percent rate apply. For wages below these amounts, the Victory Tax withholding exemption and the 3 percent rate apply.

Example:

If the payroll period is weekly, all wage payments of $33.18 and over are subject to the family status withholding exemption and the 20 percent rate for—

Married persons claiming no personal exemption (Item I (1) of Form W-4) with five dependents.

Married persons claiming half of the exemption (Item I (2) of Form W-4) with three dependents.

Single persons (Item I (3) of Form W-4) with three dependents.

Married persons claiming all the exemption (Item I (4) of Form W-4) with one dependent.

Heads of family (Item I (5) of Form W-4) with two dependents.

If the weekly wage payments are less than $33.18 for these classes, the payments are subject to the 3 percent tax on the excess of wages over the weekly Victory Tax withholding exemption of $12.00.

Thus, it will be observed that before computing the tax to be withheld it is possible through the use of the following Table B to divide the wage accounts as between those subject to 20 percent on the amount in excess of the family status withholding exemption and those subject to 3 percent on the amount in excess of the Victory Tax withholding exemption.

TABLE B

20 PERCENT OF WAGES IN EXCESS OF FAMILY STATUS WITHHOLDING EXEMPTION IS APPLICABLE FOR WAGES *EQUAL TO OR IN EXCESS OF* THE AMOUNTS SHOWN. 3 PERCENT OF WAGES IN EXCESS OF VICTORY TAX EXEMPTION IS APPLICABLE FOR WAGES *LESS THAN* THE AMOUNTS SHOWN.

If the payroll period with respect to an employee is—	And, (1) such person is a married person claiming none of personal exemption for withholding and has—									
	No dependents	One dependent	Two dependents	Three dependents	Four dependents	Five dependents	Six dependents	Seven dependents	Eight dependents	Nine dependents
			Or, (2) such person is a married person claiming half of personal exemption for withholding and has—							
			No dependents	One dependent	Two dependents	Three dependents	Four dependents	Five dependents	Six dependents	Seven dependents
			Or, (3) such person is a single person and has—							
			No dependents	One dependent	Two dependents	Three dependents	Four dependents	Five dependents	Six dependents	Seven dependents
					Or, (4) such person is a married person claiming all of personal exemption for withholding and has—					
					No dependents	One dependent	Two dependents	Three dependents	Four dependents	Five dependents
					Or, (5) such person is head of a family and has—					
					No dependents or one dependent	Two dependents	Three dependents	Four dependents	Five dependents	Six dependents
Weekly	0	0	0	$19.06	$26.12	$33.18	$40.24	$47.29	$54.35	$61.41
Biweekly	0	0	0	38.12	52.24	66.35	80.47	94.59	108.71	122.82
Semimonthly	0	0	0	41.29	56.59	71.88	87.18	102.47	117.76	133.06
Monthly	0	0	0	82.59	113.18	143.76	174.35	204.94	235.53	266.12
Quarterly	0	0	0	247.77	339.53	431.30	523.06	614.82	706.59	798.35
Semiannual	0	0	0	495.53	679.06	862.59	1,046.12	1,229.65	1,413.18	1,596.71
Annual	0	0	0	991.06	1,358.12	1,725.18	2,092.24	2,459.29	2,826.35	3,193.41
Daily or miscellaneous (per day of such period)	0	0	0	2.70	3.70	4.70	5.70	6.70	7.70	8.70

16—28530-1

Mr Smith and Mr Lowe read this.

June 17, 1943

MEMORANDUM TO THE SECRETARY: JKS

Withholding Tax

The recent completion of the Withholding Tax legislation gave to Internal Revenue these specific things to accomplish in a very short time:

1. Informing the public of the continuing obligation to pay the June 15th income tax installment
2. Informing employees on the details of the new law
3. Informing employers on the details of the new law
4. Urging on employees the importance of filing their Withholding Exemption Certificates
5. Helping convince the public of the possibility and necessity of continuing regular purchase of War Savings Bonds despite withholding

Before releasing publicity to accomplish these purposes, material was cleared with Mr. Smith, representing you, Mr. Gaston, Mr. Odegard, for the War Finance Committee, Mr. Schwarz's Division of Public Relations, and the Bureau of Internal Revenue.

Herewith is a Summary of this concentrated publicity campaign.

Following the Summary are samples of the material sent out. For easy reference, samples are numbered in conformity with the Summary.

SUMMARY OF "WITHHOLDING TAX" PUBLICITY

1. JUNE 15th INCOME TAX INSTALLMENT

a. RADIO. Two hundred word summary released by OWI to all radio stations for use as spot news announcement wherever possible until June 15th.

b. RADIO. Set of "station break" announcements, about twenty to thirty words, released by OWI to all radio stations.

c. RADIO. Necessity of making June 15th payment was stressed strongly in two national hook-up broadcasts; one over the Columbia Network of 121 stations on Thursday, June 10th; the other over the Blue Network of 158 stations on Sunday, June 13th.

d. NEWSPAPERS. Mats of newspaper "ears" or boxes, containing reminders of the June 15th payment were sent out to the list of daily newspapers.

2. PUBLICITY TO EMPLOYEES

a. LABOR PRESS. A letter from you to editors of labor publications describing the new Withholding Tax. The article was written from the point of view of labor union members and distributed to 552 labor papers. With it went a copy of the new Withholding Exemption Certificate.

b. GENERAL NEWSPAPERS. Mimeographed sheets of five sets of questions and answers are released to daily newspapers for publication one set a day beginning June 21st. These questions and answers cover the points most likely to arise and to be misunderstood by the public in connection with the Withholding Tax. They are phrased in simple, man-on-the-street language.

c. RADIO. Thursday evening, June 10th, Mr. Sullivan, aided by three professional actors, presented a fifteen minute round table discussion of the new law. This had spot news value since announcement had been made only a few hours earlier that the Bill had been signed. This was over the Columbia Network of 121 stations. It was well received, drew many favorable responses. On request, a transcription of the program was supplied to Station WTOL at Toledo.

Sunday, June 13th, at 3:00 P.M. the Blue Network (158 stations) broadcast on the program, "This is Official", about eight minutes of questions and answers about the new tax. The answers were given by Mr. Timothy C. Mooney, Deputy Commissioner of Internal Revenue.

Two minute brief analysis of the new law was prepared and is being released through OWI for use on any program show which will donate the time.

Five Minute Talk on the new law will be broadcast by Mr. Sullivan on the "Treasury Bondwagon" program Saturday, June 19th. This same talk is made available to Collectors of Internal Revenue and Agents in the field as basis of local newspaper releases over local radio stations.

The Bureau of Internal Revenue has also supplied to its field forces two other longer talks for similar use.

d. INSTRUCTIVE POSTERS. A poster was prepared to be posted on bulletin boards in factories, payroll offices and other places where employees could receive mass instruction in the meaning and operation of the new law. About eleven million of these were printed in very fast time and distributed to all employers through the Collectors' offices.

e. EMPLOYERS INSTRUCTIONS TO LABOR UNIONS. A letter from the Secretary of the Treasury to the Presidents of all Labor Unions, saying that in order that their members' questions about Withholding may be answered authoritatively, copies of the booklet, "Employers' Duties" were being sent in sufficient number so that each local Union might have a copy.

This idea and the letter were enthusiastically approved by Mr. Houghteling. About 35,000 of the booklets were shipped from the Bureau of Internal Revenue to the central unions for redistribution to their locals.

3. PUBLICITY TO EMPLOYERS

a. INSTRUCTIONS. Five million twelve page booklets were printed and distributed to employers, describing in detail the duties of employers under the new law, and giving tables for figuring wage exemptions and withholdings.

The first page of this booklet carries a summary of Employers' Duties, expressed in non-technical language and so presented that any employer may learn in a few minutes what his obligations are under the new tax.

Pages one to five of the booklet contain fully detailed instructions for employers covering practically every phase of the operation of the new law from their point of view.

The last page of the booklet is another innovation. It is a letter from the Secretary of the Treasury (1) suggesting to employers that they enclose with the first "short" payroll slips explaining to their employees the why and wherefore of the shortage, (2) giving them suggested copy for this slip, and (3) asking them to do anything possible to encourage continued regular War Bond purchase by their employees. This has received favorable and useful publicity in the news columns of the newspapers.

b. GENERAL NEWSPAPERS. The Commissioner of Internal Revenue sent a circular letter to managing editors of daily newspapers, with which he enclosed copy of the booklet of "Employers' Duties". He suggested to the daily papers that they could render real service to the Government by making excerpts from the booklet which would help instruct employers in their obligations under the new law.

c. ANTI-WINDFALL PROVISIONS. An article is appearing in the July issue of the "Commerce Clearing House" magazine setting forth a "Brief Analysis of the Anti-Windfall Provisions of the Current Tax Payment Act of 1943". This is of particular interest to individuals of very high bracket income.

d. OTHER FORMS. Withholding Exemption Certificates, Statements to Employees of Wages Withheld, Tax Returns to Collectors — forms aggregating perhaps 500,000,000 in number have been printed and distributed to employers.

We owe a word of sincere commendation to the Forms Committee of the Bureau of Internal Revenue for their work in getting these ready in such short time after the Bill took final form, and to the Government Printing Office for their truly amazing performance in producing this vast amount of printing in record time.

e. GENERAL. All publicity over the radio or in the newspapers contained constant reference to the duties of employers under the new Act and instruction as to how these duties are to be carried out.

4. <u>FILING "WITHHOLDING EXEMPTION CERTIFICATE"</u>

The importance to the employee of filing this Exemption Certificate has been stressed in everything we have done — newspaper stories, release to the labor press, radio programs, radio talks and spot announcements.

The Bureau of Internal Revenue, through the Collectors' offices, has emphasized to employers the necessity of getting these Certificates distributed and returned promptly so that the necessary work of figuring exemptions may be completed by the time the new withholding goes into effect, on or after July 1st.

The Government Printing Office gave invaluable help by printing and distributing 200,000,000 of these forms in unbelievably short time.

5. CONTINUING PURCHASE OF WAR SAVINGS BONDS

Wherever pertinent and possible, we have included a message urging the continued purchase of War Savings Bonds. We have pointed out very strongly that the new law is not a new tax or an additional tax; since it does not lay new burdens on most taxpayers it offers no reason for curtailing the present purchase of bonds.

This message either expressed or implied, was in the booklet "Employers' Duties", in the Secretary's letter to Labor Union Presidents, in the story that went to labor publications, in newspaper releases and radio programs.

We have kept this message moderate in tone, preferring understatement to the danger of over-enthusiastic salesmanship which might strain credulity and thus defeat its purpose.

John L. Sullivan

RADIO FLASH FOR RELEASE AS SOON AS THE
NEW ACT BECOMES LAW. RELEASE THROUGH
OFFICE OF WAR INFORMATION

The new pay-as-you-earn Withholding Tax goes into effect with the first payroll period beginning after July 1, 1943.

Wages earned before that date are not subject to withholding.

The new tax does not change the duty of any person to pay his or her June 15th income tax installment.

That must still be paid, on or before June 15th, just as if the new pay-as-you-earn law had never been passed.

The only difference is that this June 15th installment will be credited against this year's income tax payment instead of last year's.

Congress has agreed to forget most or all of a year's income tax (1942 or 1943, whichever is smaller). So all tax collections paid this year, both your March 15th payment and your June 15th payment and all the tax payments your employers withhold from your wages from July 1 on, will be current payments against current earnings -- real "pay-as-you-go".

So don't fail to make your June 15th payment.

And also, don't fail to fill out and file with your employer, right away, a copy of the Withholding Exemption Certificate. If you don't file one of these Certificates, your employer will be required by law to withhold 20% from all your pay -- not matter how many dependents you have. So ask your employer for this certificate NOW -- fill it out, sign, and return it to him promptly. It will cost you money if you don't!

RADIO STATION BREAKS

The new "pay-as-you-go" law does not forgive or cancel any person's obligation to pay his or her second income tax installment on June 15.

June 15th is income tax payment day as usual. The new "pay-as-you-go" law does not change that fact.

"Pay-as-you-go" withholding goes into effect July 1. But that does not change or forgive any person's obligation to make his second quarterly Income Tax Payment on June 15th.

The new withholding tax does NOT "forgive" your obligation to make your second Income Tax payment on June 15.

"Pay-as-you-go" withholding goes into effect July 1. That does not change your obligation to pay your Second Income Tax installment on June 15.

Nothing in the new tax law "forgives" the necessity of paying second quarter Income Tax Payment on June 15th.

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From: Press Section
Treasury Department
Washington, D. C.

June 4, 1943

Note to Editor: There is considerable confusion in the minds of taxpayers with reference to the new tax bill currently before Congress, and the present income tax law. It makes no difference what law the Congress passes, or what percent of tax is forgiven, the second installment of 1942 Income Taxes must be paid June 15th. Publication of these reminders on page one of your paper daily until June 15th will materially aid in clearing-up this confusion in the minds of your readers. Thank you.

INCOME TAX
Remember June 15th
SECOND PAYMENT
★ ★ **IS DUE** ★ ★

REMEMBER . . June 15th
INCOME TAX
PAYMENT DUE

INCOME TAX
2nd Payment
IS DUE
★ ★ *June 15th* ★ ★

REMEMBER
to pay the SECOND INSTALLMENT on your INCOME TAX June 15th.

REMINDER . . . your second quarterly INCOME TAX payment is due June 15th.

Nothing in the new tax law "forgives" the necessity of paying 2nd quarter INCOME TAX PAYMENT on June 15th.

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Wash. Post, June 14 9

Tomorrow's Tax Installment Is Last Before Payroll 'Pinch'

By the Associated Press

The second quarterly installment payment on 1942 income taxes is due tomorrow.

This will be the last such quarterly payment made by most taxpayers. Beginning July 1 the majority will pay their income and victory taxes through withholdings from wages or salaries.

The installment due tomorrow, and that paid March 15 will be applied to either 1942 or 1943 taxes, depending upon the "abatement year" of each taxpayer.

The "abatement year" is either 1942 or 1943, which ever represents a person's smaller tax payment. If 1942 is your abatement year, and your tax for it is $100, $75 of the amount (75 per cent) will be abated under the pay-as-you-go tax bill. You will owe the remaining $25 in equal installments, due March 15, 1944, and March 15, 1945. You also will owe your full 1943 tax, and the installments paid March 15 and tomorrow will apply toward this obligation, as will the withholdings from your pay between July 1 and December 31.

The same 75 per cent formula applies to all whose "abatement year" taxes total more than $50. Those with bills of $50 or less receive 100 per cent "forgiveness" for that year. Those with tax bills between $50 and $66.75 receive $50 abatement and will owe the remaining amount in 1944 and 1945 installments.

The withholding applies only to persons receiving wages or salaries. Such taxpayers as professional men, receiving fees or other income, will pay their taxes currently on a quarterly basis.

While the quarterly payment will be abolished for most taxpayers, the annual March 15 returns are not done away with. Every taxpayer must file a return next March 15, remitting whatever he may owe the Government despite his two quarterly payments this year and the July 1-December 31 withholding. If all these total more than his tax obligation, he will receive a rebate.

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THE SECRETARY OF THE TREASURY
WASHINGTON

June 10. 1943

To the Editor of the Publication Addressed:

On July 1, the entirely new "Pay-as-You-Go" method of collecting the Victory and Federal Income Tax goes into effect. This is of the greatest interest to all the people of our Nation, especially wage earners.

Consequently, we are sending you herewith an article explaining in brief the workings of this new Withholding Tax, its advantages to taxpayers, and also the requirements it puts upon them.

It is important that we all do everything possible to emphasize these two major points:

1. The necessity of each employee's filing with his employer, as early as possible, a Withholding Exemption Certificate.

2. The new law does not "forgive" or cancel the obligation of any person to pay his or her second income tax installment on June 15, 1943.

I hope this will reach you in time to be of use in explaining the process of withholding to your readers by the time they get their first pay from which the tax has been withheld.

Any help you can give the wage earners of America to understand this new law will be deeply appreciated.

Sincerely yours,

Henry Morgenthau Jr

Secretary of the Treasury.

TREASURY DEPARTMENT

Washington

"PAY-AS-YOU-GO" INCOME TAX BECOMES LAW

TAXPAYERS PUT ON CURRENT BASIS THROUGH NEW COLLECTION SYSTEM. TAX WITHHELD FROM WAGES AFTER JULY 1. WORKERS MUST FILE EXEMPTION CERTIFICATES WITH EMPLOYERS.

WHAT IT IS

On July 1, 1943, a withholding tax on individual incomes goes into operation. From then on you will, for the most part, pay your Federal Income Tax bit by bit as you earn, instead of in a lump sum or four installments. You will pay it through regular deductions from your pay envelope. This is the same method that has been used to collect your Victory Tax and Social Security Tax. It is NOT a new tax, NOT an extra tax -- but a new method of collecting the Federal Individual Income Tax. It includes the Victory Tax, the withholding rate for which has been reduced from 5% to 3%.

This new Withholding Tax is at the rate of 20% on wages over and above exemptions. After exemptions it will actually amount to no tax at all for some persons, up to not more than 10 or 12 per cent of most people's pay. It is NOT a gross tax on wages.

HOW IT WORKS

The very first thing for any employee to do is to fill out, sign and hand in to his employer a WITHHOLDING EXEMPTION CERTIFICATE. This tells your family status, whether married or single, how many dependents you have. The greater your responsibility, the more of your pay is exempt from the 20% withholding.

The law specifically puts upon employees the responsibility for filing these EXEMPTION CERTIFICATES. If you do not file one with your employer, he will not be able to give you any exemption, but will be required by law to deduct 20% from all your pay.

It is of utmost importance that every employee fill out, sign and give to his or her employer a copy of the Withholding Exemption Certificate -- right away! Employers will supply blank forms.

If your marital status or the number of your dependents changes, you must notify your employer within 10 days.

PAY EXEMPT FROM WITHHOLDING

From your Exemption Certificate, the employer determines the amount of tax to be withheld from your pay. For single persons the amount exempt from tax is $12 a week, or $624 a year. For married couples, the exemption is $24 a week, or $1248 a year. This exemption can be divided between husband and wife if both are working, or the whole thing taken by either one, in which case the other spouse cannot claim any of it. For each dependent there is an additional exemption of $6 a week, or $312 a year.

Do not confuse these exemptions with your basic income tax exemption. They are used only to calculate the amount to be withheld.

Here are three examples of how it works out. John Smith, a single man, is making $37 a week. Of that, $12 is exempt. The other $25 is subject to withholding at 20%. Thus the amount withheld from each week's pay is $5.

George Jones is married, has three children, is earning $50 a week. His exemptions are $24 for himself and wife, $6 for each of the three children, a total of $42. Only $8 of his weekly pay is subject to withholding, so Jones' employer will deduct only $1.60 a week.

James and Sarah Brown are both working. They have 4 dependents at home. They elect to divide the married couple exemption of $24 equally between them so that each has $12 a week free of withholding. Since James furnishes the chief support for the dependents, he may take $24 a week for dependents, making his total exemption $36 a week before the 20% is withheld. If James alone were working, he would claim the entire exemption of $24 and $24 more for the 4 dependents, or a total of $48 a week exempt from withholding.

A word of warning here. It is quite possible that the amount withheld from your pay will not be exactly, to the penny, 20% of your pay above your withholding exemption. You may find that the tax withheld will be a trifle more, or a trifle less.

Employees should understand that this is because the law allows employers to withhold the tax in accordance with "Wage Bracket Tables." These tables set definite amounts to be withheld from each pay. For example, in the case of married employees with three dependents, whose weekly wage is anywhere between fifty and sixty dollars, the employer is authorized to withhold a flat amount of $2.60 per week, instead of requiring him to figure the exact amount for each individual employee.

The law grants the employer this "short-cut" method in order to simplify his job of computing the amount to be withheld for each individual worker. In any case, where "Wage Bracket Tables" are used, the amount of tax withheld will be only slightly different from an exact computation at 20%.

WHAT HAPPENS TO MONEY WITHHELD

Tax money withheld from wages is paid by the employer to the United States Treasury. The amount withheld from you stands to your credit at the Treasury against the amount you owe on Income and Victory Tax. At the end of the year, or at termination of employment during the year, your employer will give you a certificate stating the amount of wages he has paid you during the year and the amount of tax he has withheld. Keep this. It is your tax receipt.

On or before March 15, 1944, you will be required to file, in the usual manner, your income tax return showing your actual income for 1943, and figuring in the usual deductions and credits. The tax withheld by your employer, both before and after July 1, 1943, the income tax installments you paid March 15 and June 15, and any tax you may have already paid in addition to the above-mentioned payments will be shown on the return as credits. In other words, you will add up the tax payments you made on March 15 and June 15, 1943, plus the total amount that has been already withheld for Victory Tax purposes, as well as the amounts withheld from your pay since July 1 by the Withholding Tax, plus any other amounts you may have paid on September 15 and December 15. If the total comes to more than your liability, the Government will credit you with the difference against the next year's tax payments. If it comes to less, you will pay the difference.

WHY WE HAVE THE WITHHOLDING TAX

There is no doubt that the country as a whole welcomes this method of Income Tax payment, which lets people pay their taxes in small frequent installments corresponding to their regular pay periods, and which lets people pay this year's taxes "as-they-go" out of this year's wages. It is easier to pay this way than to have to save up part of each pay for delayed quarterly or annual payment.

Withholding brings tax money into the Federal Treasury faster, now when it is needed to pay for the war. It should help us in our fight against inflation.

Members of Organized Labor and wage-earners in general should realize that the new method of collecting taxes has not increased the tax burden. It has, however, lightened this burden by distributing it over an entire year.

It can be repeated that "It Takes Both -- Taxes and War Bonds" to fight and win the war. Enlightened self-interest and the call of patriotism require the investment of the largest possible percentage of income in War Bonds through payroll savings or other systematic savings plans.

President Green of the American Federation of Labor and President Murray of the CIO have recently issued earnest appeals for a continuation of Payroll Savings Plans.

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TREASURY DEPARTMENT

Washington

Note to editors: The attached five sets of questions and answers explaining provisions of the Current Tax Payment Act of 1943 affecting most of your readers are for release beginning Monday, June 21, 1943, and daily thereafter according to their number.

37-10

No. 1

Facts about

"PAY-AS-YOU-GO"

Q. Is the "withholding tax" a new tax or an additional tax?

A. Neither. It is a new "pay-as-you-go" method of collecting the Federal Income and Victory Tax. The amount withheld goes toward paying your regular income tax, including the Victory tax.

Q. Why is it called a Withholding tax?

A. Because it is deducted and withheld by the employer from the wages paid to his employees.

Q. Is this the "pay-as-you-go" tax we've been hearing so much about?

A. Yes.

Q. Does this include my Victory tax payment, or is that extra?

A. The amount withheld includes the Victory tax.

Q. Does it include Employment Taxes, formerly called Social Security Taxes?

A. The amount withheld does not include Social Security Taxes.

Q. When does it start?

A. The new "Withholding Tax" takes effect on July 1, 1943, and is applicable to all wages paid on or after that date except for wages paid for payroll periods commencing before that date.

Q. Does the withholding mean that twenty percent of my pay check will be taken out each pay day?

A. No. Exemptions bring the amount considerably lower, even for the single person with no dependents. For instance, in the case of a married man with two dependents drawing $50 per week, the weekly percentage of withholding amounts to less than 6 percent. In other words this man pays approximately $2.80 per week.

No. 1 (Continued)

Q. Last March I paid one quarter of the income tax levied against 1942 income, $15.80. What happens to that?

A. The first quarter of the income tax levied for 1942 and paid in March 1943 will be treated as part payment of income tax for 1943.

Q. How about the June 15th installment?

A. The June 15th installment will also be treated as part payment of the 1943 tax.

Q. How can I maintain my regular purchase of War Bonds through the Payroll Savings Plan and at the same time pay out the additional withholding tax?

A. It should be as easy under the withholding tax system as at present, since this is not an additional tax but merely an installment or pay-as-you-go method of paying your regular annual income tax.

No. 2

Facts about

"PAY-AS-YOU-GO"

Q. How much will my employer hold out of my pay?

A. There will be withheld from your pay an amount equal to 20 percent of the excess of your wages over your family status withholding exemption, or 3 percent of the excess of your wages over the Victory tax withholding exemption, whichever is greater.

Q. What do you mean by exemption?

A. The amount of your wages which is exempt from the withholding tax.

Q. What does that amount to?

A. On an annual basis, $624.00 for single persons; $1,248.00 for married persons; and $312.00 for each dependent. On a weekly basis, this is $12.00 for a single person; $24.00 for a married person; and $6.00 for each dependent.

Q. How does my employer know how much of my wage is exempt from withholding?

A. Because he gives you a slip of paper called WITHHOLDING EXEMPTION CERTIFICATE. On it you indicate whether you are single or married, how many dependents you have, and so forth. Then you sign the Certificate and return it to your employer. From that information he can tell exactly how much of your pay is exempt from withholding, and how much bears the 20 percent tax.

Q. What if I do not hand in one of these Certificates to my employer?

A. Then he is required by law to withhold the 20 percent tax from all of your wage without any exemption. So it will save you money to be sure to turn one in.

Q. Do I turn my Withholding Exemption Certificate in to my foreman, to the payroll department, or where?

No. 2 (Continued)

A. The Withholding Exemption Certificate must be given to your employer, or some one designated by him to accept it.

Q. Suppose both my wife and I are employed. How does the exemption work?

A. The personal exemption may be divided and each take one-half, or one may claim it all. Each has the same Victory tax withholding exemption.

Q. Suppose I am married, have two children, and earn $54.00 a week - how much pay will I receive after the withholding tax has been deducted?

A. You will receive $50.20 if your employer elects to use the wage bracket withholding table provided by law, or $50.40 if your employer computes the tax at 20 percent of your wage less exemptions.

Q. If my husband has filled out an EMPLOYEE'S WITHHOLDING EXEMPTION CERTIFICATE and has claimed half of the personal exemption and exemption for one dependent, and after a couple of months is drafted; can the wife claim the full personal married exemption and the dependent child's exemption?

A. The Withholding Exemption Certificate filed by the husband can be changed. Where there is a change of status, a new Certificate should be furnished the employer, which may take effect, at the employer's election, with respect to any payment of wages made on or after the date the Certificate is furnished; but in no event later than the first payment of wages made on or after the following first day of July or January which occurs at least 30 days after the Certificate is furnished to the employer.

No. 3

Facts about

"PAY-AS-YOU-GO"

Q. What happens if the amount of my "withholding exemption" changes during the year?

A. You should furnish your employer a new withholding exemption certificate within 10 days of such change in order that your employer may give effect at the earliest date required by law to the change in your marital status or the number of your dependents.

Q. Is my employer required to withhold exactly 20 percent of my pay above my exemption?

A. No. Your employer may elect to use the "Wage Bracket Tables" provided by law which vary slightly from exact computations at 20 percent. These tables set definite amounts to be withheld from each pay. For example, in the case of married employees with three dependents, whose weekly wage is anywhere between fifty and sixty dollars, the employer is authorized to withhold a flat amount of $2.60 per week, instead of requiring him to figure the exact amount for each individual employee. The law grants the employer this "short-cut" method in order to simplify his job of computing the amount to be withheld for each individual worker. However, cases where "Wage Bracket Tables" are used, the amount of tax withheld will be only slightly different from an exact computation at 20 percent.

Q. Isn't a large part of last year's income tax cancelled or "forgiven"?

A. Yes, from 75 percent to 100 percent, depending upon the amount of your taxes for the years 1942 and 1943.

Q. How about that part which is not cancelled?

A. The part which is not cancelled you still owe to the Government. You pay it in equal parts in March 1944 and March 1945.

Q. Since 3/4 of last year's taxes are cancelled and I paid one quarter this past March, doesn't that clear me up on my 1942 tax?

A. No. Your quarterly payment of March 15 applies on your 1943 tax. So does the June 15th payment which must be made. If part of your 1942 tax is "unforgiven" you still owe it to the Government as part of your 1943 tax liability. Payment of one half of that balance is due in March 1944, and payment of the other half in March 1945.

No. 3 (Continued)

Q. Then the payment of 1/4 I made in March, added to the forgiveness of 3/4 does not free me from paying another quarterly installment on or before June 15th?

A. No. You are still required to make that June 15th payment.

Q. What happens to the money my employer withholds?

A. The money withheld from your wages is paid by your employer to the United States Treasury. The amount withheld from you stands to your credit at the Treasury against the amount you owe on Income and Victory tax.

Q. Does the employer have the use of my money that he has withheld?

A. No. The amount of tax withheld from your wages by your employer is a special fund in trust for the United States.

Q. What proof have I that I have that much credit against my taxes?

A. Shortly after the close of the year or termination of your employment you will be furnished a receipt by your employer showing the amount of the tax deducted and withheld from your pay.

Q. Is the withholding tax an additional income tax like the Victory tax?

A. No. It's a deduction from your pay which goes toward paying your regular income tax, including the Victory tax.

No. 4

Facts about

"PAY-AS-YOU-GO"

Q. Is the withholding tax an additional tax?

A. No. The withholding tax is merely an easier way of paying your regular annual income tax on a pre-payment pay-as-you-go basis.

Q. I am a married man with one child and am now putting 10 percent of my pay in war bonds and 5 percent, after subtracting withholding exemption, for the Victory tax. How can I pay the additional twenty-percent withholding tax on top of that fifteen percent and still have enough to live on?

A. In the first place your twenty-percent withholding tax includes your Victory tax. If you are married and have one child, your exemptions will bring your tax down to approximately 8 percent. For instance, if your salary or wage is $50 per week, your withholding tax will be approximately $4 per week, and instead of paying an annual income tax of approximately $212 in a lump sum, you are paying it at the rate of $4 weekly.

Q. Suppose when I make my return next March I find my employer has withheld more than enough money to cover my tax. Will the excess be refunded to me?

A. It will either be refunded to you or credited against other income taxes due from you.

Q. Suppose my employer withholds tax from my wages, but does not turn it over to the Government. What protection have I?

A. The employer is liable for the payment of the tax and must furnish the employee with a written statement showing the amount of tax deducted. Penalties are imposed upon employers for failure to make and file returns or pay the tax within the time prescribed by law. The employee is amply protected.

Q. Do I have to wait until the end of January to know how much of wages my employer holds out?

A. Yes, for the official notice or receipt unless your services with your employer are terminated before the end of the calendar year.

No. 4 (Continued)

Q. What happens if the receipt the employer gives me gets lost or destroyed?

A. You should make application to your employer for a copy of the receipt.

Q. Does it make any difference if I change jobs several times during the year?

A. No. Each employer is required to withhold the tax from wage payments made to you.

Q. What advantages are there to me in this withholding?

A. You will be paying on your income and Victory tax as you receive your wages.

No. 5

Facts about

"PAY-AS-YOU-GO"

Q. Is the withholding tax an additional income tax?

A. No. The withholding tax is an installment or pay-as-you-go method of paying your regular annual income tax.

Q. Does this new tax mean people will not have to pay out money for income tax on next March 15th, 1944?

A. Yes, in case the amount of tax withheld from wage payment equals or exceeds the amount of income tax liability reported on the annual return.

Q. Does this mean that I won't have to make out an income tax report next March?

A. No. You will be required to file a return on the usual form.

Q. Are there any kinds of workers who are exempt from withholding?

A. Yes, for certain specified classes which include members of the armed forces, agricultural labor, domestic servants, and ministers of the gospel.

Q. How about people with big wages? Are they going to get by with only a 20 percent tax?

A. No. They also have to make quarterly payments of tax in addition to the amounts withheld.

Q. How about salaries, bonuses and commissions? Is withholding required?

A. Yes, since "wages" means all remuneration for services by an employee.

Q. How about people with income from stocks, bonds, mortgages, etc.? Who withholds from them?

A. There is no withholding on income from bonds, mortgages, etc., but those receiving such income must make a special return and pay the tax quarterly on such income.

Q. I am paying all I can over and above living expenses now in purchase of War Bonds. How can I keep up these payments and pay the withholding tax?

A. I'm sure that you have been setting aside a part of your pay to meet quarterly installments of your income tax. The withholding tax is merely a "pay-as-you-go," or installment-method of paying your income tax, instead of in a lump sum. It should make it easier for you to buy additional War Bonds.

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TREASURY DEPARTMENT

Washington

FOR RELEASE, MORNING NEWSPAPERS, Friday, June 11, 1943.

Press Service No. 37-0

(The following explanation of the new Current Tax Payment Act of 1943 by Assistant Secretary of the Treasury John L. Sullivan, in a discussion with a man and woman employee and an employer, is scheduled to be broadcast at 10:30 p.m., Eastern War Time, Thursday, June 10, 1943, over the Columbia Broadcasting System and is for release at that time.)

Announcer: The new tax bill, popularly known as the "pay-as-you-go" tax, has just become law. It goes into effect July 1st, just three weeks from today. Between now and then nearly fifty million Americans will have to find out how this new law affects them -- what they have to do to prepare for it -- what new duties it places upon them -- how it benefits them individually.

To help answer some of these questions we are bringing to you a round table discussion of the new tax, between a high official of the Government, the Honorable John L. Sullivan, Assistant Secretary of the Treasury, and three typical American taxpayers -- an employee of a business establishment, a woman war worker, and an employer. Now to start this discussion rolling, I am going to ask Mr. Sullivan to tell us what is the outstanding difference between this new "pay-as-you-go" tax and the old method of income tax collection.

Sullivan: I think the first thing to understand is that this is not a new tax or an additional tax, but a new method of collecting the income tax. The new law does not change the income tax rates. The big change comes in how a person pays the income tax. Under the old system, he paid a year late. That is, on March 15th he paid, or began paying, a tax on the money he earned the previous year. Now, under the new pay-as-you-go method, he will be paying the income tax on his 1943 income during 1943, bit by bit, pay-day by pay-day.

Employee: As I understand it, when you say I will pay that tax bit by bit, you mean that it will be deducted from my pay bit by bit.

Sullivan: That is exactly correct. Your employer will deduct part of your pay every payday. He will turn that money over to the collector of internal revenue with his quarterly return, or if your employer has enough employees to make the aggregate deductions from all employees $100 or more each month, he will deposit that money monthly in a bank which will turn it over to the Treasury of the United States. In either event, this money stands to your credit as prepayment of your tax.

Employee: That's all right, but what's worrying me is how much is my employer going to hold back. The papers have been talking about 20 percent. Does that mean I'm going to have 20 percent taken out of my $76 every week? How can I support a wife and three kids......

Sullivan: Just a moment - the deduction is not 20 percent on all your pay. It is 20 percent on your pay, less your exemptions -- and you have a lot of exemptions. Are your wife or any of your children working?

Employee: No, sir.

Sullivan: Then a good part of your pay is exempt from the withholding tax. Twelve dollars for yourself, another twelve dollars for your wife - that makes $24, plus six dollars for each of your three children, makes $18 more. That's a total of $42 of your weekly pay that's exempt. The amount withheld is 20 percent of the balance. You said your weekly pay is $76, didn't you?

Employee: Yes, sir.

Sullivan: Then your employer will withhold 20 percent on the difference between your total pay of $76 and your exemption of $42 - which amounts to $34.

Employee: How much then would be taken out of my weekly pay?

Sullivan: $6.80, which means that you will receive just under $70, instead of $76.

Employee: * * * * and the $6.80 I didn't get, is that my income tax?

Sullivan: Yes, that is your income tax, and it also includes your Victory tax.

Employer: May I ask a couple of questions here?

Sullivan: Certainly.

Employer: You see, I'm an employer, the fellow who has the job of withholding this tax. You mean I don't have to make that 5 percent Victory tax withholding any longer?

Sullivan: Not after your last payroll that begins in June. All payrolls beginning on or after July 1 are subject to the new law, and the Victory tax is included in the 20 percent withheld.

Employer: Well, here's another question. My company has about 250 employees. I don't begin to know which of them are single, or which married, or how many children they have. How can I figure their exemptions and the amount I must withhold?

Sullivan: That's a very important question. You've got to have that information, and here's how you get it. There is a special form called a Withholding Exemption Certificate. The Collector of Internal Revenue in your district will supply you with as many as you need. It is up to you to give one to every one of your employees. And it is up to you others, as employees, to fill out those Certificates, sign them and then return them promptly to your employer. On this Exemption Certificate you tell him whether you are married or single and how many dependents you have. It gives the employer the information he needs so that he can exempt the proper amount of your pay from the 20 percent withholding.

Employee: What happens if I don't turn in this Certificate?

Sullivan: Until you hand one in, the law requires your employer to withhold 20 percent on all your pay - every dollar of it. In your case, it would mean he would withhold $15.20 each week instead of $6.40.

Employee: Believe me, I'll get that Certificate in.

Employer: And get it in early, because it's going to be a big job for us employers to get all those exemptions and rates figured by the first of July. It is going to be especially difficult for my company, because, due to piece work bonuses, most of our employees earn odd amounts, like $63.82 or $76.90.

Mr. Sullivan, do I have to figure the exact 20 percent of each of those amounts above withholding exemptions?

Sullivan: No. Employers may elect to use the "Wage Bracket Tables" which are written in the law. These tables set definite amounts to be withheld from each pay. For example, in the case of a married employee with three dependents, whose weekly wage is anywhere between fifty and sixty dollars, the employer is permitted to withhold a flat amount of $2.60 per week, instead of requiring him to figure the exact amount for each individual employee. The law grants the employer this "short-cut" method in order to simplify the job of computing the amount to be withheld from each individual employee. The amount of tax withheld may be slightly different from an exact computation at 20 percent, but this does not hurt the employee any. If a little less than the actual 20 percent is withheld he may have a small balance to pay when next March 15th comes around. If a trifle more than the exact 20 percent is withheld, the employee will have a credit coming to him.

Woman Worker: I was working last year, too, and my income tax figured to about $60. I paid a quarter of it in March this year. What happens to that $15?

Employer: That $15 stands to your credit as a payment on your income tax for this year. Isn't that so, Mr. Sullivan?

Sullivan: Yes, that is correct. The $15 you paid in March counts as a payment on your current 1943 income tax.

Woman Worker: Well, do I have to pay another $15 this month - the June 15th quarterly installment?

Sullivan: Yes. Nothimg in the new law changes any person's obligation to pay the June 15th installment. It also will be treated as part payment of your 1943 tax.

Employer: That applies to everybody? Everybody must pay the June 15th installment?

Sullivan: Yes, everybody who has been paying his 1942 tax in quarterly installmentsmust make another payment on or before June 15th.

Woman Worker: Well, if we have to make these two quarterly payments, and then have 20 percent taken out of our wages, what is all this "forgiveness" there was so much talk about?

Sullivan: You are forgiven all or a large part of a debt which, under the old law, you owed to your Government. It is true that you will keep right on paying income tax. You get no holiday from that. But there are two differences. One difference is that you are payimg your tax a little every payday, as you earn your money, instead of having to save it up for three months to make quarterly payments. The other difference is.........

Employer: That you are paying it against this year's income tax debt instead of last year's -- isn't that right?

Sullivan: That is exactly right. For the majority of the taxpayers -- that is the people with low or average incomes whose tax amounts to $50 or less for either 1942 or 1943, the whole tax for the smaller year will be forgiven.

Employer: How about the rest of us with higher incomes? I figure that 75 percent of my own personal 1942 tax will be forgiven. I still owe a quarter of it. Does the quarterly payment I made last March clear that up?

Sullivan: No. That quarterly payment, as I have just said, will be credited against your 1943 tax liability. You still owe the Government one-fourth of your 1942 tax. Assuming, of course, that your tax for 1942 is less than for 1943, as will be the case for the great majority of all taxpayers.

Employer: When do I pay that?

Sullivan: You may pay half of it March 15th, 1944, and the other half a year later in March, 1945.

Woman Worker: I would like to ask what proof I have that I have made these payments on my income tax through the money held out of my wages.

Sullivan: Shortly after the close of the year, or with your last pay if you stop working before the end of the year, your employer will give you a receipt showing the total amount of the tax deducted and withheld from your pay during the year.

Employee: What do I do with that receipt?

Sullivan: You take good care of it. It is your receipt for the taxes you have prepaid.

Employee: Suppose the amount withheld during the year amounts to more than the tax I owe for the year?

Sullivan: Any overpayment of taxes will be refunded or credited to you.

Employee: What would happen if my receipt from my employer gets lost or destroyed?

Sullivan: You apply to the employer for a copy of the receipt.

Woman Worker: What would happen if my employer withheld the tax from my wages but did not turn it over to the Government?

Sullivan: You are completely protected. The receipt you get from your employer is your proof of the fact that you have paid that much tax.

Woman Worker: Do I have to wait until the end of the year to get a tax receipt for the money my employer has withheld from my wages?

Sullivan: Yes, unless you change employment during the year. Then you get your receipt with your last pay.

Employee: Suppose I change jobs several times during the year.

Sullivan: That does not make any difference. Each employer must give you a receipt showing the amount of tax he withheld.

Employer: I have heard or read in the papers that some classes of employees don't have anything withheld from their wages.

Sullivan: That is correct. There is no withholding from the pay of the personnel of the armed services. Ministers of the gospel are also exempt from withholding. So are all persons engaged in domestic and agricultural service. However, all those people will be required to pay their income taxes out of their current income. They do this by filing a return showing their estimated tax and pay such tax quarterly.

Announcer: Our time is almost gone. Before we close, is there anything you especially want to emphasize, Mr. Sullivan?

Sullivan: Yes. I wish to emphasize that nothing in the new law excuses anyone from making his or her June 15th income tax payment. That is due next Tuesday. And finally I want to urge all employers to get those Withholding Exemption Certificates into the hands of your employees right away. To all employees I want to say, "Please fill out and sign those Certificates and return to your employer immediately."

MCDONALD: Tuesday is June 15th and to millions of Americans that means another Federal income tax payment is due. This year there is some confusion because of the new withholding tax plan. Many listeners have written us asking whether they <u>must</u> pay next week, or whether they can skip that payment now. Numerous other questions have come to us and we decided to ask a tax authority to sit at our news table today and answer all queries. He is Timothy C. Mooney, Deputy Commissioner of Internal Revenue. Mr. Mooney, I want you to meet John Q. Public in person. Mr. Public has a list of questions we made up from those sent us by our listeners.

MOONEY: Well, I am happy to meet John Q. Public in person. What's your <u>first</u> question?

PUBLIC: That's easy. Do I have to pay that second installment on my income tax due next Tuesday?

MOONEY: Yes, you <u>most</u> certainly do. It will be accepted as <u>part payment</u> of your 1943 taxes.

PUBLIC: All right, what happens to the money I paid in March - the first installment?

MOONEY: That also helps pay your 1943 taxes.

PUBLIC: Well then, how are my 1942 taxes going to get paid? Or are they what I have heard called "forgiven."

MOONEY: Not entirely forgiven, but 75% of the tax for the year 1942 or 1943, whichever amount is the smaller, will be cancelled. Furthermore, if the smaller tax for either one of those years is $50 or less, then the entire amount is forgiven.

PUBLIC: Well, if my March and June installments both go toward paying 1943 taxes, how do I pay the small part of my 1942 tax that I will owe?

MOONEY: The part not cancelled may be paid in two installments, one in March 1944 and the other in March 1945.

PUBLIC: The rest of the money I owe you for 1943, as I understand it, comes out of this new 20% withholding tax plan. Is that right?

MOONEY: The amount you paid in March this year and your June 15th payment, together with the 5% Victory Tax deducted from your pay up to June 30th, as well as the new 20% withholding tax beginning July 1st — all of these added together will go toward payment of your 1943 taxes.

PUBLIC: Well, suppose we look ahead to next March and I make out my income tax return for 1943 and I find out my employer has kept out more money than I owe the government.

MOONEY: Mr. John Q. Public, you will get a refund, or the overpayment may be applied as a credit against your tax for the year 1944. Incidentally, your employer won't deduct 20% of your total salary. He will deduct only on the number of dollars left after your exemptions are subtracted. Let's make an illustration?

MOONEY: Are you married?

PUBLIC: Yes, and I have two children at home both under 18 years of age.

MOONEY: What is your weekly salary?

PUBLIC: I make $56 a week, and I would like to know how much money I will get in my pay after the tax has been withheld from it.

MOONEY: You will receive after the tax has been withheld $52.00 if your employer makes an exact computation of 20% of the amount of your pay in excess of your total exemption. However, if your employer decides to use "wage bracket tables," which simplify his mathematical computations, you will get a slightly greater amount, or $52.20. Therefore, only $4.00 or $3.80 will be withheld from your pay each week.

PUBLIC: How did you arrive at this answer?

MOONEY: In this way. As a married man $24 of your weekly pay is exempt from withholding and you are entitled to a further weekly exemption of $6 for each dependent. So in your case, having a wife and two dependents, you get an exemption of $24 plus $12 or a total of $36, on which your employer does not withhold one penny. Your employer will subtract this $36 from your weekly wage of $56 which leaves only $20.00 subject to the tax of 20%. Therefore, $4.00 is deducted from your weekly pay.

PUBLIC: That seems simple enough.. Suppose my exemptions change during the year?

MOONEY: You mean a new little John Q. in your family? well, you give your employer a new exemption certificate, showing the change in your family status, so that he may increase your weekly exemption by $6.

PUBLIC: All right, so far. What happens to the money the fellow I work for deducts from my pay each week? Does he pay it to the government?

MOONEY: He certainly does. It is his duty to pay monthly to a bank the funds withheld by him from the pay of his employees. Do not forget that every penny your employer takes from your weekly pay stands as a credit to your account for the amount you owe for Income and Victory Taxes.

PUBLIC: Well, now, Mr. Mooney, I'm not ordinarily a suspicious person, but what proof do I have that I'm going to get that credit?

MOONEY: Sometime during January next year you will get a receipt from your employer showing the amount of taxes he deducted from your pay in 1943. Or, if you quit your job during 1943, you will get a receipt when you receive your last payment of wages.

PUBLIC: What if this employer of mine doesn't turn in to the Treasury the money he holds out on me? What protection do I have?

MOONEY: That's a fair enough question. Your employer is liable for the payment of the tax, and he must give you the receipt. You, Mr. John Q. Public, are protected. If your employer doesn't turn in

MOONEY (CONT'D): the money he and not you, will be dealt with. Now let me ask you a question, Mr. John Q. Public, Do you know what the Withholding Exemption Certificate is?

PUBLIC: Haven't the faintest idea.

MOONEY: It's very important to you. This certificate will show your family status. It is used by your employer in computing the amount of your wages exempt from withholding. He'll request that you fill out that form. If you fail to do so, he will be obliged to withhold 20% of the full amount of your pay.

PUBLIC: Believe me, I certainly will fill out that form. Now tell me, Mr. Mooney, is this plan the one I've heard called the "pay-as-you-go plan?"

MOONEY: Yes. You can see now why it is called just that. You will be paying a little each week on your current year's income tax -- you will be paying as you go.

PUBLIC: I won't have to pay any tax next March, will I? I won't have to make out one of those yearly forms!

MOONEY: You may not have to pay any tax in March but you will have to file a return as usual.

PUBLIC: What about the people with the big salaries? Do they get by with only this 20% deduction?

PUBLIC (CONT'D): You know there's a lot of difference between the tax on my $56 a week and the tax on several hundred dollars a week.

MOONEY: The individuals whose wages fall in the higher income tax brackets will have to make quarterly payments direct to the Collector of Internal Revenue <u>in addition to</u> the weekly amounts withheld by their employers.

PUBLIC: By the way, is anyone exempt from withholding?

MOONEY: Some people are; for example, members of the armed forces, ministers of the gospel, agricultural labor, and domestic help. But do not forget that although they are exempt from withholding, they must pay their estimated <u>tax quarterly</u> and <u>currently</u>. Anything else, Mr. John Q. Public?

PUBLIC: One final question, Mr. Mooney. Suppose I get restless and keep moving around?

MOONEY: It won't make a bit of difference, Mr. John Q. Public. Every one of your employers will have to make the deductions just the same. <u>Each</u> employer for whom you worked during the year is required to give you a receipt for the total amount of money he has withheld from your wages. The law <u>requires</u> him to do this.

We've Been Asked:

ABOUT COLLECTING THE WITHHOLDING TAX

(Hundred of thousands of employers have only a short time to get ready for the huge task of putting a withholding tax system into effect on July 1. Under the withholding plan, these employers will become tax-collection agencies, will be responsible for more records, reports and financial payments to the Treasury. The delay of Congress in agreeing on the form of the pay-as-you-go tax leaves employers less than a month to get set for operation of the system. Many are asking how collection of the withholding tax will affect both employers and employes.)

This leads to the question: When does the actual withholding from salaries and wages of employes begin?

The withholding tax applies to the first regular pay-roll period that begins on or after July 1. Thus, if an employe is paid each Saturday for the current week, the 20 per cent withholding will begin at the start of the new week, Sunday, July 4. Again, if he is paid monthly on the fifteenth of the month, the actual 20 per cent withholding will commence on July 16. On his pay for the first 15 days of July, only the old Victory tax of 5 per cent of his salary or wage would be withheld. For a new employe going to work on or after July 1, the 20 per cent withholding would begin with pay for his first day of work.

What must employers do before July 1?

If you are an employer, you should get copies of the various Government forms that will be needed. Many of these already have been printed. They will be distributed by all Commissioners and Deputy Commissioners of Internal Revenue and probably will be available at banks, post offices, etc. By July 1, you also are supposed to get from each employe, in a written form specified by the Commissioner of Internal Revenue, a statement as to his family status. This is needed to show how much of the pay of each employe is exempted from the withholding tax.

What new records do you have to keep?

As an employer, you must keep a record of the exact amount withheld from the pay of each of your workers. Government forms will be available for these records. Many details of procedure are yet to be announced in the form of regulations by the Commissioner of Internal Revenue, but, in general, they will be similar to present rules for withholding the Victory tax. At certain periods, probably monthly or quarterly, employers must account to the Treasury for all money withheld from workers. The Secretary of the Treasury is expected to authorize banks or trust companies which are depositories or financial agents for the Government to receive withholding taxes and to issue receipts to be considered as payment of the taxes.

Must an employer make an accounting to his employes on withholdings?

Yes. If you are an employer, you must give each employe on or before January 31 a written statement showing the amount of wage or salary paid to him and the amount withheld during the preceding year. If an employe quits or is discharged, he must be given such a written statement on the day he receives his last pay.

You do not have to make these statements to regular employes more than once a year. However, some salary earners in the higher-income brackets and those who receive more than $100 income a year from other sources and have incomes large enough to file returns will have to file estimates of their 1943 income next September 15. At that time, some of them may request statements on withholdings.

—Harris & Ewing

TIMOTHY MOONEY
Deputy commissioner, internal revenue (in charge of income tax)

You do not have to withhold the 20 per cent of pay from certain types of workers, such as maids, gardeners, casual workers or other domestic servants. Also, the withholding tax is not collected from farm workers, self-employed men and women, members of the armed services, doctors, lawyers, ministers, etc. But it does apply to salaried officers and executives of companies, Government workers, etc.

What reports are wage earners to make?

If you are affected by the withholding tax, you are supposed to inform your employer in a signed statement by July 1 of the exemptions from the withholding tax to which you are entitled. Otherwise, you will be allowed only the minimum exemption. These exemptions are at the weekly rates of $12 for a single person, $24 for a married person and $6 more for each additional dependent. You also are supposed to notify your employer within 10 days of any change in your exemption status.

How does an employer tell the exact amount to withhold from pay?

The bill passed by Congress has five tables designed to help employers to figure how much to withhold from the salary or wage of each employe. These tables are based upon pay rolls for weekly, biweekly, semimonthly, monthly or miscellaneous periods. They give only the approximate amount of tax that would be owed by an employe in each of the pay bands.

An employer has the option of using these approximate tables or of calculating the exact amount of tax that is due from each of his employes. But, if the employer chooses to use the tables, a worker will have the amount prescribed by the tables taken from his pay. If more than the amount of his tax is withheld, he can claim a refund or a tax credit when he files his final income tax return for 1943 income on March 15, 1944.

Under the new system, an employer must withhold 20 per cent from the pay of an employe after deducting from the pay of the employe his family status exemptions, but the tax withheld must not be less than 3 per cent of the worker's pay in excess of the Victory tax exemption of $12 a week. The 20 per cent that is withheld represents a combination of the net Victory tax of 3 per cent and a 17 per cent withholding for income tax and surtax. These are handled together as one withholding tax. When an employe files his March 15 income tax return, he can take certain credits against the additional 2 per cent Victory tax, withheld between January 1 and July 1, 1943, for money spent in buying War Bonds and in paying debts and life insurance premiums. He also gets credit against his yearly income tax for installments paid on March 15 and June 15, 1943.

Short Talk on "PAY-AS-YOU-GO"

Beginning July 1st most of us Americans will pay our income tax pay day by pay day. Our employers will withhold 20% of each wage, over and above our individual withholding exemption, and turn it over to the United States Treasury. This is payment as we go on our Income and Victory Tax.

Now instead of being a year behind on taxes, the tax money we pay this year is on the money we earn this year.

The employer does not withhold 20% of the entire wage. Part of every person's wage is exempt if the employee files a certificate showing his family status . . . $12 a week for a single person, $24 a week for a married person, $6 a week for each dependent. Thus it works out that for most people the amount withheld is from 5 to 12% of their actual pay.

In order to get taxpayers on a current "pay-as-you-go" basis, Congress has abated or "forgiven" all or a large part of one year's income tax. The tax forgiven is for the year 1942 or 1943, whichever is smaller. The amount forgiven varies. If tax for the smaller year is $50 or less, the entire amount is forgiven. If tax is between $50 and $66.67, $50 is forgiven. Above that, three-fourths of the tax is forgiven. The other quarter is still owed to the Government; it may be paid in two equal parts, on March 15, 1944 and March 15, 1945.

All income tax payments made in 1943 apply on the 1943 tax. The March and June installments, originally paid on the 1942 income, and 5% Victory tax withheld since January 1, will be credited as payments on the 1943 tax. For the rest of 1943 you will accumulate further 1943 payment through the amounts withheld from your pay. You are "paying-as-you-earn."

2C 401

TREASURY DEPARTMENT

WASHINGTON 25

OFFICE OF
COMMISSIONER OF INTERNAL REVENUE

ADDRESS REPLY TO
COMMISSIONER OF INTERNAL REVENUE
AND REFER TO

June 12, 1943

FOR VICTORY BUY UNITED STATES WAR BONDS AND STAMPS

IT:P

PERSONAL

The Current Tax Payment Act of 1943 was approved June 10, 1943. It is not unlikely that collectors of internal revenue and internal revenue agents in charge will receive requests from civic or business organizations in their communities asking that they or members of their staffs give brief talks pertaining to the principal provisions of the new Act, particularly the withholding provisions which become effective July 1, 1943.

There are attached two such talks which you are authorized to use on such occasions. The talk entitled "The New Law Is Compared With the Old" has also been prepared in a form suitable for an eight to ten minute radio broadcast, a copy of which is also enclosed. The other talk entitled "The Advantages of the New Procedure" may also be similarly reduced in size should you want to prepare it for radio use.

The attached copy of Field Procedure Memorandum No. 276 sets forth a brief summary of the provisions of the Current Tax Payment Act of 1943. This material may likewise be used either for radio purposes or for making talks relating to the provisions of the new Act.

Respectfully,

Guy T. Helvering

Commissioner.

4 Enclosures.

TALK - WITHHOLDING UNDER THE "CURRENT TAX PAYMENT ACT OF 1943"

THE NEW LAW IS COMPARED WITH THE OLD

The Victory tax, which is an additional income tax, became effective January 1, 1943. It is a wartime income tax on individuals of 5 percent of income in excess of $624 a year. While the return of the Victory tax for 1943 will not be made until 1944, salary and wage earners, excepting certain classes such as members of the armed forces, agricultural workers, and employees engaged in domestic service, have already made provision for payment of the Victory tax on earnings they have received in 1943. The employers have deducted the tax from payments of wages to the employees. The amounts so deducted either have been or soon will be paid to the collectors of internal revenue and the employees will be entitled to take full credit for the tax deducted when they file their income and Victory tax returns in 1944 reporting income received in 1943.

The Congress has now enacted a law designed to place most wage earners on a pay-as-you-go plan for all their Federal income taxes, including the Victory tax. This law, known as the "Current Tax Payment Act of 1943," in general requires withholding by employers at the rate of 20 percent on wage payments in excess of the family status withholding exemption. This 20 percent rate includes the withholding of the Victory tax on which the withholding rate has been reduced from 5 percent to 3 percent. The reduction of this withholding rate does not alter the rate to be paid by the individual when he files his return of income. He still computes his Victory tax at 5 percent. Wage payments made for <u>payroll periods beginning on and after July 1, 1943</u>, will be subject to the new rate of withholding. The objective of the new plan is to have the employer withhold from the wages of the employee and pay to the Government for the account of the employee an amount which will approximate the liability of the employee for the normal income tax, the first bracket surtax and the Victory tax.

The Act exempts certain wage payments from withholding. The classes of wage payments exempt from withholding are in the main the same as under the withholding provisions of the Victory tax in operation since the first of the year - such as, payments for services to members of the armed forces, agricultural laborers, and domestic help. However, some changes have been made in the classes of wage payments exempt from withholding. Payments for services performed as a minister of the gospel are now exempt from withholding. On the other hand, wage payments to employees of nonresident alien individuals or foreign partnerships and foreign corporations having offices or agents in the United States although not engaged in business in the United States are no longer exempt from withholding. Let me say right here that even though certain wage payments are exempt from withholding, they are nevertheless subject to income taxes, including the Victory tax, and the employees receiving such payments will be required to make a return of the tax. However, such employees will have no credit to apply against the liability as in the case of individuals whose wages are subject to withholding.

Since existing law imposes on a single individual with no dependents a larger income tax than in the case of a married person or the head of a family receiving the same amount of wages, the family

status of the wage earner is taken into consideration in computing the amount of tax to be withheld by the employer. The Act requires the employee to furnish his employer information as to his family status. The employee will do this by filling out and furnishing his employer a form which is known as an "Employee's Withholding Exemption Certificate." That certificate will indicate whether the employee is single or married and the number of dependents receiving chief support from him. It will also show in the case of a married person whether the employee is claiming all, or one-half, or none of the personal exemption for withholding. In the event of a change in status a new certificate must be furnished the employer by the employee not later than ten days after the change occurs. On the basis of this information the employer will be able to determine from a table the amount of the family status withholding exemption appropriate to a particular employee to be deducted from the wage payment before applying the 20 percent withholding tax rate. Employees heretofore were not required to file such certificates with employers when withholding of the Victory tax went into effect last January for the reason that the family status of the individual did not affect the amount of the individual's liability for the Victory tax. The "Employee's Withholding Exemption Certificate" is a new feature and plays a very important part under the new withholding provisions. Should the employee fail to file the certificate with his employer, no family status withholding exemption will be allowed and 20 percent will be withheld from the total wages paid to the employee.

Employers may, if they so elect, withhold in accordance with wage bracket tables as provided in the law. Doubtless most employers have

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status of the wage earner is taken into consideration in computing the amount of tax to be withheld by the employer. The Act requires the employee to furnish his employer information as to his family status. The employee will do this by filling out and furnishing his employer a form which is known as an "Employee's Withholding Exemption Certificate." That certificate will indicate whether the employee is single or married and the number of dependents receiving chief support from him. It will also show in the case of a married person whether the employee is claiming all, or one-half, or none of the personal exemption for withholding. In the event of a change in status a new certificate must be furnished the employer by the employee not later than ten days after the change occurs. On the basis of this information the employer will be able to determine from a table the amount of the family status withholding exemption appropriate to a particular employee to be deducted from the wage payment before applying the 20 percent withholding tax rate. Employees heretofore were not required to file such certificates with employers when withholding of the Victory tax went into effect last January for the reason that the family status of the individual did not affect the amount of the individual's liability for the Victory tax. The "Employee's Withholding Exemption Certificate" is a new feature and plays a very important part under the new withholding provisions. Should the employee fail to file the certificate with his employer, no family status withholding exemption will be allowed and 20 percent will be withheld from the total wages paid to the employee.

Employers may, if they so elect, withhold in accordance with wage bracket tables as provided in the law. Doubtless most employers have used the elective wage bracket method in withholding the 5 percent Victory tax since the first of January. They should therefore experience little difficulty in adjusting their payrolls to wage bracket withholding under the new law. This method simplifies withholding for the employer. To illustrate, take the case of John Smith, an employee who is married and has two children under eighteen years of age deriving their chief support from him. He has filed with his employer a withholding exemption certificate upon which he has checked his status as a married person claiming all the personal exemption and he has shown on the certificate that he has two dependents. Assume that his wages for a weekly payroll period beginning after July 1 amount to $57.25. The employer, using the wage bracket method, would refer to a table which would show that the amount to be withheld is $3.80, when the weekly payment is between $50 and $60 as in this case, and the family status is as that of John Smith. The employer using the wage bracket method does not have to ascertain whether the 3 percent of the wage payment in excess of the Victory tax withholding exemption would produce a greater tax for the reason that that factor has been taken into account in the wage bracket tables. May I make it clear, however, that whether the actual computation method is used or the elective wage bracket method, there is only one amount to be deducted as the tax. This feature should simplify accounting adjustments to be made in the transition from the 5 percent withholding to withholding under the new provisions since no additional columns on the payroll will be required. Neither does the amount withheld have to be segregated as so much Victory tax and so much income tax. This is equally applicable to the employee as well as the employer.

The requirement that the employer must furnish the employee a written statement showing the amount of tax withheld during the year is continued under the new Act. The statements for the calendar year 1943 will be furnished the employees in January 1944 and they will cover the 5 percent tax withheld for January 1 to June 30, as well as the 20 percent tax withheld from July 1 to December 31. If employment of a person is terminated, the Act requires the employer to furnish the statement when the employee receives his last payment of wages unless an extension of time has been granted by the Commissioner. Employees are cautioned that they should preserve these statements. They are the employees' record of the amount of taxes withheld from their wages which are deductible from their income taxes when they file their income and Victory tax returns for 1943 in 1944.

Employers have heretofore been required to make payment of the 5 percent withheld taxes to the collector of internal revenue on or before the last day of the month following the close of each quarter of the calendar year. Quarterly returns of taxes withheld are also required under the Current Tax Payment Act of 1943. Heretofore, the employers made direct remittance of the tax to the collector of internal revenue with the return of the taxes withheld. Acceleration can now be made of the receipt by the Government of the withheld taxes. It is the duty of employers who withheld more than $100 during the month to pay within ten days after the close of the calendar month, all funds withheld during the month to a depositary authorized by the Secretary of the Treasury to receive deposits of withheld taxes. When the employer files his return of taxes withheld with the collector of internal revenue, payment will be evidenced by depositary receipts rather than by direct remittances.

I want to emphasize that this pay-as-you-earn plan is a form of budgeting to meet income tax liabilities and is essentially no different than budgeting for annual interest on a mortgage or for meeting annual premiums on life insurance. The provident individual has always set aside out of his weekly or monthly pay an amount to meet fixed annual expenses - particularly if they are substantial in amount; otherwise he would be sailing into stormy financial weather. Aside from the benefit to the Government in accelerating collection of funds needed for the prosecution of the war, I am convinced that the plan will be popular with the employees when they fully understand that it will operate to relieve them of March financial worries. The Bureau received splendid cooperation from employers throughout the country who acted as withholding agents for the 5 percent Victory tax. The experience thus gained by employers will also be invaluable during the "change-over" period and in functioning under the _new_ withholding provisions.

TALK - THE CURRENT TAX PAYMENT ACT OF 1943 -
THE ADVANTAGES OF THE NEW PROCEDURE

For over a year there has been a great deal of discussion about getting the individual taxpayer current in his income tax payments. President Roosevelt has felt it particularly important and emphasized the need for being on a "pay-as-you-go" basis.

The old system of tax payments had many defects. These were not serious when income tax rates were low and reached only the minority of the people with relatively larger incomes. But in the past few years these defects have become greater and greater. With the lowering of the personal exemptions the tax now reaches many millions of additional taxpayers - those with small incomes and with practically no experience in planning or budgeting their income to meet such an expenditure. At the same time the tax burden has been greatly increased for all taxpayers.

The old method of paying in this year a tax based on last year's income was also not very serious as long as the tax burden was relatively low, the income remained fairly constant, or the taxpayer had saved the money to pay the tax. But now that taxes have increased and so many more persons are affected, the problem of the lag in payments has become very serious. If the individuals' income should decline sharply or cease entirely, the overhanging tax debt causes real hardship.

Congress gave careful and deliberate consideration to the problem of getting current and "paying-as-you-go," and enacted a tax bill known as the "Current Tax Payment Act of 1943." This Act provides for the collection of the combined income and Victory taxes at the rate of 20 percent from the wages paid to workers in substantially the same manner as the 5 percent Victory tax was withheld from certain employees' wages since the first of January.

At the same time, Congress by means of this Act has said that a portion of your income tax for either the year 1942 or 1943 may be discharged and that all payments and collections made in the year 1943 are not to apply to your 1942 liability, but are to apply against your liability for income and Victory tax for the current year 1943.

The advantages of this procedure are readily apparent. The overwhelming majority of the taxpayers throughout the United States will immediately be made current in their tax debt to the Government. They will no longer have a tax debt hanging over their heads like the threatening sword of Damocles.

The minority of taxpayers having substantial income from sources other than wages or salaries, or their tax liability for the year being greater than the amounts of tax withheld because of the fact that they are the higher salaried workers, will also be placed on a current payment basis. They must file a declaration of their estimated income and tax with the collector of internal revenue. They will be required to pay the estimated tax in quarterly installments, allowance being made, of course, for any tax which will be withheld during the current year.

Many persons have found it difficult to lay aside each pay day, and keep, sufficient money necessary to pay their taxes when they become due. A great many have found that money burns a hole in their pockets and oftentimes they will purchase something not actually needed just because they have some cash lying around. Then, when it comes time to pay their taxes, they find they have not the necessary funds. They thus become tax delinquents, or, after borrowing to pay the taxes, they skimp along for quite some time. Thus by deducting the tax from income as earned, the Government is providing a means of budgeting income insofar as tax liabilities are concerned.

This new procedure will operate in the following manner. Beginning with the first pay period which commences on or after July the first of this year there will be deducted from the pay of every employee a combined income and Victory tax of approximately 20 percent of the amount of their wages over the withholding exemption to which they are entitled. A certain amount of wages will be exempt from this withholding tax, depending upon the family status of the employee and the number of his dependents. Certain classes of employees will be exempted from this tax deduction, such as members of the armed forces, agricultural labor, and domestic help. This tax will be deducted not only from payments made to employees in private industry, but from all civil employees of the United States Government including the President. It will also apply to employees of the States, counties, cities, and to the Governors of these States and the mayors of the cities, as well.

It must be understood that this amount of tax deducted from wages does not represent an additional tax but merely a means whereby your current income and Victory tax liability is collected by your Government as you earn your income. Each individual will receive full credit for all amounts deducted when he files his tax return after the close of the year.

The additional work that collection of tax at source will cause employers and the Government will be more than offset by the convenience to the taxpayer and his satisfaction in knowing that he is on a "pay-as-you-go" basis insofar as the tax deducted meets his liability. While no method of paying taxes can make them painless, collection at source by deductions from wages is the most nearly painless of any method because the tax is paid in small amounts before the taxpayer receives his income and spends it. This procedure should be far more satisfactory to the taxpayer and will be a means of bringing about a steady flow of revenue into the United States Treasury. Also it should constitute a very formidable weapon with which to combat inflation.

As a further means of getting tax payments current and to prevent the necessity for paying two years' taxes in one year, Congress has in effect discharged 75 percent of the tax for 1942 or 1943 whichever amount is smaller. The portion not discharged becomes a part of the 1943 income and Victory tax liability. However, if the tax on the income for 1942 or 1943 is $50 or less, the entire amount is forgiven. The portion of the tax not discharged becomes due next March 15 and, if paid at that time, the taxpayer will become fully current in his tax liability. However, if the taxpayer desires, he need pay only one-half of this amount by March 15 and the remaining half may be paid on or before March 15, 1945.

Other provisions, in the Act which Congress has recently passed, have been designed to prevent any one from unduly profiting by reason of the discharged liability. These are so-called "anti-windfall" provisions which will affect only a relatively small number of persons. They will, however, reduce the 75 percent discharged tax liability in those cases where the income for the year to which the discharge is applicable was substantially more than the highest net income for any one of the years 1937 to 1940, inclusive.

The advantage of being current in tax payments is especially felt when a taxpayer dies. At that time his family is so much better off because there is no tax debt of a former year to be paid.

A further advantage in this new procedure will be the increase in the current receipts by the United States Treasury. This increase is brought about by the current collection of tax from wages, by the collection of the tax not forgiven, and by the general increase in wages that prevails in 1943 over that for 1942.

There are, no doubt, many questions in your minds which have not been answered. The collectors of internal revenue will answer any questions you ask and will supply employers and employees with circulars describing this new procedure.

TALK - WITHHOLDING UNDER THE "CURRENT TAX PAYMENT ACT OF 1943"

THE NEW LAW IS COMPARED WITH THE OLD

The Congress has now enacted a law designed to place most wage earners on pay-as-you-go plan for all their Federal income taxes, including the Victory tax. This pay-as-you-go law, requires employers to withhold 20 percent on their employees' wages in excess of their family status exemptions. This 20 percent includes the Victory tax on which the rate has been reduced from 5 percent to 3 percent.

Wage deductions under the new law begin with payroll periods starting on or after July 1, 1943. The net result is that the employer withholds from the employee, and pays to the Government for his account, an amount which will approximate the employee's liability for the normal income tax, the first bracket surtax and the Victory tax.

Certain employees are exempt from withholding: among them ministers, members of the armed forces, agricultural laborers, and domestic help. But let me say right here that even though exempt from withholding, these people are nevertheless subject to income taxes, including the Victory tax, and will be required to file a return and pay the tax. The difference is that such employees will have no credit to apply against the liability as in the case of individuals whose wages are subject to withholding.

Since existing law imposes on a single individual with no dependents a larger income tax than in the case of a married person or the head of a family receiving the same amount of wages, the family status of the wage earner determines the amount of tax to be withheld by the employer. The employee must furnish his employer information as to his family status, by filling out an "Employee's Withholding Exemption Certificate." That certificate tells whether the employee is single or married, and the number of his dependents. It also shows in the case of a married person whether the employee is claiming all, or one-half, or none of the personal exemption for withholding. In the event of a change in status, a new certificate must be furnished the employer by the employee not later than ten days.

On the basis of this information the employer determines how much of the employee's pay is exempt from the 20 percent withholding tax. The "Employee's Withholding Exemption Certificate" plays a very important part. Should the employee fail to file the certificate with his employer, no family status withholding exemption will be allowed and 20 percent will be withheld from the total wages paid to the employee.

Employers may, if they so elect, withhold in accordance with wage bracket tables as provided in the law. Most employers have used the elective wage bracket method in withholding the Victory tax and will, therefore, have little difficulty in adjusting their payrolls to wage bracket withholding under the new law. This method simplifies withholding for the employer.

To illustrate, take the case of John Smith, an employee who is married and has two children under eighteen. His wages amount to $57.25. The employer, using the wage bracket method, would refer to a table which would show that the amount to be withheld is $3.80, when the weekly payment is between $50 and $60 as in this case, and the family status is as that of John Smith.

To employers I would like to make it clear, however, that whether the actual computation method is used or the elective wage bracket method, there is only one amount to be deducted as the tax. This feature should simplify accounting adjustments to be made in the transition from the 5 percent withholding to withholding under the new provisions since no additional columns on the payroll will be required. Neither does the amount withheld have to be segregated as so much Victory tax and so much income tax. This is equally applicable to the employee as well as the employer.

The employer must furnish each employee a written statement showing the amount of tax withheld during the year. The statements for the calendar year 1943 will be furnished the employees in January 1944 and they will cover the 5 percent tax withheld for January 1 to June 30, as well as the 20 percent tax withheld from July 1 to December 31. If employement of a person is terminated, the Act requires the employer to furnish the statement when the employee receives his last payment of wages unless an extension of time has been granted by the Commissioner.

Employees are cautioned that they should preserve these statements. They are the employees' record of the amount of taxes withheld from their wages which are deductible from their income taxes when they file their income and Victory tax returns for 1943 in 1944.

Employers are required to make payment of the withheld taxes to the Collector of Internal Revenue on or before the last day of the month following the close of each quarter of the calendar year. Heretofore, employers made direct remittance of the tax to the collector of Internal Revenue with the return of the taxes withheld. Now it is the duty of employers who withheld more than $100 during the month, to pay within ten days after the close of the calendar month, all funds withheld during the month to a depositary authorized by the Secretary of the Treasury. When the employer files his quarterly return with the Collector of Internal Revenue, payment will be evidenced by depositary receipts rather than by direct remittances.

I want to emphasize that this pay-as-you-earn plan is a form of budgeting to meet income tax liabilities, and is essentially no different than budgeting for annual interest on a mortgage or for meeting annual premiums on life insurance. The provident individual has always set aside out of his weekly or monthly pay an amount to meet fixed annual expenses - particularly if they are substantial in amount. Otherwise he would be sailing into stormy financial weather. Aside from the benefit to the Government in accelerating collection of funds needed for the prosecution of the war, the plan will be popular with employees when they fully understand that it will operate to relieve them of March financial worries. The Bureau received splendid cooperation from employers throughout the country who acted as withholding agents for the 5 percent Victory tax. The experience thus gained by employers will also be invaluable during the "change-over" period and in functioning under the <u>new</u> withholding provisions.

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EMPLOYEE'S NOTICE WT

WITHHOLDING OF INCOME TAX ON WAGES

NOTICE TO EMPLOYEES

WITHHOLDING OF TAX UNDER THE PROVISIONS OF THE CURRENT TAX PAYMENT ACT OF 1943

The 5 percent withholding which went into effect on January 1, 1943, is not applicable to payroll periods **beginning after June 30, 1943.**

Beginning July 1, 1943, your employer is required to withhold a tax of 20 percent from wages for payroll periods **beginning on or after July 1, 1943,** of every employee whose wages exceed the amount of certain exemptions. Certain classes of employees are exempt from withholding, such as those engaged in agricultural labor and domestic service.

Wages consist of all payments for services of employees, whether called wages, salaries, commissions, or bonuses and whether in the form of cash or other property.

Withholding at the rate of 20 percent applies to the amount by which your wage payment exceeds your family status withholding exemption. The amount of this exemption, which is specified in a schedule contained in the Act, depends in general upon whether you are married, single, or the head of a family, and upon the number of your dependents. You are required to advise your employer of your particular status by filling in an Employee's Withholding Exemption Certificate (Form W-4) which you will file with him. The certificate form may be obtained from your employer.

If you are married and your spouse is receiving wages subject to withholding, you and your spouse must decide how much of the withholding exemption each will claim.

If you decide that you will claim the whole exemption and your spouse will claim none, you must, in the exemption certificate, advise your employer that you are claiming the whole exemption and your spouse is claiming none. If you decide that you will claim half of the exemption and your spouse will claim half, you will, by checking the applicable box in the exemption certificate, advise your employer that you are claiming half of the exemption and that your spouse is not claiming more than half of the exemption. If you decide that you will claim none of the exemption and that your spouse will claim the whole exemption, you must place your check mark in the applicable box on the exemption certificate.

The amount of the exemption which each of you claims for the purpose of withholding does not affect the manner in which you may divide your married person's exemption on your income tax return. You may still divide that as you wish.

The withholding exemption for any dependent may be taken only by the spouse who furnishes the chief support of such dependent.

If you fail to file an exemption certificate with your employer, no withholding exemption will be allowed.

In certain instances the tax to be withheld under the family status withholding exemption will be less than the tax at 3 percent on the amount of wages in excess of the Victory Tax withholding exemption. In that case the employer is required to withhold at the rate of 3 percent on the wages in excess of the Victory Tax withholding exemption.

Your employer is required to pay the amount of tax withheld from your wages to the collector of internal revenue.

Your employer is required to give you a receipt for the amount of tax withheld on your wages. Employers shall furnish these receipts on or before January 31, 1944, for taxes withheld in 1943, except that if employment ends during the calendar year the receipt shall be given to the employee on the day on which he receives his last payment of wages. This receipt should be carefully preserved. It is your record of tax withheld from your wages.

The amount withheld from your wages during the year is deductible from the Income Tax and Victory Tax for which you may be liable for the year 1943. Thus, the amount withheld from your wages will pay your Income Tax and Victory Tax to the extent of the amount withheld.

Withholding will not affect in any manner your liability to file your annual income tax return for the calendar year 1943 on or before March 15, 1944, reporting all taxable income, including the wages on which tax has been withheld, and reporting the allowable deductions.

Guy T. Helvering

Commissioner of Internal Revenue.

WASHINGTON, JUNE 1943

This notice is issued for the purpose of general information. It does not have the effect of law, regulations, or rulings. Copies may be obtained by addressing the nearest collector of internal revenue, requesting Employee's Notice WT.

U. S. GOVERNMENT PRINTING OFFICE 16—34853-1

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THE SECRETARY OF THE TREASURY
WASHINGTON

June 11, 1943.

To all Presidents
of International Unions:

On July 1, as you know, the new Withholding Tax method of collecting the Federal Income and Victory Taxes goes into effect.

Probably many of your individual members will not fully understand the new method of tax collection, and will turn to you for information concerning the amount withheld from their wages, or for other information in connection with the new tax system.

To help your Union answer these questions immediately and authoritatively, I am sending you a supply of the booklets printed by the Bureau of Internal Revenue to explain to employers their duties under the law and the methods of computing the amount of tax to be withheld from each individual employee's pay.

In view of the very short time before July 1, it is impossible for us to address these booklets to your individual locals. May I ask you, therefore, to distribute them by your own means as promptly as possible?

It would also be very helpful, not only to the Treasury, but to the members of your Union, if you would urge upon them the importance of filling out and filing immediately their WITHHOLDING EXEMPTION CERTIFICATES. The law places this responsibility on the individual employee. Unless he files this Certificate, his employer is required to withhold 20% from the full amount of his wage, without figuring any exemption. None of us want that to happen.

I would also like to ask your cooperation in pointing out most forcefully to your members that this is not a new or additional tax. Therefore there will be no valid reason for reducing the amount of their pay allotted to the purchase of War Savings Bonds. You recognize, as well as I, the vital part that regular purchases of War Savings Bonds play in the war effort. May I count upon your help in maintaining, or even increasing, these purchases during this period of transition to our new method of tax collection?

Sincerely yours,

H Morgenthau Jr.

Secretary of the Treasury.

119-3a

COLLECTION OF INCOME TAX AT SOURCE ON WAGES

EMPLOYER'S DUTIES

Under the

PROVISIONS OF THE CURRENT TAX PAYMENT ACT OF 1943

(SUBCHAPTER D, CHAPTER 9, INTERNAL REVENUE CODE)

ISSUED BY

BUREAU OF INTERNAL REVENUE, U. S. TREASURY DEPARTMENT

SUMMARY

I. Beginning **July 1, 1943, employers are required to deduct and withhold a tax upon the wages of their employees. This is a tax of 20 percent of the excess of each wage payment over the WITHHOLDING EXEMPTION allowable under the schedule shown in Specific Instruction 6.**

Instead of making an exact computation, employers may elect to withhold specified amounts shown in the tables designated A-1 to A-5, which approximate the 20 percent.

It is the joint responsibility of the employer and the employee to see that "Employee's Withholding Exemption Certificate" (Form W-4) is made out by the employee and filed with the employer sufficiently in advance of July 1st.

II. It will be the duty of employers who withheld more than $100 during the month to pay the amounts withheld to a depositary authorized by the Secretary of the Treasury.

These payments are to be made within ten days after the close of each calendar month.

Employers may get from any bank the name and address of authorized depositaries.

III. Employers must make quarterly returns on Form W-1 to their collectors of internal revenue, showing the aggregate amount of taxes withheld during the quarter.

Returns must be made on or before the last day of the month following the close of each quarter.

Each return must be accompanied by the payment of the full amount of the tax. It will be the duty of employers who withheld more than $100 during the month to make the payment of the tax in the following form: (1) depositary receipts for the full amount of the tax withheld, or (2) depositary receipts for the first two months of the quarterly period, together with a direct remittance for the amount withheld during the last month of the quarterly period.

IV. With the final return for the calendar year, employers must send to the collector on Form W-3 a reconciliation of "Quarterly Returns" (Form W-1) with "Statements" to employees of taxes withheld (Form W-2).

V. Employers must provide each employee annually with a "Statement of Income Tax Withheld on Wages."

This is Form W-2, and must be delivered to employees on or before January 31 of the next year. For employment terminating during a calendar year, see Specific Instruction 14.

VI. Employers may obtain all forms mentioned above from the collector of internal revenue for their district.

VII. Employers will discontinue the 5 percent Victory Tax withholding when the 20 percent withholding begins.

(See Specific Instruction 1.)

SPECIFIC INSTRUCTIONS

1. EFFECTIVE DATE

The 5 percent Victory Tax withholding does not apply with respect to wages paid after June 30, 1943, unless the wages are paid for a payroll period beginning on or before June 30, 1943.

Every employer is required to deduct and withhold the tax under the Current Tax Payment Act of 1943 from the wages of his employees paid for payroll periods beginning on or after July 1, 1943. Every employer is also required to deduct and withhold that tax from all wages paid on or after July 1, 1943, if paid without regard to a payroll period.

Thus, if wages are paid on July 3, 1943, with respect to a weekly payroll period beginning on June 28, 1943, the 5 percent, rather than the 20 percent, withholding is applicable. If wages are paid with respect to a weekly payroll period beginning on July 5, 1943, the 20 percent withholding applies. If on July 1, 1943, wages are paid without regard to a payroll period, 20 percent, rather than 5 percent, withholding applies.

However, if wages for a payroll period which begins prior to July 1, 1943, are paid after the close of 1943, 20 percent, rather than 5 percent, withholding is applicable.

2. WHO ARE EMPLOYERS

The term "employer" includes any person or corporation for whom an individual performs any service as an employee. It includes also organizations which are themselves exempt from income tax. Among these are religious, charitable and educational institutions, clubs, societies, and social organizations. "Employer" includes the Government of the United States, the States, Territories, and the District of Columbia, including their agencies, instrumentalities, and political subdivisions.

3. WHO ARE EMPLOYEES

Every individual is an employee if the relationship between him and the person for whom he performs services is the legal relationship of employer and employee. The term "employee" includes an officer, employee, or elected official of the United States, a State, Territory, or any political subdivision thereof, or the District of Columbia, or any agency or instrumentality of any one or more of the foregoing.

Generally, such relationship exists when the person for whom services are performed has the right to control and direct the individual who performs the services, not only as to the result to be accomplished by the work but also as to the details and means by which that result is accomplished. That is, an employee is subject to the will and control of the employer not only as to what shall be done but how it shall be done. In this connection, it is not necessary that the employer actually direct or control the manner in which the services are performed; it is

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32-2900-1

sufficient if he has the right to do so. The right to discharge is also an important factor indicating that the person possessing that right is an employer. Other factors characteristic of an employer, but not necessarily present in every case, are the furnishing of tools, and the furnishing of a place to work, to the individual who performs the services. In general, if an individual is subject to the control or direction of another merely as to the result to be accomplished by the work and not as to the means and methods for accomplishing the result, he is an independent contractor. An individual performing services as an independent contractor is not as to such services an employee.

Generally, physicians, lawyers, dentists, veterinarians, contractors, subcontractors, public stenographers, auctioneers, and others who follow an independent trade, business, or profession, in which they offer their services to the public, are independent contractors and not employees.

Whether the relationship of employer and employee exists will in doubtful cases be determined upon an examination of the particular facts of each case.

If the relationship of employer and employee exists, the designation or description of the relationship by the parties as anything other than that of employer and employee is immaterial. Thus if such relationship exists, it is of no consequence that the employee is designated as a partner, coadventurer, agent, or independent contractor.

The measurement, method, or designation of compensation is also immaterial, if the relationship of employer and employee in fact exists.

No distinction is made between classes or grades of employees. Thus, superintendents, managers, and other superior employees are employees. An officer of a corporation is an employee of the corporation but a director as such is not. A director may be an employee of the corporation, however, if he performs services for the corporation other than those required by attendance at and participation in meetings of the board of directors.

4. WHAT ARE WAGES

The term "wages" means all remuneration (other than noted in Specific Instruction 5), whether in cash or goods, for services performed by an employee for his employer. It does not matter if the remuneration be designated as wages, salary, commissions, or bonuses. Included in "wages" is the cash value of all remuneration paid in any medium other than cash.

Amounts paid in advance, or reimbursements made, to employees specifically for traveling or other bona fide ordinary and necessary expenses incurred or reasonably expected to be incurred in the business of the employer are not subject to withholding. Any reasonable segregation of such expenses from the wages paid will be acceptable, as for example, where an employer issues one check indicating thereon the amount thereof which represents wages and the amount which represents expenses, or issues a separate check for the expenses.

5. EXEMPT WAGE PAYMENTS

Certain classes of wage and salary payments are exempt from withholding, and consequently employers making such types of payments are not required to withhold the tax with respect to such payments. Payments which are exempt from withholding consist of remuneration paid:

(a) For services performed as a member of the military or naval forces of the United States, other than pensions and retired pay includible in gross income.

(b) For agricultural labor.

(c) For domestic service in a private home, local college club, or local chapter of a college fraternity or sorority.

(d) For casual labor not in the course of the employer's trade or business.

(e) For services by a citizen or resident of the United States for a foreign government or for the government of the Commonwealth of the Philippines.

(f) For services performed by a nonresident alien individual, other than a resident of a contiguous country who enters and leaves the United States at frequent intervals.

(g) For such services, performed by a nonresident alien individual who is a resident of a contiguous country and who enters and leaves the United States at frequent intervals, as may be designated by regulations prescribed by the Commissioner with the approval of the Secretary.*

(h) For services for an employer performed by a citizen or resident of the United States while outside the United States if the major part of the services for such employer during the calendar year is to be performed outside the United States.

(i) For services performed as a minister of the gospel, or

(j) As fees (but not salaries) to a public official.

*Withholding is required in the case of wages paid to nonresident aliens, resident of a contiguous country, who enter and leave the United States at frequent intervals, except such aliens who, in the performance of their duties in transportation service between points in the United States and points in a contiguous country, enter and leave the United States at frequent intervals.

6. WITHHOLDING EXEMPTION

In the computation of the amount of tax to be withheld from wage payments an exemption is allowable against the wages paid for each payroll period determined in accordance with the schedules below:

Family Status Withholding Exemption Schedule

Payroll period	Single person	Married person claiming whole of personal exemption for withholding or head of family	Married person claiming half of personal exemption for withholding	Married person claiming none of personal exemption for withholding	Each dependent, other than the last dependent in the case of the head of a family
Weekly	$12	$24	$12	0	$6
Biweekly	24	48	24	0	12
Semimonthly	26	52	26	0	13
Monthly	52	104	52	0	26
Quarterly	156	312	156	0	78
Semiannual	312	624	312	0	156
Annual	624	1,248	624	0	312
Daily or miscellaneous (per day of such period)	1.70	3.40	1.70	0	.85

In no event shall the tax to be withheld be less than 3 per centum of the excess of each wage payment over an exemption determined in accordance with the following schedule:

Victory Tax Withholding Exemption Schedule

Payroll period	Withholding exemption
Weekly	$12.00
Biweekly	24.00
Semimonthly	26.00
Monthly	52.00
Quarterly	156.00
Semiannual	312.00
Annual	624.00
Daily or Miscellaneous (per day of such period)	1.70

See accompanying Table B for use in determining when the 3 percent limitation applies.

7. WITHHOLDING EXEMPTION CERTIFICATE

Every employee shall furnish his employer a signed withholding exemption certificate, on Form W-4, relating to his status for the purpose of computing the withholding exemption. The employer is required to request a withholding exemption certificate from each employee, but if the employee fails to comply with such request, he shall be considered, for withholding purposes, as a married person claiming none of the personal exemption for withholding and having no dependents. Forms of certificate (Form W-4) will be supplied employers upon request to the collector for the district. In lieu of the prescribed form of certificate, employers may prepare and use a form which includes contents identical with the prescribed form. The certificates must be retained by the employer as a supporting record of the withholding exemption allowed.

If by reason of a change of status, a new certificate is furnished by the employee to the employer, it will take effect, at the election of the employer, with respect to any payment of wages made on or after the date the certificate is furnished. In no event, however, shall it take effect later than the first payment of wages made on or after the following first day of July or January which occurs at least thirty days after the certificate is furnished the employer.

In all other instances, the certificate will take effect with respect to the first payment of wages made on or after the date on which it is furnished the employer.

8. PERIOD NOT A PAYROLL PERIOD

If wages are paid for a period which is not a payroll period, the exemption allowable shall be the exemption allowed for a miscellaneous payroll period containing the same number of days (including Sundays and holidays) as the period for which such wages are paid. Thus, in the case of a single person not paid on the basis of a regular payroll period, the withholding exemption allowable for a period of 10 days is 10 times $1.70, or $17.00. (See Specific Instruction 10 for the rules in case of a period of less than one week.)

9. NO PAYROLL PERIOD OR OTHER PERIOD

In any case in which wages are paid by an employer without regard to any payroll period or any other period, the exemption allowable shall be the exemption allowed for a miscellaneous payroll period containing the number of days equal to the number of days (including Sundays and holidays) which have elapsed since the date of the last payment of such wages by such employer during the calendar year, or the date of commencement of employment with such employer during such year, or January 1 of such year, whichever is the later. For example, a single individual employed on a commission basis, commissions to be paid upon consummation of sales without regard to any period of time, commenced employment on December 15, 1942, and received payments of commissions on March 15, and July 15, 1943. The amount of the withholding exemption allowable with respect to the commissions paid July 15 is $207.40 ($1.70 x 122), since 122 days have elapsed since the date of the last payment.

10. PERIOD LESS THAN ONE WEEK

The general rule applicable in case the payroll period, other period, or time described in Specific Instruction 9, is less than one week, is the same as the rule applicable under Specific Instruction 8 or 9. For example, if a single person is paid daily a wage of $7.00 per day, withholding applies on the excess of that wage over the daily exemption of $1.70, that is, the tax is to be withheld on $5.30. Again, if a single person is paid a wage of $36.00 for 4 days work, withholding applies on the excess of the aggregate wages over the exemption allowed for a period of 4 days, that is, $6.80 ($1.70 x 4). In that case, therefore, the tax is to be withheld on $29.20.

However, the Act authorizes the Commissioner, under regulations prescribed by him, to permit an employer, in computing the tax to be withheld, to use the excess of the aggregate of the wages paid during a calendar week over the exemption al-

lowed for a weekly payroll period. For example, in the second illustration in the preceding paragraph, the employer, if authorized to do so by the Commissioner, may withhold the tax on the excess of $36.00 over the weekly exemption of $12.00 applicable in the case of a single person.

This weekly exemption rule may be used by an employer in the case of an employee who works only for such employer during the calendar week.

11. BONUSES AND COMMISSIONS

Generally, where an employee's remuneration consists of wages paid for a payroll period and such employee is also paid a bonus or commission, the bonus or commission and the wage payment shall be aggregated for the purpose of withholding either under the wage table method or the exact computation method. For example, if an individual is employed as salesman at a monthly salary of $100 plus commissions upon sales made during the month, such employee, if single, would be entitled to a withholding exemption of $52 against each such payment of salary and commissions considered as a single wage payment.

However, at the election of the employer, the wage payment and the bonus or commission payment need not be aggregated. Under this election the employer using the exact computation method may withhold on the gross amount of the bonus or commission payment. The employer who uses the table method may, under this election, apply that method to the regular wage payment, and with respect to the bonus or commission payment may either (1) apply the exact computation method to the gross amount, or (2) use the column in the table applicable to a married person claiming none of the personal exemption for withholding and having no dependents.

12. WITHHOLDING ON BASIS OF AVERAGE WAGES

Upon application to the Commissioner, accompanied by evidence establishing the need for the use of such method, the Commissioner may authorize an employer to withhold the tax on the basis of the employee's average estimated wages, with necessary adjustments, for any quarter.

13. COMPUTATION OF TAX TO BE WITHHELD

At the option of the employer, the tax to be withheld may be determined either by the use of a wage bracket withholding table or the application of the prescribed percentage rate to the amount of the wages in excess of the withholding exemption.

To illustrate the two methods, the following case is assumed. An employee has indicated on Form W-4, Employee's Withholding Exemption Certificate, by checking Item I (4) that he is a married person living with husband or wife and claiming all of the personal exemption; and in Item II that he has two dependents. The payroll period is weekly and the wage records of the employer show that for the payroll period the employee earned $44.63.

The steps to be taken by the employer using the wage bracket withholding table are as follows:

(1) Find the table applicable to the payroll period used. In this case it is Table A-1, accompanying these instructions, designed for weekly payroll period.

(2) Locate in the table the subheading descriptive of the employee, in this case, "Or (4) such person is a married person claiming all of personal exemption for withholding and has —" and then locate the applicable column under this subheading, in this case, "Two dependents."

(3) Next locate in the first two columns at the extreme left those amounts between which the weekly wage falls. The wages are $44.63, so in this case they fall in the line for "At least $40.00 but less than $50.00." Reading across on this line to the ninth column, the amount of tax to be withheld is shown as $1.80.

The steps to be taken by the employer using the percentage method are as follows:

(1) The rule requires that a tax be withheld at the rate of 20 percent on wages in excess of the family status withholding exemption, or at the rate of 3 percent on wages in excess of the Victory Tax withholding exemption, whichever rate produces the greater tax. The employer must determine which withholding exemption to allow and which rate to use. It is not necessary to compute the tax on both bases to determine which produces the greater tax, since the proper basis can be ascertained by reference to the accompanying Table B. This table shows that for weekly wages in excess of $40.24 paid to married persons claiming all the exemption and with two dependents, the 20 percent withholding rate on amounts in excess of the family status withholding exemption will produce a higher tax than 3 percent of wages in excess of the Victory Tax withholding exemption.

(2) The employer finds from the Family Status Withholding Exemption Schedule, shown in Specific Instruction 6, that a married employee having a weekly payroll period and claiming all the personal exemption is entitled to an exemption of $24.00 and an additional allowance of $6.00 for each of his two dependents, which in this instance makes a total exemption of $36.00. Since the wages paid are $44.63, the tax must be computed at 20 percent of the excess over the family status withholding exemption rather than 3 percent of the excess over the Victory Tax withholding exemption.

(3) The employer subtracts this exemption of $36.00 from the weekly wage of $44.63 and obtains $8.63, or the amount of wages subject to the 20 percent withholding tax.

(4) The employer computes 20 percent of $8.63 and arrives at a tax to be withheld of $1.73.

Assume that the wages in the foregoing example are $39.50 a week rather than $44.63 and the percentage method is used. Under these circumstances, reference to Table B indicates that the 3 percent rate in excess of the Victory Tax withholding exemption should be used as this produces a greater tax than 20 percent on wages in excess of the family status withholding exemptions. The steps in this case follow:

(1) The employer finds from the Victory Tax Withholding Exemption Schedule, shown in Specific Instruction 6, that the exemption for a weekly payroll period for all persons regardless of family status is $12.00.

(2) The employer subtracts this exemption of $12.00 from the weekly wage of $39.50 and obtains $27.50, or the amount of wages subject to the 3 percent withholding tax.

(3) The employer computes 3 percent of $27.50 and arrives at a tax to be withheld of $0.83. This is the correct amount of tax to be withheld because the application in this case of the 20 percent rate to the wages in excess of the family status withholding exemption would result in a tax of only $0.70.

In any case in which an exact computation of the amount to be withheld is made, the wages may be rounded out to the nearest dollar.

In the case of the wage bracket withholding table, there is no need to give consideration to the two sets of withholding exemptions and rates, as the table has been constructed to give effect to the 3 percent withholding rate where that rate should be used and the 20 percent rate where that rate should be used.

If the wages exceed the highest wage bracket in any table, in computing the amount of tax to be withheld, the wages may, at the election of the employer, be rounded to the nearest dollar.

14. STATEMENT TO BE FURNISHED EMPLOYEE

Employers must furnish to each employee from whose wages they withheld taxes a written statement (W-2) showing the wages paid and the amount of tax withheld during the calendar year. This statement (unless an extension of time has been previously granted by the Commissioner of Internal Revenue) shall be given to the employee on or before January 31 of the succeeding year; or, if the employment ends before the close of the year, on the day on which the last payment of wages is made.

In the case of intermittent employment, when at the end of any term of employment it is not expected that the employee will be reemployed, then a statement must be furnished him for the amount of tax withheld from payments made during the period of employment.

With respect to the calendar year 1943, only one statement is required. It should cover the 5 percent Victory Tax withheld beginning January 1, and the 20 percent tax withheld beginning July 1.

While the form of statement is prescribed by the Commissioner of Internal Revenue, statements prepared in substantially like form and size (but in no case larger than 8 by 3½ inches) will be acceptable.

15. DUPLICATE OF STATEMENT REQUIRED

Employers must transmit to the collector a duplicate of each statement to employees (W-2) with their final return (W-1) for the fourth quarter of the calendar year. If the employer discontinues business or ceases to be an employer, he will file with his final return duplicates of all statements (W-2 and V-2).

Where the number of such duplicate statements is large, they may be forwarded in separate packages, properly identified by reference to the return. Employers with numerous establishments or payrolls should assemble the duplicates by establishment or by payroll.

16. RETURN OF INCOME TAX WITHHELD ON WAGES

Every employer required to withhold the tax on wages is required to make a return and pay such tax (see Specific Instruction 19) on or before the last day of the month following the close of each quarter of each calendar year. If the United States, a State, Territory, or political subdivision, or the District of Columbia, or any agency or instrumentality of any one or more of the foregoing is the employer, the return of the tax may be made by the officer or employee having control of the payment of wages or other officer or employee appropriately designated for that purpose.

The first return, covering tax withheld during the quarter ended September 30, 1943, must be made not later than October 31, 1943. In the case of most employers on the Victory Tax mailing lists of the collectors of internal revenue, return Form W-1 will be received through the mail. Employers not on such mailing lists, or who do not receive return forms in due course, should address the collector of internal revenue for the district, requesting Form W-1, Return of Income Tax Withheld on Wages.

17. RECONCILIATION FORM

The return of income tax withheld on wages for the fourth quarter of the year (or final return if employer discontinues business or ceases to be an employer) must be accompanied by the duplicates of all statements (W-2 and V-2) issued for tax withheld during the year, together with a reconciliation (on Form W-3) of the returns with the statements furnished employees. With Form W-3 employers should furnish a list in the form of an adding machine tape or in some other convenient form showing the items of tax withheld as reflected on Forms W-2. Where the number of duplicate statements is large, they may be forwarded in a separate package, properly identified by reference to the return. In such case, Form W-3 should accompany the duplicate statements, rather than the return form.

18. LIABILITY OF EMPLOYER

Every employer required to withhold tax is made liable for the payment of the tax required to be withheld, and is relieved of liability to any other person for the amount of such payment. The amount of any tax withheld by an employer is a special fund in trust for the United States.

Any errors made by employers, either in the withholding or payment of the tax, for any quarter of the calendar year, may be corrected in any subsequent quarter of the same year.

Criminal and civil penalties are prescribed for the willful failure of any employer to furnish statements to the employee showing the information required under the Act or regulations made pursuant thereto, or for furnishing a false or fraudulent statement. The criminal penalty is a fine of not more than $1,000, or imprisonment for not more than 1 year, or both, in addition to a civil penalty of not more than $50 for each such failure. Employers are also subject to penalties for failure to make and file a timely return of tax withheld, and failure to pay the tax on time.

19. PAYMENT OF TAX

It will be the duty of every employer who withheld more than $100 during the month to pay, within 10 days after the close of each calendar month, to a depositary and financial agent authorized by the Secretary of the Treasury to receive deposits of withheld taxes, pursuant to section 1631 of the Internal Revenue Code as added by the Current Tax Payment Act of 1943, all funds withheld as taxes during that calendar month. (All banks insured by the Federal Deposit Insurance Corporation are eligible to qualify as depositaries and financial agents.) On or before the last day of the month following the close of each quarter of each calendar year, every employer shall make a return on Form W-1 to the collector of his district, covering the aggregate amount of taxes withheld during that quarter, and attach to such return, as payment for the taxes shown thereon, receipts in the form approved by the Secretary of the Treasury, issued by the authorized depositary and financial agent evidencing the payment of funds withheld as taxes; provided, however, that for taxes withheld during the last month of the quarter the employer may, at his election, in lieu of this method of payment, include with his return direct remittance to the collector for the amount of the taxes withheld during such last month of the quarter. The employer may obtain from his local bank the names and locations of the nearby depositaries and financial agents authorized to receive deposits of withheld taxes. A list of the depositaries and financial agents will be furnished each bank by the Federal Reserve Bank of the District.

20. FORM 1099 INFORMATION RETURNS

The making of information returns, Form 1099, will not be required with respect to wage payments from which the tax has been withheld, provided that duplicates of the statements (Form W-2 and Form V-2) are furnished with the last return (Form W-1) for the year.

21. OTHER RECORDS TO BE KEPT

Every employer required to withhold tax is further required to keep such records and to render under oath such statements as the Commissioner of Internal Revenue may require under regulations prescribed by him with the approval of the Secretary of the Treasury. No form of records to be maintained by the employer has been prescribed, nor is it contemplated that any particular form of record will be prescribed. Such records should be maintained, however, as will indicate the number of persons employed during the year payments to whom are subject to the withholding provisions, the periods of employment, and the amounts and dates of payment.

22. INFORMATION TO BE FURNISHED EMPLOYEES

It is desirable that employers acquaint employees fully with the provisions of the Act with respect to the withholding of income tax from wage payments. For this purpose, copies of an official notice, "Withholding of Income Tax on Wages—Notice to Employees," in poster form, are available for posting by the employers on the premises of establishments. Employers desiring such notices should address a request to the collector of internal revenue for the district stating the number of such notices desired, specifying "Withholding of Income Tax on Wages Notice WT," and such requests will be filled as early as practicable.

Commissioner of Internal Revenue

WASHINGTON, JUNE 1943.

TABLE A-1

IF THE PAYROLL PERIOD WITH RESPECT TO AN EMPLOYEE IS WEEKLY

And the wages are—		And, (1) such person is a married person claiming none of personal exemption for withholding and has—									
		No dependents	One dependent	Two dependents	Three dependents	Four dependents	Five dependents	Six dependents	Seven dependents	Eight dependents	Nine dependents
		Or, (2) such person is a married person claiming half of personal exemption for withholding and has—		No dependents	One dependent	Two dependents	Three dependents	Four dependents	Five dependents	Six dependents	Seven dependents
		Or, (3) such person is a single person and has—		No dependents	One dependent	Two dependents	Three dependents	Four dependents	Five dependents	Six dependents	Seven dependents
		Or, (4) such person is a married person claiming all of personal exemption for withholding and has—				No dependents	One dependent	Two dependents	Three dependents	Four dependents	Five dependents
At least	But less than	Or, (5) such person is head of a family and has—				No dependents or one dependent	Two dependents	Three dependents	Four dependents	Five dependents	Six dependents
		The amount of tax to be withheld shall be—									
$0	$10	$1.00									
10	15	2.50	$1.30	$0.10							
15	20	3.50	2.30	1.30	$0.20	$0.20	$0.20	$0.20	$0.20	$0.20	$0.20
20	25	4.50	3.30	2.30	.90	.30	.30	.30	.30	.30	.30
25	30	5.50	4.30	3.30	1.90	.70	.50	.50	.50	.50	.30
30	40	7.00	5.80	4.60	3.40	2.20	1.00	.70	.70	.70	.70
40	50	9.00	7.80	6.60	5.40	4.20	3.00	1.80	1.00	1.00	1.00
50	60	11.00	9.80	8.60	7.40	6.20	5.00	3.80	2.60	1.40	1.50
60	70	13.00	11.80	10.60	9.40	8.20	7.00	5.80	4.60	3.40	2.20
70	80	15.00	13.80	12.60	11.40	10.20	9.00	7.80	6.60	5.40	4.20
80	90	17.00	15.80	14.60	13.40	12.20	11.00	9.80	8.60	7.40	6.20
90	100	19.00	17.80	16.60	15.40	14.20	13.00	11.80	10.60	9.40	8.20
100	110	21.00	19.80	18.60	17.40	16.20	15.00	13.80	12.60	11.40	10.20
110	120	23.00	21.80	20.60	19.40	18.20	17.00	15.80	14.60	13.40	12.20
120	130	25.00	23.80	22.60	21.40	20.20	19.00	17.80	16.60	15.40	14.20
130	140	27.00	25.80	24.60	23.40	22.20	21.00	19.80	18.60	17.40	16.20
140	150	29.00	27.80	26.60	25.40	24.20	23.00	21.80	20.60	19.40	18.20
150	160	31.00	29.80	28.60	27.40	26.20	25.00	23.80	22.60	21.40	20.20
160	170	33.00	31.80	30.60	29.40	28.20	27.00	25.80	24.60	23.40	22.20
170	180	35.00	33.80	32.60	31.40	30.20	29.00	27.80	26.60	25.40	24.20
180	190	37.00	35.80	34.60	33.40	32.20	31.00	29.80	28.60	27.40	26.20
190	200	39.00	37.80	36.60	35.40	34.20	33.00	31.80	30.60	29.40	28.20
$200 or over		20% of the excess over $200 plus									
		$40.00	$38.80	$37.60	$36.40	$35.20	$34.00	$32.80	$31.60	$30.40	$29.20

If the number of dependents is in excess of the largest number of dependents shown, the amount of tax to be withheld shall be that applicable in the case of the largest number of dependents shown reduced by $1.20 for each dependent over the largest number shown, except that in no event shall the amount to be withheld be less than 3 per centum of the excess of the median wage in the bracket in which the wages fall (or if the wages paid are $200 or over, of the excess of the wages) over $12, computed, in case such amount is not a multiple of $0.10, to the nearest multiple of $0.10.

The application of the above footnote, which is the same in each of Tables A-1 to A-5 (except for differences in amounts due to the varying lengths of the payroll periods) may be illustrated by the following example applicable to a weekly payroll period:

John Smith earns a wage of $75 per week. He has filed with his employer a withholding exemption certificate claiming the full exemption allowed a married person, and showing 7 dependents. According to the formula contained in the above footnote, the employer determines that the amount to be withheld is the amount applicable in the case of 5 dependents (which is the largest number of dependents shown in the applicable subheading, (4) above), namely, $4.20, minus $1.20 for each dependent in excess of 5. Since there are 2 dependents in excess of 5, the subtraction will be $2.40 (2 x $1.20), leaving $1.80 as the tentative amount to be withheld. Under the formula, however, the employer is in no event to withhold less than 3 percent of the excess of $12 over the median wage in the bracket in which the wages paid fall, computed to the nearest multiple of 10 cents. The median wage in the applicable bracket is $75 (being the wage half-way between $70 and $80) and the excess of this median wage over $12 is $63. Three percent of $63 is $1.89, and the multiple of 10 cents nearest this amount is $1.90. Hence, because of the minimum withholding requirement, the amount to be withheld is $1.90, rather than $1.80.

TABLE A-2

IF THE PAYROLL PERIOD WITH RESPECT TO AN EMPLOYEE IS BIWEEKLY

And the wages are—		And, (1) such person is a married person claiming none of personal exemption for withholding and has—									
		No dependents	One dependent	Two dependents	Three dependents	Four dependents	Five dependents	Six dependents	Seven dependents	Eight dependents	Nine dependents
		Or, (2) such person is a married person claiming half of personal exemption for withholding and has—		No dependents	One dependent	Two dependents	Three dependents	Four dependents	Five dependents	Six dependents	Seven dependents
		Or, (3) such person is a single person and has—		No dependents	One dependent	Two dependents	Three dependents	Four dependents	Five dependents	Six dependents	Seven dependents
		Or, (4) such person is a married person claiming all of personal exemption for withholding and has—				No dependents	One dependent	Two dependents	Three dependents	Four dependents	Five dependents
At least	But less than	Or, (5) such person is head of a family and has—				No dependents or one dependent	Two dependents	Three dependents	Four dependents	Five dependents	Six dependents
		The amount of tax to be withheld shall be—									
$0	$20	$2.00									
20	30	5.00	$2.60	$0.20							
30	40	7.00	4.60	2.20	$0.30	$0.30	$0.30	$0.30	$0.30	$0.30	$0.30
40	50	9.00	6.60	4.20	1.80	.60	.60	.60	.60	.60	.60
50	60	11.00	8.60	6.20	3.80	1.40	.90	.90	.90	.90	.90
60	80	14.00	11.60	9.20	6.80	4.40	2.00	1.40	1.40	1.40	1.40
80	100	18.00	15.60	13.20	10.80	8.40	6.00	3.60	2.00	2.00	2.00
100	120	22.00	19.60	17.20	14.80	12.40	10.00	7.60	5.20	2.80	2.60
120	140	26.00	23.60	21.20	18.80	16.40	14.00	11.60	9.20	6.80	4.40
140	160	30.00	27.60	25.20	22.80	20.40	18.00	15.60	13.20	10.80	8.40
160	180	34.00	31.60	29.20	26.80	24.40	22.00	19.60	17.20	14.80	12.40
180	200	38.00	35.60	33.20	30.80	28.40	26.00	23.60	21.20	18.80	16.40
200	220	42.00	39.60	37.20	34.80	32.40	30.00	27.60	25.20	22.80	20.40
220	240	46.00	43.60	41.20	38.80	36.40	34.00	31.60	29.20	26.80	24.40
240	260	50.00	47.60	45.20	42.80	40.40	38.00	35.60	33.20	30.80	28.40
260	280	54.00	51.60	49.20	46.80	44.40	42.00	39.60	37.20	34.80	32.40
280	300	58.00	55.60	53.20	50.80	48.40	46.00	43.60	41.20	38.80	36.40
300	320	62.00	59.60	57.20	54.80	52.40	50.00	47.60	45.20	42.80	40.40
320	340	66.00	63.60	61.20	58.80	56.40	54.00	51.60	49.20	46.80	44.40
340	360	70.00	67.60	65.20	62.80	60.40	58.00	55.60	53.20	50.80	48.40
360	380	74.00	71.60	69.20	66.80	64.40	62.00	59.60	57.20	54.80	52.40
380	400	78.00	75.60	73.20	70.80	68.40	66.00	63.60	61.20	58.80	56.40
$400 or over		20% of the excess over $400 plus									
		$80.00	$77.60	$75.20	$72.80	$70.40	$68.00	$65.60	$63.20	$60.80	$58.40

If the number of dependents is in excess of the largest number of dependents shown, the amount of tax to be withheld shall be that applicable in the case of the largest number of dependents shown reduced by $2.40 for each dependent over the largest number shown, except that in no event shall the amount to be withheld be less than 3 per centum of the excess of the median wage in the bracket in which the wages fall (or if the wages paid are $400 or over, of the excess of the wages) over $24, computed, in case such amount is not a multiple of $0.10, to the nearest multiple of $0.10.

TABLE A-3

IF THE PAYROLL PERIOD WITH RESPECT TO AN EMPLOYEE IS SEMIMONTHLY

And the wages are—		And, (1) such person is a married person claiming none of personal exemption for withholding and has—									
		No dependents	One dependent	Two dependents	Three dependents	Four dependents	Five dependents	Six dependents	Seven dependents	Eight dependents	Nine dependents
				Or, (2) such person is a married person claiming half of personal exemption for withholding and has—							
				No dependents	One dependent	Two dependents	Three dependents	Four dependents	Five dependents	Six dependents	Seven dependents
				Or, (3) such person is a single person and has—							
				No dependents	One dependent	Two dependents	Three dependents	Four dependents	Five dependents	Six dependents	Seven dependents
						Or, (4) such person is a married person claiming all of personal exemption for withholding and has—					
						No dependents	One dependent	Two dependents	Three dependents	Four dependents	Five dependents
						Or, (5) such person is head of a family and has—					
At least	But less than					No dependents or one dependent	Two dependents	Three dependents	Four dependents	Five dependents	Six dependents
		The amount of tax to be withheld shall be—									
$0	$20	$2.00									
20	30	5.00	$2.40								
30	40	7.00	4.40	$1.80	$0.30	$0.30	$0.30	$0.30	$0.30	$0.30	$0.30
40	50	9.00	6.40	3.80	1.20	.60	.60	.60	.60	.60	.60
50	60	11.00	8.40	5.80	3.20	.90	.90	.90	.90	.90	.90
60	80	14.00	11.40	8.80	6.20	3.60	1.30	1.30	1.30	1.30	1.30
80	100	18.00	15.40	12.80	10.20	7.60	5.00	2.40	1.90	1.90	1.90
100	120	22.00	19.40	16.80	14.20	11.60	9.00	6.40	3.80	2.50	2.50
120	140	26.00	23.40	20.80	18.20	15.60	13.00	10.40	7.80	5.20	3.10
140	160	30.00	27.40	24.80	22.20	19.60	17.00	14.40	11.80	9.20	6.60
160	180	34.00	31.40	28.80	26.20	23.60	21.00	18.40	15.80	13.20	10.60
180	200	38.00	35.40	32.80	30.20	27.60	25.00	22.40	19.80	17.20	14.60
200	220	42.00	39.40	36.80	34.20	31.60	29.00	26.40	23.80	21.20	18.60
220	240	46.00	43.40	40.80	38.20	35.60	33.00	30.40	27.80	25.20	22.60
240	260	50.00	47.40	44.80	42.20	39.60	37.00	34.40	31.80	29.20	26.60
260	280	54.00	51.40	48.80	46.20	43.60	41.00	38.40	35.80	33.20	30.60
280	300	58.00	55.40	52.80	50.20	47.60	45.00	42.40	39.80	37.20	34.60
300	320	62.00	59.40	56.80	54.20	51.60	49.00	46.40	43.80	41.20	38.60
320	340	66.00	63.40	60.80	58.20	55.60	53.00	50.40	47.80	45.20	42.60
340	360	70.00	67.40	64.80	62.20	59.60	57.00	54.40	51.80	49.20	46.60
360	380	74.00	71.40	68.80	66.20	63.60	61.00	58.40	55.80	53.20	50.60
380	400	78.00	75.40	72.80	70.20	67.60	65.00	62.40	59.80	57.20	54.60
$400 or over		20% of the excess over $400 plus—									
		$80.00	$77.40	$74.80	$72.20	$69.60	$67.00	$64.40	$61.80	$59.20	$56.60

If the number of dependents is in excess of the largest number of dependents shown, the amount of tax to be withheld shall be that applicable in the case of the largest number of dependents shown reduced by $2.60 for each dependent over the largest number shown, except that in no event shall the amount to be withheld be less than 3 per centum of the excess of the median wage in the bracket in which the wages fall (or if the wages paid are $400 or over, of the excess of the wages) over $26, computed, in case such amount is not a multiple of $0.10, to the nearest multiple of $0.10.

TABLE A-4

IF THE PAYROLL PERIOD WITH RESPECT TO AN EMPLOYEE IS MONTHLY

And the wages are—		And, (1) such person is a married person claiming none of personal exemption for withholding and has—									
		No dependents	One dependent	Two dependents	Three dependents	Four dependents	Five dependents	Six dependents	Seven dependents	Eight dependents	Nine dependents
				Or, (2) such person is a married person claiming half of personal exemption for withholding and has—							
				No dependents	One dependent	Two dependents	Three dependents	Four dependents	Five dependents	Six dependents	Seven dependents
				Or, (3) such person is a single person and has—							
				No dependents	One dependent	Two dependents	Three dependents	Four dependents	Five dependents	Six dependents	Seven dependents
						Or, (4) such person is a married person claiming all of personal exemption for withholding and has—					
						No dependents	One dependent	Two dependents	Three dependents	Four dependents	Five dependents
						Or, (5) such person is head of a family and has—					
At least	But less than					No dependents or one dependent	Two dependents	Three dependents	Four dependents	Five dependents	Six dependents
		The amount of tax to be withheld shall be—									
$0	$40	$4.00									
40	50	9.00	$3.80								
50	60	11.00	5.80	$0.60	$0.10	$0.10	$0.10	$0.10	$0.10	$0.10	$0.10
60	70	13.00	7.80	2.60	.40	.40	.40	.40	.40	.40	.40
70	80	15.00	9.80	4.60	.70	.70	.70	.70	.70	.70	.70
80	100	18.00	12.80	7.60	2.40	1.10	1.10	1.10	1.10	1.10	1.10
100	120	22.00	16.80	11.60	6.40	1.70	1.70	1.70	1.70	1.70	1.70
120	140	26.00	20.80	15.60	10.40	5.20	2.30	2.30	2.30	2.30	2.30
140	160	30.00	24.80	19.60	14.40	9.20	4.00	2.90	2.90	2.90	2.90
160	200	36.00	30.80	25.60	20.40	15.20	10.00	4.80	3.80	3.80	3.80
200	240	44.00	38.80	33.60	28.40	23.20	18.00	12.80	7.60	5.00	5.00
240	280	52.00	46.80	41.60	36.40	31.20	26.00	20.80	15.60	10.40	6.20
280	320	60.00	54.80	49.60	44.40	39.20	34.00	28.80	23.60	18.40	13.20
320	360	68.00	62.80	57.60	52.40	47.20	42.00	36.80	31.60	26.40	21.20
360	400	76.00	70.80	65.60	60.40	55.20	50.00	44.80	39.60	34.40	29.20
400	440	84.00	78.80	73.60	68.40	63.20	58.00	52.80	47.60	42.40	37.20
440	480	92.00	86.80	81.60	76.40	71.20	66.00	60.80	55.60	50.40	45.20
480	520	100.00	94.80	89.60	84.40	79.20	74.00	68.80	63.60	58.40	53.20
520	560	108.00	102.80	97.60	92.40	87.20	82.00	76.80	71.60	66.40	61.20
560	600	116.00	110.80	105.60	100.40	95.20	90.00	84.80	79.60	74.40	69.20
600	640	124.00	118.80	113.60	108.40	103.20	98.00	92.80	87.60	82.40	77.20
640	680	132.00	126.80	121.60	116.40	111.20	106.00	100.80	95.60	90.40	85.20
680	720	140.00	134.80	129.60	124.40	119.20	114.00	108.80	103.60	98.40	93.20
720	760	148.00	142.80	137.60	132.40	127.20	122.00	116.80	111.60	106.40	101.20
760	800	156.00	150.80	145.60	140.40	135.20	130.00	124.80	119.60	114.40	109.20
$800 or over		20% of the excess over $800 plus—									
		$160.00	$154.80	$149.60	$144.40	$139.20	$134.00	$128.80	$123.60	$118.40	$113.20

If the number of dependents is in excess of the largest number of dependents shown, the amount of tax to be withheld shall be that applicable in the case of the largest number of dependents shown reduced by $5.20 for each dependent over the largest number shown, except that in no event shall the amount to be withheld be less than 3 per centum of the excess of the median wage in the bracket in which the wages fall (or if the wages paid are $800 or over, of the excess of the wages) over $52, computed, in case such amount is not a multiple of $0.10, to the nearest multiple of $0.10.

TABLE A-5

IF THE PAYROLL PERIOD WITH RESPECT TO AN EMPLOYEE IS A DAILY PAYROLL PERIOD OR A MISCELLANEOUS PAYROLL PERIOD

And the wages divided by the number of days in such period are—		And, (1) each person is a married person claiming none of personal exemption for withholding and has—									
		No dependents	One dependent	Two dependents	Three dependents	Four dependents	Five dependents	Six dependents	Seven dependents	Eight dependents	Nine dependents
				Or, (2) each person is a married person claiming half of personal exemption for withholding and has—							
				No dependents	One dependent	Two dependents	Three dependents	Four dependents	Five dependents	Six dependents	Seven dependents
				Or, (3) each person is a single person and has—							
				No dependents	One dependent	Two dependents	Three dependents	Four dependents	Five dependents	Six dependents	Seven dependents
						Or, (4) each person is a married person claiming all of personal exemption for withholding and has—					
						No dependents	One dependent	Two dependents	Three dependents	Four dependents	Five dependents
						Or, (5) each person is head of a family and has—					
At least	But less than					No dependents or one dependent	Two dependents	Three dependents	Four dependents	Five dependents	Six dependents
		The amount of tax to be withheld shall be the following amount multiplied by the number of days in such period									
$0	$1	$0.10									
1	2	.30	$0.15								
2	3	.50	.35	$0.15							
3	4	.70	.55	.35	$0.20	$0.05	$0.05	$0.05	$0.05	$0.05	$0.05
4	5	.90	.75	.55	.40	.20	.10	.10	.10	.10	.10
5	6	1.10	.95	.75	.60	.40	.25	.10	.10	.10	.10
6	7	1.30	1.15	.95	.80	.60	.45	.30	.15	.15	.15
7	8	1.50	1.35	1.15	1.00	.80	.65	.50	.30	.15	.15
8	9	1.70	1.55	1.35	1.20	1.00	.85	.70	.50	.35	.20
9	10	1.90	1.75	1.55	1.40	1.20	1.05	.90	.70	.55	.35
10	12	2.20	2.05	1.85	1.70	1.50	1.35	1.20	1.00	.85	.65
12	14	2.60	2.45	2.25	2.10	1.90	1.75	1.60	1.40	1.25	1.05
14	16	3.00	2.85	2.65	2.50	2.30	2.15	2.00	1.80	1.65	1.45
16	18	3.40	3.25	3.05	2.90	2.70	2.55	2.40	2.20	2.05	1.85
18	20	3.80	3.65	3.45	3.30	3.10	2.95	2.80	2.60	2.45	2.25
20	22	4.20	4.05	3.85	3.70	3.50	3.35	3.20	3.00	2.85	2.65
22	24	4.60	4.45	4.25	4.10	3.90	3.75	3.60	3.40	3.25	3.05
24	26	5.00	4.85	4.65	4.50	4.30	4.15	4.00	3.80	3.65	3.45
26	28	5.40	5.25	5.05	4.90	4.70	4.55	4.40	4.20	4.05	3.85
28	30	5.80	5.65	5.45	5.30	5.10	4.95	4.80	4.60	4.45	4.25
$30 or over		20% of the excess over $30 plus									
		$6.00	$5.85	$5.65	$5.50	$5.30	$5.15	$5.00	$4.80	$4.65	$4.45

If the number of dependents is in excess of the largest number of dependents shown, the amount of tax to be withheld shall be that applicable in the case of the largest number of dependents shown reduced by $0.15 for each dependent over the largest number shown, **except** that in no event shall the amount to be withheld be less than 3 per centum of the excess of the product of the median wage in the bracket in which the wages fall and the number of days in the period (or if the wages paid are $30 or over, of the excess of the wages) over the product of $1.70 and the number of days in the period, computed, in case such amount is not a multiple of $0.05 to the nearest multiple of $0.05.

HOW TO USE TABLE B

Employers who **use the wage bracket withholding method** (Tables A-1 to A-5) **for determining the amount of tax to be withheld do not need to refer to the following Table B.**

For the convenience of employers who do not elect to use the wage bracket withholding table, there has been constructed a table which shows the lowest amounts of wages by family status and payroll periods at which the family status withholding exemption and the 20 percent rate apply. For wages below these amounts the Victory Tax withholding exemption and the 3 percent rate apply.

Example:

If the payroll period is weekly, all wage payments of $33.18 and over are subject to the family status withholding exemption and the 20 percent rate for—

Married persons claiming no personal exemption (Item I (1) of Form W-4) with five dependents.

Married persons claiming half of the exemption (Item I (2) of Form W-4) with three dependents.

Single persons (Item I (3) of Form W-4) with three dependents.

Married persons claiming all the exemption (Item I (4) of Form W-4) with one dependent.

Heads of family (Item I (5) of Form W-4) with two dependents.

If the weekly wage payments are less than $33.18 for these classes, the payments are subject to the 3 percent tax on the excess of wages over the weekly Victory Tax withholding exemption of $12.00.

Thus, it will be observed that before computing the tax to be withheld it is possible through the use of the following Table B to divide the wage accounts as between those subject to 20 percent on the amount in excess of the family status withholding exemption and those subject to 3 percent on the amount in excess of the Victory Tax withholding exemption.

TABLE B

20 PERCENT OF WAGES IN EXCESS OF FAMILY STATUS WITHHOLDING EXEMPTION IS APPLICABLE FOR WAGES *EQUAL TO OR IN EXCESS OF* THE AMOUNTS SHOWN. 3 PERCENT OF WAGES IN EXCESS OF VICTORY TAX EXEMPTION IS APPLICABLE FOR WAGES *LESS THAN* THE AMOUNTS SHOWN.

If the payroll period with respect to an employee is—	And, (1) each person is a married person claiming none of personal exemption for withholding and has—									
	No dependents	One dependent	Two dependents	Three dependents	Four dependents	Five dependents	Six dependents	Seven dependents	Eight dependents	Nine dependents
			Or, (2) each person is a married person claiming half of personal exemption for withholding and has—							
			No dependents	One dependent	Two dependents	Three dependents	Four dependents	Five dependents	Six dependents	Seven dependents
			Or, (3) each person is a single person and has—							
			No dependents	One dependent	Two dependents	Three dependents	Four dependents	Five dependents	Six dependents	Seven dependents
					Or, (4) each person is a married person claiming all of personal exemption for withholding and has—					
					No dependents	One dependent	Two dependents	Three dependents	Four dependents	Five dependents
					Or, (5) each person is head of a family and has—					
					No dependents or one dependent	Two dependents	Three dependents	Four dependents	Five dependents	Six dependents
Weekly	0	0	0	$19.06	$26.12	$33.18	$40.24	$47.29	$54.35	$61.41
Biweekly	0	0	0	38.12	52.24	66.35	80.47	94.59	108.71	122.82
Semimonthly	0	0	0	41.29	56.59	71.88	87.18	102.47	117.76	133.06
Monthly	0	0	0	82.59	113.18	143.76	174.35	204.94	235.53	266.12
Quarterly	0	0	0	247.77	339.53	431.30	523.06	614.82	706.59	798.35
Semiannual	0	0	0	495.53	679.06	862.59	1,046.12	1,229.65	1,413.18	1,596.71
Annual	0	0	0	991.06	1,358.12	1,725.18	2,092.24	2,459.29	2,826.35	3,193.41
Daily or miscellaneous (per day of such period)	0	0	0	2.70	3.70	4.70	5.70	6.70	7.70	8.70

THE SECRETARY OF THE TREASURY
WASHINGTON

June 4, 1943.

TO THE EMPLOYERS OF THE UNITED STATES:

At this time when the method of collecting the Federal Income Tax is undergoing such a complete change, many of your employees will not understand the new system. In spite of the very widespread discussion of the withholding feature, many of them will wonder and may ask why their pay is "short."

A simple leaflet in their pay envelopes may be helpful. Here is a sample explanation which, if you care to do so, you can print and enclose in the pay envelope from which the tax is first withheld.

> **PAY-AS-YOU-GO INCOME TAX**
>
> The new "Pay-As-You-Go" income tax law became effective July 1, 1943. It requires your employer to withhold a certain proportion of your pay. This amount is not a new tax, but is in payment of your regular Federal Income and Victory Tax.
>
> Beginning with the pay you are receiving today your employer has withheld this tax from your wage. Therefore, you have now begun to pay your regular Income and Victory Tax as you earn the income subject to that tax.
>
> The money withheld is not kept by your employer, but is turned over to the United States Treasury. It is your money, and stands to your credit as a *prepayment* of your Federal Income and Victory Tax.
>
> After the close of the year your employer will give you a receipt showing exactly how much of your money has gone to the United States Treasury toward the payment of your taxes. Keep that receipt. It is your evidence of tax paid.
>
> Any Federal income tax payments you made during the first two quarters of this year (March 15th and June 15th) stand to your credit as payment on *this* year's income tax.

With the beginning of withholding some of your employees may be inclined to offset their apparent loss of income by reducing their regular subscription to War Savings Bonds. It is vitally important that every effort be made to maintain or even increase the present rate of War Bond purchases. I will appreciate anything you can do to help.

I believe that any additional burden placed upon you as an employer or upon us at the Treasury will be more than offset by the benefits to be derived. Let me thank you in advance for your assistance, and assure you that we will do everything possible to promote the smooth operation of this new Income Tax machinery.

Sincerely yours,

Henry Morgenthau Jr.

Secretary of the Treasury.

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Treasury Suggests Tax Notice To Be Put in Pay Envelopes

The Treasury suggested today that employers have the following or similar notices printed for insertion in pay envelopes or inclusion with pay checks when the first 20 per cent salary deduction is made after July 1 under the new income tax laws:

"The new 'pay-as-you-go' income tax law became effective July 1, 1943. It requires your employer to withhold a certain portion of your pay. This amount is not a new tax, but is in payment of your regular Federal income and victory tax.

"Beginning with the pay you are receiving today, your employer has withheld this tax from your wage. Therefore, you have now begun to pay your regular income and victory tax as you earn the income subject to that tax.

"The money withheld is not kept by your employer, but is turned over to the United States Treasury. It is your money and stands to your credit as a prepayment of your Federal income and victory tax.

"After the close of the year your employer will give you a receipt showing exactly how much of your money has gone to the United States Treasury toward the payment of your taxes. Keep that receipt. It is your evidence of tax paid.

"Any Federal income tax payments you made during the first two quarters of this year (March 15th and June 15th) stand to your credit on this year's income tax."

Wash Times Herald, June 11

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FOR VICTORY BUY UNITED STATES WAR BONDS AND STAMPS

TREASURY DEPARTMENT

WASHINGTON 25

OFFICE OF
COMMISSIONER OF INTERNAL REVENUE

ADDRESS REPLY TO
COMMISSIONER OF INTERNAL REVENUE
AND REFER TO

June 9, 1943.

Managing Editor,

Dear Sir:

The law providing for a withholding tax on wages and salaries will go into effect on July 1, 1943. To acquaint employers of their responsibilities under this Act the Bureau of Internal Revenue has prepared detailed instructions outlining the employer's duties under the provisions of the Current Tax Payment Act of 1943.

Since the time in which to acquaint employers of their responsibilities is very limited it is my thought that the daily papers throughout the country can render a real service to the Government by informing them of the provisions of this new law. There is enclosed a copy of the Withholding Tax Circular, not with the idea that it will be reproduced in full, unless you so desire, but that it may serve as a basis for special articles and editorials.

The splendid cooperation of the press at all times in acquainting the public with the provisions of the tax laws is sincerely appreciated and it is felt that any publicity given to this new method of collecting revenue will be a direct contribution to the war effort.

Very truly yours,

(Personal Signature)
Commissioner.

Enclosure

(75)

BRIEF ANALYSIS OF THE ANTI-WINDFALL PROVISIONS OF THE CURRENT TAX PAYMENT ACT OF 1943

The Current Tax Payment Act contains anti-windfall provisions[1] relating to the problem of transition to the system of current collection of tax liabilities. Their effect is, generally, to limit the abatement[2] of individual tax liabilities to 75 percent[3] of the 1942 or 1943 tax, whichever is the smaller, and, occasionally, to reduce or further limit the amount of that abatement.

The general limitation may be called the normal abatement. It can never be more than 75 percent of the tax for 1942 or 1943 whichever is the smaller. The legislative objective of the further limitation was to lower the ceiling or to limit the abatement to a lesser amount in some cases. The individuals, who may be subject to this further limitation, are those whose net income for the year which controls the amount of the normal abatement (1942 or 1943 whichever was smaller) was greater by $20,000.00 or more than the highest net income for any one of the years 1937 to 1940, inclusive. The highest income year from 1937 to 1940, inclusive, has been termed the "base year."

THE PROBLEM OF MEASURING THE HEIGHT OF THE CEILING

To determine if the second limitation is applicable, a tax is computed on the income of the base year selected after increasing the income of such base year by $20,000.00. This tax is computed at the rates for either the year 1942 or 1943, whichever of such year's tax was the smaller. If the tax so computed is less than the normal abatement of 75 percent, the ceiling is lowered and the tax so computed is the amount of the abatement and not the 75 percent normal abatement. If, however, the tax so computed is greater than the normal abatement of 75 percent, such normal abatement is not disturbed or reduced. In such latter instances the ceiling has not been lowered but remains at the same height, that is, 75 percent abatement.

---

[1] Section 6, Current Tax Payment Act of 1943.

[2] The words discharge, forgiveness, cancellation, or remission could be substituted for the term "abatement."

[3] Where the total liability is $50.00 or less, the abatement is 100 percent, and notch provision prevents inequity to persons whose tax liability is only slightly over $50.00.

EXAMPLE NO. 1

THE 1942 TAX IS SMALLER THAN THE 1943 TAX AND THE CEILING IS LOWERED

The net income for the year 1942 is $142,310.59, on which the tax is $100,000.00[4]. The 1943 tax is $120,000.00. The 1942 tax being less than the 1943 tax, the normal abatement is $75,000.00 (75 percent of $100,000.00). The highest net income for any one of the years 1937 to 1940, inclusive, is $50,000.00 for the year 1938. The net income for the year 1942 is $20,000.00 or more greater than the income for such "base year." The tax on a net income of $70,000.00 (net income for the year 1938 of $50,000.00 plus $20,000.00) computed at 1942 rates is $40,940.00[5]. This amount is less than the $75,000.00 which is the normal abatement. The amount of the abatement to be allowed is, therefore, $40,940.00 and not $75,000.00. The normal abatement of $75,000.00 has thus been reduced by $34,060.00 ($75,000.00 minus $40,940.00 equals $34,060.00). This amount of $34,060.00 becomes a liability for the year 1943, which may, however, be paid by the taxpayer in four equal annual installments, the first of which may commence on March 15, 1945.

REVISED 1943 TAX SUMMARIZED

(1)	The tax for 1943 not disturbed by the abatement provisions of the Current Tax Payment Act	$120,000.00
(2)	The 25 percent unabated portion of the 1942 tax remaining after the application of the 75 percent normal abatement provisions of the Act	25,000.00[6]
(3)	The reduction of the amount of the normal abatement by reason of the ceiling having been lowered to $40,940.00 ($75,000.00 minus $40,940.00 equals $34,060.00)	34,060.00[7]
	Total liability for the year 1943	$179,060.00

[4]Married person with no dependents claiming entire amount of personal exemption and entitled to maximum earned income credit.

[5]Computed as if $70,000.00 constituted both the surtax net income for 1942 and the net income for such year after allowance of all credits against net income. (Section 6(c)(1) of Current Tax Payment Act of 1943.)

[6]Payable on March 15, 1944, but taxpayer may elect under regulations to pay one half on March 15, 1944, and remaining half on March 15, 1945. (Section 6(c)(1) of the Current Tax Payment Act of 1943.)

[7]Payable on March 15, 1944, but taxpayer may elect under regulations to pay such portion in four equal annual installments from March 15, 1945, to March 15, 1948, with interest at the rate of 4 percent. (Section 6(c)(2) of the Current Tax Payment Act of 1943.)

EXAMPLE NO. 2

THE 1943 TAX BEING SMALLER THAN THE 1942 TAX AND THE CEILING IS LOWERED

The net income for the year 1943 is $132,433.27, on which the tax is $96,000.00[4]. The 1942 tax is $120,000.00. The 1943 tax being less than the 1942 tax, the normal abatement is $72,000.00 (75 percent of $96,000.00 equals $72,000.00). The highest net income for any one of the years 1937 to 1940, inclusive, is $80,000.00 for the year 1940. The net income for the year 1943 is $20,000.00 or more greater than the income for the "base year" 1940. The tax on a net income of $100,000.00 ($80,000.00 net income for the year 1940 plus $20,000.00) computed at the 1943 rates is $70,140.00. This amount is less than the $72,000.00 which is the normal abatement. The amount to be abated is, therefore, $70,140.00 and not $72,000.00. The normal abatement has thus been reduced by $1,860.00 ($72,000.00 minus $70,140.00 equals $1,860.00). This amount of $1,860.00 becomes a liability for the year 1943 which may, however, be paid by the taxpayer in four equal annual installments, the first of which may commence on March 15, 1945.

REVISED 1943 TAX SUMMARIZED

(1)	The tax for the year 1943 not disturbed by the abatement provisions of the Current Tax Payment Act	$ 96,000.00
(2)	The amount by which the 1942 tax is greater than the 1943 tax ($120,000.00 minus $96,000.00 equals $24,000.00)	24,000.00
(3)	The 25 percent portion of the 1943 tax remaining after the application of the 75 percent normal abatement (25 percent of $96,000.00 equals $24,000.00)	24,000.00[6]
(4)	The reduction of the amount of the normal abatement by reason of the ceiling having been lowered to $70,140.00 ($72,000.00 minus $70,140.00 equals $1,860.00)	1,860.00[7]
	Total liability for the year 1943	$145,860.00

EXAMPLE NO. 3

THE 1942 TAX BEING SMALLER THAN THE 1943 TAX BUT THE CEILING IS NOT LOWERED

The net income for the year 1942 is $142,310.59, on which the tax is $100,000.00[4]. The 1943 tax is $120,000.00. The 1942 tax being less than the 1943 tax, the normal abatement is $75,000.00 (75 percent of $100,000.00). The highest net income for any one of the years 1937 to 1940, inclusive, is $100,000.00 for the year 1938. The net income for the year 1942 is $20,000.00 or more greater than the income for the "base year" 1938. The tax on the net income of $120,000.00 (net income for the year 1938 of $100,000.00 plus $20,000.00) computed at 1942 rates is $82,140.00. This amount being greater than the $75,000.00 normal abatement (75 percent of $100,000.00), the amount to be abated is the normal abatement of $75,000.00. It will be noted that in this instance the tax on the net income of the "base year" plus $20,000.00 exceeds the 75 percent normal abatement. The normal abatement is, therefore, not reduced or disturbed. The application of the principles of the second limitation in the windfall provisions of the Current Tax Payment Act have no effect upon the liability of the taxpayer in this instance. This is so even though the net income for the year 1942 was $42,310.59 in excess of the net income of $100,000.00 for the "base year" 1938.

REVISED 1943 TAX SUMMARIZED

(1)	The tax for the year 1943 not disturbed by the abatement provisions of the Current Tax Payment Act	$120,000.00
(2)	The 25 percent unabated portion of the 1942 tax remaining after the application of the 75 percent normal abatement (25 percent of $100,000.00)	25,000.00
(3)	Reduction of the amount of the normal abatement by reason of the ceiling not having been lowered	None
Total liability for the year 1943		$145,000.00

The last example illustrates that an increase of $20,000.00 or more in net income for the year 1942 or 1943 over the highest net income for any one of the years 1937 to 1940, inclusive, does not necessarily result in an increase in tax liability for the year 1943. The amount of net income a person may have in the current year (1942 or 1943) in excess of that in the highest "base year," without being subject to the second anti-windfall provision of the Current Tax Payment Act, will vary and increase in direct proportion to the size of the net income for the current year.

A married person with no dependents whose highest net income in the base year was $10,000.00 may have $28,210.00 more net income in the current year than in the base year, and yet receive full benefit of the 75 percent normal abatement. A person with the same family status whose highest net income for the base year was $30,000.00 could have $33,375.00 more net income in the current year than in the base year without disturbing the normal abatement allowance. Example No. 3 reflects the results applicable to a person with net income of $100,000.00 in the highest "base year." The married man with net income in the base year of $980,000.00 could increase that net income in the current year by $345,211.00 without having his ceiling lowered or suffering any reduction in his normal 75 percent abatement allowance.

Form W-2
[...] TREASURY DEPARTMENT
INTERNAL REVENUE SERVICE

STATEMENT OF INCOME TAX WITHHELD ON WAGES
By Employer
(EMPLOYEE'S RECEIPT)

3d 127

Calendar Year
1943

[...]CTIONS TO EMPLOYER

[...]pare this form in duplicate for [...] employee from whom a tax has [...] withheld. Furnish original to [...]loyee. Forward duplicate with [...]rm of Income Tax Withheld on [...]es, Form W-1, for the fourth [...]rter of the year (or with the em[...]er's final return, if filed at an [...]lier date). (See Circular WT.)

[...]TRUCTIONS TO EMPLOYEE

[...]his is your receipt for In[...]e Tax (including Victory [...]x) withheld. You should [...]p it for use in preparing [...]r Income and Victory Tax [...]urn for 1943, and as evi[...]ce of tax withheld.

EMPLOYEE TO WHOM PAID

(Print full name of employee, home address, and social security number, if any. If employee is a married woman, name of husband should also be furnished)

EMPLOYER BY WHOM PAID

(Name and address of employer)

STATEMENT OF INCOME TAX WITHHELD ON WAGES

Wages paid during the calendar year 1943............ $..........

Amount of income tax withheld............ $..........

[OVER]

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FORM W-4
U. S. TREASURY DEPARTMENT
INTERNAL REVENUE SERVICE

EMPLOYEE'S WITHHOLDING EXEMPTION CERTIFICATE

(Collection of Income Tax at Source on Wages)

Name .... (Print full name)

Address .... (Print home address)

.... Social Security No. ....

I. Check the box in the line below which applies to *you* on the date this form is filled in:

Married person living with husband or wife but claiming **none** of the personal exemption .... (1) ☐

Married person living with husband or wife but claiming **half** of the personal exemption .... (2) ☐

Single person (not head of a family) or married person not living with husband or wife (not head of a family) . (3) ☐

Married person living with husband or wife and claiming **all** of the personal exemption (spouse claiming none of the exemption) .... (4) ☐

Head of a family (a single person or married person not living with husband or wife who exercises family control and supports closely connected dependent relative(s) in one household) .... (5) ☐

II. Number of dependents receiving chief support from you who are either under 18 years of age or incapable of self support because mentally or physically defective ....

I declare that the entries made herein are a true and complete statement as of the date indicated, pursuant to the Internal Revenue Code and the regulations issued under authority thereof.

Date ...., 194.... 16—34596-1 (Signature) ....

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5

Tuesday, June 15, 1943

Withholding Tax

Some taxpayers doubtless will suffer severe headaches trying to figure out the amount of unpaid obligations owing by them or refunds due them before they get the hang of the new pay-as-you-go system. Once the difficulties of the transition period are over, the taxpayers' tribulations will be mitigated, though there is no denying that the new system of collection-at-source is much more complicated, from the taxpayers' viewpoint, than the accustomed method of making a declaration and paying the amount due. For computations of taxes on the basis of income yet to be earned are necessarily tentative, so that frequent adjustments have to be made to allow for over- or underpayments.

However, for the time being the wage earner or salaried employe subject to the withholding tax does not need to worry. His employer is the man who has to struggle with the extra clerical work involved in computing the new withholding taxes. All the employe has to do is to fill out a brief statement to show the amount of exemptions to which he is entitled under the income tax laws. After July 1 the employer will simply deduct 20 per cent from the amount payable to employes after allowing for exemptions. Next September those taxpayers whose liabilities are not fully covered by these deductions will have to make supplementary declarations, and pay any excess amounts due. For the great majority of wage earners, however, the 20 per cent withholding levy will take care of the next two quarterly installments of their income tax obligations. And for everybody the system of deducting a limited amount regularly at the source provides protection against involuntary defaults and assures to the Government a more even and a more certain inflow of revenue.

It should again be emphasized that the withholding tax does not add anything to the amount of taxes payable, though it does bring into the tax system a little sooner some individuals who were not taxable on 1942 incomes. It is, in short, a method of collecting taxes that we have to pay anyhow. If the Government by inadvertence gets more than it is entitled to, the taxpayer is credited with the excess. Only the 25 per cent tax of "unforgiven" taxes payable by all but a minority of taxpayers is in effect a tax increase. But these additional taxes, which are payable in two installments, are not due until the spring of 1944 and 1945.

FIELD PROCEDURE MEMORANDUM NO. 276

June 11, 1943

TO INTERNAL REVENUE AGENTS IN CHARGE OF FIELD DIVISIONS:

BRIEF SUMMARY OF THE PROVISIONS OF
THE CURRENT TAX PAYMENT ACT OF 1943

The Act applies only to individuals. It changes the system of tax payment but does not change rates or exemptions. It provides for collection at source from wages and salaries at a rate of 20 percent above the withholding exemptions and for current payment of liabilities not collected at source on the basis of quarterly declarations. The Act cancels three-quarters of the 1942 tax or the 1943 tax, whichever is the smaller, subject to certain limiting provisions. The speeding up of payments by one year and the amortization of the uncancelled part of the tax (the one-fourth not cancelled) will, for the great majority of taxpayers, increase the amount of taxes payable during calendar years 1943, 1944, and 1945. It is estimated that the Act will increase individual income tax collections for the fiscal year 1944 alone by $3 billion, bringing the total to $16 billion.

I. System of Current Payment

A. Collection at Source of Tax on Wages

Beginning July 1, 1943, 20 percent of wages and salaries in excess of the family status withholding exemption will be withheld to apply on current income and Victory taxes. This withholding rate is designed to collect the Victory tax, plus the normal tax and the surtax at the first bracket rate. Wages of service men, domestic servants, clergymen, agricultural labor, and certain other classes are exempt from withholding but not from tax. The annual withholding exemptions are $624 for a single person, $1,248 for a married person, and $312 for each dependent. In order to insure withholding of the Victory tax, the amount withheld shall in no case be less than 3 percent of the excess of the wage above $624, which is the Victory tax withholding exemption for all individuals. The rate of the Victory tax withholding is set at 3 percent instead of the present 5 percent in order to approximate more closely the actual net Victory tax liability after post-war credits.

To enable employers to withhold the proper amount, employees are required to certify to the employer their marital status and the number of their dependents.

(over)

Employers can determine the amount to be withheld either by exact computation or by the use of simplified tables. The tables set forth the amount to be deducted according to the family status of the taxpayer, the wage bracket into which his wage falls, and the length of his payroll period. Employers will file quarterly returns but under projected regulations will remit the withheld taxes monthly. Copies of a statement of wages paid and tax withheld for each employee are submitted to the employee and the Bureau of Internal Revenue at the end of the year. Employees are required to file income and Victory tax returns even if their entire tax is collected at source.

B. Current Payment of Liability not Collected at Source

Withholding applies only to wages and salaries and does not currently discharge the tax liability in excess of the first surtax bracket. Taxpayers with more than a nominal amount of income from non-wage sources and taxpayers whose wages fall in higher surtax brackets must make a declaration of estimated tax on or before March 15th each year. Payments of estimated tax (consisting of estimated income and Victory tax liability, less estimated amounts withheld at source) are made quarterly, and estimates may be revised each quarter. Penalties are applied if current tax payments during the year, including both amounts withheld and amounts paid quarterly by the taxpayer, fall short of 80 percent of the actual total tax liability. Final returns are due each year, as at present, by March 15th.

A special rule permits farmers to file their declarations of estimated tax at any time on or before December 15th and applies penalties only if the estimated tax falls short of two-thirds of the actual tax.

C. Tax Payments During 1943

Taxpayers are required to pay their March and June, 1943, installments, as under present law, but such payments are applied to the 1943 tax. Taxpayers whose current liabilities are not fully discharged by collection at source will file a declaration on September 15, 1943, estimating their 1943 tax and subtracting therefrom the amounts paid in March and June, plus the estimated income and Victory tax withheld at source for the year. The balance, if any, will be payable one-half by September 15 and one-half by December 15, 1943. The final return for 1943 will be filed by March 15, 1944, at which time any underpayments or overpayments during 1943 will be adjusted.

II. Cancellation of Tax

A. Cancellation of 75 percent of One Year's Tax

To provide for transition to current collection without complete doubling up of payments, the Act cancels 75 percent of either the 1942 or 1943 tax, whichever is the lesser. However, if the liability for the lesser year is $50 or less, the entire liability for that year is cancelled. A notch provision prevents inequity to persons whose tax liability is only slightly over $50. The unforgiven 25 percent may be paid in two equal installments due not later than March 15, 1944, and March 15, 1945.

If the 1942 tax is smaller than the 1943 tax, the taxpayer pays only his 1943 tax during 1943. If the 1942 tax is larger, the taxpayer pays during 1943 his 1943 tax plus the excess of his 1942 tax over his 1943 tax.

B. Special Provision to Limit Amount of Cancellation

A further limitation is made in addition to the limitations of cancellation to the tax for the lesser year and then only to the extent of 75 percent of that tax. This limitation provides that where the surtax net income for the cancelled year exceeds by more than $20,000 the highest surtax net income of any one of the base years 1937, 1938, 1939 or 1940, cancellation is limited to the amount of tax which would result if the surtax net income for the highest base year plus $20,000 were treated as the surtax net income for the cancelled year. The effect of this provision is to limit cancellation where the wartime income of the forgiven year exceeds the income of a normal base year by more than $20,000. The resulting additional amount added to the 1943 tax is payable on or before March 15, 1944, or, at the election of the taxpayer, in four equal annual installments beginning March 15, 1945.

III. Special Provisions for Military and Navy Personnel

A. Exclusion of Service Income

All members of the armed forces (including officers) of the United States or of any of the other United Nations are permitted to exclude $1,500 of service pay from their taxable income for 1943 and subsequent years. This exclusion is in addition to the personal exemption and credit for dependents.

B. Cancellation at Death

If a person in the armed forces of the United States or any of the other United Nations dies while in active service on or

(over)

Field Procedure Memorandum No. 276

After December 7, 1941, any income tax unpaid at the time of death is cancelled. If paid after death, such tax shall be refunded.

C. Special Rule on Tax Cancellation

The provisions requiring that any excess of the 1942 tax over the 1943 tax be added to the tax for the latter year are modified insofar as they affect persons in active service as members of the armed forces of the United States or any of the other United Nations at any time during 1942 or 1943. In cases of such service men, to the extent that the excess of the 1942 tax over the 1943 tax is attributable to earned net income (as defined for the purposes of the earned income credit), the excess need not be added to the 1943 tax. This has the effect of cancelling the tax on 1942 earned net income where the 1942 tax exceeds the 1943 tax.

TIMOTHY C. MOONEY,
Deputy Commissioner.

TREASURY DEPARTMENT

INTER OFFICE COMMUNICATION

DATE

TO Secretary Morgenthau June 17, 1943

FROM Frances McCathran

CONTROVERSIAL ISSUES BEFORE CONGRESS

1. Food Subsidies - Hottest single issue before Congress is the question of the Administration's food subsidy and price rollback program. Yesterday the Senate Banking and Currency Committee, now considering attaching a subsidy restriction to a bill extending the life of the CCC, heard Price Administrator Brown claim that, without subsidies to roll back agricultural prices, it would be impossible to carry out the Price Stabilization Act of October 2, 1942. The committee, however, challenged Brown's estimate of what such a subsidy program would cost since his figures were one billion dollars under the lowest estimate given by President Roosevelt at his press conference Tuesday. The committee expects to make a final decision on whether to attach the subsidy restriction to the CCC measure next Tuesday. On the same day a similar bill with an amendment prohibiting subsidies is slated for House consideration. House Appropriations Committee's recommendation that OPA funds be cut some 12 million dollars is another action bearing directly on the subsidy program since Price Administrator Brown planned to use some of the money for enforcement measures against black markets. The House is expected to begin discussion on the War Agencies Bill, in which this cut is recommended, today. The committee in its report, however, praised OPA and said it did not wish to hamper its price control or rationing programs, which viewpoint, of course, will not preclude more drastic action in the House, where OPA has been very much "on the spot." Meanwhile the House Agriculture Committee has before it a suggestion to give Food Administrator Chester Davis all OPA's power over the prices and rationing of food. President Roosevelt, on the other hand, announced very strongly at his press conference Tuesday that an over-all Food Czar would not be feasible and that the Administration still gives its whole-hearted support to the subsidy program.

2. Taxes - The House Ways and Means Committee meets in Executive session at 10:30 this morning for preliminary discussion of

the next revenue bill. Yesterday the committee reportedly discussed the complete tax picture with OES Vinson, but left the decision of when to begin its hearings on a revenue measure until today.

AGENDA

FOR THE BOARD OF ECONOMIC WARFARE MEETING
TO BE HELD JUNE 17, 1943, AT 10:00 A. M.
IN ROOM 201 SENATE OFFICE BUILDING

Discussion of report of the Executive Director to the House Appropriation Committee. Attached is the Introductory statement by Milo Perkins, Executive Director of the Board of Economic Warfare, before the House Appropriations Committee on June 1, 1943.

BOARD OF ECONOMIC WARFARE
Washington, D. C.

Introductory statement by Milo Perkins, Executive Director of the Board of Economic Warfare, before the House Appropriations Committee on June 1, 1943

With your permission, I want to review the general background of our operations on the economic warfare front as we take stock some seventeen months after Pearl Harbor.

The plain fact is that Germany and Japan got a long jump on us in the world-wide economic battle that preceded the war itself. For years before they launched their military attacks, these countries had been conducting a shrewd and ruthless war of economic aggression through such measures as the building of ersatz industries and the heavy stockpiling of strategic materials. They were building ahead for the economic as well as the military showdown that they knew was coming. We on the other hand, not having planned a war of aggression, were caught relatively flat-footed.

We are catching up now, however. There is a long way to go, but the United Nations are definitely not losing the economic war. Our economic strength is still rising while both Germany and Japan are beginning to show the first signs of economic strain.

As the war is intensified--particularly as it swings further into definite offensives--the economic side will become a bigger and a tougher job. Steadily increasing production of weapons calls for steadily increasing raw material supplies, including those from foreign sources to offset the drain on our own stockpiles and resources. Tightening supply and shipping situations throughout the United Nations call for greater selectivity in meeting the essential export minimums to the countries with whom we are doing business. Offensive strategy, replacing the defensive phases of the war, calls for more exact information, about enemy economic strengths and weaknesses--to guide blockade policy and help determine strategic objectives which will be high on the priority list for destruction.

The Board of Economic Warfare works on the general economic warfare front through three administrative Offices--Imports, Exports and Economic Warfare Analysis. Each drives toward objectives in its own particular field of operations.

IMPORTS

The Office of Imports is responsible primarily for the job of scouring the four corners of the world to locate strategic commodities needed in the war effort, and then programming the necessary development and procurement operations to get them for the United States.

We in the United States have rather proudly referred to our country as the richest raw materials nation in the world. This was perfectly true, and it therefore came as a shock to many of us to realize that we were far from self-sufficient in many of the basic raw materials needed to meet our war commitments. The rubber shortage was quickly understood by the public because we all use tires. Shortages in quartz crystals, various insecticides, mahogany, balsa wood and certain strategic grades of mica were equally critical, however. Dozens

of other foreign commodities that few people ever heard of were needed in quantity and needed quickly.

Not many weeks after Pearl Harbor, we lost the vast raw materials resources of the Far East. Japanese invasion cut off more than 60 percent of our normal tin supplies, 95 percent of our quinine, 60 percent of our hard fibre, and practically all of our rubber. We lost valuable sources of various fats and oils. Soon the Burma Road was closed, stopping not only the flow of supplies into China but also stopping the flow "in reverse" of tungsten, hog bristles, tin, silk and other vital supplies that had been coming to us out over the Road. All this happened at exactly the time when the speed-up in our war industries demanded more raw materials--not less.

Many of the lost supplies could not be produced at all in the United States; others could not be turned out in sufficient quantity. We were face to face with the tremendous problem of finding substitute resources in those foreign areas of the world still open to us. This was a year ago. Today we can report that what had to be done has been done. Utilizing the services of existing Government agencies, such as the Commodity Credit Corporation and various subsidiaries of the Reconstruction Finance Corporation, and in close cooperation with the Department of State, we have been able to bring in adequate supplies of the commodities which the War Production Board designated as strategic, and directed us to go after.

There were maddening delays, and reserves were dangerously low at times, but the really vital needs have been met. In some cases, commodities have been flownin from half around the world to meet supply deadlines. The Army Air Transport Command and the Navy Air Transport

Service have used their returning transport planes to bring in tungsten from China, mica from India, quartz crystals from Brazil, and dozens of other highly strategic materials from supply points which would have been beyond immediate reach without air service to bring them to our war plants on time. The goods have come in; war industry wheels have kept turning.

The Office of Imports is directing more than 200 purchase programs in 40 different countries or areas. Nearly 600 individual items are included in this list of programs. They are grouped roughly into: minerals and metals, foodstuffs, textiles and fibres, miscellaneous commodities. The volume of development and procurement operations for imports will run to about a billion and a half dollars during the present fiscal year. For next year the total will be above two billion.

As the search for raw materials grows more intense, a far greater degree of development work will be necessary to produce the things we must buy and bring out of other countries. It is becoming more and more necessary to program the preliminary steps thoroughly so as to be sure of the increased production we need. In very few cases is our import operation a simple matter of buying what we want. Today we must go out and fight just as hard to develop the goods we want to buy as we used to fight for the chance to sell goods back in the days when over-production made selling the most aggressive challenge to every business firm.

This part of the job gets tougher as we need more materials and must reach farther out into new and undeveloped fields to find them. Circumstances have forced our men to become economic commandos,--literally penetrating new territory in the jungles of the world, to find new

sources of balsa wood for gliders, cinchona bark for quinine, fibre substitutes to replace lost hemp and a long list of vital minerals and metals without which technological warfare would be impossible.

A lot of side factors must be kept constantly in mind as these import operations are carried out. Transportation problems must be met; special area programs must be developed, with full consideration for related economies within the areas; price levels must be planned to induce maximum production, and yet not disrupt the domestic economy of the country involved; new producing units must be found and developed as older sources reach maximum capacity; often special equipment must be exported to make possible these increases in imports. The job can be done, and it will be done, but it will take a lot more ingenuity and drive in the year ahead of us than it took in the one behind us.

In all import operations, the interests of United States commercial importers must always be considered. If coffee is to be brought in, coffee importers handle the job, as agents of the responsible Government corporation. If fats and oils are needed, all United States oil importers are invited to join a special association to handle import operations. And so it goes through the long list of imported commodities. It's good business to use the skill and experience of these men now, and it's good business to help them weather the storms of this war economy so they'll still be in business when the war is over.

EXPORTS

The original duties of the Office of Exports centered largely around the job of export licensing to see that scarce strategic materials did not leave the United States, and that no shipments went to Axis powers through sympathetic "blacklist" concerns in neutral countries. The whole function has now grown to include the more positive job of directing available exports to keep up the domestic and war economies of friendly countries, and to make possible the development and transportation of the materials we must import for our own war effort.

The United States finds itself today not only the military arsenal for the United Nations but also pretty nearly the only remaining supply house for commercial goods needed vitally by many of our Allies. Latin America, which used to get a lot of its imports from Europe, must now look to us almost entirely. The same thing is true for other areas, to a greater or less extent.

We have got to keep the basic economies of these countries going. They are with us in the war effort, and they are turning out tremendous quantities of strategic materials we must have which we formerly got elsewhere. It is obvious that we must try to meet their most essential needs.

In the face of this demand, we are more and more up against the fact that we are forced to ration scarcities for export. We can't spare enough from our own stockpiles to meet the full wants, and there aren't ships enough to haul all the exports other nations would like to buy even if we could spare the goods.

The answer is obvious: available goods and available shipping space must be carefully rationed. This adds tremendously to the export control job. It means more careful screening all down the line, to give a very high degree of selectivity. The job of dividing a deficit of goods is no easier on the foreign front than it is at home.

Briefly, the export job must be handled so as to get the greatest possible strength and solidarity on the Allied economic front. Exports must be kept from going to the wrong places; they must go to the right places at the right time and they must go within available supply and shipping limitations. First things must come first. If country A needs some rolling stock to keep her basic industries in operation, she must get that rolling stock. If mining equipment is needed in country B, to get out tin or mica or tungsten needed by our war industries, country B must get that mining equipment.

Realistic steps have been taken by our Office of Exports in recent weeks to see that the limited exports we can spare hit the nail on the head in the country to which they are sent. At the capital of each Latin American country, representatives of our Department of State and BEW sit down around a table with an agency representing the government of that country. With supply and shipping cards face up, this group makes a preliminary determination of the most vital import needs of the country in question. This determination becomes the first blueprint for our export shipments, subject to later changes made necessary by the availability of supplies and of shipping space.

For countries which are represented by purchasing commissions in the United States, a quarterly program plan was recently put into effect which will serve the same general purpose. Most essential needs of each country for both lend-lease and commercial imports will be determined definitely in advance, and shipments will be directed within these quotas.

Export control is an increasingly tough and exacting job as supplies become tighter. Every time a new commodity is rationed in the United States, tighter controls are necessary in export operations. Additional moves must be made by BEW to adjust export operations to the domestic picture. In 1942, we examined about a million and a quarter export license applications, of which something over half were granted. With the more exact study of transactions now required, we expect to have to handle about two million export documents in 1943. That's between 6,000 and 7,000 every working day and the work to be done on each application is becoming more exacting.

The scope of the export job is staggering. A total of 2,500 commodities and commodity groups are subject to export control. These commodities flow from approximately 16,000 United States export concerns to more than 140 different country destinations, and there are thousands of individual consignees. The control machinery must operate to see that no shipments fall into the hands of an importer who is known to be re-exporting to the enemy, stockpiling in warehouses, speculating at the expense of the good name of United States private enterprise, or who is in any other way unfriendly to the cause of the United Nations. We must also be sure that none of the materials in short supply here at home are used for any nonessential activity in the country of destination.

The whole job is complicated by the need to protect United States commercial exporters, just as far as it is physically possible to do so in a war economy. This is especially true of the smaller exporters. Just as in the case of importers, we need the trained services of commercial exporters now; we shall undoubtedly need them much more to spearhead United States commercial activities abroad when the war is over. This

means that the Government export control machinery must perform a lot of service functions in addition to merely licensing exports. It must help get the goods produced, moved to the seaboard, and actually shipped. BEW, as a claimant agency for commercial exports, goes before the War Production Board to present the case for the minimum of strategic exports considered essential in our joint Allied economy. It has working arrangements with the Office of Defense Transportation and War Shipping Administration, to assist exporters in getting the goods moved. The exporters themselves have organized several committees to help us with our work.

One special job carried out by the BEW Export Office is the use of requisitioning authority to break loose goods which have been frozen at ports or in warehouses as a result of war developments. More than $73,000,000 worth of such material, ranging all the way from rubber to trucks and airplanes, has been located through this machinery and channeled into constructive use by the United Nations. Much of it was originally held by business firms located in countries now dominated by the Axis.

ECONOMIC WARFARE ANALYSIS

The Office of Economic Warfare Analysis must gather all possible information about the industrial economy of each of our enemies. It must gather complete information on the economies of European neutrals in connection with its blockade work. It needs similar information regarding other nations in the world for the use of our other two Offices as well as for that of the Armed Services. With these facts in hand, its business analysts, its engineers and other technicians must then map out the most effective economic warfare program which it is possible to carry out.

As the United Nations go all-out on the offensive, and start pinching in on the Axis, more comprehensive and exact information is needed about the enemy economy. Weak spots must be found, strengths must be offset, economic strategy must be accurately anticipated.

The success of economic warfare analysis is obviously measured primarily in proportion to the excellence of our information about the enemy. Information--a piece here, a scrap there--comes from many sources. Often the action based on such information is thrilling and dramatic, but the job of collecting and piecing together these scraps into a useful whole means tedious, painstaking effort. Among the sources available to us are various intercepts, the files of American offices of foreign firms like Mitsubishi of Japan, records and experience of American engineers who have worked in foreign lands, refugees and foreign travelers, captured enemy equipment, and even the secret sources of the Underground. There is a close and continuing interchange of information with the British Ministry of Economic Warfare.

Sticking to the economic side--the business and industrial aspects--BEW gathers this material as a great backlog from which to reach the answers for many vital war operations. Working very largely under the orders of the appropriate branches of the Army and Navy, BEW analysts prepare literally hundreds of detailed reports on all phases of the world economic picture. The information is of no value unless it is kept current and up-to-the minute.

At the request of the Army, our men keep a running balance sheet of enemy production. It is always necessary to know how well or how poorly the enemy is doing in order to measure our own production requirements. To some extent, the enemy's economic picture reveals his hand so far as strategy is concerned. Will lack of oil compel the Nazis to launch another desperate offensive in the Caucasus? Will the shortage of locomotives force curtailment of tank production? Will Germany's need for rubber and Japan's need for critical machine tools lead to large scale blockade running? What are the limiting factors on submarine production? These and countless other answers must be known for successful prosecution of the war, and BEW fills in the picture on the industrial and economic side.

Blockade measures stem from basic economic warfare analysis. The job here is to stop the leaks through neutral countries adjacent to the Axis, but in order to stop the leaks we must have accurate information. When we know the enemy shortages, and the bottlenecks in his economy, we are forewarned on what he may try to do to get supplies. Examination of the cargo of a blockade runner, for example, is quite revealing. For what materials is Germany willing to run the risk of blockade running? BEW has joint representation with the British on the Blockade Committee in London. Decisions are reached by mutual agreement.

An effective "blacklist" system is an essential part of blockade work. Information gained from many sources makes it possible for the Department of State to keep the blacklist current. When a drug house in Latin America orders a large shipment of steel I-beams, we make an immediate investigation. When we learn that RAF bombs have destroyed the plant of the only German manufacturer of a certain type of needle, we watch the liscensing of needles to neutral countries. And so it goes through an almost endless list of checks.

Preclusive buying, that interesting and necessarily secret operation, which locks up materials in neutral countries to keep them from reaching the enemy, is also dependent on reliable information. We can't afford to waste time or money buying up supplies which are not really vital to the Axis, or which couldn't reach it anyway. Much of what we buy preclusively is of great value to our own war effort, of course.

It is quite obvious that even such military action as determining bombing objectives depends partly upon sound economic intelligence and analysis. Working with the British Ministry of Economic Warfare and our own military intelligence men, we are able to supply information which is of value to the military in making final decisions. BEW does not select the targets, and, of course, it does not make any of the military decisions, but it is able to point out vulnerable spots from an economic and industrial point of view. Where are the bottlenecks in enemy production? Is it the assembly plant, the machine shop, the railway terminal, the power plant, or the steel mill?

Much of this activity on the economic warfare analysis front is, of course, very secret. By agreement with the Armed Services we have the most stringent regulations to protect the security of information available to us. You might as well tip off the location of your fleet as to give hints about your economic strategy or knowledge of the enemy position. This Economic Warfare Analysis job is vital, it is directed one hundred percent toward helping to win the war, and it becomes more complicated and demanding as the war develops along positive

offensive lines. When the full story can be told, it will be one of the most fascinating chapters of the war record.

Sketchily and briefly, this is the broad front on which BEW is trying to carry out its part in the winning of this war. It is not a static or frozen program. Constant adjustments and changes must be made to meet a constantly shifting war situation.

We have operated from the beginning on the theory that we should work with and through other agencies wherever that is the most efficient course to follow; several of them receive direct allocations from our appropriation for strictly wartime functions they are performing for us.

We are going ahead on the conviction that any economic program which will help to shorten this war by a month, a week or even a day is worth any reasonable price. Measured in lives, and remembering the men who died that last morning before the Armistice was signed in 1918, all of us would agree that it is worth any price to shorten this war by a single hour.

As you proceed with your consideration of our budget, I shall be very happy to try to answer any questions you might have--on the record whenever possible; off the record if I may, when military secrecy is involved.

Treasury Department
Division of Monetary Research

Date June 16, 1943

To: Miss Chauncey

This is the newly formed committee on occupation problems that the President and Budget Bureau have set up. It asks that the Treasury appoint a member to the Economic Policy Committee.

I presume that the Secretary would wish me to be the member, inasmuch as I have been given the responsibility for occupation affairs. I have, therefore, drafted a letter accordingly.

H.D.W.

Wm T saw
DW Bell saw
see

MR. WHITE
Branch 2058 - Room 214½

JUN 17 1943

My dear Mr. Secretary:

This is in reply to your letter of June 11, 1943, asking that I designate a representative from this Department to serve as a member of the interdepartmental Committee for Economic Policy in Liberated Areas.

I am designating Mr. Harry D. White to serve as Treasury representative on that Committee.

Sincerely yours,

(Signed) H. Morgenthau, Jr.

The Honorable,

The Secretary of State.

Orig. File ret'd to White's office by im - Photo. file in Diary.

Del. by Mess (Sturgis) 4:35 6/17

HDW:le
6/14/43

DEPARTMENT OF STATE
WASHINGTON

June 11, 1943

In reply refer to
A-S

My dear Mr. Secretary:

In accordance with the plan for coordinating the economic activities of the United States civilian agencies in liberated areas, a copy of which I understand you have received from the President, I have designated Mr. Dean Acheson as the Assistant Secretary to perform the duties set forth under paragraph 3 of the plan and to act as Chairman of the interdepartmental Committee for Economic Policy in Liberated Areas and of the Coordinating Committee set up under the plan. I have also designated the Political Adviser, Mr. James C. Dunn as a member of the Policy Committee in accordance with paragraph 2 of the plan.

I should appreciate it if you would designate a representative from your department to serve as a member of the Policy Committee the duties of which are defined in paragraph 2 of the plan. The departments and agencies to be represented on this Committee in addition to the State Department are the following:

Treasury Department
War Department
Navy Department
Board of Economic Warfare
Office of Lend-Lease Administration
Office of Foreign Relief and Rehabilitation Operations

Sincerely yours,

Cordell Hull

The Honorable

Henry Morgenthau, Jr.,

Secretary of the Treasury.

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JUN 17 1943

Dear Ronald:

This is in reply to your letter of June 15, 1943, relating to the status of the discussions among the technical staffs of the various agencies of this Government working on tentative proposals for post-war monetary stabilization.

There will, of course, be ample opportunity for the Board to present suggestions for changes or modifications before any official proposal is submitted. After we have been able to ascertain the general views of the technical experts of the various countries and their reaction to the tentative proposals thus far submitted for consideration, including those suggested by the technical staff of the Board, we shall want to discuss the matter with you and with the heads of other participating departments and agencies with a view to formulating the proposal that seems most feasible.

Sincerely yours,

(Signed) H. Morgenthau, Jr.

Secretary of the Treasury.

Mr. Ronald Ransom, Vice Chairman,
Board of Governors of the Federal
Reserve System,
Washington, D. C.

Orig. File ret'd to White's office
by IM - Photo. filed in Diary

HDW:dmh 6/17/43.

By Messenger Sturgis 4:35
6/17/43

BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM
WASHINGTON

OFFICE OF THE VICE CHAIRMAN

June 15, 1943

Dear Henry:

As you know, discussions have been had between the Treasury staff, the Board staff, and others in our Government on the matter of the proposed Stabilization Fund Plan. Some differences of view obtain between our staffs. Meanwhile, meetings, which are still at the staff level, have been inaugurated among groups of technical representatives of the United Nations. The Board has instructed its staff that during these discussions they should if possible avoid disclosing any differences of view on the part of representatives of this Government.

I am sending you this informal note merely to make sure that this instruction to our staff will not be regarded as precluding the Board from expressing its own views when it may be appropriate to do so.

Sincerely yours,

Ronald Ransom.
Ronald Ransom

Honorable Henry Morgenthau, Jr.,
Secretary of the Treasury,
Washington, D. C.

ED

June 17, 1943.

My dear General Spalding:

For the Secretary I am acknowledging your letter of June 14, which transmitted a copy of the Proposed Third Protocol Between The Union of Soviet Socialist Republics and The United States, United Kingdom and Canada. Mr. Morgenthau very much appreciated receiving this material, and you may be sure it will be held in confidence.

Sincerely yours,

(Signed) H. S. Klotz

H. S. Klotz,
Private Secretary.

Brigadier General S. P. Spalding,
United States Army,
Assistant Executive, The President's
Soviet Protocol Committee,
Washington, D. C.

GEF/dbs

SECRET

THE PRESIDENT'S SOVIET PROTOCOL COMMITTEE
WASHINGTON

14 June 1943

My dear Mr. Secretary:

There is forwarded herewith for your information copy of the Proposed Third Protocol Between The Union of Soviet Socialist Republics and The United States, United Kingdom and Canada Covering the Period July 1, 1943 to June 30, 1944, as presented to the Soviet Chargé d'Affaires on 9 June 1943.

Sincerely yours,

S. P. Spalding

S. P. SPALDING
Brig. General, U.S. Army
Asst. Executive

Enclosure

The Honorable,
The Secretary of the Treasury.

SECRET

U.S. SECRET
BRITISH MOST SECRET

PROPOSED THIRD PROTOCOL
BETWEEN
THE UNION OF SOVIET SOCIALIST REPUBLICS
AND
THE UNITED STATES, UNITED KINGDOM AND CANADA
COVERING THE PERIOD
JULY 1, 1943 TO JUNE 30, 1944

The Government of the United States, the Government of the United Kingdom and the Government of Canada, recognizing the outstanding contribution of the Union of Soviet Socialist Republics in the prosecution of the war against the common enemy, and desiring to continue to provide the Government of the Union of Soviet Socialist Republics with the maximum assistance possible in the form of military supplies, raw materials, industrial equipment and food, and the Government of the Union of Soviet Socialist Republics desiring to assist the Governments of the United States, the United Kingdom and Canada in meeting their war needs for raw materials and other supplies, have agreed as follows:

ARTICLE I

The Governments of the United States, the United Kingdom, and Canada undertake to make available for dispatch to the Government of the Union of Soviet Socialist Republics, during the period July 1, 1943 to June 30, 1944, the supplies mentioned in the schedules annexed hereto under the conditions stated therein.

ARTICLE II

The Governments of the United States and the United Kingdom will aid in the movement of the supplies offered, by furnishing shipping as set forth in the schedules annexed hereto, it being understood that these commitments as to shipping may be reduced if shipping losses, lack of escorts, deficiencies in the anticipated capacity of the available routes, the necessities of other operations, or the exigencies of the situation, render their fulfillment impracticable.

U.S. SECRET
BRITISH MOST SECRET

ARTICLE III

The Government of the Union of Soviet Socialist Republics undertakes to make available for dispatch to the Governments of the United States, the United Kingdom, and Canada, within the period covered by the present protocol, such raw materials and other supplies as may be available and as are desired by said governments in the prosecution of the war.

ARTICLE IV

The financial arrangements concluded between the Government of the Union of Soviet Socialist Republics on the one hand and the Governments of the United States and the United Kingdom respectively, on the other in connection with the supplies furnished in pursuance of the protocol signed between the parties in Washington on October 6, 1942 shall continue to govern the provision of supplies furnished by the Governments of the United States and the United Kingdom in pursuance of the present protocol.

Any financial arrangements between the Government of the Union of Soviet Socialist Republics on the one hand and the Government of Canada on the other in connection with the supplies to be furnished by the Government of Canada in pursuance of the present protocol shall be the subject of a separate agreement to be concluded between the Government of Canada and the Government of the Union of Soviet Socialist Republics.

ARTICLE V

The lists of supplies in the schedules annexed hereto shall be subject to reallocation between the three supplying countries as they may decide between themselves in order to meet strategic, supply or shipping exigencies. They shall too be liable to variation to meet unforeseen developments in the war situation. If shipping losses, production failures, or the necessities of other operations render their fulfillment prohibitive, it may be necessary to reduce them. On the other hand, if conditions permit, the Governments of the United States, the United Kingdom and Canada will be glad to review the schedules from time to time for the purpose of increasing the quantities to be provided and delivered.

UNITED STATES SCHEDULE OF SUPPLIES AND SHIPMENTS
FOR THE THIRD SOVIET PROTOCOL

The United States Government undertakes to make available for shipment during the protocol period to the Union of Soviet Socialist Republics a total of 4,500,000 short tons of stores, of which approximately 2,700,000 short tons will be for shipment in Soviet flag vessels and 1,800,000 short tons for shipment in United States flag vessels. The foregoing availability will be reduced to the extent that offerings of other parties to the protocol are carried in the shipping referred to hereinafter.

The United States will supply the shipping tonnage which, with the Soviet tonnage presently employed, will lift 225,000 short tons per month via the Pacific route, on the understanding that the turn-around is to be of 75 days' duration and that the United States will lend every assistance to the Union of Soviet Socialist Republics in order that this may be achieved, and on the further understanding that should any untoward events close the Pacific route to the Union of Soviet Socialist Republics or restrict its use, United States tonnage transferred to the Soviet flag for employment on this route will be used on other available routes to the Union of Soviet Socialist Republics for lifting protocol supplies, for the shipment of which the United States is responsible.

The United States will undertake to lift by either the Northern route or the Persian Gulf route, whichever in the light of changing conditions proves from time to time to be more efficient a total of 150,000 short tons a month.

The foregoing commitments as to shipping will include the movement of supplies selected from Canadian offerings and from United Kingdom offerings of wool and lead originating in Australia and New Zealand, and such supplies originating in North America, as, by agreement between the Governments of the United States and United Kingdom, are to continue to be carried

SECRET

in United States vessels, as well as shipments from such sources as may become necessary in meeting the commitments of the United States. All shipping commitments are subject to the provisions of Article II of this protocol.

The Government of the United States offers the following schedule of supplies, aggregating some 7,080,000 short tons, from which it will be necessary for the Soviet Government to select as promptly as practicable, a program of particular supplies for dispatch which does not exceed the shipping limitations outlined above, i.e., 4,500,000 short tons, exclusive of fly-away airplanes, to which may be added 500,000 short tons for stockpile and carryover, or a total of 5,000,000 short tons. This program should include all cargo to be transported in the shipping referred to above from the United States, or from other sources, after July 1, 1943, including protocol and non-protocol items on hand, on order or to be ordered. Protocol and non-protocol material delivered but not exported as of June 30, 1943 will be available for selection within the limitations as to tonnage.

It is appreciated that reasonable stockpiles of stores must be maintained in the United States so that the Union of Soviet Socialist Republics can, from month to month, select cargo for shipment that is most needed to meet the everchanging requirements of war. However, the United States reserves the right to limit the size of such individual stockpiles, either by control of production or diversion of product, or both, when in its judgment such action is in the best interest of the common cause. In taking such action, due consideration will be given to the expressed needs of the Union of Soviet Socialist Republics.

When production is curtailed or material is diverted, the arrearages in the various items involved will be given all possible consideration in conformity with future realistic shipping programs, Soviet desires, other urgent war requirements and reasonable production schedules.

SECRET

The offerings made in the United States' schedule of supplies are subject to specifications which shall be in accord with current United States' conservation and production practices and practicable and specific material scheduling.

The United States stands ready, through appropriate officials, to discuss with Soviet representatives in Washington all detailed questions pertaining to the schedule of stores and services and any reasonable adjustments that may be desired.

A supplementary request has been submitted by the Union of Soviet Socialist Republics. The offerings in this schedule include responses to this request for certain of the items. The remainder are under investigation, and information regarding the possibility of supply will be furnished as soon as practicable.

Above all, the United States desires again to assure the Union of Soviet Socialist Republics that it has a full understanding of the vital importance of the Soviet front and the urgent necessities of moving supplies to it in the highest possible volume and in the shortest space of time.

SECRET

ARMAMENT AND MILITARY EQUIPMENT

(All Weights in Short Tons)

(Except as otherwise specified, amounts are to be provided in equal monthly installments as nearly as practicable.)

AIRPLANES

Requested: 8,160

Airplanes:
6,000 pursuit planes "Aircobra"
1,200 light bombers, Type A-20
600 medium bombers, Type B-25
360 transport planes, Type C-46; C-47

Spare Parts:

Spare engines	30 percent of number of planes
Spare propellers	30 percent of number of planes
Airplane spare parts	20 percent of value of plane
Engine spare parts	15 percent of value of plane
Propeller spare parts	15 percent of value of propeller

Offered: 2,784 (Supplied with equipment and ammunition in accordance with United States Standards.)

The offer will be reexamined at the earliest practicable opportunity for the purpose of determining whether in the light of operational requirements and production it is possible to increase the number of airplanes.

Airplanes:
1,200 fighters, 1-engine, Type P-39
1,200 light bombers, Type A-20
144 medium bombers, Type B-25
240 medium transport planes, Type C-47

In addition, in accordance with a previous agreement made with the United Kingdom, involving interchange of certain airplanes, the United States is to supply for the United Kingdom's account 150 P-39 fighter airplanes per month for the period ending December 31 1943.

Spare Parts:
To be supplied in accordance with United States Standards which are equal to or in excess of amount requested. (Joint Aircraft Committee Case 1850, Revision B.)

TANKS

Requested: None

Offered: 2,000 medium tanks, M4A2, with ammunition and spare parts. Also 1,000 additional tanks to be placed in production for delivery July 1, 1944 to December 31, 1944.

SECRET

ARMAMENT AND MILITARY EQUIPMENT, CONTINUED

TRUCKS

Requested: 144,000
Spare parts, 20 percent of value of trucks

Offered: 132,000 Shipping Weight: 643,800

Delivery:
10,000 for each of first six months
12,000 for each of second six months
Trucks to be supplied with spare parts according to United States Standards which are in excess of amount requested.

SCOUT CARS (Jeeps)

Requested: 24,000
Spare parts at 20 per cent of value of a jeep

Offered: 24,000 ¼ ton 4 x 4 trucks
Shipping Weight: 117,700
Spare parts according to United States Standards which are in excess of amount requested.

Additional items offered estimated to be undelivered on June 30, 1943 under Second Protocol: 4,500 Scout Cars M3A1
Shipping Weight: 31,050

PRIME MOVERS FOR ARTILLERY

Requested: 3,000
1,680 tractors, medium
720 tractors, heavy
600 armoured half-tracks
Spare parts, 20 per cent of value of item

Offered: 3,000 Shipping Weight: 62,000
1,680 tractors, medium M1
720 tractors, heavy M1
600 cars half-track M9 (Supplied with equipment and ammunition in accordance with United States Standards)
Spare parts in accordance with United States Standards which are in excess of amount requested

MOTORCYCLES

Requested: 12,000
Spare parts, 20 per cent of value of motorcycle

Offered: 12,000 Shipping Weight: 9,900
Spare parts in accordance with United States Standards which are in excess of amount requested

SECRET

ARMAMENT AND MILITARY EQUIPMENT, CONTINUED

POWDER

Requested: 67,200 tons

Offered: 72,700 tons   Shipping Weight: 75,300

Delivery:
5,600 tons in first month
6,100 tons in each of remaining months

TOLUOL

Requested: 40,320 tons

Offered: 40,320 tons   Shipping Weight: 44,400

Delivery:
6,720 tons in first quarter
11,200 tons in each of last three quarters

T N T

Requested: 26,880 tons

Offered: 26,880 tons   Shipping Weight: 30,600

RADIO STATIONS, RADIO LOCATORS

Requested: 15,700 Units and other radio equipment

Offered: 14,010 Units and other radio equipment
Shipping Weight: 14,800
In addition 430 units estimated to be undelivered on June 30, 1943 under Second Protocol

Breakdown

A. Radio Stations, Output more than 1 KW

Requested: 60

Offered: 61   Shipping Weight: 910

Delivery:
1 - 50 KW short wave station in last quarter
20 - 10 to 15 KW transmitting and receiving sets
10 in each of last 2 quarters
39 - 2 to 3 KW transmitting and receiving sets
9 in second quarter
15 in each of last 2 quarters
1 - RCA ET4331 in second quarter

SECRET

ARMAMENT AND MILITARY EQUIPMENT, CONTINUED

B. Radio Stations, Output less than 1 KW

Requested: 12,000

Offered: 11,800 Shipping Weight: 11,850

Delivery:
1000 - SCR - 299
350 in first 6 months
650 in second 6 months
6000 - SCR - 284
2000 in first 6 months
4000 in second 6 months
800 - set #19 British in first 6 months
4000 - Pilot V-100
3000 in first 6 months
1000 in second 6 months

Within the total offering of 11,800, the U.S.S.R. may select the whole or part of the following items as substitutes for those listed above:

95 SCR177B

Delivery:
40 in first quarter
55 in second quarter

560 SCR274

Delivery:
400 in first quarter
160 in second quarter

400 SCR511

Delivery:
150 in first quarter
250 in second quarter

4800 SCR610

Delivery:
2400 in each of first two quarters

C. Radio Receivers

Requested: 2,000

Offered: 2,000 Shipping Weight: 160

Delivery:
500 in second quarter
750 in each of last 2 quarters

Additional items offered estimated to be undelivered on June 30, 1943 under Second Protocol: 430
Shipping Weight: 6

Delivery:
20 Hallicrafter in 2nd quarter
10 RME-43 receivers in 2nd quarter
200 Bendix transmitters 2A-12B in first quarter
200 Bendix receivers in third quarter

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ARMAMENT AND MILITARY EQUIPMENT, CONTINUED

D. Aircraft Radio Locators

Requested: 500

Offered: (Under consideration)

E. Ground Radio Locators

Requested: 240

Offered: (Under consideration)

F. Radio Altimeters

Requested: 500

Offered: (Under consideration)

G. Radio Beacons

Requested: 250

Offered: (Under consideration)

H. Radio Direction Finding Sets

Requested: 150

Offered: 150 SCR-551 Shipping Weight: 830

Delivery:
50 in each of last three quarters

I. Radio Tubes

Requested: 2,400,000

Offered: 2,400,000 Shipping Weight: 520

Delivery:
450,000 Metal Tubes in each of first two quarters
475,000 Metal Tubes in each of second two quarters
137,500 Glass Tubes in each quarter

J. Radio Measuring Equipment and Radio Parts

Requested: $3,000,000

Offered: $3,000,000 Shipping Weight: 350 (Estimated)

FIELD TELEPHONES

Requested: 100,000 Units

Offered: 100,000 Units EE-8A Shipping Weight: 600

SECRET

ARMAMENT AND MILITARY EQUIPMENT, CONTINUED

TELETYPE APPARATUS

Requested: 500 Units

Offered: None

FIELD TELEPHONE AND TELEGRAPH CABLES

Requested: 186,000 miles

Offered: 186,000 miles (Field telephone wire type 110-B)
Shipping Weight: 7,720

Delivery:
75,000 miles in each of first two quarters
18,000 miles in each of second two quarters

FIELD BATTERY CHARGING STATIONS

Requested: 4,000 Units

Offered: 4,000 - 1½ KW stations
Shipping Weight: 1,260

Delivery:
1,500 in each of first two quarters
500 in each of second two quarters

SUBMARINE CABLE

Requested: 1500 Km

Offered: 600 Km Shipping Weight: 2,630

MARINE CABLE

Requested: 1200 Km

Offered: 1200 Km Shipping Weight: 2,620

QUARTERMASTER GOODS

SOLE LEATHER

Requested: 20,160 Tons

Offered: 18,000 Tons Shipping Weight: 18,000

ARMY BOOTS

Requested: 3,600,000 Pairs

Offered: 3,600,000 Pairs Shipping Weight: 9,000

SECRET

QUARTERMASTER GOODS, CONTINUED

WOOLEN CLOTH

Requested:	18,000,000 Yards		
Offered:	18,000,000 Yards	Shipping Weight:	16,300

COTTON CLOTH

Requested:	25,000,000 Yards		
Offered:	25,000,000 Yards	Shipping Weight:	7,000

Additional offer of 1,045,000 yards estimated to be undelivered on June 30, 1943 under Second Protocol.

TARPAULINE

Requested:	3,000,000 Yards		
Offered:	3,000,000 Yards	Shipping Weight:	2,300

WEBBING

Requested:	6,000,000 Yards		
Offered:	6,000,000 Yards	Shipping Weight:	1,200

Additional offer of 6,000,000 yards estimated to be undelivered on June 30, 1943 under Second Protocol.

MEDICAL SUPPLIES

MEDICAL SUPPLIES

Requested:	$12,000,000		
Offered:	$12,000,000	Shipping Weight:	1,200

SECRET

LOCOMOTIVES AND FLAT CARS

LOCOMOTIVES

Requested: 2,000 to
3,000

Offered: 500 Minimum Shipping Weight: 94,000
(Up to 700 if possible)

Delivery:
To begin in third quarter.

RAILROAD FLAT CARS

Requested: 10,000

Offered: 10,000 Shipping Weight: 150,000

Delivery:
2,400 in second quarter
3,800 in each of last two quarters.

SECRET

NAVAL STORES

(All Weights in Short Tons)

(Except as otherwise specified, amounts are to be provided in equal monthly installments as nearly as practicable.)

(Quantities offered are in addition to prior protocol commitments to U.S.S.R. undelivered on June 30, 1943. See page 20.)

MINESWEEPERS

Requested: 22

Offered: None
(See additional offers below)

SUBMARINE CHASERS (110 feet)

Requested: 12

Offered: None
(12 are being produced on non-protocol Soviet Requisition with delivery scheduled for the last quarter of 1943)

SEA-GOING TUGS

Requested: 20

Offered: None
(15 are being produced on non-protocol Soviet Requisition for export after June 30, 1943)

5"/38 CALIBER DOUBLE PURPOSE DECK GUNS

Requested: 110

Offered: None
(It is estimated that 65 of 150 being produced under non-protocol Soviet Requisition will remain undelivered on June 30, 1943)

3"/50 CALIBER DOUBLE PURPOSE DECK GUNS

Requested: 200

Offered: 200 Shipping Weight: 870
Delivery in second 6 months

20 mm OERLIKON GUNS

Requested: 500

Offered: 500 Shipping Weight: 440
Delivery in second 6 months

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SECRET

NAVAL STORES, CONTINUED

50 CALIBER TWIN MACHINE GUNS

Requested: 900

Offered: 900 together   Shipping Weight: 5,600
with ammunition according to United States Standards
Delivery
150 in each of first 2 quarters
300 in each of last 2 quarters

5"/38 CALIBER AMMUNITION

Requested: 61,600

Offered: None
(Ammunition is being furnished for 150 guns being produced under non-protocol Soviet Requisition)

3"/50 CALIBER AMMUNITION

Requested: 199,000

Offered: 199,000   Shipping Weight: 2,490

20 mm AMMUNITION

Requested: 2,500,000

Offered: 2,500,000   Shipping Weight: 880

MARINE ENGINES AND GENERATORS

Requested: 2,562

Offered: 606   Shipping Weight: 2,100
(See additional offers below)

Breakdown

A. Marine Diesel Engines 1600 HP

Requested: 12 Units

Offered: 6 Units   Shipping Weight: 150
(4 are to be produced on non-protocol Soviet Requisition for export after June 30, 1943)

B. Marine Diesel Engines 1200 HP

Requested: 100 Units

Offered: 50 Units   Shipping Weight: 1,200
Delivery in second 6 months

SECRET

NAVAL STORES, CONTINUED

C. Marine Diesel Engines 30 - 100 HP

Requested: 350 Units

Offered: 200 Units Shipping Weight: 400
Delivery in second 6 months
(500 are to be produced on non-protocol Soviet Requisition for export after June 30, 1943)
(See additional offers below)

D. "Packard" Gas Engines 1200 HP

Requested: 400 Units

Offered: None
(500 are to be produced on non-protocol Soviet Requisition for export after June 30, 1943)

E. Marine Wooden Gas Engines 30- 50 HP Complete with gas products

Requested: 800 Sets

Offered: None
(Experimental model being produced under non-protocol Soviet Requisition)

F. Diesel Generators and Diesel Generator Compressors from 9 to 120 KW

Requested: 600 Units

Offered: 50 Units Shipping Weight: 250
(Maximum of 15 to be over 100 KW Capacity)
(200 are to be produced on non-protocol Soviet Requisition for export after June 30, 1943)
(See additional offers below)

G. Generators - 1.5 to 4 KW Diesel or Gasoline

Requested: 300 Units

Offered: 300 Units Shipping Weight: 100
(Gasoline)(Commercial types)

SALVAGE EQUIPMENT

Requested: 3,071 Units

Offered: 805 Units Shipping Weight: 1,550
(See additional offers below)

NAVAL STORES, CONTINUED

Breakdown

A. Salvage Stations

Requested: 256 Units

Offered: 40 Units Shipping Weight: 100
(Depth not exceeding 200 feet; re-compression chambers excluded)
Delivery in second 6 months
(43 are to be produced on non-protocol Soviet Requisition for export after June 30, 1943)

B. Portable Air Compressors, Complete with Engines

Requested: 180 Units

Offered: 60 Units Shipping Weight: 300
Delivery 10 each month in second 6 months

C. Pontoons (Capacity 5 to 200 Tons)

Requested: 600

Offered: None
(Construction in U.S.S.R. recommended because of difficulties of export due to size and weight)

D. Portable Water Pumps, Complete with Engines

Requested: 1,000 Units

Offered: 425 Units Shipping Weight: 720
(3 to 10 inch pumps)
Delivery in second 6 months

E. Underwater Electric Water Pumps

Requested: 100 Units

Offered: 100 Units Shipping Weight: 8
(Capacity not to exceed 200 G.P.M.)
Delivery in May and June 1944

F. Electric Welding and Cutting Apparatus

Requested: 120 Sets

Offered: 60 Sets Shipping Weight: 120
Delivery 10 sets each month in second 6 months

G. Electric and Pneumatic Underwater Tools

Requested: 400 Sets

Offered: 60 Sets Shipping Weight: 300
(Pneumatic) Delivery 10 sets each month in second 6 months

NAVAL STORES, CONTINUED

H. Portable Electric Stations Underwater Lighting

Requested: 240 Sets

Offered: 60 Sets Shipping Weight: 60
(5 KW Generator and 5 Underwater Lights)
Delivery 10 sets each month in second 6 months

I. Gas Cutting Apparatus

Requested: 120

Offered: None
(Same as item F above)

J. Metal Detectors

Requested: 55

Offered: None

ELECTRICAL EQUIPMENT

Requested: 1,965 Units and other electrical material

Offered: 1,040 Units and other electrical material

Breakdown

A. Generators with Controllers 1.5 to 25 KW

Requested: 500

Offered: 295 Shipping Weight: 300
(Not more than 20% to be of greater capacity than 15 KW)

B. Generators with Controllers 25 to 100 KW

Requested: 250

Offered: 100 Shipping Weight: 180
(Not more than 25% to be of 75 KW capacity or greater)

C. Motor Generators with Controllers 1 to 10 KW

Requested: 100

Offered: 100 Shipping Weight: 70

D. Motor Generators with Controllers 10 to 75 KW

Requested: 25

Offered: 25 Shipping Weight: 50
(Not more than 10 units to be of 50 KW capacity or greater)

SECRET

NAVAL STORES, CONTINUED

E. Electric Motor with Controllers 5 to 25 HP

Requested: 1,000

Offered: 500 Shipping Weight: 300
(Not more than 20% to be of 15 HP capacity or greater)

F. Electric Motors with Controllers 25 to 100 HP

Requested: 25

Offered: 20 Shipping Weight: 25
(Not more than 25% to be of 75 HP or greater)

G. Storage Batteries for Submarines

Requested: 65

Offered: 0
(See additional offers below)
(In addition 65 are to be produced on non-protocol Soviet Requisition)

H. Electric Instruments and Fixtures

Requested: $1,000,000

Offered: $ 100,000 Shipping Weight: 25

1 67

SECRET

ADDITIONAL OFFER OF ESTIMATED UNDELIVERED BALANCES AS OF JUNE 30, 1943, IN SECOND PROTOCOL

(Offerings to be reduced by the amounts that are exported prior to June 30, 1943)

	ITEM	NUMBER	WEIGHT IN SHORT TONS
1.	Minesweepers	10	
2.	Marine Diesel Engines and Spares (170-1100 HP)	254	3,048
3.	Marine Diesel Engines and Spares (30-100 HP)	263	1,315
4.	Marine Diesel Generators (25-300 KW)	800	13,560
5.	Marine Gasoline Engines and Spares	90	270
6.	Marine Pumps and Spares (95-230 V)	257	257
7.	Electric Motors and Spares (110-220 V)	1,210	605
8.	Turbo Generators (230 V)	10	42
9.	Storage Batteries for Submarines	15	1,350
10.	Electric Ventilating Sets	649	195
11.	Scripps Engines	66	436
12.	Air Tanks	15	15
13.	Rotary and Changeover Switches	3,000	2
14.	Potassium Tetraoxide	41,100 lbs.	20
15.	Turbo Ventilators for Engine Room	8	8
16.	Windlasses with motors	5	30
17.	Auxiliary Equipment for Ships	10	20
18.	Vertical Steam Boiler	10	10
19.	Water Tight Junction Boxes	240	1
20.	Jetting Equipment for Salvage Operations	20	130
21.	Submarine Rescue Chamber	1	9
22.	Towing Winches (220 V)	10	20
	TOTAL		21,343

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SECRET

SHIPPING WEIGHT OF NON-PROTOCOL ITEMS BEING PROCURED ON SOVIET REQUISITIONS

(All Weights in Short Tons)

MISCELLANEOUS NAVAL STORES Shipping Weight: 17,100

SECRET

METALS, CHEMICALS AND OTHER PRODUCTS

(All Weights in Short Tons)

(Except as otherwise specified, amounts to be provided in equal monthly installments as nearly as practicable.)

(The amounts offered below include quantities to be delivered during the Third Protocol Period against new orders and old orders undelivered June 30, 1943.)

DURALUMINUM AND ALUMINUM INGOTS

Requested: 30,640 tons

Offered: 35,760 tons Shipping Weight: 38,620
18,000 tons to be supplied by other parties to the Protocol

MAGNESIUM METAL

Requested: 4,032 tons

Offered: 4,032 tons Shipping Weight: 4,070

NICKEL

Requested: 9,408 tons

Offered: 6,600 tons Shipping Weight: 4,200
3,600 tons in pig nickel
600 tons in monel scrap
2,400 tons maximum contained in steel and various non-ferrous products
1,800 tons in pig nickel to be supplied by other parties to the Protocol

MOLYBDENUM CONCENTRATES

Requested: 4,480 tons

Offered: 4,000 tons Shipping Weight: 4,480

COPPER ELECTROLYTIC

Requested: 134,400 tons

Offered: 134,400 tons maximum

Copper in copper base alloys	75,264 tons maximum
Copper in bimetal	2,226 tons maximum
Copper in copper brass mill products	15,000 tons maximum
Copper in copper cable and wire	20,000 tons maximum
Copper in submarine cable	50 tons maximum
Copper in power and related cable	21,395 tons maximum
Copper in marine cable	465 tons maximum

SECRET

METALS, CHEMICALS AND OTHER PRODUCTS, CONTINUED

ZINC (Slabs)

Requested: 13,440 tons

Offered: 13,440 tons Shipping Weight: 13,440

COBALT

Requested: 161 tons

Offered: 80.5 tons Shipping Weight: 115
To be provided in first six months
Other parties to the Protocol will supply the balance of the request.

CADMIUM

Requested: 224 tons

Offered: To be supplied by other parties to the Protocol

COPPER BASE ALLOYS (Brass and Bronze)

Requested: 107,520 tons

Offered: 107,520 tons Shipping Weight: 139,000

COPPER GOODS AND TUBES (Copper brass mill)

Requested: 16,128 tons

Offered: 15,000 tons Shipping Weight: 16,900

COPPER CABLE AND WIRE

Requested: 33,600 tons (Uninsulated copper wire)

Offered: 20,000 tons Shipping Weight: 25,000

FERRO-ALLOYS

Requested: 21,504 tons

Offered: 14,784 tons Shipping Weight: 16,100
Ferrosilicon 9,403
Ferrochrome 5,376
Other parties to the Protocol will supply the balance of the request, such supplies to include existing seaboard stocks available on June 30, 1943.

NICHROME WIRE

Requested: 538 tons

Offered: 538 tons Shipping Weight: 640

SECRET

METALS, CHEMICALS AND OTHER PRODUCTS, CONTINUED

SPECIAL ALLOYS WIRE

Requested: 269 tons

Offered: 269 tons Shipping Weight: 315
(Other than steel and alloys)
(Subject to specifications as to types, quantities and delivery schedules)

STEEL AND STEEL PRODUCTS

Requested: 849,730 tons

Offered: *710,000 tons Shipping Weight: 786,700

Breakdown

A. Carbon Steel

Requested: 735,127 tons

Offered: 595,397 tons
470,270 tons including rails and accessories and Arctic and fishing programs. (Subject to the condition that present steel stocks held on U.S.S.R. account in the United States will be reduced to 250,000 tons and subject to the further condition that adequate production facilities are available.)
11,120 tons copper clad strip
6,807 tons plain carbon tool steel and drill rod
11,200 tons bullet core, plain carbon
60,000 tons tin plate
36,000 tons miscellaneous carbon steel including nails, bolts and nuts

B. Alloy Steel

Requested: 114,603 tons

Offered: *114,603 tons
141 tons drill rods
96 tons high speed
45 tons alloy
10,674 tons tool steel
4,480 tons high speed
672 tons alloy X12
672 tons alloy X12M
3,382 tons other alloys
1,468 tons die blocks
18,898 tons cold drawn alloy bars
1,120 tons steel grade 40XC
1,120 tons steel grade 20X3
1,008 tons steel grade 4134
560 tons steel grade 27CG
1,680 tons steel grade SAE 5140
930 tons steel grade SAE 4140
4,480 tons steel grade SAE 52100

SECRET

METALS, CHEMICALS AND OTHER PRODUCTS, CONTINUED

B. Alloy Steel, Continued

67,569 tons hot rolled aircraft bars
- 515 tons steel grade EJ160
- 1,344 tons steel grade EJ161
- 2,688 tons steel grade 30CX10MA
- 11,200 tons steel grade 52100
- 3,360 tons steel grade SAE 9260
- 5,600 tons steel grade 40XC
- 8,960 tons steel grade SAE 5140
- 8,960 tons steel grade 20X3
- 15,680 tons steel grade 38XMJUA
- 302 tons steel grade CXB
- 3,360 tons steel grade EJ 69 or SAE 5700
- 5,600 tons steel grade SAE 5130

2,671 tons stainless sheets

336 tons stainless strip

756 tons stainless bars

6,563 tons ~~ball~~ wire
- 470 tons steel grade BBX6
- 370 tons steel grade BBX9
- 504 tons steel grade BBX15
- 1,344 tons chrome vanadium wire (ASTM 232)
- 1,344 tons chrome moly wire (SAE4140)
- 1,747 tons stainless wire
- 784 tons alloy wire (silicon manganese)

14,995 tons tubing
- * 994 tons stainless tubing
- 8,625 tons 4-6% chrome tubing
- *5,376 tons hot rolled ball bearing tubing

*Plus undelivered balances as of June 30, 1943 of stainless tubing and hot rolled ball bearing tubing.

OTHER MATERIALS INCLUDING METALS AND THEIR PRODUCTS

Requested: $10,000,000

Offered: $ 5,000,000 Shipping Weight:
(Subject to specifications as to types, quantities, and delivery schedules.)

PETROLEUM PRODUCTS

Requested: 564,480 tons

Offered: 564,480 tons Shipping Weight: 564,480
(Dependent upon ability to provide type of product requested)

PHENOL

Requested: 13,440 tons

Offered: 12,000 tons Shipping Weight: 12,960

SECRET

METALS, CHEMICALS AND OTHER PRODUCTS, CONTINUED

ETHYLENE GLYCOL

Requested: 3,360 tons

Offered: 3,360 tons Shipping Weight: 3,700

METHANOL

Requested: 6,720 tons

Offered: 6,720 tons Shipping Weight: 7,700

UROTROPINE

Requested: 6,720 tons

Offered: 6,720 tons Shipping Weight: 7,600

GLYCERINE

Requested: 6,720 tons

Offered: 6,720 tons Shipping Weight: 3,700
3,360 in first six months
3,360 tentative in second six months

CAUSTIC SODA

Requested: 40,320 tons

Offered: 40,320 tons Shipping Weight: 41,300

ETHYL ALCOHOL

Requested: 107,520 tons

Offered: 107,520 tons Shipping Weight: 122,600

ACETONE

Requested: 6,720 tons

Offered: 6,720 tons Shipping Weight: 7,900

OTHER CHEMICALS

Requested: 12,096 tons

Offered: 12,096 tons Shipping Weight: 13,400
(Other than items specifically mentioned and subject to specifications as to types, quantities, and delivery schedules.)

SECRET

METALS, CHEMICALS AND OTHER PRODUCTS, CONTINUED

TIRES, TUBES AND OTHER RUBBER PRODUCTS (Containing 36,000 tons of rubber)

Requested: 40,320 tons

Offered: 40,320 tons Shipping Weight: 15,100
(Rubber or its equivalent)
(In addition to rubber and rubber products supplied with planes and other military vehicles)
20,160 tons in first six months
20,160 tons tentative in second six months

SECRET

INDUSTRIAL EQUIPMENT

(All Weights in Short Tons)   Shipping Weight: 300,000

Requests of the U.S.S.R. for industrial equipment, as listed below, total approximately $700,000,000. These requests are in excess of quantities of previously approved orders remaining undelivered from factories on June 30, 1943 estimated at $373,000,000. The amounts "offered" below, totaling approximately $442,000,000 represent the total amounts of both old and new orders to be delivered from factories during the Third Protocol period providing new orders placed by the U.S.S.R. contain specifications, delivery schedules, and supplies acceptable to the United States.

In addition to the offerings listed below there will remain available to the U.S.S.R. delivered from factories but unexported as of June 30, 1943, equipment estimated at $78,000,000.

In order to insure the constant flow of industrial equipment required for the U.S.S.R. war program, the United States will consider the approval of orders totaling not in excess of $300,000,000 for delivery after June 30, 1944. These orders will be considered in addition to the quantities specified for delivery during the Third Protocol period provided that lists of all equipment and projects be submitted to the United States for review and consideration and provided that, after review, it is found possible to incorporate such equipment and projects into United States production schedules.

HARD ALLOYS, CUTTING AND MEASURING TOOLS

Requested: $21,000,000
- $ 3,000,000 Hard Alloys and Cutting Tools
- $18,000,000 Cutting and Measuring Tools

Offered: $21,000,000
- $ 3,000,000 Cemented Carbide Tips and Blanks
  - $2,444,000 New Orders
  - $ 556,000 Old Orders undelivered on June 30, 1943. (Estimated)
- $15,000,000 Cutting Tools
  - $13,200,000 New Orders
  - $ 1,800,000 Old Orders undelivered on June 30, 1943. (Estimated)
- $ 3,000,000 Measuring Tools
  - $1,700,000 New Orders
  - $1,300,000 Old Orders undelivered on June 30, 1943. (Estimated)

ABRASIVES

Requested: 6,136 Tons

Offered:
- 4,000 Tons Abrasive Grain
  - 3,600 Tons New Orders
  - 400 Tons Old Orders undelivered on June 30, 1943. (Estimated)
- $4,000,000 Abrasive Products
  - $2,300,000 New Orders
  - $1,700,000 Old Orders undelivered on June 30, 1943. (Estimated)

SECRET

INDUSTRIAL EQUIPMENT, CONTINUED

GRAPHITE ELECTRODES AND OTHER GRAPHITE PRODUCTS

Requested: 7,448 Tons

Offered: 8,568 Tons
5,757 Tons Graphite Electrodes New Orders
1,691 Tons Other Graphite Goods
1,409 Tons New Orders (subject to specifications as to types, quantities and delivery schedules)
282 Tons Old Orders undelivered on June 30, 1943. (Estimated)
1,120 Tons Graphite Powder New Orders

BEARINGS, BALLS AND ROLLS

Requested: 33,000,000 pieces
5,000,000 Bearings
28,000,000 Balls and Rolls

Offered: $15,000,000 anti-friction bearings, including balls and rolls, to be supplied from old orders undelivered on June 30, 1943.

MACHINE TOOLS

Requested: $228,621,550 (24,000 units)

Offered: $120,000,000
$ 10,000,000 New Orders
$110,000,000 Old Orders undelivered on June 30, 1943. (Estimated)

PRESSES, FORGING AND ROLLING MILL EQUIPMENT

Requested: $82,000,000

Offered: $48,000,000
$16,000,000 Rolling Mills and Equipment
$11,000,000 New Orders production of which will begin in 3rd quarter.
$ 5,000,000 Old Orders undelivered on June 30, 1943. (Estimated)
$30,000,000 Presses, Forges, Hammers, and Related Equipment to be supplied from old orders undelivered on June 30, 1943. (Estimated)
$ 2,000,000 Wire Drawing Equipment
$1,000,000 New Orders
$1,000,000 Old Orders undelivered on June 30, 1943. (Estimated)

ELECTRIC FURNACES

Requested: $12,000,000 (600 units)

Offered: $12,000,000
$10,000,000 New Orders
$ 2,000,000 Old Orders undelivered on June 30, 1943. (Estimated)

SECRET

INDUSTRIAL EQUIPMENT, CONTINUED

VARIOUS INDUSTRIAL EQUIPMENT

Requested: $120,000,000

Offered: $120,000,000

$12,500,000 Excavators to be supplied from old orders undelivered June 30, 1943.

$ 2,000,000 Truck and Tractor Cranes

$20,000,000 Other Cranes, including portal, locomotive, floating, overhead and gantry cranes, trolleys for overhead cranes, monorail systems, etc.

Supply of the above two offerings for cranes will consist of $7,600,000 new orders and $14,400,000 old orders undelivered on June 30, 1943. (Estimated)

$ 9,000,000 Compressors, gas blowers, exhausters, and fans.
- $3,500,000 New Orders
- $5,500,000 Old Orders undelivered on June 30, 1943. (Estimated)

$ 8,000,000 Pumps
- $4,000,000 New Orders
- $4,000,000 Old Orders undelivered on June 30, 1943. (Estimated)

$10,000,000 Mining Equipment, Ore Dressing Handling and Transporting Equipment to be supplied from old orders undelivered on June 30, 1943. (Estimated)

$10,000,000 Equipment for Blast, Hearth and Coke Furnaces.
- $2,700,000 New Orders
- $7,300,000 Old Orders undelivered on June 30, 1943. (Estimated)

$ 4,000,000 Welding Equipment
- $1,200,000 New Orders
- $2,800,000 Old Orders undelivered on June 30, 1943. (Estimated)

$ 3,000,000 Valves and Fittings
- $ 200,000 New Orders
- $2,800,000 Old Orders undelivered on June 30, 1943. (Estimated)

$ 5,000,000 Pneumatic Tools
- $4,100,000 New Orders
- $ 900,000 Old Orders undelivered on June 30, 1943. (Estimated)

$36,500,000 Auxiliary Industrial Equipment to be supplied from Old Orders undelivered on June 30, 1943. In Addition to the above offer for auxiliary industrial equipment there will remain undelivered on old orders on June 30, 1943 quantities estimated at $89,000,000. It is requested that these orders be examined carefully in order that those no longer urgently needed may be cancelled. Such orders as are uncancelled will be allowed to remain in production under present priority ratings and will be made available when completed.

SECRET

INDUSTRIAL EQUIPMENT, CONTINUED

POWER EQUIPMENT

Requested: $135,000,000

Offered: $ 75,000,000
$57,000,000 New Orders
$18,000,000 Old Orders undelivered on June 30, 1943. (Estimated)

CONTROL INSTRUMENTS AND TESTING MACHINES
(Precision Measuring and Testing Machines and Instruments)

Requested: $ 2,000,000

Offered: $ 1,700,000
$840,000 New Orders
$860,000 Old Orders undelivered on June 30, 1943. (Estimated)

EMERGENCY EQUIPMENT

Requested: $ 60,000,000

Offered: $ 25,000,000 urgent emergency equipment

SECRET

STOCKPILES

(All Weights in Short Tons)

It is estimated that there will remain unexported as of June 30, 1943 the following:

Metals, Chemicals and Other Products

Stockpile: 617,000 tons Shipping Weight: 662,000

Industrial Equipment

Stockpile: 107,000 tons Shipping Weight: 108,000

SECRET

FOOD PRODUCTS

(Equal Monthly Installments)

(All Weights in Short Tons)

(The amounts offered below include quantities to be delivered during the Third Protocol Period)

WHEAT, FLOUR, CEREALS, RICE AND BEANS

Requested: 1,680,000 tons

Offered: *1,180,000 tons Shipping Weight: 1,192,600
*473,280 tons wheat
293,440 tons flour
179,200 tons cereals
49,280 tons rice
151,200 tons beans
33,600 tons peas

*Other parties to the protocol will supply the balance of the request.

SUGAR

Requested: 436,800 tons

Offered: 436,800 tons Shipping Weight: 441,170
112,000 tons United States Mainland
324,800 tons other sources

CANNED MEATS

Requested: 470,400 tons

Offered: 224,000 tons Shipping Weight: 268,000

MEAT PRODUCTS (CURED AND SMOKED MEATS)

Requested: 0

Offered: 84,000 tons Shipping Weight: 105,000

ANIMAL FATS AND FAT CUTS

Requested: 246,400 tons

Offered: 263,200 tons Shipping Weight: 315,840
112,000 tons animal fats
112,000 tons fat cuts
39,200 tons butter

VEGETABLE OIL AND PRODUCTS INCLUDING SHORTENING AND MARGARINE

Requested: 280,000 tons

Offered: 168,000 tons Shipping Weight: 175,200

SECRET

FOOD PRODUCTS, CONTINUED

CONCENTRATES

Requested: 178,080 tons

Offered: 252,000 tons   Shipping Weight: 277,200

17,920	tons	dry skim milk
8,960	tons	dry whole milk
39,200	tons	dried eggs
13,440	tons	sweetened condensed milk
28,000	tons	dehydrated vegetables
26,880	tons	dehydrated soups and cereals
89,600	tons	soya products
16,800	tons	cheese
5,600	tons	tomato paste
5,600	tons	concentrated juices

SOAP

Requested: 22,400 tons

Offered: 11,200 tons   Shipping Weight: 11,870

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SECRET

CANADIAN SCHEDULE OF SUPPLIES
FOR THE THIRD SOVIET PROTOCOL

Subject to the provisions of the Protocol, the Canadian Government undertakes to make available at Canadian Ports of exit during the period July 1st, 1943, to June 30th, 1944, for shipment to the Union of Soviet Socialist Republics the supplies set out below. The items in this schedule of supplies are offered subject to the ability of Canada to meet the specifications requested by the Union of Soviet Socialist Republics.

It is appreciated that reasonable stockpiles of stores must be maintained, so that the Union of Soviet Socialist Republics can select cargo for shipment that is most needed to meet the ever changing requirements of war. However, Canada reserves the right to limit the size of such individual stockpiles either by control of production or diversion of product, or both, when in its judgment such action is in the best interest of the common cause. In taking such action due consideration will be given to the expressed needs of the Union of Soviet Socialist Republics.

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SECRET

(1) POWDER	1,000 tons per month of Stick Propellant 100 tons per month Rifle Powder N/C 500 tons per month Cannon Powder N/C
(2) MACHINE TOOLS	$4,000,000
(3) MEDICAL SUPPLIES	Canada can make available some medical supplies, including Surgical Instruments. Available inventory will be submitted.
(4) ALUMINUM INGOTS	1,500 short tons per month
(5) NICKEL	150 short tons per month
(6) CADMIUM	224 short tons in equal monthly instalments, excluding 100 tons agreed to be supplied by the United Kingdom, or any portion thereof not exported before July 1, 1943.
(7) FERROSILICON	336 short tons per month
(8) FERROCHROME	224 short tons per month
(9) WHEAT AND WHEAT FLOUR	500,000 tons of wheat --- to be included in the above quantity up to 200,000 tons of wheat flour. The tonnage of flour included depending upon production possibilities in Canada and of firm shipment commitment from the U.S.S.R. It is understood that any wheat shipments will be first charged against the unused balance in the Wheat Credit arrangements entered into between the Governments of the U.S.S.R. and Canada in the year 1942.

MOST SECRET

UNITED KINGDOM SCHEDULE OF SUPPLIES AND SHIPMENTS

The Government of the United Kingdom undertakes, subject to the provisions of the Protocol and to the marginal comments in respect of particular items, to make available for despatch to the Government of the Union of Soviet Socialist Republics during the period July 1st, 1943 to June 30th, 1944 the supplies set out below.

The Government of the United Kingdom undertakes, subject to the provisions of Article II of the Protocol, to provide the shipping tonnage necessary to augment such Soviet flag shipping as is available to lift the supplies set out below, save that such undertaking will not apply to lead and wool originating in Australia and New Zealand, nor to supplies originating in North America, which, by agreement between the Governments of the United States and United Kingdom, are to continue to be carried in United States ships.

Except where otherwise stated the amounts offered include any outstanding balances of items agreed to be supplied under the Second Protocol which were not shipped or booked for shipment on a named vessel before July 1st, 1943, as well as any quantities of such items which have been lost in transit to the Union of Soviet Socialist Republics before July 1st, 1943, where agreement to replace such losses has not been communicated to the Soviet authorities before the said date.

It is appreciated that reasonable stockpiles of stores must be maintained so that the Union of Soviet Socialist Republics can, as shipping opportunities occur, select cargo for shipment that is most needed to meet the ever changing requirements of war. However, the United Kingdom reserves the right to limit the size of such individual stockpiles, either by control of production or diversion of product, or both, when in its judgment such action is in the best interest of the common cause. In taking such action due consideration will be given to the expressed needs of the Union of Soviet Socialist Republics.

MOST SECRET

Programme of Supplies from United Kingdom to Union of Soviet Socialist Republics during period July 1st, 1943 to June 30, 1944

(All weights in long tons.)

GROUP I ARMAMENTS AND MILITARY EQUIPMENT.

1. Aircraft	150 Airacobras per month for first 6 months, in accordance with a previous agreement made with the United States Government involving an exchange of certain aircraft from United Kingdom production; and 50 Hurricanes per month for first 6 months. Arrangements for second 6 months to be subject of further discussions.
2. Tanks	Request for 3000 tanks will be met by U.K. and U.S. between them, subject to agreement as to types. In regard to tanks supplied by U.K., maintenance spares for 12 months will be supplied both for tanks and for their guns, in accordance with a generous comprehensive spare parts schedule based upon experience of the normal replacement requirements of parts concerned.
3. Propellant	200 tons R.S. type per month for first six months, in addition to any balance of R.S. type or W.M. 017 agreed to be supplied from the U.K. and unshipped before July 1st, 1943.

GROUP II VARIOUS MATERIALS

1. Tin.	6000 tons, less any amounts over 6000 tons received by U.S.S.R. from China.
2. Lead	12,000 tons from Australia
3. Silver Steel	60 tons (subject to specification).
4. Cobalt	72 tons in second 6 months.
5. Industrial Diamonds	$2,400,000 (subject to specification).
6. Rubber.	12,000 tons for first 6 months, from Ceylon so long as that source is open, in addition to any balance of supplies under Second Protocol not shipped from Ceylon before July 1st, 1943. Subsequent supply to be reconsidered.
7. Jute	36,000 tons to be provided in whole or in part as articles made of jute so far as manufacturing capacity in India permits production of the articles desired by the U.S.S.R. Dependent upon Indian conditions.

MOST SECRET

8.	Sisal.	6000 tons for second half of 1943, of which whole or part may be taken in manufactured goods subject to specifications being agreed, including 1720 long tons already agreed to be supplied but excluding any part of 1000 short tons of Mexican Henequin which is being supplied by U.S.
9.	Shellac.	2,400 tons. Dependent upon Indian conditions.
10.	Wool.	24,000 tons.
11.	Graphite.	1,200 tons. Dependent upon conditions in Ceylon.

GROUP III. INDUSTRIAL EQUIPMENT.

1. Machine Tools (in number) 3,000

2. Electric Stations
3. Steam Power Plants
4. Mobile Electric
5. Turbo-Generators
6. Steam Armature.
7. Pumps.
8. Compressors.
9. Electrical Equipment
10. Mining Equipment
11. Hydro Electric Plants

} No commitment can be made in terms of money or kilowatt capacity. Specifications will be examined & U.K. will supply those items for which manufacturing capacity, materials & manpower can be found for completing before March 31, 1945. Orders for other items will if appropriate be accepted and detailed specifications worked out but without starting production until progress of war enables materials & manpower to be released.

The provisions of para. 3 of the preamble to this schedule do not apply to items in this group.

GROUP V MEDICAL SUPPLIES.

The detailed list of Soviet requirements attached hereto will be examined. No overall commitment in terms of money can however be given.

MOST SECRET

FOOD SUPPLIES

To be delivered in quantities to be agreed upon between the respective parties in accordance with shipping space and supply available.

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NOT TO BE RE-TRANSMITTED

COPY NO. 13

BRITISH MOST SECRET
U.S. SECRET

OPTEL NO. 197

Information received up to 7 a.m., 17th June, 1943.

1. NAVAL

One of H.M. Submarines sank 6 Caiques while on patrol in the AEGEAN. An Allied Motor Gunboat and a Water Carrier were sunk by air attack off PANTELLERIA on 14th.

2. MILITARY

On 13th/14th, 40 enemy parachutists were dropped at BENGHAZI, on the following morning 19, mostly Italians, were captured. Later reports state that a further 100 parachutists may have been dropped between the BENGHAZI and TOBRUK areas. 21 Italian parachutists were dropped in the ORAN area, 20 of them have been captured.

3. AIR OPERATIONS

WESTERN FRONT. 16th. Fighters damaged 9 trains in the PAS DE CALAIS Area. 16th/17th. Aircraft despatched COLOGNE - 212 (14 missing, 1 crashed in United Kingdom); BERLIN - 3; Intruders - 16; Leaflets - 4. At COLOGNE, a blind bombing attack was made through cloud.

BURMA. 15th. Escorted light Bombers attacked MAUNGDAW, AKYAB and objectives in the MAYU River.

TREASURY DEPARTMENT

INTER OFFICE COMMUNICATION

DATE June 18, 1943

TO Secretary Morgenthau

FROM Fred Smith

Progress report:

Harold Mager has been installed as editor of the "War Finance Special Bulletin", which will go to the 48 State chairmen, and anyone else advisable, giving them background and philosophy. The bulletin will not be regularly scheduled, but will be prepared whenever something is called for by developments in the press, at the Treasury, or otherwise.

Mager will also be responsible for receiving and disposing of suggestions from the State chairmen, such as the idea developed by Burgess.

The bulletin will be prepared by Mager, checked by anyone necessary in the Treasury, and will be printed by Chic Schwarz, which will guarantee that he is informed. The printed bulletins will then be sent to Coyne for distribution to the field.

I called Gamble and cleared this entire operation with him so that we won't upset any of his people. I took over the responsibility of organizing this from Jack Louis, with his enthusiastic blessing, because he wants more freedom of time to learn what the bond business is all about. When the operation is set up and working, I will deliver it back to Louis to maintain. I assume you have no objection to this procedure.

Much the same thing as Mager's operation is to be set up for the financial editors of the country. Mr. Prenosil, who was with Buffington, is now at liberty, and is undertaking to set up a background bulletin service to all financial editors. In this he will not attempt to promote bonds, but will only endeavor to create understanding among people who are writing financial news. His bulletin will be augmented by personal calls on financial editors, or by getting financial editors to come to Washington for a personal look-see. He is enthusiastic about the idea, and is now in the process of preparing 2 bulletins -- one having to do with the background on compulsory savings, explaining that comment about compulsory savings at this time cannot possibly produce any results, and will only serve to upset the voluntary system. We will, of course, have an opportunity to check this bulletin very carefully before it is released. The second bulletin has to do with financial plans for the remainder of the year, most of which has already been said, but not in financial terminology.

I will also watch this until it gets under way, and then it can be turned over to Jack Louis' department.

TREASURY DEPARTMENT

INTER OFFICE COMMUNICATION

DATE June 18, 1943

TO Secretary Morgenthau

FROM Jacob Viner

Re: Forced Investment of Frozen Funds in Governments.

I agree with Mr. Pehle's memorandum on the subject. While I have nothing of importance to add to what he has written, I will try here to put the case against such forced investment in my own language.

(1) Since these balances are "frozen" or immobilized, they are already prevented from having any inflationary effect. Investing them in governments would make as much contribution to inflation as would investment of any other "idle" balances or as would investments by banks themselves.

(2) As far as concerns making the Treasury's task of financing easier, they have only a minor contribution to make. Since very nearly all of these balances are in New York banks which have almost no excess reserves and since their investment in government securities would result very quickly in a drain on the New York banks not much less in size, the banks would be forced to meet this drain by an almost corresponding reduction in their own investments in governments. If the excess reserves were to be increased by Federal Reserve open market operations, it would seem preferable to do so in a way which would provide increased revenue for the banks rather than for the owners of the foreign balances.

(3) If this is not already permitted, I see no reason why the <u>non-enemy</u> owners of frozen balances should not be permitted to invest their balances in governments if they wish. To force them to do so would raise questions of international equity, and also would make eventual unfreezing difficult because it would tend to result in a sudden throwing of governments on the market - possibly at a very inexpedient moment from the point of view of the Treasury.

Jacob Viner

MEMORANDUM FOR THE SECRETARY.

June 18, 1943.

Mail Report

Mail receipts increased the first two days of the week, and were then fairly light, the proportion of comment and criticism remaining about the same as that of last week.

On the subject of taxes, the withholding tax circular sent out by the Bureau of Internal Revenue to employers of the United States brought many specific questions as to the new law, a number of letters of thanks and approval, and a few grumbles about the tax situation in general, and the increasing burden upon private industry. Letters unfavorable to the withholding tax outnumbered those approving it by 3 to 1; while for every letter of comment, there were 10 just asking questions. Higher taxes in general were widely opposed. The spending tax was disapproved in several letters and approved in only one, and the car use stamp tax brought protests but no word of support. There were 10 requests for a sales tax. Three correspondents sent the editorial from the Philadelphia Record entitled, "We Can't Call Randolph So We Cry Uncle". There were 2 requests for jobs on the new income tax staff. Many banks asked to be designated as tax depositories. There were 3 letters objecting to the phrase, "Demand is made" on income tax notices, and a few poorly written but obviously sincere letters from very new taxpayers explaining that they found they just could not pay the June installment but would try to do better a little later in the year.

Bond mail has slacked up, though there is some interest in the announcement of the September drive. Protests centered largely around the statement that 25% of income should be invested in Bonds. There were

Memorandum for the Secretary. June 18, 1943.

the usual budgets and narratives of personal difficulties in support of these protests. Drew Pearson's article of June 13, describing the Secretary's opposition to negotiable War Bonds, drew a very favorable group of replies, 11 endorsing this stand heartily, only 1 suggesting greater possible liberality in regard to borrowing on Bonds, and 1 urging a smaller non-interest bearing Bond for even readier cashing, if necessary. The number of Bonds sent the Secretary to be cashed increased -- 92 were received, 36 of these from Patchogue, Long Island. Complaints about delays were also slightly up, with 58 of the total of 75 being of War Department responsibility.

General mail included opposition to the new pennies; scattered comments on instances of waste in local projects; and a few economy letters.

Gabrielle E. Forbush

General Comments

The First National Bank of Mandan, Mandan, N. Dakota. (Night Letter) North Dakota Bankers at a loss to understand your decision to call wheat loans made last fall July 1st unless interest rate reduced to 1%. In light of prior losses of loans through Government competition, and in view of all-out efforts on part of bank toward war program, our bank desires to enter a vigorous protest at this unwarranted and unfair action.

Frank T. Chestnut, Secretary, Ajax Electrothermic Corporation, Trenton, N.J. I have just received your Special Regulation No. 1 requiring reports on TFR-500. This regulation covers five pages of small print and appears to me to be a complete duplication of the requirements for the old Form TFR-300. As you will recall, filing TFR-300 took many, many man hours to prepare. Can you not advise us in what way TFR-500 differs from TFR-300, and whether or not, in the case of the associated Ajax Companies we cannot merely duplicate the information on TFR-300 on the new TFR-500 forms? If on review of our TFR-300 forms, you believe it will be unnecessary to file the new TFR-500 forms, we would be forever grateful to you if you would advise us of the fact. On the other hand, if we must file again, please send us about fifty copies of Form TFR-500.

Congressman Milton H. West (Texas). I am enclosing herewith a self-explanatory letter received from Mr. and Mrs. Harman Straub, relative to the purchase of typewriters in connection with the war effort. I shall appreciate your advising me along the lines of Mr. and Mrs. Straub's inquiry. (The following are comments contained in the letter addressed to Congressman West by Mr. and Mrs. Straub, President and Principal of the Harlingen Business College, Harlingen, Tex.) Because of war conditions, we have been forced to close our school for the summer, and perhaps for the duration. * * * The great demand for office workers, both in the Government service and private business, young people with a high school education and some with elementary business training, have very little difficulty in getting positions without having a thorough business training by reputable business schools. * * * When we closed the school on June 5, we had a number of typewriters in first-class condition, the market price of which today is close to $100.00. The War Production Board, through a representative, asserts that if we decide to sell those machines, we can only sell them to the Government at the ridiculously low price of $29.00, which would entail a loss to us of around $70.00 per machine. This difference in the War Production Board's established price and the market price today spells confiscation of a citizen's property, and such action by the War Production Board, we believe, is illegal and would not stand a Constitutional Court test. We are not complaining, and by no means making an unpatriotic stand. We would gladly give these machines to the Army, Navy, or the Marine Corps, but what we are objecting to is to be compelled to suffer this loss when we feel that most of the machines, and perhaps all of them will be dished out to nonessential officers in Washington, and other localities that are now over-run by thousands of draft dodgers, who are living at the public feed trough. * * * Daily the War Production Board is broadcasting appeals for the owners of cameras to sell them to the Government. This is almost the exact wording of the offer: "If you have a camera that you are willing to sell to the Government, notify this office at once, giving a description, the price you want for it, and your name and address." * * Is it fair, or lawful, for the Government to let the owner of a camera set the price for sale to the Government, and not permit the owner of a typewriter to do the same thing? * * *

Favorable Comments on Bonds

George M. Craig, President, Merchants National Bank, Port Arthur, Tex. I note a recent publication in which you are quoted as favoring nonnegotiable War Bonds, in order to prevent them being sold except to the Government, thus avoiding a repetition of what happened in the early twenties when 4% Bonds were sold around 82¢ on the dollar. I note a great many of the purchasers of such Bonds are cashing their Bonds through the Federal Reserve Bank. They frequently only want a few dollars and prefer to borrow the money rather than sell their Bonds. A great number of these people tell us they do not want to sell the Bonds, but would like to put up the Bonds as security for a loan to be paid in monthly installments. Am wondering if money loaners were permitted to make loans on such security if it might not help prevent many sales back to the Government. You should know more about this than I do. I only mention it for what it is worth.

Frank H. Johnson, President, Federal Home Loan Bank of Portland, Portland, Oregon. I read with more than ordinary interest the comments on the front page of the American Banker relating to the consolidation of the War Savings Staff and the Victory Fund Committee. I am not entirely posted on the reasons which brought this about, but I am writing to tell you that we have absolute confidence in the planning which is being developed under your direction, and we will do everything we possibly can to cooperate. * * * You are doing a splendid job, and the American people appreciate your fine sense of responsibility and the total absence of politics in the planning which you have done. I realize that you are busy and it is not necessary for you to acknowledge this letter, but place it in your file, knowing that your friends are many and that the confidence which you have given the American people is the biggest effort of the Treasury Department at this time.

S. G. Devey, Assistant Treasurer, Westinghouse Air Brake Company, Pittsburgh, Pa. Several days ago there passed over my desk pamphlet entitled, "The Story of America's Greatest War Loan - A Report by H. Morgenthau, Jr., Secretary of the Treasury", issued under date of May 25, 1943. It occurs to us that copies of this Report might well be distributed to members of our War Service Committee (through which Committee War Bond campaigns, etc., are centered), and others, and if entirely consistent, we would appreciate receiving 75 to 100 copies for this purpose.

L. P. Lindelof, General President, Brotherhood of Painters, Decorators, and Paperhangers of America, Lafayette, Ind. This is to inform you, in answer to your letter of June 11, that we are pleased to assure you we will fully cooperate by urging our membership, as you suggest, to fill out and file immediately their withholding exemption certificates, and at the same time point out to them that this is not a new or an additional tax; therefore, there will be no valid reason for reducing the amount of their pay allotted to the purchase of War Savings Bonds and Stamps. With renewed assurances in behalf of our entire membership, and myself, of every cooperation to the end that Victory will bring peace to each Allied Nation.

Thomas J. Dickey, (Lumber), Miami Beach, Fla. I wish to register my voice in favor of your position as to the right to trading in U. S. Bonds, especially the series sold to the common people. I, for one, was a victim of the World War I Bond business, the common people purchased until it "hurt" -- this was the slogan, as you will recall. * * * I sold some for less than 80% of face value. Then, as this article stated, after they were purchased by the wealthy, they went back to par and above. For God's sake, hold the fort, the Bonds can be transferred to the Government after sixty days, and no penalty, so keep it this way, as for once

I would like to see some one try and protect the common people from being fleeced -- this has been going ever since I can remember, and it would be nice for once to see our Government try and protect them.

Wallace G. Imhoff, President, The Wallace G. Imhoff Co., Consultants in Zinc Coating, Vineland, N.J. I have clipped (re keeping Bonds nonnegotiable) from today's Sunday paper an item by Drew Pearson. May I commend you most heartily for your stand on this issue. The hatred of the public for the bankers has somewhat subsided after two brutal beatings they gave the public -- the World War I War Bonds, and depression of 1921, and the wholesale pillaging and robbing of the public by the bankers in 1929. As an investor in Liberty Bonds, and a soldier (Lt. in the Air Service) in the last war, I was one of the people who got $82.00 - almost one-fifth less than I paid for the Bonds. At the present time I have 33 War Bonds ranging in $100 and $500 Bonds, and a number of less value. The very day that these Bonds are made negotiable, (as Marriner Eccles wants them to be), I will get out from under immediately, and then not buy any more Bonds. Being a sucker for these rascals once is enough for me. * * *

Martin Hirsch, Philadelphia, Pa. I have just read the article written by Drew Pearson in the Philadelphia Record on Sunday, June 13, 1943. It is gratifying to note that this subject has been made public and that you are opposed to the manipulation of War Savings Bonds. I, as an individual, have been investing to the limit of my earnings, and feel that this is the patriotic thing to do. I feel, and I think that the general public also feels, that this alarming bit of news will cause people to cash in what Bonds they have, and would also hinder the future sales of War Savings Bonds. I think that a further public airing of this matter would help to allay the fears of the people and would obviously help the war effort.

O. J. Beyfuss, San Francisco, Calif. From many years of experience with ships and shipping, I give you a suggestion for the sale of Bonds. Many of our ships are now manned by very young men who are receiving literally thousands of dollars, and little opportunity of investing it safely. If you could arrange to let the masters, or some one on board ship, actually have Bonds which could be made out and handed to these men, or if the facilities were available, immediately upon their arrival in a foreign or United States port, it is my considered opinion that a large quantity of otherwise ill-spent money would go into Bonds. * * *

Unfavorable Comments on Bonds

P. G. Sackenreuther, Houston, Texas. * * * On April 30th of this year I purchased from the Bond Committee, through the First National Bank in Houston, one $500 2½%, 1964-69 Treasury Bond. Up to this time I have not received the Bond, and upon inquiries, with the First National Bank here, I learn they are waiting for the Federal Reserve Bank to deliver it to them. This Bond was purchased and paid for more than 47 days ago, and I still do not have it. I learn through the grapevine that one of the Federal Reserve Banks has lost some $20,000 worth of Bonds. Probably mine is among that lot. I now demand the delivery of that Bond or the return of my money. If this had been a transaction with some stock broker, we would have been entitled to raise all kinds of hell. This is no way to treat your Bond buyers and is no encouragement for them to buy more, now or later. * * *

Mrs. Minnie Qualey, Cincinnati, Ohio. * * * My brother, Chatham Mizell, died at Navy Hospital, Philadelphia, Pa., July 3, 1942. A Bond in his name and mine could not be found, and must have been stolen. I wrote to your Chicago office. They sent me a paper to have filled out before a Notary. This I did last February, and I also sent them the death certificate which was sent to me by the Administrator of my brother's estate. The estate has now been settled, and the Chicago office claims they haven't the February letter with the death certificate, or the paper filled out by the Notary. Now they want another paper notarized, and a death certificate. I am a widow and have to work for a living, and I am only asking for what belongs to me. After a life of hard work and honest living, I am still a poor woman, and don't have money to keep going to a Notary. Could you please tell me why they don't give me a duplicate Bond? * * * I have been buying all the Bonds I can afford out of my earning, and I do hope that no one else will have all the trouble about mine, should I die. As for my sending any more death certificates or notarized papers filled out, I have sent them enough. * * * I have done what was right about this Bond, and I hope your Chicago office will do the same.

F. B. Heath, President, Dakota National Bank and Trust Company, Bismarck, N. D. We acknowledge receipt of your telegram pertaining to the new organization for future loan drives. We are heartily in accord with this change, and you can depend on the officers and personnel of this bank cooperating 100%. I am sure this will eliminate much duplication of effort. Do you think that a telegram of two hundred sixty-eight words was necessary in order to advise us of this change in organization? It seems to us, that with telegraphic lines and operators carrying a capacity load, they might have been spared this additional burden. We feel that it is essential that every unnecessary expense and duplication of effort be eliminated. This is possible only through the cooperation of every Department of the Government, as well as the individual citizens.

Wayne Coy, Assistant Director, Bureau of the Budget, forwards letter he has received from David Liggett, Campaign Secretary, War Chest, of Minneapolis, Minn. The latest information which we have sets the War Bond Drive from September 20 to October 9. October and November were set aside as the two months for the National War Fund campaign with its related local Community War Chest drives. The conflict between these two money-raising efforts is obvious and from our angle, as a typical community, it looks in prospect nothing short of disastrous. The same crowd that raised money locally here and in St. Paul also, are the main wheel-horses in the War Chest campaign. Our manpower is already seriously depleted, of course, about which we can't complain, but we do think we have a justifiable kick coming in Mr. Morgenthau's setting a

Bond drive when he has set it. We think, along with other communities, that the two months previously agreed upon should be observed. In addition, there is an enormous national publicity campaign planned in connection with the National War Fund, all of which will be thrown seriously out of gear. * * * The overlapping of these two dates naturally is going to hurt both campaigns. In St. Paul, for instance, the War Bond organization took over the entire War Chest setup. Nearly the same thing has happened here. The Twin City situation is probably typical all over the country. I gather that numerous people have sat up with Mr. Morgenthau trying to point out the hazards of his contemplated schedule, but I gather too that they haven't gotten anywhere. With the President's 100% endorsement of the National War Fund, and with his pending participation as the launching leader of this national effort, I can't conceive of anything short of considerable embarrassment on his part in having Mr. Morgenthau's campaign come off as a conflicting effort. * * *

O. A. Schollander, Fargo, N.D. (Encloses clipping on waste of spare tires being allowed to rot.) I believe the records will show that North Dakota over-subscribed its Bond quota substantially, and that the North Dakota school children purchased "jeeps" far in excess of the school children in any other State in the Union. North Dakota has been favored with two good crops and there cannot be any charge against their loyalty and willingness to labor long hours to aid the war effort. However, being loyal doesn't mean being dumb. When we learn of certain branches of the administration being arbitrary and pig-headed, as indicated by the enclosed newspaper story, you cannot blame the citizens of this state from being resentful. Most of the tires in this stock pile were taken away from the North Dakota citizens, and for months they have been lying here in storage notwithstanding that we needed them. Now they are being shipped out without excuse or explanation. I am not giving you these facts because I think you are at fault,but I notice you intend to inaugurate a third War Loan Drive in September, and I want to remind you that these patient people cannot be kicked around without limit. They may decide to show their resentment by coolness to your Loan Drive.

S. B. Gavitt, President, The Lyons National Bank, Lyons, N.Y. In the last War Loan Drive, it seems to me there was one bit of propaganda or method of approach to the prospective Bond-buyer that was entirely in error. I refer to the appeal to buy Bonds as a means of saving for the purchase of things wanted after the close of the War. * * * With such ideas constantly put before the public, I can see a great rush on the part of Bond-holders to unload their Bonds which they have accumulated for the very purpose I have stated. I can feel this in the air right now. * * * To forestall, at least to a degree, any such tendencies as I have outlined, I suggest that in all future appeals, some methods be employed to impress the Bond-buyer, either through patriotic stress or otherwise, to retain his Bonds to their maturity. The above is merely the humble opinion of a poor country banker, but in all seriousness is worthy of some consideration from our financial advisers.

Vincent Williams-Hermida, Tenafly, N.J. Yours truly is one of those "little fellows" with two school children - boy, 16; girl, 20; and both attend school - of course also a better half. Salary about $2,300 yearly. Until the war, I was employed at the large wage of $1,500, so you see I am plenty "behind" on debt payments, medical attention, etc. In fact, to date, I have been unable to purchase my 10% quota of War Bonds. As a former bank clerk, I know what a good investment they are, and as a former World War I man, know my duty to my beloved U.S.A. But brother, how you can ever up the anti for buying 25% of those War Bonds -- for the average worker, and that is your little fellow. * * * My wife and me have not bought new clothes for three years. The children get the little there is. No movies ever, no car for the past three years, no telephone for over three years. No dentist for ten years. The physician is a noble man and he "holds his breath" for his money. * * * Brother Henry, you simply daze me with your cock-eyed plans. And for your information, I was for our beloved F.D.R. before Chicago, and I still admire the hombre, even though I have never received a piece of that NEW DEAL. But he at least placed labor in a good light, and this was a needed blessing to the U.S.A. We white-collar workers are too soft to fight for our "rights". You in Washington could help us, but you do not. And after F.D.R. is gone back to Hyde Park, no one will even think of us. * * *

Letter addressed to the President by Mrs. Lela B. Collins, Dayton, Ohio, and forwarded to the Treasury by the White House. Does the Government want people to buy War Bonds, or is that just so much "hooey" because it is supposed to sound good to the ear? Planes, bombs, tanks, etc., are tied up by the thousands in unrefunded deposits. Why? Nine months have passed since the last deduction was made, and no refund has been paid either in cash or Defense Stamps, to me or thousands of others. What kind of bookkeeping is that? In industry, Bonds are issued with the pay-checks, no waiting. If the employee leaves, cash deposits are refunded on the amount. Retirement deductions have not been refunded either. We employees paid for that bookkeeping at a high rate; still the money remains unrefunded -- more planes, bombs, etc., available, but left idle in times like these. * * * Written inquiries to the chiefs concerned only bring forth mimeographed excuses for delay. I'd like to have my Bond money IN BONDS - firing bullets at the enemy. I'd like to have my "retirement" money in Bonds too - I can retire after the war and peace are won.

Wallace E. Rushing, Chief Electrical Foreman, Daniel Field Air Base, Augusta, Georgia. I take the liberty of writing you as I believe it is the duty of a good Democrat to let you know how the Bond drive is coming along at this particular station, and why it may lag unless you know of conditions. Nearly fourteen months ago I made payroll reservation of approximately 10% of my salary. I have nothing to show for it, not even the first Bond, but I estimate that around $200.00 was deducted before it was explained that things were bogged down in Washington, and that in the future, Bonds would be issued from District Office in Savannah. Since that time, issuing office has been changed again and Bonds have been coming in more or less promptly. What seems to be worrying every one is what has become of the money that was sent to Washington in the beginning of the drive. * * * We used to laugh at trains being a week late in the U.S.S.R. -- what will the G.O.P. publicity department say about the voters' Bonds being fourteen months late? I have earnestly supported the Bond drive, and my family has well exceeded the 10% goal. I have tried to explain that eventually we would all receive an accounting, but some of my men have recently cancelled their payroll reservations and others are threatening to.

Arthur Petrusch, Vice Chairman, United Farm Equipment and Metal Workers of America, Cedar Rapids, Iowa. The members of Local 116 U.E.F. & M.W. of A. hereby protest the gross misconduct and flagrant violation of common decency and Navy regulations, and the disparaging remarks made by Storekeeper 2nd Class, Andrew Paulis, of Akron, Ohio, within the factory of LaPlant Choate Mfg. Co., Inc., Cedar Rapids, Iowa, on June 11, 1943, at which time he was making a tour of several defense plants within the city, with two fellow Navy men. * * * Paulis made mention of our wages in comparison with his, and the amount of Bonds he was buying, and so insinuated that we were not supporting the war effort, despite our 10% flag. He made the statement that the men should work harder and not loaf so much; a statement upon which he, an outsider, could not possibly have any authentic information. He also stated that this country did not want a dictator, that he saw several C.I.O. shop caps in the crowd, and that we could guess whom he meant. * * * Paulis' talk has been a grave error, inasmuch as it was of such great length that it cost two hundred man hours of production, and has created a great deal of unrest and unharmonious attitude within the plant. It is especially harmful at this time of so much labor unrest throughout the country, and at the present time of writing, we are awaiting the WLB Conciliation Service for interpretation of our contract.

Favorable Comments on Taxation

L. E. Hagenow, Chicago, Ill. I have been reading in the papers all the arguments "pro and con" regarding additional need for spending or sales taxes. The taint of politics in connection with these tax issues, in my humble opinion, "smells to high heaven" -- and I mean that on both sides of the House -- Democrats and Republicans alike. When, oh when, will all the people realize that this war we're fighting costs money, more money than any of us ever dreamed of, and that this money must come from the individual -- now preferably while we're alive? * * * Any American, worthy of the name, should be glad to do his part by paying taxes consistent with the rate needed to avoid a breakdown of our fiscal system. I am definitely against any sales or spending tax which represents a loan on the part of the citizen to his Government, which they feel should be repaid later. If any individual wants that, let him buy Bonds. I am, however, definitely in favor of a general sales tax for all the people, to start as quickly as possible, if additional revenue is needed by the Treasury beyond that now set up in the new pay-as-you-earn individual tax program. * * * Of course this will hurt, but it will hurt and be shared by every one of us, and all Americans should proudly share it as it is everybody's war -- not just part of our citizenry.

Unfavorable Comments on Taxation

Senator Ellison D. Smith forwards the following letter he has received from Mr. H. A. J. Evans, President of the Kingston Manufacturing Company, Inc., Conway, South Carolina: We note with considerable alarm the suggestion advanced by the Treasury that increased taxes be levied next year on corporations. In a number of cases corporate taxes are already entirely too high and make it impossible for small or medium sized concerns to grow any larger, particularly where they are fairly new concerns and did not have a good earnings record in the base period. The present taxes also make it impossible to form new corporations as there is practically no return on the investment. * * * We are unable to set up any reserves for post-war purposes and to cushion the concern against the inevitable economic shocks which will develop upon or shortly after the cessation of hostilities. We have no objections whatsoever to the excess profits tax but feel that some provision should have been made for the smaller concerns so as to enable private enterprise to develop larger concerns where the ability is available. Under the present tax system there could have been no Ford Motor Company or Chrysler Corporation. When it comes to talk of increasing these tax burdens, we consider that the Treasury is crossing the borderline of the maximum burden which corporations can sustain.

F. P. Seymour, (Wholesale and Retail Office Supplies), Chicago, Ill. If it should develop that the sales of Treasury Tax Anticipation Notes decline, then the following experience may, in part, be a reason and of interest to you. My wife and I have paid a rather liberal amount of income taxes since their inception. We have always paid them by check to the Internal Revenue Collector. Yesterday, because I had purchased my full quota of A Notes, I went to the Federal Building and stood in line for one hour, waiting to pay my June 15th installment. One hour's time was rather serious to me with the help shortage and the endeavor, as an officer of our company, to keep our business going through these difficult times. The comments that I heard in the waiting line of people, some of whom I knew and some large taxpayers, were that they would never again buy Tax Notes. My quarterly installment was $4,000 even. I had $5,000 worth of A Notes, upon which I paid an extra premium of $14, last December, for accumulated interest. The accumulated interest yesterday on $4,000 of these Notes was $56.70. I was advised that no cash refunds of interest would be made; therefore, I had to make an overpayment of $56.70, which I did not want to do, at least until I understand the new pay-as-you-go tax plan. I must say that I am very far from understanding the new plan as yet. * * *

Mrs. L. J. Ferry, (Wife of the Minister of Westminster Presbyterian Church), Milwaukee, Wis. I appeal to you for justice in regard to my income tax. * * * A year ago last March I paid my income tax twice, by mistake. I immediately reported it to the Collector here, who verified my statement, and assured me that I would soon get a refund from Washington, as it was then out of the hands of the local workers. I have still heard not one word, and its a year and more. People who made mistakes and paid too little this year are already hearing about it from you, so it does seem that you could do something when the mistake is in the taxpayer's favor. I am perfectly willing to pay all I am expected to pay, but I don't like this injustice. * * * Both checks were sent through the Milwaukee office for collection of Internal Revenue, and cashed. They agree that I should get $53.95 back. May I hear about this soon?

William F. Low, N.Y.C. Am writing you as the head of the one Department in Washington that not only answers my letters but sometimes starts the correspondence. Just two months ago I walked out of a useless and non-essential job. You see I had been reading about man-power shortage, and being a trusting soul, believed it. What they forgot to say was under 50. Dr. Oslo used to say 60, but the Adj. General, State Department, etc., say 50, and thanks for the patriotic, etc., etc. Now how can I answer your last letter asking for June 15th remittance?

Wm. H. Stanley, Larchmont, N.Y. I see in the papers that we are expected to buy a $5.00 car use stamp by June 30th. I have an A ration gasoline book, my car stands in the garage unused. Am I to understand that when the Government tells me that I cannot use my car, I am still commanded to pay $5.00 for its nonuse? Am I further to understand that if later the ban is lifted, I am still expected to pay for a full year's stamp when I shall have used the car for only part of the year? I would appreciate your reply.

J. H. Cockroft, Richland Center, Wis. * * * One year ago now the Government took my home from me at Madison, Wis., for the Truax School. At that time they required me to pay the full 1942 taxes, basing them on the 1941 taxes, plus twenty percent, and they told me at that time that in case there was a refund, that it would be mailed me early in January of 1943. Now I have taken this matter up with the Treasurer of that town and found that there is better than forty dollars due me. It is now June, nearly six months later than the Government promised to mail me my refund. Will you kindly give this matter your attention, and let me know by return mail just why this is being held up?

A. F. Hunt, Cleveland, Ohio. I work for the Strong-Corsyle Hammond Company and they have been deducting from my pay the 5% Victory tax each week. I did not say this might be done and wish you to refund me the money. I only make approximately $28.00 a week and need every penny I can get to support my wife and 5 children, ranging from 11 years of age to 18, and now that you contemplate another withholding tax of 20% or more, with compulsory savings, how do you expect us to live? * * * Then you contemplate more deductions for Social Security, which is all right normally, but with insurance deductions, group insurance, and all other deductions, as well as the high cost of living, it will put us away in the hole.

Anonymous - "A Taxpayer For Twenty-one Years" - postmarked Philadelphia, Pa. * * * I wonder if you have given due thought to the certain problems of the thousands of professional people in the country - the dentists, doctors, lawyers, engineers, salesmen, technical men, office managers, and the like - individuals whose incomes today are pegged at what they were in 1940 and 1941 - yes, and in many cases, less than what they were during the past few years. This middle-class group have seen their real income drop, yet they still must keep up their life insurance, payments on their homes, and the many other items that do not plague those in either the higher or lower brackets of income to the same degree. No doubt we can and will be able to take care of the 20% tax as of July 1, 1943, but if you pyramid another 10% tax on it, "Bang" goes some of our homes, part of our life insurance, and most of charities, to say nothing of our Series E Bonds.* *

Major W. G. Stanton, Ord. Sec., Hq. S.O.S., A.P.O. 871, New York, New York. (V Mail Letter) Dear Mr. Secretary: For months I have been corresponding with the Collector's Office in Baltimore about my 1941 tax, on which they disallowed a deduction of $100 for furnace repairs. I have been trying to get the case reviewed but the same clerk (one Bertha Magruder) keeps writing and reiterating her view that a new firebox is capital expenditures. Now I would like to have the review by a competent examiner, since the house had a furnace and nothing was done except repair damage wrought by rust and corrosion -- this is no more a capital expenditure than a new coat of paint or wallpaper. Being overseas in the armed forces handicaps me greatly in dealing with this matter. I could afford the $9.00, but the principle is wrong. Your good offices in causing an investigation will be appreciated.

Russell C. Graef, N.Y.C. I just left the office of the Internal Revenue Department, Whitehall Street, New York City, where I presented tax notes in payment of my second quarterly tax obligation due June 15. My tax obligation for the second quarter amounted to $164.23. I presented tax bonds totaling $178.48, which included accrued interest. I requested a due bill for $14.25 (not cash) in change for the overpayment of the second quarterly tax installment due, which was refused. I proposed to use the due bill as change in paying my last quarter of 1942 tax when due. * * * During the year 1942 I conscientiously saved and purchased these bonds to be used for my tax obligation, and when I presented sufficient bonds, I felt that I should not have to withhold a certificate and reimburse the department with the difference in cash in order to pay the exact amount, as the Federal Reserve also has refused to cash a bond, plus accrued interest to date. As the Government already has my cash for the entire 1942 tax, and I have bonds remaining which can only be used for taxes, how am I to dispose of same without losing any interest when the 20% withholding tax goes into effect July 1, 1943? I am enclosing said bonds to you for an official opinion as how to use the bonds in payment of my second quarterly tax obligation, which was refused because the department evidently was not properly equipped to equitably accept the bonds for the exact amount due.

OFFICE OF LEND-LEASE ADMINISTRATION
FIVE-FIFTEEN 22d STREET NW.
WASHINGTON, D. C.

E. R. STETTINIUS, JR.
ADMINISTRATOR

June 19, 1943

MEMORANDUM

To: The Honorable Henry Morgenthau

From: E. R. Stettinius, Jr.

Subject: Executive Reports

Transmitted herewith, for your information, are copies of the Executive Reports on lend-lease operations, as of May 31, 1943.

Attachments

CONFIDENTIAL
Executive Report No. I

Office of Lend-Lease Administration

ALLOCATIONS, OBLIGATIONS AND EXPENDITURES
FUNDS APPROPRIATED TO THE PRESIDENT

Monthly Report as of May 31, 1943
(Thousands of Dollars)

Appropriation Category	Adjusted Appropriations	Cumulative to May 31, 1943		
		Allocations	Obligations	Expenditures
Ordnance and Ordnance Stores	2,026,400	1,689,131	1,514,956	1,129,690
Aircraft and Aero. Material	2,667,125	2,663,916	2,591,273	1,850,800
Tanks and Other Vehicles	769,273	672,726	636,254	505,359
Vessels and Other Watercraft	2,417,544	2,257,769	1,881,208	1,403,415
Misc. Military Equipment	353,288	353,280	304,798	212,023
Production Facilities	1,104,688	1,104,688	1,054,820	832,598
Agric. and Indust. Commodities	7,707,212	7,632,014	5,900,538	4,832,587
Servicing, Repair of Ships, etc.	531,470	516,462	398,201	380,530
Services and Expenses	800,000	453,324	266,129	217,272
Administrative Expenses	20,000	19,960	19,605	19,405
Total	18,397,000	17,373,270	14,567,782	11,383,679

Procuring Agency	Allocations	Obligations	Expenditures
War Department	5,689,681	5,429,939	4,206,313
Navy Department	2,991,784	2,321,714	1,553,703
Maritime Commission and War Shipping Admin.	1,980,532	1,638,009	1,501,359
Treasury Department	3,154,636	2,448,672	1,589,898
Department of Agriculture	3,544,345	2,718,943	2,522,852
Other	12,292	10,506	9,554
Total	17,373,270	14,567,783	11,383,679

CONFIDENTIAL
Executive Report No. 2

Office of Lend-Lease Administration

STATEMENT OF LEND-LEASE AID

Monthly Report as of May 31, 1943
(Thousands of Dollars)

Type of Aid	Cumulative to		Month of	
	May 31, 1943	April 30, 1943	May	April
Goods Transferred	9,929,937	9,214,238	715,699	720,103
Servicing, Repair of Ships, etc.	290,847	281,009	9,838	18,874
Rental of Ships, Ferrying of Aircraft, etc	1,021,976	961,697	60,279	31,915
Production Facilities in U. S.	582,022	580,563	1,459	7,667
Miscellaneous Expenses	67,873	64,965.	2,908	4,395
Total Services	1,962,718	1,888,234	74,484	62,851
Total Goods and Services	11,892,655	11,102,472	790,183	782,954

Data on Goods Transferred include value of goods procured from lend-lease appropriations to the President and to the Army and Navy.

Type of Aid	Cumulative to May 31, 1943				
	Br. Empire	China	U.S.S.R.	Other	Total
Goods Transferred	7,649,307	133,598	1,978,441	168,591	9,929,937
Servicing, Repair of Ships, etc.	216,418	1,556	45,655	27,218	290,847
Rental of Ships, Ferrying of Aircraft, etc.	818,388	13,162	161,563	28,863	1,021,976
Production Facilities in U. S.	-	-	-	-	582,022
Miscellaneous Expenses	43,697	1,099	1,629	21,448	67,873
Total Goods and Services	-	-	-	-	11,892,655

CONFIDENTIAL
Executive Report No. 3

Office of Lend-Lease Administration

DETAIL OF ARTICLES TRANSFERRED

Monthly Report as of May 31, 1943
(Thousands of Dollars)

	Cumulative to May 31, 1943				
	Br. Empire	China	U.S.S.R.	Other	Total
Ordnance (Excl. Ammunition)	365,717	15,536	51,428	46,400	479,081
Ammunition and Components	863,115	22,194	219,787	16,336	1,121,432
Aircraft	721,141	39,132	405,033	30,091	1,195,397
Aircraft Engines, Parts, etc.	415,007	3,859	14,572	2,483	435,921
Combat Vehicles	779,279	923	221,089	18,918	1,020,209
Non-Combat Vehicles	254,017	25,452	246,500	9,964	535,933
Watercraft and Parts	757,803	447	71,294	9,419	838,963
Agric. Products (Foodstuffs)	1,212,261	-	190,531	3,124	1,405,916
Agric. Products (Excl. Food)	309,926	41	3,697	71	313,735
Machinery	305,960	4,069	150,302	1,559	461,890
Metals	477,643	9,065	188,199	1,138	676,045
Petroleum Products	453,272	2,415	21,589	62	477,338
Miscellaneous Material and Manufactures	734,166	10,465	194,420	29,026	968,077
Total	7,649,307	133,598	1,978,441	168,591	9,929,937

TREASURY DEPARTMENT

OFFICE OF THE SECRETARY

June 18, 1943

CONFIDENTIAL

Received this date from the Federal Reserve Bank of New York, for the confidential information of the Secretary of the Treasury, compilation for the week ended June 9, 1943, showing dollar disbursements out of the British Empire and French accounts at the Federal Reserve Bank of New York and the means by which these expenditures were financed.

Inc. E.M.B

C
O
P
Y

FEDERAL RESERVE BANK
OF NEW YORK

June 17, 1943

CONFIDENTIAL

Dear Mr. Secretary: Attention: Mr. H. D. White

I am enclosing our compilation for the week ended June 9, 1943, showing dollar disbursements out of the British Empire and French accounts at this bank and the means by which these expenditures were financed.

Faithfully yours,

/s/ Robert G. Rouse,

Robert G. Rouse,
Vice President.

The Honorable Henry Morgenthau, Jr.,
Secretary of the Treasury,
Washington, D. C.

Enclosure

Strictly Confidential

ANALYSIS OF CANADIAN AND AUSTRALIAN ACCOUNTS
(In Millions of Dollars)

Week Ended June 9, 1943

PERIOD	BANK OF CANADA (and Canadian Government) — DEBITS: Total Debits	Transfers to Official British A/C	Others Debits	CREDITS: Total Credits	Proceeds of Gold Sales	Transfers from Official British A/C: For Own A/C	Transfers from Official British A/C: For French A/C	Other Credits	Net Incr. (+) or Decr. (-) in $ Funds (d)	COMMONWEALTH BANK OF AUSTRALIA (and Australian Government) — DEBITS: Total Debits	Transfers to Official British A/C	Other Debits	CREDITS: Total Credits	Proceeds of Gold Sales	Other Credits	Net Incr. (+) or Dec. (-) in $ Funds (d)
First year of war (a)	323.0	16.6	306.4	504.7	412.7	20.9	38.7	32.4	+ 181.7	31.2	3.9	27.3	36.1	30.0	6.1	+ 4.9
War period through December, 1940	477.2	16.6	460.6	707.4	534.8	20.9	110.7	41.0	+ 230.2	57.9	14.5	43.4	62.4	50.1	12.3	+ 4.5
Second year of war (b)	460.4	-	460.4	462.0	246.2	3.4	123.9	88.5	+ 1.6	72.2	16.7	55.5	81.2	62.9	18.3	+ 9.0
Third year of war (c)	525.8	0.3	525.5	566.3	198.6	7.7	-	360.0	+ 40.5	107.2	57.4	49.8	112.2	17.2	95.0	- 5.0
1942																
Sept. 3 - Sept. 30	46.3	-	46.3	53.6	13.2	-	-	40.4	+ 7.3	28.0	20.5	7.5	18.1	-	18.1	- 9.9
Oct. 1 - Oct. 28	44.9	-	44.9	51.5	16.6	-	-	34.9	+ 6.6	14.3	12.0	2.3	14.6	-	14.6	+ 0.3
Oct. 29 - Dec. 2	56.5	-	56.5	80.8	14.4	-	-	66.4	+ 24.3	10.2	5.5	4.7	9.4	-	9.4	- 0.8
Dec. 3 - Dec. 30	48.2	-	48.2	43.9	2.9	-	-	41.0	- 4.3	14.1	8.0	6.1	11.7	-	11.7	- 2.4
1943																
Dec. 31 - Feb. 3	52.5	-	52.5	217.1	-	125.0	-	92.1	+ 164.6	16.2	8.0	8.2	17.3	-	17.3	+ 1.1
Feb. 4 - Mar. 3	35.1	-	35.1	101.2	-	37.7	-	63.5	+ 66.1	15.9	15.0	0.9	16.0	-	16.0	+ 0.1
Mar. 4 - Mar. 31	36.2	-	36.2	51.6	-	-	-	51.6	+ 15.4	7.1	5.0	2.1	6.7	-	6.7	- 0.4
Apr. 1 - Apr. 28	29.0	-	29.0	39.6	-	-	-	39.6	+ 10.6	16.4	15.1	1.3	19.3	-	19.3	+ 2.9
Apr. 29 - June 2	79.9	-	79.9	95.8	-	-	-	95.8	+ 15.9	21.8	19.0	2.8	20.1	-	20.1	- 1.7
WEEK ENDED:																
May 12	56.5	-	56.5	12.3	-	-	-	12.3	- 44.2	12.0	12.0	-	12.8	-	12.8	+ 0.8
19	6.6	-	6.6	24.8	-	-	-	24.8	+ 18.2	3.0	3.0	-	3.5	-	3.5	+ 0.5
26	2.3	-	2.3	19.3	-	-	-	19.3	+ 17.0	-	-	-	0.1	-	0.1	+ 0.1
June 2	7.8	-	7.8	16.6	-	-	-	16.6	+ 8.8	3.8	3.0	0.8	0.4	-	0.4	- 3.4
9	7.6(e)	-	7.6	35.8(e)	-	-	-	35.8(f)	+ 28.2	15.0	15.0	-	18.3(g)	-	18.3	+ 3.3

Average Weekly Expenditures
[illegible]

6.2 million.
8.9 million.
10.1 million.
8.8 million.

(a) For monthly breakdown see tabulations prior to April 23, 1941.
(b) For monthly breakdown see tabulations prior to October 8, 1941.
(c) For monthly breakdown see tabulations prior to October 14, 1942.
(d) Reflects changes in all dollar holdings payable on demand or maturing in one year.
(e) Does not reflect transactions in short term U. S. securities.
(f) Includes [illegible] Supplies, Ltd.
(g) Includes $[illegible] S. Treasury [illegible] million held for credit of [illegible]

ANALYSIS OF BRITISH AND FRENCH ACCOUNTS
(In Millions of Dollars)

Week Ended June 9, 1943

Strictly Confidential

PERIOD	BANK OF ENGLAND (BRITISH GOVERNMENT) — DEBITS: Total Debits	Gov't Expenditures (a)	Transfers to Official Canadian Account	Other Debits	CREDITS: Total Credits	Proceeds of Sales of Gold	Proceeds of Sales of Securities (Official) (b)	Transfers from Official Australian Account	Other Credits (c)	Net Incr.(+) or Decr.(-) in $ Funds (d)	BANK OF FRANCE: Total Debits (e)	Total Credits (e)	Net Incr. (+) or Decr. (-) in $ Funds (d)
First year of war (g)	1,793.2	605.6	20.9	1,166.7	1,828.2	1,356.1	52.0	3.9	416.2	+ 35.0	866.3(f)	1,095.3(f)	+299.0
War period through December, 1940	2,782.3	1,425.6	20.9	1,335.8	2,793.1	2,109.5	108.0	14.5	561.1	+ 10.8	878.3	1,098.4	+220.1
Second year of war (h)	2,203.0	1,792.2	3.4	407.4	2,189.8	1,193.7	274.0	16.7	705.4	- 13.2	38.9	8.8	- 30.1
Third year of war (i)	1,235.6	904.8	7.7	223.1	1,361.5	21.8	5.5	57.4	1,276.8	+125.9	18.5	4.4	- 14.1
1942													
Sept. 3 - Sept. 30	56.1	37.1	-	19.0	81.6	-	0.5	20.5	60.6	+ 25.5	10.1	0.4	- 9.7
Oct. 1 - Oct. 28	46.7	27.4	-	19.3	57.5	-	-	12.0	45.5	+ 10.8	-	0.3	+ 0.3
Oct. 29 - Dec. 2	96.6	35.5	-	61.1	83.7	-	-	5.5	78.2	- 12.9	0.2	0.3	+ 0.1
Dec. 3 - Dec. 30	30.4	13.3	-	17.1	51.9	-	-	8.0	43.9	+ 21.5	-	-	-
1943													
Dec. 31 - Feb. 3	168.6	20.9	125.0	22.7	58.9	-	-	8.0	50.9	-109.7	-	-	-
Feb. 4 - Mar. 3	87.2	17.8	37.7	31.7	120.8	-	-	15.0	105.8	+ 33.6	-	-	-
Mar. 4 - Mar. 31	35.3	12.9	-	22.4	64.4	-	-	5.0	59.4	+ 29.1	-	-	-
Apr. 1 - Apr. 28	37.0	16.3	-	20.7	87.4	-	-	15.1	72.3	+ 50.4	-	-	-
Apr. 29 - June 2	90.4	74.3	-	16.1	103.4	-	-	19.0	84.4	+ 13.0	-	-	-
WEEK ENDED:													
May 12	65.0	59.7	-	5.3	24.8	-	-	12.0	12.8	- 40.2	-	-	-
19	8.4	3.4	-	5.0	33.5	-	-	3.0	30.5	+ 25.1	-	-	-
26	5.2	4.1	-	1.1	15.0	-	-	-	15.0	+ 9.8	-	-	-
June 2	5.0	2.4	-	2.6	12.3	-	-	3.0	9.3	+ 7.3	-	-	-
9	12.4	3.0	-	9.4	41.2	-	-	15.0(j)	26.2	+ 28.8	-	-	-

See attached sheet for footnotes.

Average Weekly Expenditures Since Outbreak of War
France (through June 19, 1940) $19.6 million

[illegible] June 19, 1940) $27.6 million
[illegible] 12, 1942) $54.9 million
22.6 million

(a) Includes payments for account of British Ministry of Supply Mission, British Supply Board, Ministry of Supply Timber Control, and Ministry of Shipping.

(b) Estimated figures based on transfers from the New York Agency of the Bank of Montreal, which apparently represent the proceeds of official British sales of American securities, including those effected through direct negotiation. In addition to the official selling, substantial liquidation of securities for private British account occurred, particularly during the early months of the war, although the receipt of the proceeds at this Bank cannot be identified with any accuracy. According to data supplied by the British Treasury and released by Secretary Morgenthau, total official and private British liquidation of our securities through December, 1940 amounted to $334 million.

(c) Includes about $85 million received during October, 1939 from the accounts of British authorized banks with New York banks, presumably reflecting the requisitioning of private dollar balances. Other large transfers from such accounts since October, 1939 apparently represent current acquisitions of proceeds of exports from the sterling area and other accruing dollar receipts.

(d) Reflects net change in all dollar holdings payable on demand or maturing in one year.

(e) For breakdown by types of debits and credits see tabulations prior to March 10, 1943.

(f) Adjusted to eliminate the effect of $20 million paid out on June 26, 1940 and returned the following day.

(g) For monthly breakdown see tabulations prior to April 23, 1941.

(h) For monthly breakdown see tabulations prior to October 8, 1941.

(i) For monthly breakdown see tabulations prior to October 14, 1942.

(j) Of which $4.8 million represents current and accumulated dollar proceeds of sterling area services and merchandise exports and $16.0 million received from U. S. Treasury to be held for credit of U. S. Army.

SECRETARY OF TREASURY OFFICE
1943 JUN 19 PM 1 29
TREASURY DEPARTMENT

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NOT TO BE RE-TRANSMITTED

COPY NO. 13

BRITISH MOST SECRET
U.S. SECRET

OPTEL NO. 198

Information received up to 7 a.m., 18th June, 1943.

1. NAVAL

On the 4th, one of the French Submarines torpedoed a six thousand ton ship at anchor off the North-east Coast of SARDINIA. The vessel was seen aground on the 8th. One of H.M. Submarines torpedoed a fifteen thousand ton Northbound Tanker off South-east ITALY on the 5th. On the 4th, another of H.M. Submarines sank a U-boat North-east of the FAEROES. On the 16th, a Hudson Aircraft sank an enemy submarines South of CYPRUS. Survivors were seen in the water.

2. MILITARY

NORTH AFRICA. The French Military Police report the capture of 5 parties of 10 parachutists each, one near AFFREVILLE, one near CONSTANTINE, two South-west of ORAN, one near BOU SAADA and single parachutists at BISKRA and DJEZIA.

3. AIR OPERATIONS

WESTERN FRONT. 16th/17th. COLOGNE. 656 tons dropped including 153 four thousand pound H.E. in 23 minutes. Almost complete cloud but clear visibility above. Bombing somewhat scattered especially at first but better concentration later. Not yet possible to estimate success of attack. Night fighters active.

17th. Fighter bombers damaged 5 small ships off the Dutch Coast. Fighters made sweeps over the Low Countries. Enemy casualties - 9, 3, 8. Allied - 3 missing.

17th/18th. Aircraft despatched: BERLIN - 4, North-west GERMANY - 3, Intruders - 26, One Typhoon missing. 4 Enemy aircraft flew over Southern ENGLAND, 1 penetrating to Central LONDON where a bomb caused a serious fire at Mount Pleasant Post Office. The parcel section was burnt out but much of the mail was saved. Casualties so far reported 2 killed.

SICILY. 14th/15th. Wellingtons dropped 74 tons on airfields. 15th. 556 Bomber and Fighter Sorties flown against airfields. Enemy casualties in air - 13, 2, 13. Allied - 5, 0, 16.

MEDITERRANEAN. 14th/15th. 7 Beaufighters intercepted 39 enemy aircraft 100 miles North of BONE and destroyed 4 Bombers. On 15th and 16th, Beaufighters attacked 9 Caiques in the AEGEAN, sinking 3 and severely damaging the others.

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WAR FINANCE BULLETIN

Office of the Secretary of the Treasury

Issue No. 1 June 19, 1943

Redempt'ons of Savings Bonds

A lot of loose,uninformed talk on the subject of Savings Bonds redemptions has crept into the news. The effect has been to create in some quarters an impression that redemptions have become a menace to the success of the voluntary savings campaign. Nothing could be farther from the truth. Here are the facts.

Between May 1, 1941, when United States Savings Bonds Series E, F and G were first issued, and May 31, 1943, cash receipts from the sale of these issues have exceeded $17½ billions. Cumulative redemptions for this period amounted to $700 millions -- or only 4 percent of sales. In other words, about 96 percent of the funds invested in these securities since they were first offered for sale is still invested in them.

The record on Series E -- the people's bond -- is almost as good -- a notable achievement indeed when one takes into consideration the kind of money these bonds in large part represent. Between May 1, 1941 and May 31, 1943, sales of Series E bonds amounted to $11.3 billions.

Cumulative redemptions have amounted to $623 millions -- or only 5.5 percent of sales. About 94.5 percent of the funds received from the sale of E bonds, therefore, is still invested in those securities.

The figures for monthly redemptions are even more heartening, and indicate there is no substance to the talk about the growing magnitude of the redemption problem. Last March redemptions for E,F and G bonds taken together amounted to 87/100 of 1 percent of the securities outstanding; in April they amounted to 61/100 of 1 percent; and in May to only 58/100 of 1 percent. The figures speak for themselves.

There will be an appreciable increase in redemptions in June, but the reason will be the same as for the increase in March -- i.e., the necessity of making a payment on the 1942 Income tax.

Redemptions of War Bonds for the first 5 months of 1943 have increased over those for the corresponding period of 1942. But this is to be expected. Most of the increase has been due to the larger volume of securities outstanding. It has not been due to a growing widespread desire to cash in Savings Bonds.

With Pay-as-you-go in effect starting July 1, there will be less need to cash in Savings Bonds to meet quarterly Income tax payments. The vast majority of taxpayers will soon be current. Others will have smaller quarterly instalments to pay. This should result in reducing considerably the number of redemptions for tax payment purposes.

The fear has been expressed in some quarters that Pay-as-you-go will cut into bond purchases and increase the number of redemptions. This should be a temporary phenomenon and should pass as soon as individuals become accustomed to the new tax-paying system. The new Withholding tax is not really a new tax at all. It is not a tax in addition to existing taxes. It is simply a change in the mechanism of collecting taxes. The ability to forego saving for taxes from now on should make it all the more easier to save for other things -- War Bonds, for instance.

Harold Mager
Technical Assistant
Office of the Secretary

-oOo-

June 19, 1943

TO: ~~HAROLD N. GRAVES~~ Mr. Gamble.

SUBJECT: WEEKLY REPORT FROM WAR SAVINGS STAFF

Rob.

RADIO, PRESS AND ADVERTISING DIVISION

Advertising Section

The attached folder illustrates the designs which will be used in the 24-sheet panels which will be sponsored by The Seven-Up Company of St. Louis, Missouri, in October, November, and December, in continuation of the War Bond campaign they began in January. (Attachment #1)

Attached are two cooperative 24-sheet designs, one sponsored by Anheuser-Busch, and the other by the Belmont Radio Corporation of Chicago, both tied up with themes utilized in official Treasury outdoor advertising. (Attachment #2)

mr 6/19/43

RADIO, PRESS AND ADVERTISING DIVISION

Advertising Section (Continued)

Also attached is a 24-sheet design entitled "For Victory Buy Bonds, For Refreshment Drink Barq's," which will go to 152 Barq franchised bottlers for posting throughout 30 states. (Attachment #3)

Attached are two miniatures of 24-sheet posters, the first of those to be issued within the next six months in the current Treasury-approved outdoor advertising campaign. (Attachment #4) The theme, "Buy War Bonds For Fighting Power Today And Buying Power Tomorrow!" will be sustained throughout the poster campaign.

A special 24-sheet will be issued for the Third War Loan in September.

Two full-page advertisements will be issued per week for the Third War Loan, supplemented with smaller adaptations. This is in response to hundreds of newspaper requests for more official advertisements than were issued in the Second War Loan, when one full-page advertisement per week was released along with smaller adaptations.

Additional national magazines requesting advertising material for early issues are REDBOOK, McCALL'S, NATION'S BUSINESS, VOGUE, HOUSE & GARDEN, AMERICAN LEGION, BUSINESS, and THE GRADE TEACHER.

During the week of June 7th we received 110 War Bond mentions and six complete ads in the leading seven national

RADIO, PRESS AND ADVERTISING DIVISION

Advertising Section (Continued)

weeklies. Attached is a list of the sponsoring companies and magazines in which the advertisements appeared. (Attachment #5)

Radio Section

In cooperation with the Retail Section's July campaign, "Buy An Extra War Stamp to Build the Mystery Ship 'Shangri-La'", the Radio Section has prepared an all-star fifteen-minute recorded program featuring Mrs. James Doolittle, star singers Grace Moore and Barry Wood, newspaper columnist and radio commentator Edwin C. Hill, and David Broekman's Orchestra and Chorus. This program is designed for sponsorship by retail merchants.

Excerpts from this material have been transcribed on a five-minute phonograph record available to retail merchants for use over loud-speaker systems.

Ten one-minute "Shangri-La" announcements have been transcribed and are available for sponsorship.

Dramatized one-minute spots will be recorded and broadcast twice weekly during the last three weeks in July by every radio station in the country - for a total of 9,000 "Shangri-La" announcements.

"Shangri-La" announcements will be made during July by Tommy Dorsey, Guy Lombardo, and Horace Heidt on their regular Treasury broadcasts, and the "Saturday Night Bondwagon" will promote the campaign on July 10th and 24th.

RADIO, PRESS AND ADVERTISING DIVISION

Radio Section (Continued)

Arturo Toscanini will conduct the NBC Symphony Orchestra in four Treasury Concerts - June 20, July 18, July 25, and September 19 - over the NBC network 5:00 - 6:00 P.M., EWT.

John L. Sullivan, Assistant Secretary of the Treasury, will appear on "The Saturday Night Bondwagon" June 19th, 10:15 - 10:45 P.M., EWT, over the Mutual System. Marjorie Riordan will be featured in a scene from the picture, "Stage Door Canteen". Evelyn Case, lyric soprano, will also be heard.

"Truth or Consequences" ended its 14-week tour June 12th in California, by selling $1,210,000 in War Bonds. This brought the program's Bond sales to a final total of $188,481,082.

Press Section

Attached is the July Press Book released to company publications. (Attachment #6)

Attached is a copy of the latest issue of "Comic Cavalcade", which includes another episode in the War Bond serial, "The Minute Man Goes to War", and an endorsement of War Savings Stamps by Captain Eddy Rickenbacker. (Attachment #7)

Attached is the latest "Stars in Service" released to mat-using dailies and weeklies. (Attachment #8)

United Features is devoting a cartoon release to the recent baseball players' War Bond auction. An advance proof is attached. (Attachment #9)

RADIO, PRESS AND ADVERTISING DIVISION

Press Section (Continued)

Recent issues of twenty pulp magazines, tear sheets of which are attached, contain 37 War Bond mentions in editorial pages and cover seals. (Attachment #10)

Attached are a few samples of the Flag Covers of Standard Publications pulp magazines. Approximately 40 of their publications with a circulation of 2,500,000 will carry the Flag and War Savings copy on their covers during July. (Attachment #11)

Attached are July Flag Covers of WOMEN'S DAY, HOUSE BEAUTIFUL, HARPER'S, and AMERICAN FORESTS, all of which carry War Bond copy. (Attachment #12)

Attached is the cover of a Popular Publications magazine devoted to the purchase of War Savings Stamps. (Attachment #13)

NATIONAL ORGANIZATIONS DIVISION

Labor Section

A representative of this Section spoke on June 9th, in Cleveland, to a group of 10 regional field men of the American Federation of Labor on the subject of union-sponsored war material drives.

The Automobile Workers (CIO) report that their 979,267 members are buying War Bonds on an average of 10.9% of earnings, or $307,000,000 worth per year.

NATIONAL ORGANIZATIONS DIVISION

Labor Section (Continued)

A three weeks' tour on the Chicago, Burlington and Quincy Railroad was completed by a member of this Section on June 9th. During the tour 69 meetings were held, attended by 15,000 employees, or over half the personnel. Representatives of the railroad, including President Budd, and of 10 railway labor unions took part in this tour, which was marked by the most complete cooperation between labor and management.

There will be a War Bond tour on the Chicago-Great Western Railroad from June 20 to 28.

On the Great Northern and Northern Pacific Railroads' tour 6,000 employees have already been contacted.

Business and Trade Association Section

Attached are lists and graphs showing the payroll deductions of 32 major industries. One form of this list is confidential and the other is for use among trade association executives. (Attachment #14)

Out of the 25,000 unionized employees of the hosiery industry, between 85% and 90% are buying War Bonds to the extent of approximately 8½% of the aggregate company payroll, or roughly, 10% of the payroll of those participating.

Foreign Origin Section

Promotional letters on organization-sponsored war material campaigns are being sent to national organizations of foreign origin.

NATIONAL ORGANIZATIONS DIVISION

Foreign Origin Section (Continued)

A $50,000,000 War Bond campaign will be inaugurated this month by the Polish groups in the United States. Mr. Anthony J. Stonina has been appointed as national chairman of the campaign.

Fraternal Section

Incomplete returns from the War Bond campaign of District Grand Lodge #6 of B'nai B'rith indicate $11,000,000 worth of War Bonds sold. The original goal was $10,000,000.

The 175 lodges of the Ohio State Fraternal Order of Eagles will sponsor a War Bond campaign during September.

The National Jewish War Veterans Association is planning a Bond drive.

Inter-Racial Section

The $1,000,000 War Bond campaign sponsored by the Negroes of New York went $200,000 over the goal.

A War Bond drive in Pittsburgh, Pennsylvania, is to be sponsored by the Negro Women's Committee.

Two members of this Section, Dr. Pickens and Mr. Thomas, have sponsored and directed a great National Baptist Sunday School Convention and War Savings School at Dallas, Texas, on June 10 - 14.

FIELD DIVISION

Special Activities Section

On June 8th at a luncheon in New York 37 selected baseball players from the Giants, Yankees, and Dodgers were auctioned

FIELD DIVISION

Special Activities Section (Continued)

off to sponsors who bid for them in War Bonds. Pledges and sales of $123,000,000 in War Bonds resulted. In addition, the "owner" of a player is pledged to buy set amounts of War Bonds for each hit, run, put-out, strike-out, etc., made by his protege. The Sports Writers' Association, which originated the idea and staged the luncheon, estimates that War Bond sales of about $300,000 each playing day during the season may be anticipated.

The Strand Theatre in Skowhegan, Maine, weekly puts up in lights the name of a different local boy in foreign service. A lobby board carries his picture, the local newspaper prints his biography and picture, and friends, relatives, and patriotic townsmen then do their part by buying War Bonds during "his week". Each boy receives a list of the amount of Bond purchases and the names of all purchasers.

The Phi Delta Epsilon Medical Fraternity, with a membership of 8,000 doctors, 2,000 of whom are in the armed forces, celebrated the purchase of its second bomber during the week of June 7th by pledging to purchase a heavy bomber every month for the duration of the war.

The women of Virginia assumed responsibility for the $12,000,000 May War Bond quota for their state, and attained sales of $16,332,725, or 36.1% over the goal for "Women's Month".

FIELD DIVISION (Continued)

Agricultural Section

Latest returns from Georgia 4-H Club members show they have more than doubled their goal in their "Name A Liberty Ship" campaign, the first completed in the nation. The goal was $1,950,000.

Each of the 1,887 Oklahoma 4-H clubs is being encouraged to sponsor at least one special event to sell Bonds this summer. In several counties, county 4-H organizations already have campaigns under way to raise the $400,000 price of a bomber.

At the invitation of the American Bankers' Association, three members of the Agricultural Section attended a meeting of the Association's Agricultural Committee in New York this week to discuss material for a leaflet on War Savings to be used as the basis of a War Bond project to be carried out by country bankers in cooperation with the War Savings Staff. The leaflet will be distributed by the American Bankers'Association through its country banks.

A purebred Hereford calf recently was auctioned for $535,000 in Bonds at Spencer, West Virginia.

The Minnesota Electric Cooperative is the first state organization of its kind to launch a statewide "Buy a Bomber" campaign, following arrangements made by the Agricultural Section with the National Rural Electric Cooperative Association. The Minnesota cooperative has mailed a mimeographed letter and supplies of a pledge blank to each of the managers of REA Cooperatives in that state.

FIELD DIVISION (Continued)

Retail Section

Parades, rallies, auctions and house-to-house canvasses are being planned for the July "Shangri-La" campaign. A radio program to be commercially sponsored by retailers has been prepared.

Sears, Roebuck and Company reports sale of Bonds and Stamps from March 27 to April 23 of $631,436.82.

F. W. Woolworth Company reports a May sale of Bonds and Stamps of $3,016,172.55. A copy of its report for April and May is attached. (Attachment #15)

Wellan's Department Store, Alexandria, Louisiana, ran a War Bond sale last month as its five-day anniversary event, aiming at a goal of $100,000. The store sold almost double its quota.

Motion Pictures and Special Events Section

The "Truth or Consequences" War Bond broadcast from Oakland, California, on Saturday, June 12th, resulted in the sale of $1,210,000 worth of War Bonds. This brought the total for the 14-week coast-to-coast tour to $188,481,082.

On June 14th, Flag Day, there was a mass raising of Treasury Department Minute-Man Flags on all New York motion picture theatres on Broadway between 42nd and 52nd Streets.

A poster is being displayed in all Loew's Theatres, indicating the theatre's Bond sales to date and also the circuit's. (Attachment #16)

FIELD DIVISION (Continued)

Motion Pictures and Special Events Section

The Special Events Section supplied the Army Band from Camp Stewart, West Point, to appear with Secretary Morgenthau at the War Bond Rally and NBC coast-to-coast broadcast on Saturday, June 12th, from Kingston, New York.

Barry Wood was booked by Special Events Section to appear at a city-wide Payroll Savings Rally at Toledo, Ohio, on June 14th.

The series of paintings by Charles Long, Jr., entitled "America Attacks", has been booked into the leading department stores throughout the country. A booklet showing these paintings is attached. (Attachment #17)

The Jap sub last week visited Dunkirk and Jamestown, New York, and Erie, Meadville, Sharon, New Castle, Franklin, Warren, Bradford, Kane, Ridgeway, DuBois, Clearfield, Altoona, Johnstown, Latrobe, and McKeesport, Pennsylvania.

Payroll Savings Section

The 19 state and national Payroll Savings meetings for the current drive have been completed and every state has been covered. These meetings reached over 2,000 state and local Payroll Savings chairmen. By July 1 these chairmen will in turn have fully prepared 30,000 Payroll Savings workers for their part in the current drive. Early returns on two trial Payroll Savings drives indicate full success for the "Figure It Out Yourself" theme and the promotion suggestions set forth in the "Dollars and Cents" Manual.

FIELD DIVISION

Payroll Savings Section (Continued)

The first of these drives, conducted at the Douglass Aircraft Assembly Plant in Oklahoma City, more than doubled the Payroll Savings participation, increasing it 148%. As a result of the drive, 82% of the workers are purchasing one or more Bonds per month.

A Washington representative of this section was on hand to cooperate in conducting the trial campaign at the New England Shipbuilding Corporation in South Portland, Maine. Before the drive began last week, weekly payroll participation amounted to $27,000. After a management-labor committee had launched the "Figure It Out Yourself" drive, a preliminary count on only 65% of the pledge cards gave a total weekly Payroll Savings participation of $190,000. Projected to a 100% basis, this amounts to $285,000 per week.

The acceptance of the promotional material dealing with the "Figure It Out Yourself" campaign has been such that after supplying the 27,000,000 employee booklets and the 100,000 sales manuals, it was necessary to have a second and third printing to meet the additional demand.

The attached Payroll Savings letter from President Roosevelt is receiving the widest press and radio publicity. (Attachment #17-A)

The companies on the attached list are among those to report during the last week as having achieved the 10% goal. (Attachment #18)

FIELD DIVISION

Payroll Savings Section (Continued)

The analysis of exposure to Payroll Savings through June 5, 1943, is attached. (Attachment #19)

Education Section

On Monday, June 14th, 39,535 jeeps were officially presented to the War Department by the children of America who have purchased nearly $36,000,000 in War Stamps and Bonds during the Spring Jeep Campaign. Paramount, M-G-M News of The Day, Fox Movietone, Pathe News, an Army Public Relations cameraman, an Associated Press cameraman, and the Richmond staff office cameraman covered the presentation at the Pentagon Building in Arlington. Betty Turner, 6, of the Henry Clay School of Arlington, Virginia, made the presentation to Lieutenant General Brehon Somervell, in command of the Army Service Forces, accompanied by Major General LeRoy Lutes, Chief of Operations ASF, and Major General L. H. Campbell, Jr., Chief of Ordnance, ASF. Presentation ceremonies and newsreel coverage were planned by the Special Events Section. The presentation is attached. (Attachment #20)

Members of the Education Section will represent the Treasury Department at fourteen summer school sessions at which the Federal Education War Council will sponsor wartime workshops for teachers and school administrators. Seven other federal agencies will also cooperate in presenting wartime problems and programs. The conference circuit is attached. (Attachment #21)

The Indiana War Savings Staff has completed a transcription

FIELD DIVISION

Education Section (Continued)

to accompany the filmstrip "Billy Dollar", giving the narrative music and sound effects. The discs are sent out with the filmstrip supplied by the national office.

Women's Section

Six regional women's conferences will be held during July at Atlanta, Dallas, San Francisco, Denver, Cleveland and Boston.

A conference was held with representatives of the American Federation of Labor in regard to the women's part of a radio program to be devoted to War Savings, on the Labor for Victory hour.

Issue #9 of Women's Club News Service for June has been prepared for distribution to editors of women's club publications. Proof of a letterhead is included with the suggestion it be used in reproducing "Letter From Washington", a regular feature of the News Service.

Fifty colleges have between them reported investments of over $2,000,000 in War Bonds for the past college year.

Recent Memoranda

Recent memoranda sent to the field include numbers 630, 631, 633, 634 and 635. (Attachment #22)

OFFICE OF THE EXECUTIVE DIRECTOR

Promotional Research Section

Attached is the analysis of newspaper carrier sales as of June 17, 1943. (Attachment #23)

Attached is the resume of War Savings Stamps sales for April, 1943. (Attachment #24)

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NOT TO BE RE-TRANSMITTED

MOST SECRET

COPY NO. 13

OPTEL NO. 199

Information received up to 7 A.M. 19 June.

1. NAVAL. One of H.M. Submarines sank a schooner and damaged the escort vessel by gun fire off Bari on 12th and torpedoed a 7600 ton ship off Corfu on 14th.

2. AIR OPERATIONS.

Western Front. 18th. Mustangs damaged 5 armed trawlers off the Dutch coast. Photographs of Dusseldorf taken 7 A.M. 18th show that as result of the attack on 11th/12th over 1000 acres of residential and commercial buildings are more than 80 per cent burned out, some fires are still smouldering.

Italy. 16th/17th. Wellingtons dropped 37 tons on Naples.

Sicily. 17th. Escorted Liberators dropped 116 tons on Comiso and Biscari airfields.

COPY NO. 13

BRITISH MOST SECRET
U.S. SECRET

OPTEL No. 202

Following is supplementary resume of operational events covering the period 12th to 19th June, 1943.

1. NAVAL

The passage of naval units to and from SPITZBERGEN and North RUSSIA in connection with relief of personnel and transport of stores was carried out without incident under cover of Home Fleet. No enemy ships sighted and no interference by aircraft or U-Boat.

German Cruiser LEIPZIG reported at LIBAU 5th.

MEDITERRANEAN. H.M. and Allied submarines torpedoed 2 tankers (one of 15,000 tons) and 2 medium sized merchantmen and sank one merchantman, one Schooner and 6 Caiques. First westbound through convoy has passed safely through MEDITERRANEAN.

SUBMARINE WARFARE. Week ending 13th, 6 ocean convoys arrived without loss. Of about 90 U-boats estimated operating in Atlantic and Indian Oceans, about 20 are on U.S. to CASABLANCA route.

Week ending 16th. In all theatres 37 attacks on U-boats of which 21 by aircraft. Of 11 promising attacks 4 were by Carrier-borne aircraft, 2 by U.S. ships, 3 by H.M. ships and 4 by Coastal Command. Operations by latter again hampered by bad weather. Nevertheless during week ending 16th, 560 sorties flown involving 4,809 flying hours on anti-submarine sweeps and convoy escorts. 36 U-boats sighted and 16 attacked, 4 with promising results. In almost every case, U-boats fought back with cannon and machine gun fire. U-boats have been sighted proceeding on surface in small groups up to 5 in number.

SHIPPING CASUALTIES. During the week 12th to 18th, 7 ships were reported torpedoed and sunk. One large U.S. tanker off South Carolina, a Greek ship north of ASCENSION ISLAND, one British, one Dutch and one unnamed ship in the MEDITERRANEAN, one U.S. ship off coast of ARABIA and another U.S. ship south of BRISBANE. A British ship was slightly damaged by aircraft off CAPE ST. VINCENT and a small ICELAND ship was bombed off ICELAND but reached port in tow.

TRADE. Sailings of blockade runners to and from FAR EAST appear to have been held up for the time being. Imports in convoy into U.K. week ending 12th - 691,000 tons including 266,000 oil.

2. MILITARY

PANTELLERIA. Defence included 110 heavy A/A and coast defence guns, most of them in permanent emplacements and 70 light A/A guns. Prisoners taken approximately 12,000 Italians and 78 Germans.

BURMA. Patrol activity only. Japanese are digging in on MAUNGDAW to BUTHIDAUNG line in ARAKAN, and 3 miles east of FORT WHITE in CHIN HILLS. Intention doubtless to hold these positions during monsoons.

3. AIR OPERATIONS

WESTERN FRONT. Night. The latest attack on DUSSELDORF was extremely successful. About 1300 acres of city devastated and hardly a building left standing in mile long Oststrasse. This week 1,173 sorties - 58 aircraft missing. BOCHUM and OBERHAUSEN attacks both reckoned moderately successful. From COLOGNE no great results expected.

Day. Two principal operations by 8th U.S. Air Force against BREMEN and KIEL. R.A.F. Coastal Command attacked convoy off Hook of Holland. Other R.A.F. attacks on coastal shipping, locomotives, Northern France, etc.

ENEMY. About 55 aircraft operated against U.K. 7 were destroyed.

SICILY. Heavy attacks maintained on airfields, enemy opposition slight. In MEDITERRANEAN Theatre total of 9,560 Allied sorties flown during week ending 15th for loss of 15 aircraft from heavy action.

RUSSIA. Lull in military operations on the Russian Front not repeat not reflected in the air. Since beginning of June, both German and Russian Air Forces have operated on increasing scale. The most significant feature of German activity is that their long range Bomber forces hitherto used on the Russian Front almost exclusively in direct support of military operations has during the past two weeks operated as a strategic air force attacking towns and industrial targets in the rear unrelated to operations on the ground. These raids have been sustained and on considerable scale. The tactical close support forces continue to be engaged in harrassing operations on considerable scale immediately behind the Russian front line from OREL southwards.

4. EXTRACTS FROM PHOTOGRAPHIC AND INTELLIGENCE REPORTS ON RESULTS OF ALLIED AIR ATTACKS

DORTMUND. Final interpretation of photographs confirms damage to war industry as follows: Hoesch and [illegible]) Steel Works, also three subsidiaries of former concern, engineers boiler works, iron works, railway wagon works, breweries, many warehouses and dock buildings, main railway station including goods sheds and repair shops, power station, gas works, telegraph office, and main fire station. Town itself was unaffected by floods from dams.

FLENSBURG. U.S. raid 19th May. Direct hits on electricity works and 3 barracks where heavy service casualties. 2 U-boats damaged. No water or electricity for 3 days and fires allowed to burn themselves out. Town probably without gas for about 6 months. Great effect on morale.

MUNSTER. R.A.F. raid 11th/12th. Following destroyed or damaged: Gas works, main railway station, goods station, barracks for motorised troops.

JENA. Mosquito attack 27th May. At Zeiss Works one [illegible] producing aircraft instruments heavily damaged and another on field glasses and stereo telescope damaged. 65 operatives killed.

5. HOME SECURITY

Estimated civilian casualties week ending 16th - killed 10[illegible]. Seriously wounded 191, including 65 killed and 110 seriously wounded at GRIMSBY.

NOT TO BE RE-TRANSMITTED

COPY NO. 13

BRITISH MOST SECRET
U.S. SECRET

Information received up to 7 a.m., 20th June, 1943.

1. NAVAL

One of H.M. Submarines sank a 2,000 ton vessel carrying M.T. and cased petrol for East SARDINIA on 10th. Now known that enemy submarine sunk by aircraft south of CYPRUS 16th was U-97. 2 officers and 18 ratings captured. Reference Optel No. 198.

2. MILITARY

The Parachutists dropped at BENGHAZI on 13th/14th succeeded in destroying 5 aircraft on 17th/18th.

3. AIR OPERATIONS

WESTERN FRONT. 19th. 44 Sorties were flown by fighters and fighter bombers against enemy transport targets. 2 aircraft missing. Mosquitoes destroyed 2 enemy aircraft over the BAY OF BISCAY. Hampdens off South-west point of NORWAY torpedoed 2 ships and probably a 3rd. 19th/20th. Aircraft despatched LE CREUSOT SCHNEIDER WORKS - 290 (2 missing) Neighbouring Power Station at MONT CHANIN - 26, RUHR - 6, Sea-mining - 12 (1 missing), Intruders - 25. Two enemy aircraft destroyed. Preliminary reports indicate very successful attack on the main objective. 2 Fighter Bombers operated over KENT and SURREY, one of them penetrating to Central LONDON. 16 more made brief incursion over the DOVER Area. 1 F.W. 190 landed at R.A.F. Airfield in KENT.

4. HOME SECURITY

17th/18th. PORTSMOUTH. Now reported 25 casualties at Naval Shore establishment FAREHAM. 19th/20th. LONDON. A bomb dropped at POPLAR caused 3 fatal casualties. Late News. British 8,000 ton vessel in convoy carrying about 1,670 troops sunk by U-boat off TOBRUK. 17th. 1,353 survivors so far reported.

EMBAJADA DEL URUGUAY

Washington, D. C.

Montevideo
June 20, 1943

Excellency:

I had the honor of receiving your Note dated March 4th, as well as the prospective project relative to creating an "International Stabilization Fund", which contains the preliminary ideas on what the institution might be, the structure of which is being studied, at the present time, in the United States.

In accordance with the terms expressed in your kind Note, I have studied all the details of the prospective project and consulted with the President of the Republic, as well as with other officials of the Administration who have the capacity to interpret the problem.

Accepting the suggestion contained in your note, the Uruguayan Government has chosen to appoint Mr. Pedro Cosio as envoy in order that he may express to you our point of view and discuss, in detail, the various questions which the subject might set forth.

Please accept, Excellency, the assurances of my highest consideration,

/s/ Ricardo Cosio

The Honorable Henry Morgenthau, Jr.
Secretary of the Treasury
United States of America

M. F. Guicci
Primer Secretario

COPY

Sales and Redemptions of Savings Bonds

(In millions of dollars)

	March 1-19	June 1-19	Change
Sales			
E bonds..................	415.7	376.6	-39.1
F and G bonds...........	132.0	90.8	-41.2
Total....................	547.7	467.4	-80.3
Redemptions			
All series..............	91.8	94.4	+2.6
Amount outstanding			
All series (beginning of month)..............	17,067	20,507	+3,440
Redemptions as a percent of outstanding..........	.54%	.46%	-.08%

Look
HM Jr.

Office of the Secretary of the Treasury,
Division of Research and Statistics.

June 21, 1943.

Analysis of Redemptions of Savings Bonds
December 1942 to Date

(All series - Dollars are millions)

	1942	1943					
	December	January	February	March	April	May	June
I. Amount of savings bonds outstanding at end of month....	$15,050	$16,246	$17,067	$17,891	$19,267	$20,507	$21,250 1/
II. Redemptions by the 19th of the month:							
Amount.....................	$35.6	$40.5	$53.5	$91.8	$68.6	$66.5	$94.4
Percent of outstanding......	0.24%	0.25%	0.31%	0.51%	0.36%	0.32%	0.44%
III. Redemptions by the end of the month:							
Amount.....................	$54.7	$63.0	$76.4	$131.2	$102.8	$104.0	
Percent of outstanding......	0.36%	0.39%	0.45%	0.73%	0.53%	0.51%	

Look! and please see that this is just kept a Treasury secret. HMJr

Office of the Secretary of the Treasury, Division of Research and Statistics.

June 21, 1943

1/ Partly estimated.

MEMORANDUM FOR THE SECRETARY June 21, 1943

From: Mr. Paul

Attached is a brief statement comparing the tax burden in this country with the burden in the United Kingdom and Canada.

The breakdown of the tax burden by income classes is shown only for the direct taxes -- the individual income tax and the employee contributions to social security.

Work is in process on the breakdown of the other taxes by income classes. It is difficult to show the burden of the indirect taxes by income classes. To do so, it is necessary to make a number of questionable assumptions. The results will correspondingly be much less reliable than those for direct taxes.

We have tried to get figures on the bonds taken by individuals in relation to income payments in the three countries, for the purpose of comparing the showing which individuals are making on bond purchases. So far, some confidential data have been obtained for Canada but Canadian authorities indicate that they are not suitable for release. Corresponding data for the United Kingdom have been requested by cable. No data are available on bond purchases by income classes.

Comparison of tax burden in the United States, United Kingdom and Canada

International comparison of tax burdens is among the most controversial subjects. It is easy to question the validity of the best comparisons which can be prepared because economic conditions, standards of living, income distributions, purchasing power of money, and other factors vary markedly from one country to another. For example, when we ask: What income in the United Kingdom corresponds to a $4,000 income in the United States? the answer ordinarily given, based on the current exchange rate, is £1,000. But some persons familiar with the situation in both countries contest this conclusion. They contend that £1,000 in the United Kingdom is not the equivalent of $4,000 here. It is not equivalent if we compare the place of £1,000 in the scale of United Kingdom incomes with the place of $4,000 in the scale of United States incomes, or if we compare what £1,000 will buy in the United Kingdom with what $4,000 will buy here, or if we compare the prestige attached to an income of £1,000 in the United Kingdom with that attached to one of $4,000 here. These points are mentioned to illustrate the weakness of the data on international comparisons of tax burdens. The following comparisons, accordingly, must be used with care.

Comparison of the total tax burden in different countries is frequently made on a per capita basis and also in terms of the percentage which total taxes are of national income.

1. Total taxes for the United States, United Kingdom and Canada, including Federal, State and local for the fiscal years 1943-1944 and 1942-1943 are in billions of dollars as follows:

	Central government taxes		State and local taxes 1/	Total taxes	
	1943-44	1942-43		1943-44	1942-43
United States	$37.8	$23.8	$9.6	$47.3	$33.4
United Kingdom	13.2	11.6	.9	14.1	12.5
Canada	2.6	2.2	.5	3.1	2.7

1/ Latest data available. See table 4B.

The central government collects a substantially larger percent of the total taxes in the United Kingdom and in Canada than in the United States. The 1943-44 estimates are 93.7 and 84.6 percent respectively as against 79.8 percent for the United States.

The 1943-44 income and profits taxes in the United States are estimated to account for 66.6 percent of total taxes compared to 49.8 percent in the United Kingdom and 58.1 percent in Canada. (For details see table 4 attached).

2. The figures on total taxes for the three countries when put on a per capita basis are as follows:

	Total Federal, State and local taxes per capita	
	1943-44	1942-43
United States	$345	$246
United Kingdom	294	262
Canada	262	228

Figures on per capita taxes do not accurately reflect differences in tax burden for several reasons. In a poor country even a very low per capita tax may be a very severe burden -- more of a burden than a higher per capita tax in a wealthy country. In addition, goods and services are supplied through government operations to a greater extent in some countries than others. The taxes needed to finance the greater participation of government in the economy of a country will increase its per capita taxes without necessarily involving a higher burden.

3. A more accurate comparison of total tax burden in two countries is the relation of total taxes to national income. The ratios of total taxes to national income for the three countries in 1942-43 are as follows: (Official national income estimates for 1944 are not available.)

	Total Federal, State, and local taxes	National income 1/	Percent total taxes of national income
	(In billions of dollars)		
United States	$33.4	$135.0	24.7% 2/
United Kingdom	12.5	29.5	42.5 3/
Canada	2.7	7.5	35.6

1/ Official figures.

2/ United States national income includes interest on Federal debt and social security contributions of employers, which British estimates exclude. British figures include imputed rent of owner occupied houses and amount of profits paid in profits taxes, which American estimates exclude. Putting American figures on British basis would give roughly $143½ billion, making the percentage 23.3 percent instead of 24.7 percent.

3/ British taxes for 1942-43 (12 months ending March 31, 1943) are compared in the table with income for the calendar year 1942. Taxes for calendar year 1942, on a comparable basis, are $11,584 million. On this basis the percentage would be 39.3 percent instead of 42.5 percent.

4. In each of the countries part of the taxes, like the individual income tax and employee contributions for social security, are imposed directly on individuals and can be related to their incomes. The remaining taxes are imposed on corporations or are imposed on some persons but are intended to be shifted in whole or part and to be finally borne by others. Excise taxes, sales taxes, property taxes, are examples of this latter group of taxes which cannot with certainty be related to the incomes of the people who finally bear them.

The 1943-44 amounts and proportions of the two groups of taxes — those that can and those that cannot definitely be related to the incomes of the people who finally bear them -- are shown for the three countries in the following table (derived from the more detailed table 4 attached):

	Individual incomes and employee contributions to social security 1/ Amount	Percent of total	Other taxes Amount	Percent of total	Total taxes 2/
	(In billions of dollars)				
1943-44					
United States	$17.2	36.4%	$30.1	63.6%	$47.3
United Kingdom	5.3	37.4	8.8	62.6	14.1
Canada	1.0	31.6	2.1	68.4	3.1
1942-43					
United States	8.7	26.1	24.7	73.9	33.4
United Kingdom	4.6	36.5	8.0	63.5	12.5
Canada	.6	22.3	2.1	77.7	2.7

1/ Taxes which can definitely be related to incomes of individuals who finally bear them.
2/ Due to rounding, figures may not add to totals.

5. The following table derived from the accompanying table 3 gives the combined individual income tax and employee social security contributions in the three countries for a married person with no dependents at a few selected income levels.

Net income before personal exemptions	Total income tax and employee contributions for social security					
	Amounts			Effective rates		
	United States	United Kingdom	Canada	United States	United Kingdom	Canada
$ 1,000	$ 35	$ 130	$ 16	3.5%	13.0%	1.6%
2,500	367	749	651	14.7	29.9	26.0
5,000	1,061	1,855	1,878	21.2	37.1	37.6
10,000	2,851	4,505	4,762	28.5	45.1	47.6
100,000	70,453	84,080	78,987	70.5	84.1	79.0
	Non-refundable part of individual income tax					
	Amounts			Effective rates		
	United States	United Kingdom	Canada	United States	United Kingdom	Canada
$ 1,000	$ 15	$ 50	-	1.5%	5.0%	-
2,500	297	587	$ 401	11.9	23.5	16.0%
5,000	932	1,628	1,378	18.6	32.6	27.6
10,000	2,611	4,245	3,762	26.1	42.5	37.6
100,000	69,423	83,820	77,987	69.4	83.8	78.0
	Refundable part of the individual income tax					
	Amounts			Effective rates		
	United States	United Kingdom	Canada	United States	United Kingdom	Canada
$ 1,000	$ 10	$ 61	$ -	1.0%	6.1%	-
2,500	43	143	250	1.7	5.7	10.0%
5,000	99	227	500	2.0	4.5	10.0
10,000	210	260	1,000	2.1	2.6	10.0
100,000	1,000	260	1,000	1.0	0.3	1.0
	Employee contributions for social security					
	Amounts			Effective rates		
	United States	United Kingdom	Canada	United States	United Kingdom	Canada
$ 1,000	$11.11	$19.07	$15.60	1.11%	1.91%	1.56%
2,500	27.78	19.07	-	1.11	.76	-
5,000	30.00	-	-	.60	-	-
10,000	30.00	-	-	.30	-	-
100,000	30.00	-	-	.03	-	-

Except at the lowest levels where the Victory tax affects the situation, the combined income tax and the employee social security contributions are higher at all levels of income in the United Kingdom and Canada than they are in the United States. The employee contributions to social security are higher at the lowest levels of income in the United Kingdom and Canada than they are in the United States. The maximum contributions are, however, lower in both the United Kingdom and Canada than in the United States, $19.07 and $18.72 as against $30.00 in the United States. Furthermore, individuals with substantial incomes are not covered in either the United Kingdom or Canada and consequently make no contributions for social insurance, whereas in this country all levels of income are covered and are required to make contributions based on amounts of income up to $3,000. The individual income tax burdens are shown in detail by income classes in the accompanying tables 1 and 1A; the employee contributions for social security are shown in tables 2 and 2A; and the combined figures for the two taxes are shown in tables 3 and 3A.

Treasury Department, Division of Tax Research
June 21, 1943

Table 1

Individual income tax: Amounts of tax liability at selected levels of income under laws of the United States, United Kingdom, and Canada 1/

Married person - no dependents

Net income before personal exemption	Gross income	United States: Total tax liability including New York State tax	United States: Post-war credit on Victory tax	United States: Net tax liability including New York State tax	United Kingdom 2/: Total tax liability	United Kingdom 2/: Post-war credit	United Kingdom 2/: Net tax liability	Canada: Total tax liability	Canada: Post-war credit	Canada: Net tax liability
$ 800	$ 889	$ 13	$ 5	$ 8	$ 52	$ 52	-	-	-	-
1,000	1,111	24	10	15	111	61	$ 50	-	-	-
1,500	1,667	100	21	79	280	94	186	$ 200	$ 100	$ 100
2,000	2,222	220	32	188	505	127	378	431	200	231
2,500	2,778	340	43	297	730	143	587	651	250	401
3,000	3,333	466	54	411	955	160	795	884	300	584
4,000	4,444	744	76	667	1,405	193	1,212	1,364	400	964
5,000	5,556	1,031	99	932	1,855	227	1,628	1,878	500	1,378
6,000	6,667	1,350	121	1,229	2,305	260	2,045	2,415	600	1,815
8,000	8,889	2,043	165	1,878	3,305	260	3,045	3,555	800	2,755
10,000	11,111	2,821	210	2,611	4,505	260	4,245	4,762	1,000	3,762
20,000	22,222	7,883	432	7,451	11,230	260	10,970	11,279	1,000	10,279
100,000	111,111	70,423	1,000	69,423	84,080	260	83,820	78,987	1,000	77,987

Treasury Department, Division of Tax Research June 19, 1943

Note: Because of rounding, differences may not check precisely.

1/ For the United States and United Kingdom, maximum earned net income is assumed. For Canada, all income in excess of $30,000 is assumed to be investment income. For United States Victory tax computation, Victory tax net income is assumed to be ten-ninths of net income.

2/ Pound converted at $4.00

Table 1A

Individual income tax: Effective rates of tax at selected levels of income under laws of the United States, United Kingdom, and Canada 1/

Married person - no dependents

Net income before personal exemption	Gross income	United States: Total tax liability including New York State tax	United States: Post-war credit on Victory tax	United States: Net tax liability including New York State tax	United Kingdom 2/: Total tax liability	United Kingdom 2/: Post-war credit	United Kingdom 2/: Net tax liability	Canada: Total tax liability	Canada: Post-war credit	Canada: Net tax liability
$ 800	$ 889	1.6%	0.6%	1.0%	6.5%	6.5%	-	-	-	-
1,000	1,111	2.4	1.0	1.5	11.1	6.1	5.0%	-	-	-
1,500	1,667	6.7	1.4	5.3	18.7	6.3	12.4	13.3%	6.7%	6.7%
2,000	2,222	11.0	1.6	9.4	25.3	6.4	18.9	21.6	10.0	11.6
2,500	2,778	13.6	1.7	11.9	29.2	5.7	23.5	26.0	10.0	16.0
3,000	3,333	15.5	1.8	13.7	31.8	5.3	26.5	29.5	10.0	19.5
4,000	4,444	18.6	1.9	16.7	35.1	4.8	30.3	34.1	10.0	24.1
5,000	5,556	20.6	2.0	18.6	37.1	4.5	32.6	37.6	10.0	27.6
6,000	6,667	22.5	2.0	20.5	38.4	4.3	34.1	40.3	10.0	30.3
8,000	8,889	25.5	2.1	23.5	41.3	3.3	38.1	44.4	10.0	34.4
10,000	11,111	28.2	2.1	26.1	45.1	2.6	42.5	47.6	10.0	37.6
20,000	22,222	39.4	2.2	37.3	56.2	1.3	54.9	56.4	5.0	51.4
100,000	111,111	70.4	1.0	69.4	84.1	0.3	83.8	79.0	1.0	78.0

Treasury Department, Division of Tax Research — June 19, 1943

Note: Because of rounding, differences may not check precisely.

1/ For the United States and United Kingdom, maximum earned net income is assumed. For Canada, all income in excess of $30,000 is assumed to be investment income. For United States Victory tax computation, Victory tax net income is assumed to be ten-ninths of net income.

2/ Pound converted at $4.00

Table 2

Employee social insurance contributions in the United States, United Kingdom, and Canada, 1943

Net income before personal exemption	Gross income	United States 1/	United Kingdom 2/	Canada 4/
$ 800	$ 889	$ 8.89	$19.07	$12.48
1,000	1,111	11.11	19.07	15.60
1,500	1,667	16.67	19.07	18.72
2,000	2,222	22.22	19.07	-
2,500	2,778	27.78	19.07	-
3,000	3,333	30.00	- 3/	-
4,000	4,444	30.00	-	-
5,000	5,556	30.00	-	-
6,000	6,667	30.00	-	-
8,000	8,889	30.00	-	-
10,000	11,111	30.00	-	-
20,000	22,222	30.00	-	-
100,000	111,111	30.00	-	-

Treasury Department, Division of Tax Research June 19, 1943

1/ Covers old-age and survivors' insurance; under the provisions of the present law the contributions for the years 1944 and 1945 will be double the amounts shown for 1943.

2/ Assumes a male worker aged 21 to 65; covers unemployment, health and old-age insurance. The contributions rate is a flat $.37 per week. Pound converted on basis of $4.00.

3/ Non-manual workers paid at a rate exceeding approximately $1,680 are excluded from coverage. In this table individuals with net incomes of $3,000 or more are assumed to be non-manual workers.

4/ Covers unemployment compensation. The weekly rate of contributions ranges from $.12 in the case of employees earning $5.40 to $7.49 per week to $.36 in the case of employees earning $26.00 to $38.49 per week. Those earning less than $5.40 per week make no contributions and receive no benefit payments but they do acquire certain benefit rights. Old-age pensions are administered by the provinces, but these are on a non-contributory basis.

Source: Social Insurance & Allied Services, Beveridge, p. 227.
The Canada Yearbook, 1942, p. 687.
Internal Revenue Code, as amended, Sec. 1400.

Table 2A

Employee social insurance contributions as a percent of net income in the United States, United Kingdom, and Canada, 1943

Net income before personal exemption	Gross income	United States 1/	United Kingdom 2/	Canada 4/
$ 800	$ 889	1.11%	2.38%	1.56%
1,000	1,111	1.11	1.91	1.56
1,500	1,667	1.11	1.27	1.25
2,000	2,222	1.11	.95	-
2,500	2,778	1.11	.76	-
3,000	3,333	1.00	- 3/	-
4,000	4,444	.75	-	-
5,000	5,556	.60	-	-
6,000	6,667	.50	-	-
8,000	8,889	.38	-	-
10,000	11,111	.30	-	-
20,000	22,222	.15	-	-
100,000	111,111	.03	-	-

Treasury Department, Division of Tax Research June 19, 1943

1/ Covers old-age and survivors' insurance; under the provisions of the present law the contributions for the years 1944 and 1945 will be double the percentages shown for 1943.

2/ Assumes a male worker aged 21 to 65; covers unemployment, health and old-age insurance. The contributions rate is a flat $.37 per week. Pound converted on basis of $4.00.

3/ Non-manual workers paid at a rate exceeding approximately $1,680 are excluded from coverage. In this table individuals with net incomes of $3,000 or more are assumed to be non-manual workers.

4/ Covers unemployment compensation. The weekly rate of contributions ranges from $.12 in the case of employees earning $5.40 to $7.49 per week to $.36 in the case of employees earning $26.00 to $38.49 per week. Those earning less than $5.40 per week make no contributions and receive no benefit payments but they do acquire certain benefit rights. Old-age pensions are administered by the provinces, but these are on a non-contributory basis.

Source: Social Insurance & Allied Services, Beveridge, p. 227.
The Canada Yearbook, 1942, p. 687.
Internal Revenue Code, as amended, Sec. 1400.

Table 3

Combined income tax and employee social security contributions in the United States, United Kingdom, and Canada, 1943 1/

Married person - no dependents

Net income before personal exemptions	United States			United Kingdom 2/			Canada		
	Total	Refundable part 3/	Nonrefundable part 4/	Total	Refundable part 3/	Nonrefundable part 4/	Total	Refundable part 3/	Nonrefundable part 4/
$ 800	$ 22	$ 14	$ 8	$ 71	$ 71	-	$ 12	$ 12	-
1,000	35	21	15	130	80	$ 50	16	16	-
1,500	117	38	79	299	113	186	219	119	$ 100
2,000	242	54	188	524	146	378	431	200	231
2,500	367	71	297	749	162	587	651	250	401
3,000	496	84	411	955	160	795	884	300	584
4,000	774	106	667	1,405	193	1,212	1,364	400	964
5,000	1,061	129	932	1,855	227	1,628	1,878	500	1,378
6,000	1,380	151	1,229	2,305	260	2,045	2,415	600	1,815
8,000	2,073	195	1,878	3,305	260	3,045	3,555	800	2,755
10,000	2,851	240	2,611	4,505	260	4,245	4,762	1,000	3,762
20,000	7,913	462	7,451	11,230	260	10,970	11,279	1,000	10,279
100,000	70,453	1,030	69,423	84,080	260	83,820	78,987	1,000	77,987

Treasury Department, Division of Tax Research June 19, 1943

Note: Because of r.unding, differences may not check precisely.

1/ For details respecting income tax, see Table 1. For details respecting social security contributions, see Table 2.
2/ Pound converted at $4.00.
3/ Social security contributions plus post-war income-tax credits.
4/ Net income-tax liability, including for the United States net Victory tax and New York State income tax.

Table 3A

Effective rates of combined income tax and employee social security contributions in the United States, United Kingdom, and Canada, 1943 1/

Married person - no dependents

Net income before personal exemptions	United States			United Kingdom 2/			Canada		
	Total	Refundable part 3/	Nonrefundable part 4/	Total	Refundable part 3/	Nonrefundable part 4/	Total	Refundable part 3/	Nonrefundable part 4/
$ 800	2.8%	1.8%	1.0%	8.9%	8.9%	-	1.6%	1.6%	-
1,000	3.5	2.1	1.5	13.0	8.0	5.0%	1.6	1.6	-
1,500	7.8	2.5	5.3	19.9	7.6	12.4	14.6	7.9	6.7%
2,000	12.1	2.7	9.4	26.2	7.3	18.9	21.6	10.0	11.6
2,500	14.7	2.8	11.9	29.9	6.5	23.5	26.0	10.0	16.0
3,000	16.5	2.8	13.7	31.8	5.3	26.5	29.5	10.0	19.5
4,000	19.3	2.7	16.7	35.1	4.8	30.3	34.1	10.0	24.1
5,000	21.2	2.6	18.6	37.1	4.5	32.6	37.6	10.0	27.6
6,000	23.0	2.5	20.5	38.4	4.3	34.1	40.3	10.0	30.3
8,000	25.9	2.4	23.5	41.3	3.3	38.1	44.4	10.0	34.4
10,000	28.5	2.4	26.1	45.1	2.6	42.5	47.6	10.0	37.6
20,000	39.6	2.3	37.3	56.2	1.3	54.9	56.4	5.0	51.4
100,000	70.5	1.0	69.4	84.1	0.3	83.8	79.0	1.0	78.0

Treasury Department, Division of Tax Research June 19, 1943

Note: Because of rounding, differences may not check precisely.

1/ For details respecting income tax, see Table 1A. For details respecting social security contributions, see Table 2A.
2/ Pound converted at $4.00.
3/ Social security contributions plus post-war income-tax credits.
4/ Net income-tax liability, including for the United States net Victory tax and New York State income tax.

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Table 4

Comparison of total central and non-central government tax revenues in the United States, United Kingdom, and Canada for fiscal years 1942-43 and 1943-44 1/

(In millions of dollars)

Source of revenue	United States		United Kingdom		Canada	
	1942-43	1943-44	1942-43	1943-44	1942-43	1943-44
Taxes directly allocable by income levels						
Individual income tax	8,043.9	16,340.0	4,328.0	5,020.0	568.0	956.0
Social Security (payable by employees)	657.1	900.2	253.4	253.4	27.5	27.5
Total taxes directly allocable by income levels	8,701.0	17,240.2	4,581.4	5,273.4	595.5	983.5
Taxes not directly allocable by income levels						
Corporation income and profits taxes	10,349.4	15,194.4	1,510.0	2,000.0	805.0	850.0
Social Security (payable by employers)	1,899.4	2,166.2	253.4	253.4	27.5	27.5
Death and gift taxes	655.7	778.1	373.2	400.0	39.1	43.1
Sales tax	692.4	692.4	441.8	360.0	251.4	246.4
Excise taxes	5,328.0	5,565.3	1,438.4	1,612.7	475.4	504.6
Customs	252.6	204.3	1,838.0	2,101.3	118.0	100.0
Property tax	4,485.7	4,485.7	875.2	875.2	246.3	246.3
Licenses, fees and permits	852.9	852.9	12.8	12.8	38.2	38.2
Miscellaneous taxes	151.6	151.6	1,212.0	1,212.0	74.4	69.4
Total taxes not directly allocable by income levels	24,667.7	30,090.9	7,954.8	8,827.4	2,075.3	2,125.5
Total central and non-central government taxes	33,368.7	47,331.1	12,536.2	14,100.8	2,670.8	3,109.0

Treasury Department, Division of Tax Research — June 22, 1943

1/ Central government data for fiscal years 1942-43 and 1943-44; United States State and local for fiscal years 1942 and 1941, respectively; non-central taxes in United Kingdom and Canada for fiscal year 1941-42. For details see tables 4A and 4B.

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Table 44

Comparison of central government tax revenues in the United States, United Kingdom, and Canada for fiscal years 1942-43 and 1943-44

(In millions of dollars)

Source of revenue	United States		United Kingdom 1/		Canada 2/	
	1942-43	1943-44	1942-43	1943-44	1942-43	1943-44
Taxes directly allocable by income levels						
Individual income tax	7,797.1 3/	16,093.2 4/	4,328.0 5/	5,020.0 5/	568.0 6/	956.0 7/
Social Security (payable by employees)	657.1	900.2	253.4 8/	253.4 8/	27.5 8/	27.5 8/
Total taxes directly allocable by income levels	8,454.2	16,993.4	4,581.4	5,273.4	595.5	983.5
Taxes not directly allocable by income levels						
Corporation income and profits taxes	10,070.0 9/	14,915.0 9/	1,510.0 10/	2,000.0 10/	805.0 11/	850.0 11/
Social Security (payable by employers)	815.2	1,082.0	253.4 8/	253.4 8/	27.5 8/	27.5 8/
Death and gift taxes	541.4	663.8	373.2 12/	400.0 12/	14.0	18.0
Sales tax	-	-	441.8	360.0	230.0	225.0
Excise taxes	3,678.1	3,915.4	1,438.4	1,612.7	389.0 13/	418.2 13/
Customs	252.6	204.3	1,838.0	2,101.3	118.0	100.0
Miscellaneous taxes	-	-	1,212.0 14/	1,212.0 14/	12.0	7.0
Total taxes not directly allocable by income levels	15,357.3	20,780.5	7,066.8	7,939.4	1,595.5	1,645.7
Total central government taxes	23,811.5	37,773.9	11,648.2	13,212.8	2,191.0	2,629.2

Treasury Department, Division of Tax Research June 21, 1943

Source and footnotes continued on following page.

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Table 4A - continued

Comparison of central government tax revenues in the United States, United Kingdom, and Canada for fiscal years 1942-43 and 1943-44 - continued

1/ Pound converted at $4.
2/ In terms of Canadian dollars.
3/ Includes Victory tax.
4/ Includes Victory tax and an increase of $3,006.4 million due to the current payment income tax law estimated by the Division of Research and Statistics, Treasury Department. Excludes postwar credit claimed currently.
5/ Includes income tax postwar credit and income tax borne by corporations.
6/ Includes postwar credit, gift tax, national defence tax and tax on interest and dividends.
7/ Includes postwar credit, gift tax and tax on interest and dividends.
8/ Social insurance contributions by employee and employer are normally divided into two equal parts. United Kingdom data on unemployment insurance for fiscal year 1942, data on health insurance for calendar 1941 and contributions for pensions for fiscal year 1941. Canadian data are for calendar year 1942. See Social Insurance and Allied Services, Report by Sir William Beveridge, 1942, p. 207, and The Canada Year Book, 1942, p. 687.
9/ Includes capital stock tax. Excludes postwar credit for excess profits tax claimed currently.
10/ Includes national defence contributions and excess profits tax, before postwar credit.
11/ Before postwar credit for excess profits tax.
12/ Includes death taxes only. No gift taxes are imposed in United Kingdom.
13/ Includes war exchange tax.
14/ Includes compulsory contributions under the War Damage Act and Commodity and Marine War Risk Insurance. See Shirras and Rostas, The Burden of British Taxation, 1943, p. 16, citing Cmd. 6347, 1942, Table 1 (13), p. 9.

Source: United States Budget for 1944; United Kingdom, Financial Statement, 1943-44; Canada, House of Commons Debates, March 2, 1943; Labour Gazette, March 1943.

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Table 4B

Comparison of non-central government tax revenues in the United States, United Kingdom, and Canada for fiscal year 1941-42

(In millions of dollars)

Source of revenue	United States 1/ 1941-42	United Kingdom 2/ 1941-42	Canada 3/ 1941-42
Taxes directly allocable by income levels			
Individual income tax	246.8	-	-
Total taxes directly allocable by income levels	246.8	-	-
Taxes not directly allocable by income levels			
Corporation taxes	279.4	-	-
Social Security (payable by employer)	1,084.2	-	-
Death and gift taxes	114.3	-	25.1
Sales tax	692.4	-	21.4
Excise taxes	1,649.9	-	86.4
Property tax	4,485.7	875.2	246.3
Licenses, fees and permits	852.9	12.8	38.2
Miscellaneous taxes	151.6	-	62.4
Total taxes not directly allocable by income levels	9,310.4	888.0	479.8
Total non-central government taxes	9,557.2	888.0	479.8

Treasury Department, Division of Tax Research — June 21, 1943

Source: United States, Bureau of the Census, Financing Federal, State and Local Governments, 1941; State Finances, 1942, October 20, 1942; United Kingdom, Shirras and Rostas, The Burden of British Taxation, 1943, pp. 16, 21; Canada, Statistical Summary, Bank of Canada, October-November, 1942.

1/ Local tax revenues for fiscal year 1941.
2/ Pound converted at $4.
3/ In terms of Canadian dollars.

TREASURY DEPARTMENT

INTER OFFICE COMMUNICATION

CONFIDENTIAL

DATE June 21, 1943

TO Secretary Morgenthau

FROM Mr. Haas

Subject: The Business Situation,
Week ending June 19, 1943.

Summary

Cost of living: Living costs continue to rise, with the BLS index advancing 0.8 percent from mid-April to mid-May, largely due to a further sharp rise in food prices. The index has advanced 22 percent over a two-year period. In contrast, the United Kingdom cost-of-living index has remained practically unchanged during these two years. The Canadian index, although rising 8 percent during this period, has maintained a considerable degree of stability since a program for general price control was announced in October 1941.

Subsidy developments: Labor demands and Presidential support have spurred Price Administrator Brown to reiterate his intention to roll back the cost of living to the September 1942 level by use of subsidies. Congressional opposition to subsidies continues strong, as was indicated by a vote of the House last week to bar OPA participation in subsidy programs after July 1.

Commodity prices: Commodity prices moved generally lower last week due to uncertainty over the subsidy program and to peace rumors. The BLS index of 28 basic commodities, however, has shown little change since the President's hold-the-line order.

Wage control: In rejecting the demands of the coal miners, the WLB pointed out last week that the miners straight-time hourly wage rate has increased 18.2 percent since January 1, 1941, and their average weekly earnings in March were 65.3 percent above January 1941 levels.

Retail trade: Despite earlier predictions of goods shortages, retail sales in the aggregate continue to run well above 1942 levels, partly because of higher prices. Stimulated by heavy buying of shoes, department store sales in the week ended June 12 jumped 28 percent above the corresponding week last year.

- - - -

Cost of living continues rise

Difficulties in placating labor demands for a cost-of-living rollback have been accentuated by a further rise in living costs during May, which has carried the BLS cost-of-living index 0.8 percent above the April figure. The index has risen 7.8 percent in the past year.

A continued sharp rise in food prices has been chiefly responsible for the extended rise in the cost-of-living index. (See Chart 1.) Food prices rose 1.7 percent in May, chiefly because of a further sharp increase in prices of fresh fruits and vegetables. The more important price increases were: sweet potatoes, 40.9 percent; apples, 21.7 percent; potatoes, 16.1 percent; grapefruit, 8.3 percent; oranges, 5.8 percent; carrots, 3.8 percent; and lettuce, 3.1 percent. Although the increases in fruit prices have been largely of a seasonal nature, the late spring has retarded the growth of vegetables and has undoubtedly contributed to the sharp rise in prices of these products. Aside from food, the principal increases in the index components were in the cost of services, particularly medical care and barber and beauty shop services, none of which are under ceilings.

Because the sharp rise in fresh fruit and vegetable prices was a dominant factor in the advance of the cost-of-living index earlier in the year, temporary ceilings were imposed in February on some of the more important fresh vegetables. Moreover, OPA is now reported to be working on a regulation to reduce the prices of these products. Nevertheless, great difficulties are encountered in devising and administering satisfactory ceiling prices for such products. The large seasonal variation in fresh fruit and vegetable prices precludes the establishment of permanent stable price ceilings. Moreover, the lack of uniformity in quality and size of the product complicates price control. Finally, any method of price control must take into consideration the important factor of spoilage of fresh fruits and vegetables.

British and Canadian living costs steadier than U. S.

In contrast to the recent substantial increases in the BLS cost-of-living index, the United Kingdom index has continued its sidewise movement and the Canadian index has risen only slightly in the past few months. (See Chart 2, upper section.) Thus, while the BLS cost-of-living index rose 3.4 percent in the three months ending in May, the United Kingdom index during the same period showed no increase, and the Canadian index rose only 1 percent.

The United Kingdom cost-of-living index has shown a remarkably stable tendency in the past two years, and in May 1943 was at about the same level as in May 1941. On the other hand, the BLS index has advanced almost 22 percent during that period, and has as yet shown no indications of leveling out. Although the Canadian index has risen 8 percent in the same two-year period, the index has maintained a considerable degree of stability since October 1941, when the details of a general price control program were announced.

The divergent trends in the cost-of-living indexes of the three countries have been largely the result of differences in the effectiveness of control of retail food prices. Whereas food prices in the United States have registered a continuous rapid rise, amounting to 40 percent in the two years ending in May 1943, the United Kingdom retail food index actually declined about 3 percent in the two years ending April (the latest figure available). Although the Canadian food index increased 18 percent from May 1941 to May 1943, the index leveled out in July 1942 and is now slightly below that month. (See Chart 2, lower section.)

Notwithstanding the success of the British in stabilizing the cost-of-living index, their task has been simplified to some extent by the construction of the index. Only 14 food products (beef, mutton, bacon, fish, flour, bread, tea, sugar, potatoes, milk, butter, cheese, margarine, and eggs) are included in the food component, which has a weight of 60 percent in the general cost-of-living index, and the demand for 10 of these 14 foods is controlled by rationing. Thus by subsidizing 12 of the 14 foods, the British have been able to stabilize over half of the cost-of-living index. (Only two foods outside of the index have been subsidized: carrots and oatmeal.) The limited number of food items included, however, undoubtedly reduces the value of the index as a guide to actual living costs. It has been estimated that the actual rise in living costs in the United Kingdom since the outbreak of war to October 1942 was about 40 percent, as compared with 28 percent recorded by the index. Nevertheless, despite the failure of the index to reflect adequately the rise in the cost of living, the stability of the index has contributed materially to moderating wage demands in Britain.

Subsidy developments

Under the stimulus of labor demands, and bolstered by Presidential support, Price Administrator Brown reiterated last week his determination to subsidize a rollback of retail prices to the level of September 15, 1942. The present subsidy rollback of butter, meat, and coffee prices, which is estimated to lower the cost of living 1.1 percent, is the only specific subsidy program contemplated at the present time, Mr. Brown told the Senate Banking Committee. He hopes to achieve a further reduction of 3 percent in retail prices by the abatement of black markets through more effective enforcement of prices. Moreover, the regulation now being prepared to reduce fresh vegetable prices is expected to lower the cost of living one-half of one percent. Thus the present subsidy and enforcement program envisages a 4.6 percent reduction in the cost of living.

Full rollback seems doubtful

It seems doubtful that the present subsidy and enforcement program can reduce the BLS cost-of-living index to the level of September 1942. In the first place, it is improbable that the index adequately reflects black market prices; consequently, little reduction in the index could be attained by the elimination of black markets. Furthermore, rising costs of production are likely to be reflected in further price increases unless offset by additional subsidies. Mr. Brown indicated last week that, because of rising costs, it might be necessary to spend the $1.5 to $2.0 billion for subsidies suggested by the President, in order to roll back the cost of living to the September level.

The increase in the BLS cost-of-living index from September 15 to May 15 (the latest date for which figures are available) was 6.2 percent, and retail food prices have risen 13.0 percent during that period. The most outstanding price advance was made by fresh fruits and vegetables, which rose 57.9 percent between September 15 and May 15. (See Chart 3.) Other substantial price increases in that period were: dairy products, 7.2 percent; canned fruits and vegetables, 8.0 percent; meats, 5.9 percent; and fats and oils, 4.6 percent. Egg prices, however, registered a seasonal decline of 8.9 percent. In attempting to reduce the cost of living to September 1942 levels, it is obvious that the OPA does not intend to roll back all food prices that have increased, but instead will limit its efforts to those foods for which it is relatively easy to administer a subsidy.

Higher bread prices may follow increase in wheat loan

Because of the higher Government loan rate on wheat announced recently, an increase in bread prices or the use of a subsidy may be necessary to prevent flour millers from being squeezed. The Government loan rate averages $1.22 per bushel, 8 cents higher than the rate in effect for the 1942 crop and the same as the price upon which millers' flour ceilings are based. Since the loan rate will tend to act as a floor under wheat prices, it is likely that prices will remain above that level and thus squeeze millers' margins. The loan rate was the lowest that could be legally set (85 percent of parity).

The strength of Congressional opposition to the use of subsidies was manifest last week by the House passage of an amendment to the OPA appropriation bill barring any OPA participation in subsidy programs after July 1. The Senate appears to be less violently opposed to subsidies, but an attempt will probably be made to limit the extension of subsidies. At a national conference last week, retailers and wholesalers objected to the use of subsidies at any level of distribution. Moreover, the president of the American Farm Bureau Federation told the Senate Banking Committee last week that the demands of organized labor for subsidy payments to finance price rollbacks represented a "finely disguised effort to secure another unwarranted increase in wages."

Commodity prices ease

Uncertainty over the subsidy program and peace rumors had an unsettling effect on the commodity markets last week and prices tended to move generally lower. The BLS index of 28 basic commodities was off slightly. (See Chart 4.) This index has shown very little change since the President's hold-the-line order issued early in April.

Wheat, hog, and steer prices declined noticeably and the price of hogs at the end of the week was only 15 cents per hundredweight above the Government support level of $13.75. The decline in hog and steer prices was attributed to a lowering of packers' bids because of fear of losses occurring in the rollback of meat prices. Prices of cotton and rosin were off somewhat. On the other hand, barley prices rose substantially for the fourth consecutive week. OPA was reported to be preparing regulations for imposing a price ceiling on barley, but since the present price of barley is still considerably below parity, no price ceiling can be imposed at present.

The BLS all-commodity index advanced slightly to peak levels in the week ending June 12, offsetting the fractional decline of the previous week. At 104.0 the index is 38.7 percent above the pre-war level of August 1939. Further sharp increases in fruit and vegetable prices, and advances in grain prices, particularly oats, were largely responsible for the rise in the index. The food component of the index now stands at the highest point since November 1920.

WLB adamant on wage stabilization policy

Although the WLB rejected the United Mine Workers' portal-to-portal wage demands on legal grounds, it also took the occasion to reiterate that it would be impossible to approve any such increase as $2 per day under the national wage stabilization policy. In this connection the Board pointed out that the mine workers have already received an average straight-time hourly wage increase of 18.2 percent since January 1, 1941, and granting of the $2 per day increase would carry the gain up to 46.9 percent. In contrast, the "Little Steel" formula contemplates a maximum increase since January 1, 1941 of only 15 percent.

Aside from the gain in hourly earnings, it was also pointed out that the miners have received an even sharper increase in average weekly earnings. Thus as a result of the longer work week, average weekly earnings had risen to $42.97 by March 1943, or 65.3 percent above January 1941 levels. On the assumption that the longer work week will continue throughout 1943, the Board estimated that the mine workers' average income for the current year will run over $2150. This would be nearly 24 percent higher than last year and 77 percent higher than in 1940.

Large railroad wage decisions pending

The outcome of the coal wage controversy may have some bearing on the final disposition of pending railroad wage cases. Near the end of last month an emergency board of the National Railway Labor Panel recommended an increase of 8 cents an hour in the wages of more than a million non-operating railroad employees. This award will go into effect and be retroactive to February 1 unless disapproved within the next few days by the Economic Stabilization Director. After the Emergency Board's issuance of the above recommendation, President Roosevelt asked the railroads and labor unions to confer with a view to granting non-operating employees time and a half for hours worked in excess of 40 hours weekly. In addition, hearings are now going on in connection with demands of operating employees for a 30 percent wage increase.

Telegraph company payrolls have been boosted substantially recently as a result of WLB awards for wage increases. In the case of the Postal Telegraph Company retroactive payments alone will amount to $2,200,000, and the company stated last week that it hoped to borrow funds for the wage increases from the Reconstruction Finance Corporation.

Retail trade volume still heavy

Despite earlier predictions of the adverse effects of goods shortages on retail trade during the current year, sales volume in the aggregate continues to run well above year-earlier levels. Increased prices have doubtless been a factor. Sales of independent retailers in 34 states during May ran 16 percent above May 1942, with only filling stations, hardware, lumber and building material dealers reporting declines. The largest gains were shown by jewelry and apparel stores, with increases of 47 percent and 28 percent, respectively. In the mail order field, Sears, Roebuck and Company sales during May fell 2 percent below 1942 levels, but Montgomery Ward and Company during the same period showed a gain of 7 percent.

Department store sales boosted by shoe buying

Although department store sales last month declined more than seasonally, they still ran 13 percent above the corresponding month in 1942. Moreover, sales in the week ended June 12 jumped 28 percent above last year's levels under the stimulus of exceptionally heavy shoe buying just prior to the expiration date of the shoe ration coupon. (See Chart 5.) Sales gains ranged from 18 percent in the Chicago district to 81 percent in the Dallas district. This last-mentioned area has consistently paced department store sales gains during 1943, and for the year to date shows a gain of 40 percent over year-earlier levels as compared with a nation-wide increase of only 13 percent.

Corporate profits gain in first quarter of 1943

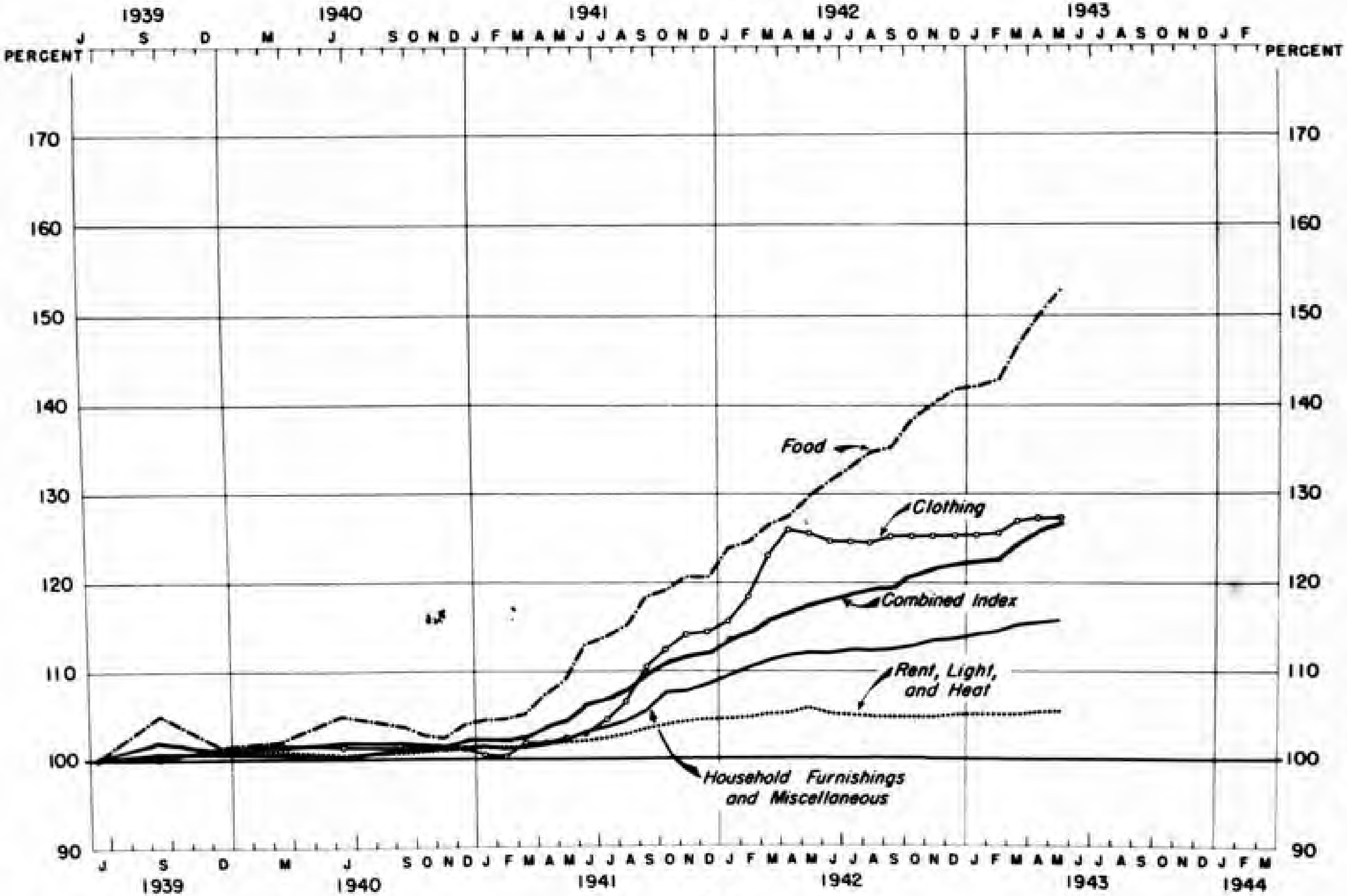
Corporation profits before provision for Federal income and excess profits taxes in the first quarter of 1943 are reported by the Department of Commerce to have run 19 percent above the corresponding period last year. Estimated profits after taxes during the quarter are reported by the Department at 18 percent above year-earlier levels. This figure is higher than private compilations have shown, as the Department of Commerce figures include special contingency and post-war reserves which are not allowed as deductions for tax purposes by the Bureau of Internal Revenue.

On the basis indicated, manufacturing profits after taxes in the first quarter of 1943 were 18 percent above 1942 levels, while wholesale and retail trade showed a gain of

14 percent. Due to unusually wide gains in railroad earnings, profits of the transportation industry made the strongest showing, with an increase in profits after taxes of 63 percent. The poorest showing among the major industrial groups occurred in the mining and power and gas industries, where profits after taxes were only 3 percent above last year's levels.

COST OF LIVING AND SELECTED ITEMS

June 1939 = 100



Office of the Secretary of the Treasury
Division of Research and Statistics

Source: B.L.S.

C-413-B

Chart 1

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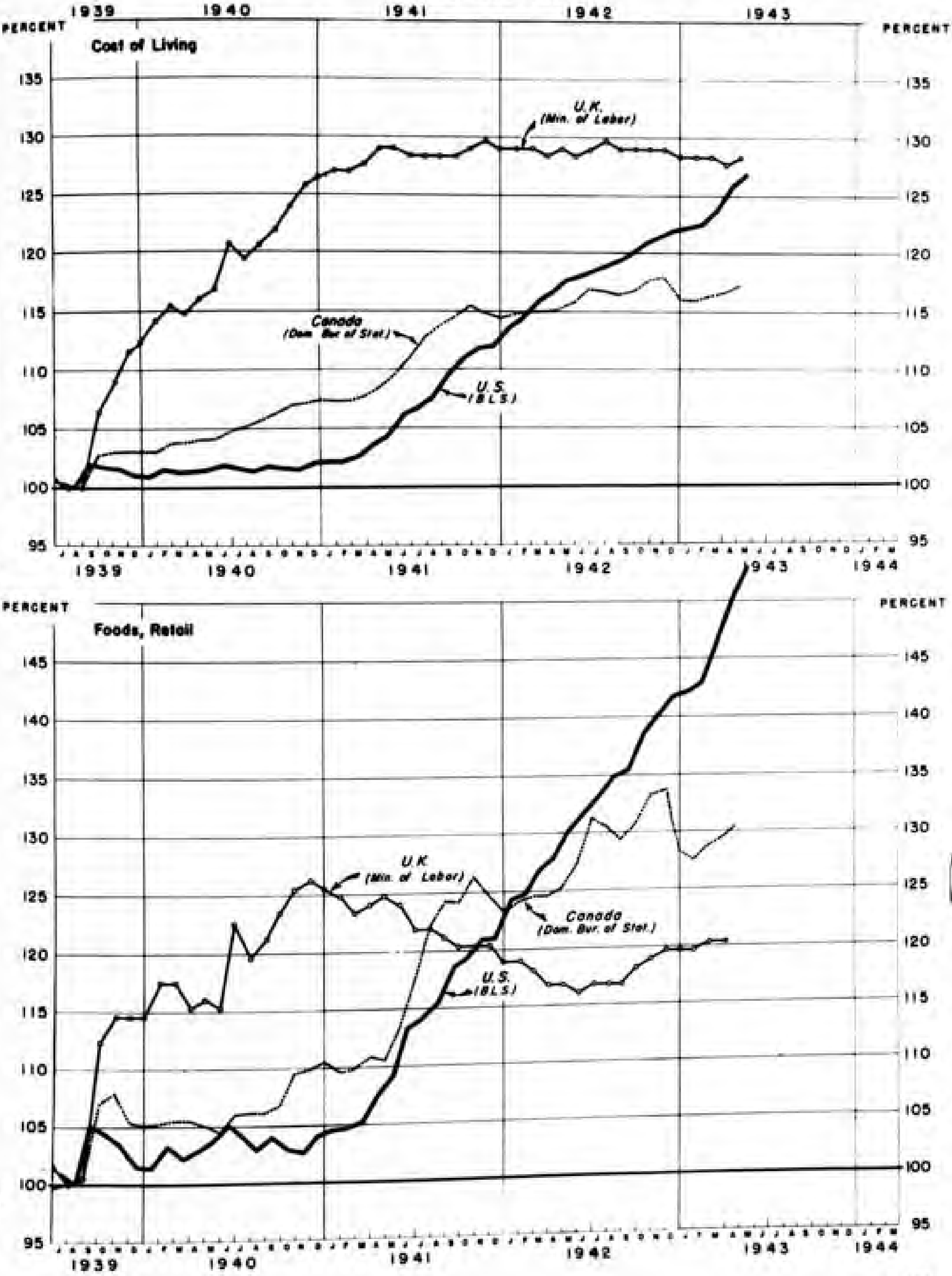
Chart 2 274

COST OF LIVING, U.S., U.K. AND CANADA

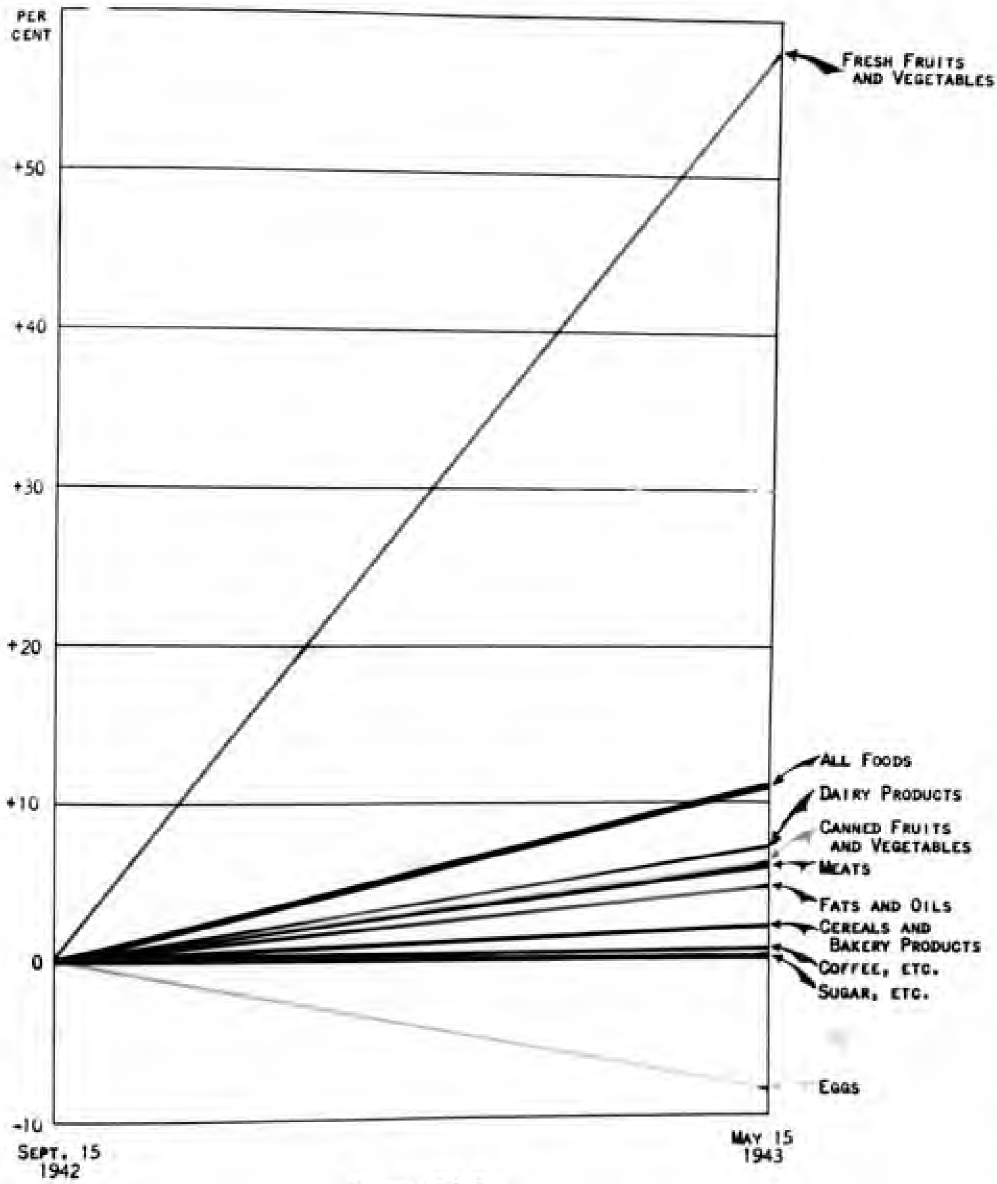
August 1939 = 100



C-486

RETAIL FOOD PRICES BY MAJOR GROUPS

Percentage Change September 15, 1942 to May 15, 1943



SOURCE: B.L.S

Office of the Secretary of the Treasury
Division of Research and Statistics

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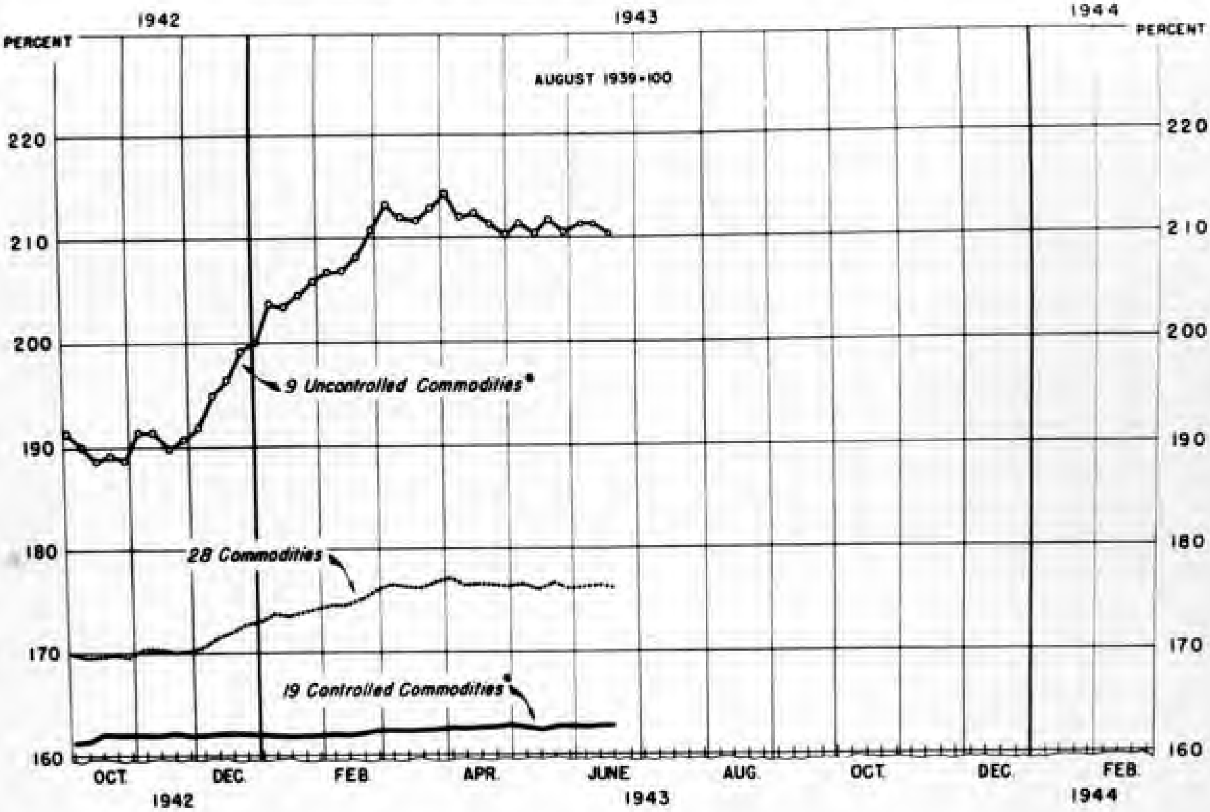
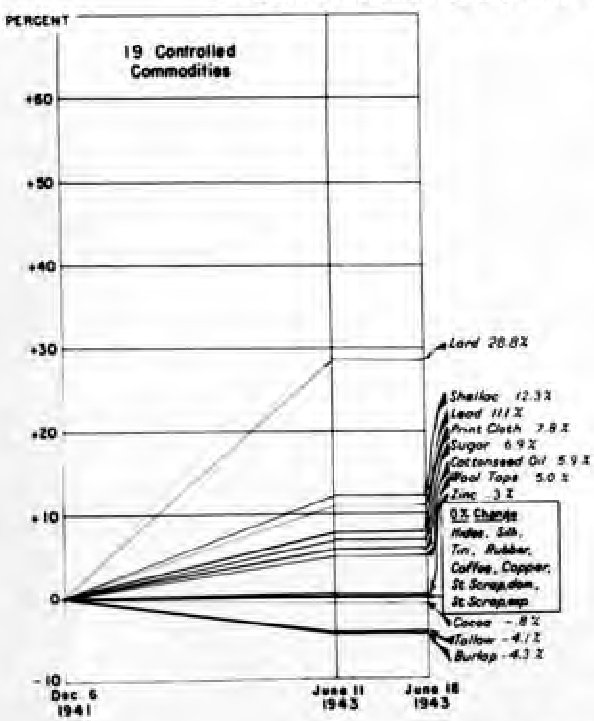
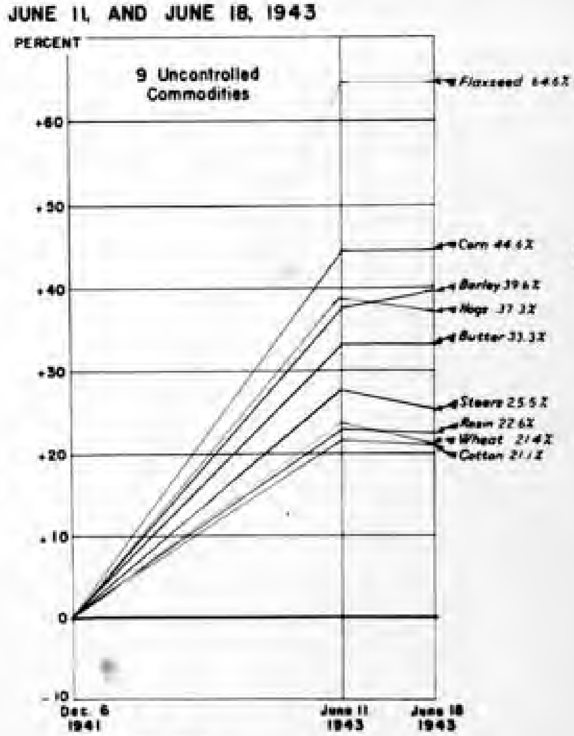
MOVEMENT OF BASIC COMMODITY PRICES



PERCENTAGE CHANGE DEC. 6, 1941 TO JUNE 11, AND JUNE 18, 1943





*20 Controlled 8 Uncontrolled previous to June 26, 1942

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Office of the Secretary of the Treasury
Division of Research and Statistics

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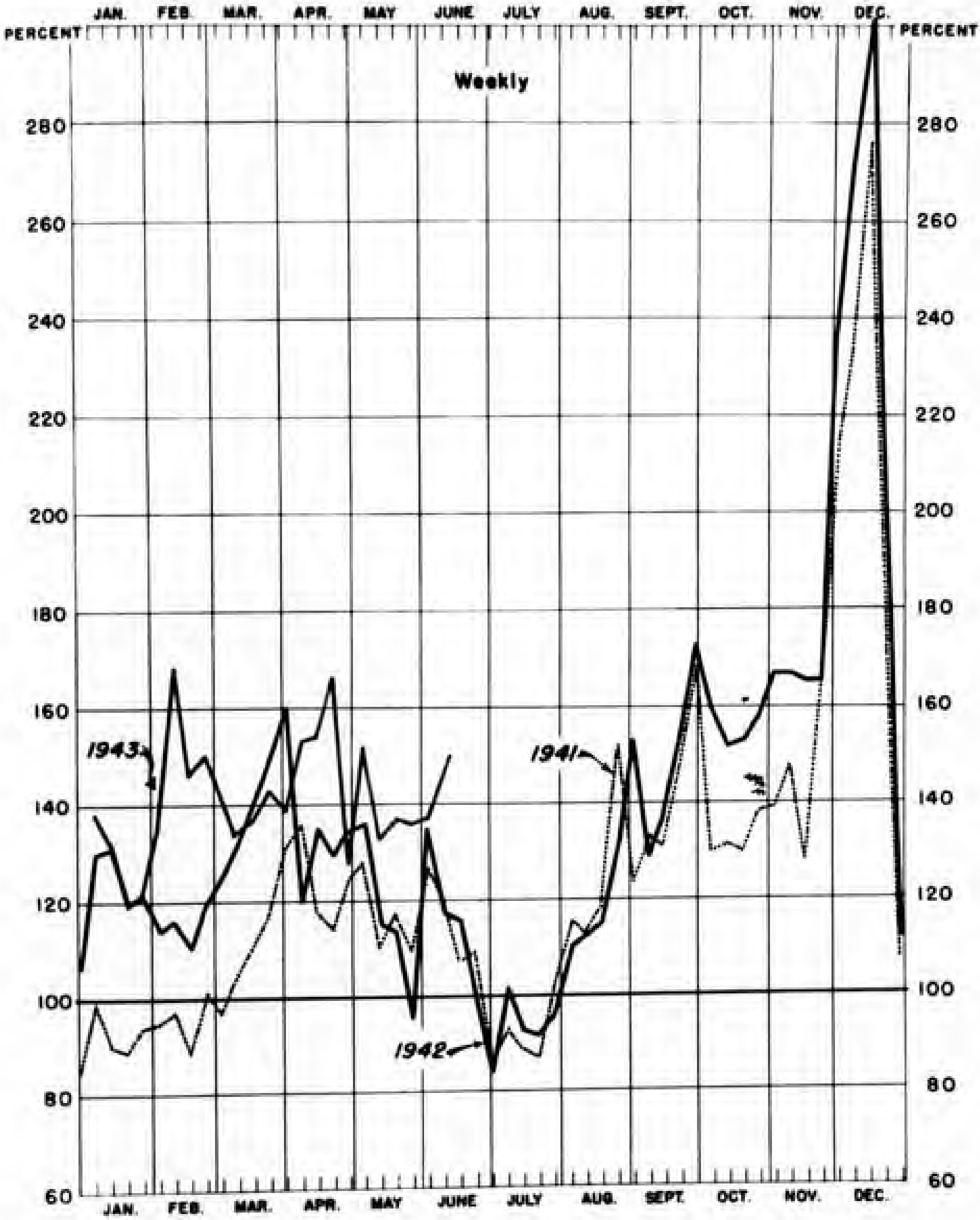
DEPARTMENT STORE SALES

1935 - '39 = 100, Unadjusted



Office of the Secretary of the Treasury
Division of Research and Statistics

C-390-B

TREASURY DEPARTMENT

INTER OFFICE COMMUNICATION

DATE

TO Secretary Morgenthau June 21, 1943

FROM Captain Kades

1. It has been recommended that a Presidential Committee be appointed to advise "on all aspects of the war refugee problem which are not the direct responsibility of the State Department," and also to carry on a public campaign for contributions to the United States "for the relief and resettlement of all war refugees." The publicity and other methods used in raising funds would be subject to the approval of the Secretary of the Treasury. It is suggested that the authority of the Secretary to accept gifts under The Second War Powers Act, 1942, be utilized for this purpose.

2. If such a Committee is appointed, it is recommended that the Treasury should refrain from participating in its operations and should disapprove plans for any drive for donations to the Government for the resettlement of refugees.

Title XI of The Second War Powers Act, 1942, was intended to enable patriotic citizens who wished to bear more than their share of the war costs to make voluntary contributions to the Treasury for particular war purposes, such as the purchase of planes, tanks, guns, and other war material. It was contemplated that the money accepted by the Secretary of the Treasury would be allocated to appropriations available for the purchase of war material and the furtherance of the war program.

It was not contemplated (1) that any gifts of money would be used for charitable purposes for which there were no appropriations by the Congress, however worthy the cause, or (2) that the Treasury would act as patron of any campaign to raise money for any purpose whatever. On the contrary, the Treasury and the Congressional Committees which considered the subject were well aware that pressures for such action would probably be forthcoming. In recommending passage of this part of the Act, the House Judiciary Committee specifically called attention to the fact that:

> "The Treasury has not and states that it will not authorize private persons or agencies to conduct special campaigns to raise funds from the public for this purpose. Private persons and agencies, of course, are and will be at liberty to conduct such campaigns on their own initiative, but it is felt that any coercive or high-pressure solicitation by any private person or agency of gifts to the United States should be definitely discouraged."

The policy expressed in the Committee Report against such campaigns conducted by private agencies applies equally to any solicitation by a quasi-public committee on behalf of the Government.

3. Whether any such Presidential Committee should even be appointed at this time is open to grave doubt. The details of the program formulated at the Bermuda Conference for the transportation and resettlement of refugees in Axis-dominated countries, have not been made public, but it is known that certain measures of a financial nature to cover necessary expenses were recommended. Obviously, however, the problem is of such great delicacy that a promotional committee and public advertisements might do more harm than good.

4. So far as victims of the war in liberated countries are concerned either the President's War Relief Control Board, of which the Chairman is Joseph

E. Davies, or the Office of Foreign Relief and Rehabilitation would seem to be the proper agency to assume this function.

By a letter dated March 19, 1943, the President authorized Governor Lehman as Director of that Office to "arrange for the administration of this Government's activities for the relief of victims of war in areas liberated from Axis control" and to "utilize the facilities of such private organizations and individuals as you may find helpful in your work."

Moreover, only ten days ago a draft agreement for a United Nations Relief and Rehabilitation Administration was placed by the State Department before the Governments of the United Nations and other nations associated with them in the war. When established, that Administration will have the responsibility for the relief and rehabilitation of all the victims of war, and Governor Lehman's organization will be the United States component.

OLK

TREASURY DEPARTMENT
PROCUREMENT DIVISION
WASHINGTON 25

OFFICE OF THE DIRECTOR

SECRET

June 21, 1943

MEMORANDUM TO THE SECRETARY:

Supplementing report to you of June 14, 1943, the purchases against the African Program from June 14, 1943, to June 20, 1943, totaled $1,387,415.91 or a total of purchases for the program thus far of $45,739,028.92.

Attached is report giving status of shipping against these purchases.

Clifton E. Mack
Director of Procurement

(37861)

SECRET

SHIPPING REPORT AS OF JUNE 19, 1943

Commodity	Tonnage Shipped to Date From U. S. A.	Tonnage Under Load At Port	Tonnage On Hand at Port Waiting Vessels	Tonnage En Route To Port
Aluminum sulphate			14.5	
Asbestos sheet packing	2			
Boiler tubes			19	
Bone glue		20.5	37	
Books & booklets	2			
Brass rods & sheets	62.23	63.82	91.33	
Babbitt metal	53.85			
Brick	129		40	
Calcium carbide	909.1	536.47	384.79	1,105.7
Cement				47
Cement, rubber			32.27	
Chemicals	2,145.16	4.4	1,679.73	161
Coal cutters	12			
Copper, tubing, sheets, rods, cable, and wire	60.96	25.54	184.27	73.1
Corrugated boards		90	34.4	22
Clothing	2,282.58	137.68	123	13.3
Copper sulphate	5,697.7			
Cotton thread	75.65	23.6		
Cordage & twine	241.55	22.95	26.5	
Drugs	16.08	10.92	12.5	2
Electrodes	15.41	3.59	1.03	3.3
Envelopes	.94	15.56	12.68	
Files, steel	15	15	.4	
Fullers earth	72			
Gelatin	1	1		
Glass, window	23.6	76	21	24.3
Glass, lamp chimneys			17	
Glycerine	12.75			
Horse shoes & nails	168.99	29.91	58.39	10.72
Hosiery	31.56		21	

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SECRET

Commodity	Tonnage Shipped to Date From U. S. A.	Tonnage Under Load At Port	Tonnage On Hand at Port Waiting Vessels	Tonnage En Route To Port
Jute bags	356.19	428.55	555	
Light bulbs & sockets	3.26	3.5	15.5	
Lithopone			10.2	
Lumnite	30			
Mach. finished book paper	2			
Matches	394.38		16.9	62.35
Newsprint	937.47	131	144.66	28
Nipples, bottles, eye cups			9	
Paper products	718.27		172.03	481.47
Paper bags	83.9	190.6	11.42	
Paint pigments	26.5	33.5	13.2	1
Piece goods, textiles	11,729.22	189.5	1,327.8	1,044.05
Pig iron	65	432	121	
Pig tin	64			
Powdered milk	119			
Printers ink & supplies	.27	12		
Raw sugar	1,545			
Refined sugar	4,196.5			
Shoe tacks	14.5	9		
Spare parts for autos, tractors & harvesters	838.29	3.6	729.72	256.25
Storage batteries & flashlights	66.7		17.72	25.8
Steel, pipe, bars, angles, wire	1,156.88	1,155.97	4,936.92	1,550.22
Shoes, boots & soling	274.25	113.75	226.5	168.68
Sulphur commercial flour		2,363	554.2	3,373
Tin plate	845			
Tires, tubes & tape	269.64	85	132.3	366.94
Tools	84.64	40.9	517.13	682
Tooth brushes				.75
Tea	171.75			

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SECRET

Commodity	Tonnage Shipped to Date From U. S. A.	Tonnage Under Load At Port	Tonnage On Hand at Port Waiting Vessels	Tonnage En Route To Port
Typewriter ribbons		.5		
Wire nails	100.5			
Wire rope	88.5		17	7
X-Ray film	1		18	
Blasting caps	1.4			
Transformers				6
Wire cloth			6.95	
Padlocks			2.5	
Hooks, eyes, buttons, needles			17	6.5
Electric motors	4.8		4.5	
Spark plugs	4.5	5		.2
Trucks	174.8	185	78.5	
Ball Bearings		1	.1	.02
Spiegeleisen				161
Belts			5.5	
Oil, insulating		9.5		
Grass hooks			1.2	
Lamps			5.18	
Cable insulation winding machine			4.5	
Totals	36,399.22	6,468.91	12,483.67	9,682.90

284-A

TREASURY DEPARTMENT

INTER OFFICE COMMUNICATION

DATE JUN 21 1943

TO Secretary Morgenthau

FROM Randolph Paul

Strictly confidential

In view of Lauchlin Currie's request for information of this character, I recommend that the attached letter be sent to him over your signature.

RP

Please

[illegible]

284-B

Secretary did not want to send this letter to Mr. Currie.

2-84-C

THE SECRETARY OF THE TREASURY
WASHINGTON

Strictly Confidential

My dear Mr. Currie:

The following is for your information.

The Foreign Funds Control reports that during 1943 $867,000 was transferred from funds of the Chinese government to the bank accounts of Ling Kai Kung, son of Dr. H. H. Kung, and of Dr. F. C. Wu, representative of the Central Trust Company of China and a member of Madame Chiang's party. Some of these transfers were made directly through Madame Chiang and others apparently were for her account. During the month of May, 1943, $675,000 in cash was withdrawn from the accounts of Ling Kai Kung and Dr. F. C. Wu. No information is available as to the disposition of such funds.

Very truly yours,

Secretary of the Treasury.

Mr. Lauchlin Currie,
Administrative Assistant
to the President,
The White House.

PARAPHRASE OF TELEGRAM RECEIVED

FROM: American Embassy, Chungking, China

DATE: June 21, 1943, 3 p.m.

NO.: 988

This is message TF-133 for the Secretary of the Treasury only from Mr. Adler.

On Saturday I called on Dr. Kung at his request. He wanted to know if I had received any reply to the question submitted to you in telegram TF-128. When I told him I had not received an answer, he said that fairly prompt receipt of Treasury's response would be appreciated, since the agreement would expire at the end of this month unless some action is taken.

ATCHESON

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OFFICE
SECRETARY OF TREASURY

1943 JUN 22 PM 1 19

NOT TO BE RE-TRANSMITTED

TREASURY DEPARTMENT

COPY NO. 13

BRITISH MOST SECRET
U.S. SECRET

OPTEL No. 201

Information received up to 7 A.M., 21 June, 1943.

1. AIR OPERATIONS

WESTERN FRONT. 19th/20th.

LE CREUSOT. 737 tons dropped of which 690 H.E. Cloudless weather, bright moonlight, works easily recognised at first, but somewhat obscured later by smoke. Smoke screen may have been operating. Attack seems to have been concentrated although estimates vary as to degree of success. Ground defences slight and little fighter opposition.

MONTCHANIN. 129 tons dropped. Visibility excellent. All crews could identify objective, several direct hits reported, defences negligible.

20th. Escorted Bostons attacked POIX airfield. Fighters and fighter bombers damaged 6 small ships off The Hague. 2 Mosquitoes attacked the seaplane base at LAKE BISCAROSSE 50 miles southwest of BORDEAUX. 4 enemy sea planes were destroyed, a hangar set on fire and a minesweeper damaged.

20th/21st. Aircraft despatched - FRIEDRICHSHAVEN 60 Lancasters, BERLIN - 4, DUSSELDORF - 1, Sea mining - 15, leaflets - 3, Intruders - 15. Principal objectives at FRIEDRICHSHAVEN were the Zeppelin Metal Casting Works and the Maybach Aero Engine Works. No results yet reported.

SARDINIA. 18th. Escorted medium bombers dropped 158 tons at OLBIA and GOLFOFRANCI. 1 large ship was hit and exploded and 1 large and several small ships were set on fire. Enemy casualties in the air - 34, 9, 9. Allied 5 missing.

SICILY. 18th. Fortresses dropped 152 tons on MESSINA and fighter bombers made 2 attacks on MILO airfield at TRAPANI.

ITALY. 19th. Heavy bombers dropped 109 tons on REGGIO and SAN GIOVANNI.