
AMENDING SECTION 1700 (a) (1) OF THE INTERNAL
REVENUE CODE

JULY 9, 1942.—Ordered to be printed

Mr. BARKLEY, from the Committee on Finance, submitted the following

REPORT

[To accompany H. J. Res. 318]

The Committee on Finance, to whom was referred the joint resolution (H. J. Res. 318) to amend section 1700 (a) (1) of the Internal Revenue Code by exempting from tax the amount paid for admissions to theaters and other activities operated by the War Department or the Navy Department within posts, camps, reservations, and other areas maintained by the Military or Naval Establishment, having considered the same, report favorably thereon with amendments and recommend that the joint resolution as amended do pass.

After the enacting clause on page 1 strike out lines 3 through 7 and on page 2 strike out lines 1 through 7 and insert the following:

That section 1700 (a) (1) of the Internal Revenue Code, as amended, is amended by inserting after the words "members of the military or naval forces of the United States when in uniform" a comma and the words "members of the military and naval forces of any of the United Nations, when in uniform,"; and by inserting at the end thereof the following sentence: "Amounts paid on and after October 1, 1941, for admission to theaters and other activities operated by or under the control of the War Department or the Navy Department within posts, camps, reservations, and other areas maintained by the Military or Naval Establishment shall be exempt from the tax imposed by this section: *Provided*, That the net proceeds from said admission charges are used exclusively for the welfare of the military or naval forces of the United States.

Amend the title to read:

Joint resolution, to amend section 1700 (a) (1) of the Internal Revenue Code to extend to the members of the armed forces of the United Nations the exemption from the tax on admissions in cases where admission is free, and to exempt from tax the amount paid for admissions to theaters and other activities operated by the War Department or the Navy Department within posts, camps, reservations, and other areas maintained by the Military or Naval Establishment.

The joint resolution as amended by extending to members of the armed forces of the United Nations the exemption from the tax on admissions in cases where admission is free, grants to them the privileges given the armed forces of the United States regarding admission taxes under the Internal Revenue Code. The Treasury Department is in accord with the policy of this amendment.

The joint resolution provided that amounts paid on and after October 1, 1941, for admissions to theaters and other activities operated by or under the control of the War Department or the Navy Department within posts, camps, reservations, and other areas maintained by the Military or Naval Establishment shall be exempt from the tax imposed by section 1700 (a) (1) of the Internal Revenue Code, as amended, provided that the net proceeds from said admission charges are used exclusively for the welfare of the military or naval forces of the United States.

The purpose of the joint resolution is to restore the exemption from the collection by the Army and Navy of a tax from members of the military and naval forces on amounts paid by them for admission to theaters and other activities conducted within the limits of areas maintained by the Military or Naval Establishment. Such admissions were exempt from tax during the first World War and in the intervening years until terminated by section 541 of the Revenue Act of 1941.

Motion-picture entertainment is provided on Army posts, camps, and stations so as to lessen the tendency for enlisted men to seek less wholesome entertainment elsewhere. It is the policy of the War Department to provide this service, without seeking funds from the Congress, through the receipts derived from the making of a small admission charge, in the belief that the maximum of efficiency can thus be secured. The imposition of a tax would require an effective admission cost in excess of that required to meet the expense of operation and would result in public funds being created by reason of a War Department policy which effects a large saving of public moneys.

The necessity for the proposed legislation is set forth in the following letter from the War Department:

WAR DEPARTMENT,
Washington, March 28, 1942.

THE SPEAKER, HOUSE OF REPRESENTATIVES.

DEAR MR. SPEAKER: During the first World War and in the intervening years the Revenue Acts then in effect exempted the Army and Navy from the collection of a tax on amounts paid for admission to theaters and other activities conducted within the limits of posts, camps, reservations, and other areas maintained by the military or naval establishments. The basis for this exemption was the fact that the proceeds from such activities inured exclusively to the benefit of persons in the military or naval services of the United States.

On October 7, 1941, it came to the attention of the War Department that this exemption, embodied in section 1701 of the Internal Revenue Code (53 Stat. 190) along with exemptions in favor of civilian agencies, had been terminated by section 541 of the Revenue Act of 1941. In the belief that the termination of the exemption for the Army and Navy was an act of inadvertence, and not one of intent on the part of the Congress, steps looking to the securing of remedial legislation were taken. With the concurrence of the Treasury Department action was not taken to increase the admission price to the military personnel to the extent required to cover the tax, but a careful record has been kept of the tax liability. The amount required to discharge this liability, in the event that the Congress does not see fit to grant an exemption, has been impounded from funds which otherwise would have accrued to the United States Army Motion Picture Service to meet the urgent need for the new theaters required by the expansion of the Army.

The United States Army Motion Picture Service operates, without benefit of appropriated funds, on a self-sustaining basis through the receipts from admissions to theaters maintained on Army posts for the entertainment of members of the military establishment. Its purpose is to sustain morale by providing entertainment on the post at a price within the means of the average soldier so as to lessen the tendency for him to seek less wholesome amusement elsewhere. All posts are

entitled to this service without regard to whether the population of individual posts is sufficient to provide self-sustaining operation. All receipts flow to a control fund from which all expenses are paid. Such profits as are realized are shared in by posts with profitable theaters, and the balance is used for the purchase of equipment for new theaters and the replacement of equipment in existing theaters. The share of the profits sent to post commanders is used for the general welfare of the enlisted men, for purposes which otherwise would necessitate the War Department's calling on Congress for equivalent funds.

Prior to September 1, 1940, the majority of the theater buildings on Army posts were financed in whole or in part from funds of the U. S. Army Motion Picture Service. Since that date all theater buildings have been provided from appropriated funds. While the buildings are termed "theaters" they are in reality post auditoriums, being used throughout the day, and on occasions in the evening, for purely military purposes, such as the projection of training and educational motion pictures, lectures and other gatherings. They become theaters in the evening. The equipment required incident to the use of the building as a theater is supplied from funds of the Army Motion Picture Service. In expanding from its peacetime circuit of 92 theaters to its present 430 theaters, a total of \$1,376,000 has been expended for equipment. To complete the program incident to the expansion from 430 to the eventual 700 planned theaters, the U. S. Army Motion Picture Service will be required to expend for equipment \$1,250,000 for which it presently has but \$595,000. If the funds which have been impounded to cover the tax liability were available for the purpose of purchasing equipment, the Army Motion Picture Service would be but a small amount short of the funds required for equipment for planned theaters. If this money is freed for the purchase of equipment, the Army Motion Picture Service would then be in a position to consider making a reduction in the admission charge to military personnel.

If motion-picture entertainment were provided with funds appropriated by Congress there would of course be no charge for admission, and consequently no basis for the collection of a tax. The requirements for equipment, which, as shown, is vitally needed for the visual military training of the soldier, would have involved an initial outlay of \$2,500,000 of appropriated funds and approximately \$5,000,000 per year for operation expenses. It is believed that the Congress will agree that it is neither logical nor equitable that a policy of the War Department which produces such a large saving in public funds should operate to create public funds by a tax on members of the Military Establishment incidental to their attendance at motion pictures provided as an aid to the maintenance of good morale.

The delay which has occurred in securing advice as to whether remedial legislation would be in accord with the program of the President and in securing the views of interested Government departments, while unavoidable, has been much more prolonged than could possibly have been foreseen at the outset.

There is inclosed a draft of a joint resolution "exempting from tax the amount paid for admissions to theaters and other activities operated by the War Department or the Navy Department within posts, camps, reservations and other areas maintained by the military or naval establishments."

Passage of the requested legislation will inure to the benefit of the military and naval forces of the United States. It will involve no direct expenditure of public funds but rather will result in a saving thereof as hereinbefore explained. The Director of the Bureau of the Budget advises that the proposed legislation has the concurrence of the Secretary of the Treasury and that it is in accord with the program of the President.

Respectfully,

HENRY L. STIMSON,
Secretary of War.

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