

**LIMITING THE RETROACTIVE APPLICATION OF THE  
INCOME TAX ON FEDERAL EMPLOYEES WORKING IN  
THE POSSESSIONS OR IN THE CANAL ZONE**

JULY 5 (legislative day, JUNE 27), 1951.—Ordered to be printed

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

**R E P O R T**

[To accompany H. R. 3804]

The Committee on Finance, to whom was referred the bill (H. R. 3804) limiting the retroactive application of the income tax on Federal employees working in the possessions or in the Canal Zone, having considered the same, report favorably thereon without amendment and recommend that the bill do pass.

**GENERAL STATEMENT**

Prior to the adoption of the Revenue Act of 1950 virtually all United States Government employees, including military and naval personnel, working or stationed in the possessions (including Guam, American Samoa, and the Canal Zone) were in general not required to pay Federal income tax on their compensation. The Revenue Act of 1950 amended section 251 of the Internal Revenue Code, however, so as to subject to the Federal income tax the compensation of citizens of the United States who are employees of the Federal Government (including military and naval personnel) and who are working or stationed in possessions of the United States. Although the Revenue Act of 1950 did not become law until September 23, 1950, the new tax on personnel in the possessions was made retroactive to January 1, 1950. (This legislation as passed by the House of Representatives provided the new tax be made applicable to years beginning after December 31, 1949. The Committee on Finance as well as the Senate eliminated the retroactive feature making the new tax applicable to years beginning after December 31, 1950; however, the Senate amendment was rejected in conference.)

The purpose of H. R. 3804, reported by your committee, is to eliminate the retroactive feature of the new tax by making the tax

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apply to compensation received in taxable years beginning after December 31, 1950, instead of to compensation received in taxable years beginning after December 31, 1949.

The need for this remedial legislation arises because the retroactive application of the new tax has caused undue hardship in a great many cases. This is due primarily to the fact that no current withholding payments of income tax had been made during the year 1950, and therefore the effect of making the new tax apply to all of that year's income has been to require the payment of 2 years' income taxes in 1 year.

The attention of your committee has been called to the fact that in many cases the savings of civilian employees and military personnel in the possessions are insufficient to cover the tax due on the income received prior to the enactment of the Revenue Act of 1950 and these individuals have, therefore, been forced to borrow money in order to pay their income taxes.

In view therefore of the undue hardships created and in order to make the extension of the income tax to personnel in the possessions more nearly conform to the other provisions of the Revenue Act of 1950, which increased the individual income tax for all taxpayers prospectively only, your committee urges that the retroactive provision be eliminated by enactment of H. R. 3804. The result will be that the extension of the income tax to United States citizens in the possession, as provided for in the Revenue Act of 1950, will be applicable for taxable years beginning after December 31, 1950, instead of December 31, 1949.

The Department of Defense favors this legislation, and a favorable report by the Department of Defense has been cleared by the Bureau of the Budget.

### CHANGES IN EXISTING LAW

In compliance with subsection 4 of rule XXIX of the standing rules of the Senate, changes in existing law made by the bill are shown as follows (existing law proposed to be omitted is enclosed in black brackets; new matter is printed in italics; existing law in which no change is proposed is shown in roman):

#### THE REVENUE ACT OF 1950 (PUBLIC LAW 814)

SEC. 220. EMPLOYEES OF UNITED STATES WORKING IN POSSESSIONS OF THE UNITED STATES OR IN THE CANAL ZONE.

[Effective with respect to taxable years beginning after December 31, 1949] *Effective with respect to taxable years beginning after December 31, 1950, section 251 (relating to income from sources within possessions of United States) is hereby amended by adding at the end thereof the following new subsection:*

"(j) EMPLOYEES OF UNITED STATES.—For the purposes of this section, amounts paid for services performed by a citizen of the United States as an employee of the United States or any agency thereof shall be deemed to be derived from sources within the United States."

