

EXCLUSION FROM GROSS INCOME OF INCOME FROM DISCHARGE OF INDEBTEDNESS AND INCREASE OF FEDERAL SHARE OF PUBLIC ASSISTANCE PAYMENTS

JULY 9 (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. 2416]

The Committee on Finance to whom was recommitted the bill (H. R. 2416) relating to (1) exclusion from income of income from discharge of indebtedness and (2) increasing the Federal share of payments for old-age assistance, aid to dependent children; aid to the blind, and aid to the permanently and totally disabled, having reconsidered the same, report favorably thereon with amendments and recommend that the bill, as amended, do pass.

In its reconsideration of the bill the Committee on Finance made no change in sections 1 and 2 of the bill, as passed by the Senate. These sections relate to exclusion from income of income from discharge of indebtedness. (See Rept. No. 324, 82d Cong., 1st sess.)

Section 3 of the bill, added on the floor of the Senate, relates to increasing the Federal share of payments for old-age assistance, aid to dependent children, aid to the blind, and aid to the permanently and totally disabled. This section was amended as outlined hereafter.

FEDERAL SHARE OF PUBLIC ASSISTANCE PAYMENTS

Present law

Under present law the Federal payments to the States (including Alaska, Hawaii, and the District of Columbia) for old-age assistance, aid to the blind, and aid to the permanently and totally disabled is three-fourths of the first \$20, of a State's average monthly payment per recipient, plus one-half of the remainder within individual maximums of \$50. For aid to dependent children the Federal share of payments is three-fourths of the first \$12 of a State's average monthly payment per recipient (including one adult per family), plus one-half the remainder within individual maximums of \$27 for the parent or

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other relative with whom the children are living, \$27 for the first child and \$18 for each additional child in a family.

Section 3 of bill as passed by the Senate

Under section 3 of the bill as added on the floor of the Senate the Federal share would be increased for the four State-Federal public assistance programs. For old-age assistance, aid to the blind, and aid to the permanently and totally disabled the Federal share would be four-fifths of the first \$25 of a State's average monthly payment per recipient, plus one-half the remainder within individual maximums of \$55. For aid to dependent children, under the floor amendment, the Federal share would be four-fifths of the first \$15 of a State's average monthly payment per recipient (including one adult per family) plus one-half the remainder within individual maximums of \$30 for the parent or other adult with whom the children are living, \$30 for the first child, and \$21 for each additional child. The increase in the Federal share of public assistance payments under the floor amendment would be limited to the period October 1, 1951, through September 30, 1953, for the four programs.

Section 3 of bill as approved by Committee on Finance

Section 3 of the bill as approved by the Committee on Finance would increase the Federal share in public assistance payments over present law for the four programs on a permanent basis, beginning October 1, 1951. For old-age assistance, aid to the blind, and aid to the permanently and totally disabled, the Federal share would be three-fourths of the first \$26 of a State's average monthly payment per recipient, plus one-half of the remainder within individual maximums of \$53. For aid to dependent children the Federal share would be three-fourths of the first \$16 of a State's average monthly payment per recipient (including one adult per family) plus one-half the remainder within individual maximums of \$29 for the parent or other adult relative with whom the children are living, \$29 for the first child, and \$20 for each additional child in a family.

The committee-approved bill is designed to increase payments to recipients of old-age assistance, aid to the blind, and aid to the permanently and totally disabled \$3 per month on the average without increasing State and local expenditures. Those States now providing average payments of \$23 or more (including Federal, State, and local funds) would obtain full advantage of the proposed increase, as they are now providing at least \$6.50 per recipient from State and local funds. To obtain full advantage of the proposed increase, the States now providing average payments of less than \$23, would have to raise their average payments so that the State and local contributions would be at least \$6.50 per recipient.

Under the committee-approved bill, aid-to-dependent-children payments could be increased an average of \$2 per month per recipient (including the dependent children and one adult per family) without increasing State and local expenditures. Those States now providing average payments of \$14 or more (including Federal, State, and local funds) per person on the rolls would obtain full advantage of the proposed increase as they are now providing at least \$4 per recipient from State and local funds. To obtain full advantage of the proposed increase, the States now providing average payments of less than

\$14 per recipient would have to raise their average payments so that the State and local contributions would be at least \$4 per recipient.

Thus, the maximum Federal share of expenditures for the 4 State-Federal public-assistance programs is retained at 75 percent. Your committee believes that to increase this maximum percentage would endanger the continuance of the joint State and Federal responsibility for public-assistance programs established in 1935 with the passage of the Social Security Act. Moreover, through the enactment of the Social Security Act Amendments of 1950, the Congress strengthened the old-age and survivors insurance program so as to make contributory social insurance the basic method of affording protection against the economic hazards of old-age and premature death. In a 9-month period the number of aged receiving benefits under the insurance program has increased from 2.2 million in August 1950, to more than 3 million in May 1951. This number will continue to rise in the future as the 1950 amendments become more fully effective.

The estimated annual costs to the Federal Government under section 3 of the committee-approved bill is approximately \$139.7 million as compared to an estimated cost of approximately \$259 million under section 3 as added on the floor of the Senate. The estimated cost by program under the committee-approved bill is set forth in the following table;

Program	Annual additional Federal costs (in millions)
Total, all programs.....	\$139.7
Old-age assistance.....	91.6
Aid to dependent children.....	42.0
Aid to the blind.....	2.8
Aid to permanently and totally disabled.....	3.3

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):

SECTION 22 OF THE INTERNAL REVENUE CODE

SEC. 22. GROSS INCOME.

(a) General Definition.— * * *
 (b) Exclusions from Gross Income.—The following items shall not be included in gross income and shall be exempt from taxation under this chapter:

(1) Life insurance.— * * *

(9) INCOME FROM DISCHARGE OF INDEBTEDNESS.—In the case of a corporation, the amount of any income of the taxpayer attributable to the discharge, within the taxable year, of any indebtedness of the taxpayer or for which the taxpayer is liable evidenced by a security (as hereinafter in this paragraph defined) [if the taxpayer makes and files at the time of filing the return, in such manner as the Commissioner, with the approval of the Secretary, by regulations prescribes, its consent] if the taxpayer, at such time and in such manner as the Secretary by regulations prescribes, makes and files its consent to the regulations prescribed under section 113 (b) (3) then in effect. In such case the amount of any income of the taxpayer attributable to any unamortized premium (computed as of the first day of the taxable year in which such discharge occurred) with respect to such in-

debtedness shall not be included in gross income and the amount of the deduction attributable to any unamortized discount (computed as of the first day of the taxable year in which such discharge occurred) with respect to such indebtedness shall not be allowed as a deduction. As used in this paragraph the term "security" means any bond, debenture, note, or certificate, or other evidence of indebtedness issued by any corporation. [This paragraph shall not apply to any discharge occurring before the date of enactment of the Revenue Act of 1939, or in a taxable year beginning after December 31, 1951.]

(10) INCOME FROM DISCHARGE OF INDEBTEDNESS OF A RAILROAD CORPORATION. The amount of any income attributable to the discharge within the taxable year of any indebtedness of a railroad corporation, as defined in section 77m of the National Bankruptcy Act, as amended, to the extent that such income is deemed to have been realized by reason of a modification in or cancellation in whole or in part of such indebtedness pursuant to an order of a court in a receivership proceeding or in a proceeding under section 77 of the National Bankruptcy Act, as amended. In such case the amount of any income of the taxpayer attributable to any unamortized premium (computed as of the first day of the taxable year in which such discharge occurred) with respect to such indebtedness shall not be included in gross income and the amount of the deduction attributable to any unamortized discount (computed as of the first day of the taxable year in which such discharge occurred) with respect to such indebtedness shall not be allowed as a deduction. Paragraph (9) shall not apply with respect to any discharge of indebtedness to which this paragraph applies. This paragraph shall not apply to any discharge occurring in a taxable year beginning after [December 31, 1951] December 31, 1954.

SECTION 3 (A) OF THE SOCIAL SECURITY ACT

SEC. 3. (a) From the sums appropriated therefor, the Secretary of the Treasury shall pay to each State which has an approved plan for old-age assistance, for each quarter, beginning with the quarter commencing October 1, [1950] 1951, (1) in the case of any State other than Puerto Rico and the Virgin Islands, an amount, which shall be used exclusively as old-age assistance, equal to the sum of the following proportions of the total amounts expended during such quarter as old-age assistance under the State plan, not counting so much of such expenditure with respect to any individual for any month as exceeds [\$50] \$53—

(A) three-fourths of such expenditures, not counting so much of any expenditure with respect to any month as exceeds the product of [\$20] \$20 multiplied by the total number of such individuals who received old-age assistance for such month; plus

(B) one-half of the amount by which such expenditures exceed the maximum which may be counted under clause (A); and (2) in the case of Puerto Rico and the Virgin Islands, an amount, which shall be used exclusively as old-age assistance, equal to one-half of the total of the sums expended during such quarter as old-age assistance under the State plan, not counting so much of such expenditure with respect to any individual for any month as exceeds \$30, and (3) in the case of any State, an amount equal to one-half of the total of the sums expended during such quarter as found necessary by the Administrator for the proper and efficient administration of the State plan, which amount shall be used for paying the costs of administering the State plan or for old-age assistance, or both, and for no other purpose.

SECTION 403 (A) OF THE SOCIAL SECURITY ACT

SEC. 403. (a) From the sums appropriated therefor, the Secretary of the Treasury shall pay to each State which has an approved plan for aid to dependent children, for each quarter, beginning with the quarter commencing October 1, [1950] 1951, (1) in the case of any State other than Puerto Rico and the Virgin Islands an amount, which shall be used exclusively as aid to dependent children, equal to the sum of the following proportions of the total amounts expended during such quarter as aid to dependent children under the State plan, not counting so much of such expenditure with respect to any dependent child for any month as exceeds [\$27] \$29, or if there is more than one dependent child in the same home, as exceeds [\$27] \$29 with respect to one such dependent child and [\$12]

\$60 with respect to each of the other dependent children, and not counting so much of such expenditure for any month with respect to a relative with whom any dependent child is living as exceeds [\$27] \$29—

(A) three-fourths of such expenditures, not counting so much of the expenditures with respect to any month as exceeds the products of [\$12] \$16 multiplied by the total number of dependent children and other individuals with respect to whom aid to dependant children is paid for such month, plus

(B) one-half of the amount by which such expenditures exceed the maximum which may be counted under clause (A);

and (2) in the case of Puerto Rico and the Virgin Islands, an amount, which shall be used exclusively as aid to dependent children, equal to one-half of the total of the sums expended during such quarter, as aid to dependent children under the State plan, not counting so much of such expenditure with respect to any dependent child for any month as exceeds \$18, or if there is more than one dependent child in the same home, as exceeds \$18 with respect to one such dependent child and \$12 with respect to each of the other dependent children; and (3) in the case of any State, an amount equal to one-half of the total of the sums expended during such quarter as found necessary by the Administrator for the proper and efficient administration of the State plan, which amount shall be used for paying the costs of administering the State plan or for aid to dependent children, or both, and for no other purpose.

SECTION 1003 (A) OF THE SOCIAL SECURITY ACT

SEC. 1003. (a) From the sums appropriated therefor, the Secretary of the Treasury shall pay to each State which has an approved plan for aid to the blind, for each quarter, beginning with the quarter commencing October 1, [1950] 1951, (1) in the case of any State other than Puerto Rico and the Virgin Islands, an amount, which shall be used exclusively as aid to the blind, equal to the sum of the following proportions of the total amounts expended during such quarter as aid to the blind under the State plan, not counting so much of such expenditure with respect to any individual for any month as exceeds [\$50] \$53—

(A) three-fourths of such expenditures, not counting so much of any expenditure with respect to any month as exceeds the product of [\$20] \$26 multiplied by the total number of such individuals who received aid to the blind for such month, plus

(B) one-half of the amount by which such expenditures exceed the maximum which may be counted under clause (A);

and (2) in the case of Puerto Rico and the Virgin Islands, an amount, which shall be used exclusively as aid to the blind, equal to one-half of the total of the sums expended during such quarter as aid to the blind under the State plan, not counting so much of such expenditure with respect to any individual for any month as exceeds \$30; and (3) in the case of any State, an amount equal to one-half of the total of the sums expended during such quarter as found necessary by the Administrator for the proper and efficient administration of the State plan, which amount shall be used for paying the costs of administering the State plan or for aid to the blind, or both, and for no other purpose.

SECTION 1403 (A) OF THE SOCIAL SECURITY ACT

SEC. 1403. (a) From the sums appropriated therefor, the Secretary of the Treasury shall pay to each State which has an approved plan for aid to the permanently and totally disabled, for each quarter, beginning with the quarter commencing October 1, [1950] 1951, (1) in the case of any State other than Puerto Rico and the Virgin Islands, an amount, which shall be used exclusively as aid to the permanently and totally disabled, equal to the sum of the following proportions of the total amounts expended during such quarter as aid to the permanently and totally disabled under the State plan, not counting so much of such expenditure with respect to any individual for any month as exceeds [\$50] \$53—

(A) three-fourths of such expenditures, not counting so much of any expenditure with respect to any month as exceeds the product of [\$20] \$26 multiplied by the total number of such individuals who received aid to the permanently and totally disabled for such month, plus

(B) one-half of the amount by which such expenditures exceed the maximum which may be counted under class (A); and (2) in the case of Puerto Rico and the Virgin Islands, an amount, which shall be used exclusively as aid to the permanently and totally disabled, equal to one-half of the total of the sums expended during such quarter as aid to the permanently and totally disabled under the State plan, not counting so much of such expenditure with respect to any individual for any month as exceeds \$30; and (3) in the case of any State, an amount equal to one-half of the total of the sums expended during such quarter as found necessary by the Administrator for the proper and efficient administration of the State plan, which amount shall be used for paying the costs of administering the State plan or for aid to the permanently and totally disabled, or both, and for no other purpose.

