SUMMARY OF FINANCE COMMITTEE AMENDMENTS TO H. R. 8300

Amendment No. 1 (p. 1 of committee amendments)

Clerical amendment to table of subchapters.

Amendment No. 2 (p. 2 of committee amendments) and

Amendment No. 3 (p. 5 of committee amendments)

Your committee has replaced the head of family provision in the House bill with the head of household provision in present law. As a result heads of households will continue to receive only half the benefits of income splitting and must live in the household of the taxpayer. On the other hand, however, a taxpayer may claim head of household status for a child which does not qualify as a dependent if the taxpayer supplies more than half of the cost of maintaining the child in his home. Moreover, the other dependents who may qualify a taxpayer for this status may be any individuals whom he may claim as dependents for purposes of obtaining the $600 dependency exemption, and not just the close relatives previously mentioned.

Your committee restored existing law in this area because the majority of the committee members believe that the benefits of income splitting go primarily to those in the upper and middle income groups and, therefore, were opposed to extending income splitting beyond its present boundaries. The view was also expressed that this provision was not necessary to the maintenance of tax equality between common law and community property States.

Amendment No. 4 (p. 6 of committee amendments)

Conforming changes to amendment Nos. 2 and 3.

Amendment No. 5 (p. 7 of committee amendments)

Clerical amendment to section 4, rules for optional tax.

Amendment No. 6 (p. 7 of committee amendments)

Clerical amendments to section 5, cross references relating to tax on individuals.

Amendment No. 7 (p. 7 of committee amendments)

This is a clarifying change in section 11, tax imposed on corporations.

Amendment No. 8 (p. 8 of committee amendments)

Clerical amendment to section 12, cross reference relating to tax on corporations.

Amendment No. 9 (p. 8 of committee amendments)

Clerical amendments to table of contents.

Amendment No. 10 (p. 8 of committee amendments)

The House bill denied the new dividends received credit and exclusion for individuals with respect to dividends received from any insur-

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ance company. This amendment grants the credit and exclusion for individuals with respect to dividends from stock fire, casualty, title, and marine insurance companies. This change was made because these insurance companies are subject to the full corporate rate. The dividends received credit and exclusion for individuals is not to be available with respect to dividends paid by life insurance companies or mutual insurance companies generally.

This amendment also deletes the "dividends in kind" rule in subsection (d) (1) because this rule was already covered in the corporate reorganization subchapter.

Clerical changes are also made.

Amendment No. 11 (p. 9 of committee amendments)

This is a conforming change with respect to 14-point foreign income tax credit which was eliminated by your committee's action. See amendment No. 207.

Amendment No. 12 (p. 9 of committee amendments) and

Amendment No. 13 (p. 9 of committee amendments)

Your committee has made three substantive changes in the House provision relating to the special tax credit for retirement income up to $1,200 a year.

One of these changes extends this retirement income credit to pensions, annuities, or similar payments received under public retirement systems by individuals even though they are below the age of 65. The House bill in no case provided a retirement income credit for those below this age limit. Your committee made this change because school teachers, firemen, policemen, and similar public employees who are retired before the age of 65 are dependent for their livelihood upon the pension income they receive from governmental units. Where they are able to obtain employment in other occupations, the requirement already in the House provision which reduces the credit available to them by the amount of their earnings in excess of $900 will prevent any benefit under this provision.

This amendment also removes the so-called earnings test for individuals 75 years of age or over. Thus, an individual who has reached the age of 75 will not have to reduce the retirement income credit he receives dollar for dollar for any earned income which he may receive above $900. This change was made by your committee in order to conform this provision more closely with the social security benefit system which has no work clause for those age 75 or over.

Your committee has also made the retirement income credit unavailable in the case of nonresident aliens.

Amendment No. 14 (p. 12 of committee amendments)

Clerical amendment to section 39 of the House bill relating to the cross-reference for overpayment of tax.

Amendment No. 15 (p. 12 of committee amendments)

Conforming change to partnership provisions.

Amendment No. 16 (p. 12 of committee amendments)

Technical amendment to correct error in House bill in section 62 relating to adjusted gross income.

Amendment No. 17 (p. 12 of committee amendments)

Technical amendment to correct error in House bill in section 62 relating to adjusted gross income. Also, a conforming change to estate and trust provisions.

Amendment No. 18 (p. 13 of committee amendments)

Clerical amendment in table of sections.

Amendment No. 19 (p. 13 of committee amendments)

The House bill provided that payments pursuant to written separation agreements would be treated as alimony payments. Your committee's amendment makes the House provision effective only as to written separation agreements executed after the date of enactment of this title, because the spouses may have entered into agreements before this date in reliance on existing law.

Your committee also provides that periodic payments to a wife under a decree for support will be treated in the same manner as alimony payments where the decree is entered after the date of enactment. This amendment is made because in certain States a decree for support takes the place of a decree of separate maintenance, and the husband is deprived of an alimony deduction because of that fact.

Amendment No. 20 (p. 14 of the committee amendments)

This amendment is a clarifying amendment to the annuity provisions and provides that if both employer and employee have contributed to the cost of an annuity, the adjustment for the value of the refund feature will be allocated appropriately between the employer and employee contribution.

Clerical changes are also made.

Amendment No. 21 (p. 15 of the committee amendments)

This amendment makes clerical changes in the section dealing with annuities.

Amendment No. 22 (p. 15 of the committee amendments)

This amendment strikes out section 72 (j) and replaces it with section 691 (d). Both provide a deduction to the survivor under a joint and survivor annuity based on the estate tax payable on a part of the annuity. See amendment No. 176 for further explanation.

Amendment No. 23 (p. 15 of the committee amendments)

A new subsection (l) is added to the annuity and endowment provisions which provides that face amount certificates will be treated as endowment contracts for purposes of the 3-year spreading device when proceeds are received in a lump sum. This also provides that proceeds on these certificates taken as annuities will be taxed in the same manner as proceeds of regular annuity contracts. This is associated with the changes in section 1232 which resolves the uncertainty under existing law by providing that the gain on the certificates issued after 1954 will be treated as ordinary income.

Clerical changes are also made.

Amendment No. 24 (p. 16 of committee amendments)

This amendment which relates to the tax treatment of discharge of indebtedness is discussed in connection with amendment No. 33.

Amendment No. 25 (p. 16 of committee amendments)

A conforming change required by amendment No. 24.

Amendment No. 26 (p. 16 of committee amendments)

A conforming change required by amendment No. 24.

Amendment No. 27 (p. 16 of committee amendments)

Conforming change in table of contents.

Amendment No. 28 (p. 16 of committee amendments)

This amendment returns to present law in limiting the exemption of life-insurance proceeds of a contract which has been transferred for a valuable consideration except that the House exemption is continued where the exemption is for certain business reasons. Under present law the exemption is limited to the amount of the consideration plus premiums later paid by the transferee. The House bill removes the limitation altogether.

Amendment No. 29 (p. 17 of committee amendments)

The House bill provided that death-benefit, lump-sum distributions from profit-sharing or stock-bonus plans would obtain the $5,000 employee-insurance exemption when paid to a beneficiary after death even though the employee had a nonforfeitable right to receive such amounts while living. The amendment extends the same advantage to lump-sum distributions of pension plans.

This amendment also generally increases the amount of tax-free interest on installment payments of life-insurance proceeds over the amount provided in the House bill. Under the House bill this tax-free interest is limited to $500 in the case of the widow and $250 in the case of each of certain immediate dependents. The amendment provides an exclusion of $1,000 in the case of the widow and no exclusion for other dependents. There appears to be little reason to grant the exclusion to surviving children since, where the mother is dead, the interest of the children in the principal proceeds is protected by guardianship laws until they attain majority.

Amendment No. 30 (p. 18 of committee amendments)

This is a technical amendment to correlate the gift exclusion under the income tax with the provisions relating to the inclusion of income received by a beneficiary of an estate or trust in subchapter J.

Amendment No. 31 (p. 18 of committee amendments)

Present law exempts retirement income of members of the armed services who are retired for physical disability. The amendment extends the exemption to members of the Coast and Geodetic Survey and the Public Health Service who are retired on account of injuries received while on active service.

Amendment No. 32 (p. 19 of committee amendments)

Under present law employer-financed accident and health benefits are fully exempt if paid under an insured plan and fully taxable otherwise. The House bill provided that these benefits would be fully exempt if they were reimbursement for actual medical expenses and taxable only to the extent of the excess over $100 a week if they were compensation for loss of wages under either an insured or noninsured qualified plan (but the exclusion would be reduced for amounts received under nonqualified plans).

This amendment follows the general line of the House provision but makes four significant changes.

(1) The requirements for qualification of a plan are dropped.

(2) Employer-financed plans handled through an employee association are treated as other employer plans.

(3) A specific rule is provided exempting certain lump-sum benefits, such as payment for loss of a leg.

(4) A waiting period is no longer to be a test of qualification, but no exclusion is to be available for amounts paid with respect to the first 7 days an individual is away from work.

Amendment No. 33 (p. 21 of committee amendments)

This amendment returns to the existing law treatment of income arising from the discharge of indebtedness in lieu of the treatment in the House bill which occasioned doubt as to its meaning and effect. Under existing law, a corporation is permitted to exclude from income amounts attributable to the discharge of indebtedness if the indebtedness is evidenced by a security and the corporation also elects a corresponding reduction in the basis of its property. This amendment restates the provisions of existing law, except that the treatment is extended to noncorporate taxpayers and the requirement of a security is eliminated.

Amendment No. 34 (p. 22 of committee amendments)

Conforming amendment to deletion of section 76 (relating to inclusion in gross income of income from discharge of indebtedness).

Amendment No. 35 (p. 22 of committee amendments) and

Amendment No. 36 (p. 23 of committee amendments)

The House bill contains a new provision for determining whether amounts received as scholarship and fellowship grants are to be included in gross income. The general rule is that such amounts are excludable (including the value of contributed services and accommodations such as room, board, and laundry), but not to the extent that the payments are for teaching, or research services in the nature of part-time employment.

Your committee extends the teaching or research exception to payment for "other services," which represent part-time employment. However, payments for teaching, research, or other services will not be taxable if such services are required of all candidates for a degree.

Under the House provision grants received by individuals who are not candidates for a degree were to be excludable only if the annual amount of the grant, plus any compensation received from the recipient's previous employer, is less than 75 percent of his salary for the preceding year. Since this provision could result in taxing grants which were clearly not intended as a continuing salary payment, there is substituted for the 75 percent rule an exclusion of $300 per month for a maximum of 36 months for individuals who are candidates for degrees but only if the grantor is a tax-exempt organization the United States or an instrumentality or agency thereof, a State, a Territory, or a possession of the United States or any political subdivision thereof, or the District of Columbia.

Amendment No. 37 (p. 25 of committee amendments)

Conforming amendment to corporate reorganization provisions.

Amendment No. 38 (p. 25 of committee amendments)

The House provision is substantially rewritten to provide that meals or lodging furnished to an employee are not includible in his income if they are furnished for the convenience of the employer. To be excludable in the case of meals, the amendment provides that the meals must be furnished on the business premises of the employer, while in the case of lodging the employee must be required to accept the lodging on the business premises of the employer as a condition of his employment. It is further provided that the provisions of an employment contract or a State statute fixing the terms of employment are not to be determinative of whether the meals or lodging are intended as compensation.

This amendment more sharply defines the area of exclusion than does the House provision. It should prevent the taxing of meals and lodging furnished to employees of State institutions where such meals or lodging are furnished for the convenience of the employer but are taxed to the employee under existing law solely because a State statute indicates that they are furnished as compensation.

Amendment No. 39 (p. 26 of committee amendments)

A $600 exemption may be taken for a dependent under existing law only if he has gross income of less than $600. The House bill provides that the $600 earnings limitation is not to be applied if the dependent is the taxpayer's child under the age of 19 or is a full-time student in an educational institution during at least 5 months of a year.

This amendment extends the above House provision to an individual who is pursuing a full-time course of institutional on-farm training under the supervision of an educational institution or State or local governmental unit, since the practical training under such an on-farm program appears equally deserving of tax benefits as attendance at a regular educational institution.

Amendment No. 40 (p. 26 of committee amendments)

Under present law, an individual may not be claimed as a dependent if he is a citizen or a subject of a foreign country unless he is a resident of the United States or of a country contiguous to the United States. Thus, an individual who is a citizen of both the United States and of a foreign country but is resident in a noncontiguous foreign country may not be claimed as a dependent. This amendment will enable such an individual who has dual citizenship to be claimed as a dependent if he is a United States citizen.

Amendment No. 41 (p. 27 of committee amendments)

Conforming and clerical amendments to cross references.

Amendment No. 42 (p. 27 of committee amendments)

Conforming amendment in cross-reference subsection.

Amendment No. 43 (p. 27 of committee amendments)

The House provision permitted an interest deduction for carrying charges on installment purchases where the carrying charges were separately stated, but the interest could not be ascertained. The

deduction in the House bill was limited to 6 percent of the average unpaid balance due on the installment contract during the taxable year.

This amendment deletes the House provision.

Amendment No. 44 (p. 28 of committee amendments)

Under existing law taxes assessed against local benefits which tend to increase the value of the property assessed are deductible only to the extent the taxes are allocable to maintenance and interest charges.

This amendment provides a further exception which allows a deduction of taxes levied by a special taxing district if the district covers the whole of at least one county (including at least 1,000 taxpayers) and the assessments are levied annually at a uniform rate on the same assessed value of real property as is used for purposes of the real-property tax generally. In such cases the taxes in the special taxing district are more nearly comparable to a general tax levy than to a special assessment which increases the value of the property assessed.

Amendment No. 45 (p. 28 of committee amendments)

Under existing law a taxpayer who buys real estate may be denied a deduction for the local property taxes which he assumes and pays, if under the local law the seller of the property had become liable to the tax prior to the date of sale. The House bill provided for an apportionment of the tax deduction between the buyer and seller in all cases whether the taxpayers were on the cash or accrual method of accounting.

This amendment provides that the apportionment rule is not to be applied where either party to the transaction is an accrual basis taxpayer who has not elected the new rule for accrual of real property taxes provided in section 461 (c). Since the accrual rule and the apportionment rule are interdependent, it is deemed necessary to make the apportionment rule inapplicable where one of the parties is an accrual basis taxpayer who has not elected the new accrual rule.

Amendment No. 46 (p. 29 of the committee amendments)

This is a conforming amendment to the changes made by No. 263 in the consolidated return provisions and provides that an ordinary loss will be allowed on securities of affiliated corporations only if the parent owns 95 percent of the stock of the subsidiary instead of 80 percent as provided in the House bill.

Amendment No. 47 (p. 29 of committee amendments)

A new provision is added to the deduction for bad debts which will permit a noncorporate taxpayer to deduct as a business bad debt any payment which he makes on a guaranty, endorsement or indemnity of a noncorporate obligation provided that the proceeds of the obligation were used in the borrower's trade or business. The amendment will thus permit a business bad debt treatment even though the taxpayer is not himself engaged in the business of making loans.

A conforming amendment is made in this section to amendment No. 228 which strikes out the provision in the House bill relating to mortgage foreclosures.

Amendment No. 48 (p. 30 of committee amendments),
Amendment No. 49 (p. 30 of committee amendments),
Amendment No. 50 (p. 30 of committee amendments),
Amendment No. 51 (p. 31 of committee amendments),
Amendment No. 52 (p. 31 of committee amendments), and
Amendment No. 53 (p. 31 of committee amendments)

The House bill provides for a liberalized depreciation allowance by permitting the use of the declining balance method at twice the normal straight-line rate with respect to any property acquired or constructed after December 31, 1953.

In view of expressed doubts that the depreciation method specified in the House bill might create uncertainty as to the status of other methods not specifically mentioned, it is provided in these amendments that nothing in the new provisions is to be construed as limiting or reducing allowances otherwise permitted under the general provision for a reasonable depreciation allowance.

Another change made by these amendments is to provide specifically for the "sum of the years-digits method." This method, like the declining balance method, applies a varied rate of depreciation to the total depreciable basis of the property. For a detailed discussion of this method see your committee's report, pages 27 and 28.

Another departure from the House bill contained in these amendments is the liberalization of the treatment of unrecovered cost at the end of service life. Under the House bill the declining balance method would leave a varying unrecovered portion of cost at the end of service life of up to approximately 13 percent. This feature of the declining balance method detracts from its desirability as a method of writing off the property faster in the earlier years of service life where the actual salvage value is lower than the unrecovered portion of the cost automatically resulting under this method. Your committee has, therefore, provided that the taxpayer may switch from the declining balance method to the straight-line method at any time in the life of the property.

Your committee has also provided that the limitation of the House bill which restricts the use of other reasonable and consistent methods to those which would not result in allowances greater than that under the declining balance method is to be applied only in the first two-thirds of the service life of the property. This more liberal amendment will permit the use of other methods which provide for full write-off during the later years of the basis of the property in excess of salvage value.

The "10-percent leeway" rule contained in the House bill has been eliminated. Under the House bill the Internal Revenue Service would not be permitted to disturb a depreciation rate unless the corrected useful life differed by more than 10 percent from the useful life employed by the taxpayer. Because this provision would be deemed inadequate in many instances, it has been eliminated from the House bill.

The following additional technical amendments are adopted by your committee:

(*a*) *Use of different methods of depreciation by the same taxpayer.*—Under the House bill it is not clear whether different methods of depreciation may be applied to different properties or classes of proper-

ties by the same taxpayer. An amendment has been made to clarify the House bill in this regard which will permit the consistent use of different depreciation methods for particular items of property and for different classes of property.

(*b*) *Treatment of construction in process on January 1, 1954.*—Under the House bill new depreciation allowances are available only to that portion of construction cost incurred subsequent to 1953. Since this limitation raises difficult valuation problems, an amendment is adopted which will permit the entire cost of construction to be depreciated under the new methods where the construction is completed and the property is first put into use after December 31, 1953.

(*c*) *Restriction of declining balance rate on short-lived assets.*—The House bill contained no limitation on use of the declining balance method for short-lived properties. Since a property with a 2-year service life could thus be written off in the year of acquisition, the use of the liberalized methods appears inappropriate in such cases. An amendment to the House bill, therefore, restricts liberalized allowances for depreciation to assets with useful lives of 3 or more years.

(*d*) *Technical amendment relating to depreciation improvements of mines.*—An amendment corrects language in a cross reference which implied that the more liberal depreciation provisions did not apply to depreciable mine improvements.

(*e*) *Allocation of depreciation in case of an estate.*—Conforming to changes made in the estate and trust provisions, the same allocation of depreciation by the estate and its heirs, legatees and devisees is made as is presently permitted under existing law in the case of a trust.

Amendment No. 54 (p. 32 of committee amendments)

Clerical amendment to section 168 relating to amortization of emergency facilities.

Amendment No. 55 (p. 32 of committee amendments),

Amendment No. 56 (p. 32 of committee amendments) and

Amendment No. 57 (p. 32 of committee amendments)

The charitable contribution limitation for individuals is raised by the House bill from 20 percent to 30 percent of adjusted gross income but the added 10 percent is to be allowed only for charitable contributions to hospitals, educational institutions and to churches.

A technical amendment to the charitable contribution limitation is made to insure that the additional 10 percent is applied to the aggregate gifts to the above-mentioned charities and not to each gift.

The House bill also contains a liberalization of the unlimited charitable deduction where the taxpayer's charitable contributions and income tax in the current year and in each of the 10 preceding taxable years equals 90 percent or more of his taxable income. Under the House provision this test need be met in only 9 out of the 10 preceding years. The amendment further liberalizes the provision by extending the unlimited deduction if the test is met in the taxable year and 8 of the 10 preceding taxable years.

Two other minor changes are made in the House bill: (1) A gift to the United States, the District of Columbia or to a State, Territory, possession, or any political subdivision thereof is deductible under subsection (c) (1) instead of under subsection (c) (2) (B); (2) contri-

butions to nonprofit cemetery and burial companies are made deductible charitable contributions.

Amendment No. 58 (p. 33 of committee amendments) and

Amendment No. 59 (p. 33 of committee amendments)

Under existing law, bond premiums may be amortized to maturity or to an earlier call date. The House bill provides that the premium on callable bonds may be amortized to the nearest call date only if such date is more than 3 years from the date of original issue of the bonds. This provision applies only to bonds issued after January 22, 1951, and acquired after January 22, 1954.

Your committee has modified the House provision so that if a bond with a call date of 3 years or less is, in fact, called prior to maturity, the holder will be entitled to an ordinary loss instead of a capital loss deduction. It appears only equitable to extend full amortization of the premium (ordinary loss deduction) where the bond with a short call date is, in fact, called.

Your committee has also provided that the House treatment of amortization of premiums of bonds with short-call dates will apply only to fully taxable bonds. In the case of tax-exempt bonds the effect of the House provision was to create an inadvertent loophole. Denial of writeoff of the premium for bonds with short-call dates would result in reducing the downward adjustment of basis of the bonds. Thus, where the exempt bonds would be called at an early call date, the holder would realize a fictitious loss for tax purposes. Your committee prevents this result by limiting the House provision to fully taxable bonds.

Amendment No. 60 (p. 34 of committee amendments),

Amendment No. 61 (p. 34 of committee amendments),

Amendment No. 62 (p. 35 of committee amendments), and

Amendment No. 63 (p. 37 of committee amendments)

Under present law, a net operating loss carry-forward of 5 years is provided. The House bill extends the carryback from 1 year to 2 years which, in combination with the 5-year carry-forward, provides an 8-year span for absorbing losses. Your committee has accepted this provision of the House bill and has extended a proportionate benefit of the additional 1-year carryback to fiscal year taxpayers having taxable years beginning in 1953 and ending in 1954.

Your committee has also made an important change in the method of computation of the net operating loss. Under existing law, certain adjustments (commonly referred to as the economic loss adjustments) are made in computing the net operating loss. For example, the loss must be reduced by any tax-exempt interest received by the taxpayer and by the excess of percentage or discovery depletion over cost depletion. Also, the corporate dividends received credit is of no benefit in a loss year since the credit is limited to 85 percent of net income (zero in a loss year). Essentially the same adjustments are likewise made in the years to which the loss is carried before the loss may be applied against the income for that year.

Under the House bill, the adjustment for tax exempt interest is eliminated entirely, but the other adjustments are retained for the loss year and in determining the income for any year which must be

subtracted from a net operating loss to determine the portion of the loss that will be available to carry forward to a subsequent year.

Your committee has eliminated the adjustment for the excess of percentage depletion over cost depletion, both as to the loss years and as to any subsequent year from which a loss is carried. Also, for purposes of the net operating loss, the dividends received deduction (including the special dividends received deductions under secs. 244 and 245) is computed without the limitation of the House bill which restricts the deduction to 85 percent of taxable income. Similarly, the limitation imposed on the deduction under section 247 (dividends paid on certain preferred stock of public utilities) is eliminated for purposes of the net operating loss.

In contrast to the House provision, no dividends received adjustment is required as to any subsequent year from which a loss is carried.

The effect of the amendments made by your committee is to remove the discrimination against the business with fluctuating income which must use the net operating loss provisions. Such a business will be permitted the same tax benefit from percentage depletion, for example, that is available under present law to a competitor having stable income.

Amendment No. 64 (p. 37 of committee amendments)

This amendment restores the language of existing law with respect to circulation expenditures because concern was expressed that the rearranged language of the House provision might effect an unintended substantive change.

Amendment No. 65 (p. 38 of committee amendments) and

Amendment No. 66 (p. 38 of committee amendments)

This is a conforming amendment to section 174 relating to research and experimental expenditures.

Amendment No. 67 (p. 39 of committee amendments)

The House provision permits taxpayers to elect to expense, rather than capitalize, any expenditures for soil and water conservation, and for prevention of land erosion, with respect to land used in farming. These expenditures include (but are not limited to), leveling, grading, terracing, contour furrowing, planting of windbreaks, the construction, control and protection of diversion channels, drainage ditches, ponds, etc., but do not include facilities, appliances, and structures of a character which is subject to the allowance for depreciation. The deduction for any taxable year is limited to 25 percent of the gross income derived from farming but any expenditures in excess of the allowable maximum may be carried over as a deduction to subsequent years.

Amendments were adopted to the House bill making it clear that the provision applies to earthen dams not subject to depreciation and to the construction, as well as the control and protection, of water courses, outlets, and ponds.

Your committee also made the provision applicable for expenditures by farmers to satisfy special assessments of soil or water conservation districts to defray expenditures made by such districts which would be deductible under this section if made directly by the taxpayer.

The provision of the House bill requiring that any expenditures in excess of the 25-percent limitation be added to basis until such time as they become deductible in a future year has been deleted by your committee as being unduly burdensome.

Amendment No. 68 (p. 42 of committee amendments)

Technical and clerical amendments to section 213 relating to medical, dental, etc., expenses of individuals.

Amendment No. 69 (p. 42 of committee amendments)

The House bill provides a new deduction for child-care expenses paid by a working widow, widower, or divorced person, or a working mother whose husband is incapacitated. The deduction is limited to actual expenses up to $600, paid for the purpose of permitting the taxpayer to be gainfully employed. Expenses paid to a person who is a dependent of a taxpayer may not be deducted.

Your committee has accepted the principle of the deduction provided in the House bill but has substantially liberalized it with the following changes:

(*a*) The deduction is allowed to a working woman or a widower for expenses paid for the care of any dependent who is mentally or physically incapable of caring for himself.

(*b*) The deduction is allowed with respect to expenses for the care of a child under 12 years of age, instead of under 10 years as in the House bill.

(*c*) The deduction for child-care expenses may be claimed by a working wife providing she files a joint return with her husband. However, the amount of the deduction allowed is decreased by the amount by which the combined adjusted gross income of husband and wife exceeds $4,500. Thus, no deduction is allowed where the combined adjusted gross income is $5,100 or more.

Your committee has extended the provisions of the House bill because it recognizes that the same type of financial problems may be incurred by taxpayers who must provide care for physically or mentally incapacitated dependents as well as for children if they are to be gainfully employed. In addition, in low-income families, the earnings of the working wife may be essential to maintain a minimum standard of living even though the father is also employed. These situations appear equally as meritorious as those involving a widowed or divorced mother or a widower who is allowed such child-care expenses under the House bill.

Amendment No. 70 (p. 44 of committee amendments)

Technical and conforming changes in section 245, relating to dividends received from certain foreign corporations.

Amendment No. 71 (p. 45 of committee amendments)

The House bill denied a corporate dividends received deduction for dividends received from insurance companies. Since a corporate dividends received credit is available under existing law to dividends received from insurance companies, the denial of the deduction in the House bill was apparently the unintended result of correlating the rules of corporate dividends received deduction with those applicable to the dividends received credit for individuals. Your committee has, therefore, provided that the corporate-dividends-received deduction will not be denied to dividends from insurance companies.

Under existing law and in the House bill the corporate dividends-received deduction may not exceed 85 percent of the taxable income of the recipient shareholder corporation (computed without regard to such deductions and the net operating loss deduction). Conforming to the changes made in the net operating loss in section 172, your committee has provided that if a shareholder corporation has a net operating loss for a taxable year without regard to the 85-percent limitation, then the corporate dividends-received deductions are to be allowable without limitation. Where the shareholder corporation, however, does not have a net operating loss, the 85-percent limitation will still apply.

Amendment No. 72 (p. 46 of committee amendments)

Conforming changes are made in section 247, relating to dividends paid on certain preferred stock of public utilities.

Amendment No. 73 (p. 47 of committee amendments)

Conforming changes made in table of sections.

Amendment No. 74 (p. 47 of committee amendments) and

Amendment No. 74 (p. 47 of committee amendments)

Your committee has added a new subsection to section 263, relating to capital expenditures, providing that the prohibition against deduction of capital expenditures will not apply to intangible drilling and development costs in the case of oil and gas wells insofar as these expenditures are deducted as expenses under regulations which are to be prescribed under this subtitle corresponding to regulations under the 1939 Code which were recognized and approved by Congress in the House Concurrent Resolution No. 50, 79th Congress.

A technical amendment is also made to the section.

Amendment No. 76 (p. 47 of committee amendments)

Your committee has accepted changes under the House bill designed to curb tax avoidance through the deduction of interest on indebtedness incurred to purchase deferred annuity contracts and through the deduction of interest on indebtedness, the proceeds of which are deposited with the insurance company for the payment of future premiums on insurance policies. Your committee has amended the House provision which would make it applicable (as in the case of annuity contracts) only to amounts deposited with insurance companies after March 1, 1954.

Amendment No. 77 (p. 48 of committee amendments)

Under existing law, a deduction, credit, or allowance not otherwise available may be disallowed in cases where control of a corporation is acquired principally for purposes of tax evasion or avoidance. The House bill provided that where the consideration paid in acquiring control of a corporation, or corporation property, was found to be substantially disproportionate to the sum of the adjusted basis of the property and the tax benefits not otherwise available, such fact would be determinative of the principal purpose of evasion or avoidance of tax unless the taxpayer by clear preponderance of the evidence proved the contrary. Your committee has provided that where the consideration is substantially disproportionate to the basis of the property and the tax benefits acquired, this fact shall be prima facie evidence of the principal purpose to avoid tax.

Amendment No. 78 (p. 48 of committee amendments)

Under present law, if losses from a trade or business exceed $50,000 a year for 5 consecutive years, only $50,000 of the annual loss may be offset against income from other sources and any excess is disallowed.

In addition to the changes made in existing law by the House bill, your committee has provided that the net operating loss deduction is not to be taken into account in determining whether a taxpayer's losses from a trade or business exceed $50,000 for 5 consecutive years. This amendment appears desirable because it is believed that the "hobby-loss" provision should be applied on a year-by-year basis rather than upon the basis of the average loss of income for a 5-year period. As under existing law, however, if a taxpayer is otherwise subject to this provision, a net operating loss deduction will not be allowed.

Your committee has also made it clear that the changes made by the House and by your committee in this provision are applicable only with respect to taxable years in a period of 5 consecutive years, one or more of which is a taxable year beginning after December 31, 1953.

Amendment No. 79 (p. 49 of committee amendments)

This amendment conforms to the action of the committee discussed in connection with amendment No. 156. Section 272, cutting of timber and disposal of coal or timber, is amended to extend to iron ore the same capital gains treatment provided for coal.

Technical changes are also made.

Amendment No. 80 (p. 49 of committee amendments)

The House bill added a new provision to the code which disallows deductions to private businesses for rental payments made to State or local governmental units for the use of property acquired or improved by the governmental unit by the issuance of industrial development bonds after January 21, 1954.

Your committee has deleted this provision because of the many objections, both as to its substance and as to its form, which were raised in its hearings.

Amendment No. 81 (p. 49 of committee amendments)

The House bill denied a deduction for amounts paid on nonparticipating stock. Under the definition of nonparticipating stock, this section would have disallowed as a deduction interest on income obligations.

Your committee has deleted this provision and has restored present law in this area.

Amendment No. 82 (pp. 50 through 166 of committee amendments)

This amendment substantially revises subchapter C of chapter 1 of subtitle A of the House bill. Subchapter C deals with the tax consequences of corporate distributions, including liquidating distributions, and of corporate reorganizations. The revision of this subchapter has been both structural and substantive. The principal substantive changes are:

(1) Your committee has followed the policy of the House bill in allowing the tax-free distribution of corporate stock as a dividend to the greatest possible extent. However, your committee's amendment

adopts an approach to the problem of the so-called "preferred stock bail-out" which differs from that of the House bill. This problem arises under existing law where a corporation issues to its shareholders a dividend in preferred stock which is not considered taxable income at the time of its issuance. This stock may then be sold and thereafter be subject to redemption from the purchasers so that the net effect to the selling shareholder is a distribution of cash which is taxable at capital gain rather than at ordinary income rates. The House bill meets this problem by imposing a penalty tax on the corporation in certain cases when it redeems preferred stock which has been issued as a dividend.

The committee amendments substitute for the House penalty tax, a new provision providing for "section 306 stock." Section 306 stock is, in general, preferred stock issued as a dividend. The recipient of one of these stock dividends would not be taxable on its receipt but would be taxable on its disposition at the rates applicable to ordinary income.

This treatment would be applicable only to issues of preferred stock distributed on or after June 18, 1954. The House bill applied to previously issued preferred stock.

(2) The House bill provides definitions of corporate instruments such as common stock, preferred stock, and securities. These definitions are of consequence throughout subchapter C, and significant tax consequences could result from the classification in which an instrument was deemed to fall. This amendment eliminates these definitions and in this respect returns to existing law.

(3) The House bill provides one general rule governing the tax consequences of corporate liquidations. The significant feature of this rule is its postponement of tax on the unrealized appreciation in corporate assets which are distributed in kind. This rule is complicated by a new approach to the problem of the so-called "collapsible" corporation. This new approach requires that the basis of inventory items which have appreciated in value carry over in the hands of the distributee on liquidation. This amendment substantially retains existing-law-treatment of the collapsible corporations and returns to the structure of existing law in its treatment of corporate liquidations generally. Thus, under the general rule, a shareholder is taxable on the excess of the value of assets received in liquidation over the cost of his stock. A parent corporation liquidating its subsidiary may do so, however, without the recognition of gain or loss, and the basis of the assets in the hands of the subsidiary will continue to be the basis of the assets in the hands of the parent. However, if the parent purchases the stock of the subsidiary and adopts a plan of liquidation within 2 years thereafter, the amendment follows the House provisions in treating such a purchase and liquidation as though the assets (instead of the stock) had been purchased and gives the assets a basis equal to the amount paid for the stock.

The amendment also makes permanent the provisions of section 112 (b) (7) of the 1939 Code. This provision allows a corporation to be liquidated without recognition of gain on unrealized appreciation (and requires that assets take over the cost of the stock as their basis) where the liquidation is completed within 1 month.

(4) Your committee's amendment substantially follows the House bill in its provisions relating to corporate separations. Thus, stock

of an existing subsidiary may be distributed without the recognition of gain or loss directly to the shareholders of the parent. This eliminates the restrictive requirement of existing law that an intermediate holding company must be created to which the subsidiary stock is transferred and the stock of the holding company in turn distributed. Your committee provides, however, that a corporation may be separated into other corporate entities only if each entity (both new and old) is actively engaged in business before and after the separation. The House bill allows investment assets to be separated into a new corporation and the stock of such an inactive corporation to be distributed without the recognition of gain. Your committee does not believe the safeguards in the House bill against tax avoidance through the use of such a device would be sufficiently effective to warrant its insertion in the tax laws.

In addition, your committee follows the House bill in providing that a transferee corporation may be controlled by persons who were shareholders of the transferor corporation but do not continue as such after the distribution.

(5) The House bill departs from existing law by providing more restrictive rules as to the types of tax-free reorganizations which may be entered into by closely held, as opposed to publicly held, corporations. Your committee's amendment eliminates the distinction between reorganizations involving publicly, as opposed to closely, held corporations. Thus, the requirement is eliminated that the shareholders of a closely held transferor corporation must receive at least 20 percent of the stock of the acquiring corporation in a reorganization taking the form of a corporate acquisition of stock or property. The amendment returns to the definition of "reorganization" in existing law in providing where there will be no recognition of gain or loss at either the corporate or shareholder level.

(6) Your committee limits the allowance of net operating loss carryovers resulting from a tax-free reorganization while the House bill did not. These carryovers are appropriately allowed in full only when the shareholders of the predecessor corporation have a substantial continuing interest in the successor corporation. Thus, it is provided that if the shareholders of the old corporation have 20 percent of the stock of the new corporation, the loss carryover is available to the new corporation without diminution. The amount of the carryover is reduced proportionately, however, if the old shareholders receive less than this percentage. Thus, if they have only 10 percent of the stock in the successor corporation, only 50 percent of the loss carryover is available to it.

A further change is made in the provision of the House bill limiting the net operating loss carryover where 50 percent of the stock in the corporation is purchased. Your committee's amendment limits this provision to the area in which abuse has most often arisen, that is, the purchase of the stock of a corporation with a history of losses for the purpose of using its loss carryovers to offset gains of a business unrelated to that which produced the losses. Accordingly, your committee has provided that if more than 50 percent of the stock of a corporation is purchased within a 2-year period and if the corporation thereafter engages in a different type of business, then the loss carryover is eliminated entirely.

(7) The House bill provides that the rules of subchapter C would generally apply to transactions carried out after March 1, 1954. Your committee has revised this date so that, in general, the effective date of subchapter C will be June 18, 1954. Since, in large part, the rules of subchapter C now represent a return to the existing statute, it is not believed that a date later than this is necessary to prevent hardship in any case.

In the event that corporate reorganizations now in the course of being completed have been planned with the existing statute in mind, special rules are provided which will permit those reorganizations to be carried out under the 1939 Code. Thus, reorganizations carried out pursuant to a plan adopted before June 18, 1954, can be completed under existing law.

If a taxpayer has asked for a ruling before June 18, 1954, with respect to a proposed reorganization, but if a plan has not been adopted, then the rules of existing law or the rules of the 1954 Code are available in accordance with an elective provision provided by your committee. If a plan of reorganization was adopted after March 1, 1954, and before June 18, 1954, that is, in the interim between the effective date of the House bill and the general effective date in your committee's amendment, a similar election is granted to have either the provisions of the old code or the provisions of the Internal Revenue Code of 1954 apply.

Amendment No. 83 (pp. 166–188 of committee amendments)

Your committee has completely rewritten the House bill, which involved a major departure from present law in the matter of the requirements of qualification of a plan and the treatment of nonqualified deferred compensation arrangements. The amendment has the principal effect of returning to present law with certain exceptions. Most of these exceptions were contained in the House bill.

Section 401 which contains the requirements for qualification is the same as present law except for some conforming amendments required by substantive changes elsewhere in this part. The return to present law is a substitute for the mechanical requirements for qualification of a plan that were contained in the House bill in section 501 (e).

Section 402 relates to the taxability of the beneficiary of an employees' trust. This follows present law except for certain conforming amendments to the new code and several substantive amendments. One of the latter deals with capital gains treatment for certain distributions from an exempt trust. This treatment is extended to distributions on account of the death of the employee after separation from service. This provision was in the House bill. Another provision which differs from present law relates to foreign situs employee's trusts. Under present law, the Internal Revenue Service imposes very restrictive conditions on the qualification of such a trust. Under the committee bill it is provided that a foreign situs trust can never qualify for tax exemption for the trust itself but, if the trust is set up under a plan that meets all the other conditions of qualification, the other tax advantages will be available. These include current deductions for employer contributions, deferment of tax until receipt for the employee, and capital-gains treatment on certain lump-sum distributions. The House bill took the same approach to the problem but did not provide the capital-gains treatment.

Your committee's provision also differs from present law in a third respect. Ordinarily distributions on the termination of an employees' trust do not give rise to capital gains if there is a continuity of employment with the same employer. Your committee's amendment provides that capital-gains treatment will be allowed in the case of lump-sum distributions in 1954 arising from plan terminations in a prior year connected with a complete liquidation of the employer corporation, whether or not the liquidation is incident to a reorganization such as a consolidation or a statutory merger. This provision without the date restrictions, was contained in the House bill.

Your committee's version of section 403, relating to the taxation of employee annuities, corresponds to present law except for one important provision which was contained in the House bill. Capital-gains treatment is extended to lump-sum distributions from an annuity plan arising from the employee's death or other separation from service, or his death after separation.

Section 404, as amended by your committee, relates to the employer deduction for his contribution to employee plans. This is substantially the same as present law with a few important exceptions. The first of these permits the members of a consolidated group to take a deduction for a contribution to a profit-sharing plan of another member which is prevented from making the contribution by virtue of having no earnings and profits. This is quite close to the corresponding provision in the House bill except that the committee made two changes. The provision has been extended to stock-bonus plans where the employer contribution is measured as a percentage of profits, and the requirement for a proportionate allocation of the contribution according to the profits of the other members has been removed where the group files a consolidated return.

Another point on which your version of section 404 differs from present law, as did the House bill, is that it extends from 60 days to the return filing date (including extensions) the period beyond the end of the year in which an accrual basis taxpayer may make a contribution to an employees' plan and still have it count as a contribution of the prior year.

Your committee's bill also makes certain that an employer will obtain deductions in future years for contributions under a plan set up, prior to 1954, as a result of negotiations between an employee group and the United States Government during a period of Government seizure of the employer's industry. This, for example, will give assurance to employers that they may deduct amounts contributed to the United Mineworkers Welfare fund. There is no corresponding provision in the House bill.

Amendment No. 84 (p. 188 of committee amendments)

This is a conforming amendment to subsection (a) of section 421 dealing with the treatment of restricted employee stock options. The substantive change to which this amendment relates is described in amendment No. 87.

Amendment No. 85 (p. 188 of committee amendments)

The House bill makes it clear that a restricted stock option may be what is known as a variable-price option. A variable-price option is an option in which the price to be paid by the employee for the stock is determined by reference to the market value of the stock, for

example, an option permitting an employee to purchase stock at 85 percent of the value of the stock. However, the House bill defines a variable-price option as an option where the purchase price of the stock under the option is not fixed or determinable. It has been pointed out to your committee that this definition might create a loophole by covering options where the option price decreases as the value of the stock increases. For example, under this provision it appears that an option would qualify where the option price decreases as the corporation's accumulated earnings increase. To close this loophole your committee has provided that in the case of qualifying variable options, the value of the stock is to be the only variable.

This amendment also makes conforming changes in the employee stock option provision relating to acquisition of new stock in the case of certain tax-free corporate reorganizations. The amendment conforms to the new section numbers for corporate reorganizations and also corrects technical errors in the House bill. In the case of acquisition of new stock where there has been a tax-free reorganization the bill provides that such stock is in effect to be considered the stock received upon the exercise of the option, even though it in fact is stock received in exchange for such stock.

Amendment No. 86 (p. 189 of committee amendments)

This amendment makes 3 substantive changes in the House bill relating to employee stock options.

The House bill provides that where an option is granted at 110 percent of the value of the stock and is exercisable only in a 5-year period the 10 percent stock ownership provision of present law does not need to be met in order for an option to qualify as a restricted stock option. Your committee accepted this House provision but has waived the 5-year period for the exercise of the option where the option is actually exercised within 1 year after the enactment of this bill. This appeared desirable to your committee because there was no way of knowing at the time the option was issued that a 5-year restriction would be imposed by the bill upon the exercise of these options.

The House bill provided that with respect to options issued after December 31, 1953, in order to qualify as restricted stock options, they must be exercisable over a period of 10 years or less. Your committee has accepted this provision but provided that it is to apply with respect to options issued after June 18, 1954, the date this bill was reported by your committee. This appears desirable because options have been issued since December 31, 1953, in anticipation of being qualified options but with no intimation that the 10-year restriction was to be imposed in the House bill.

The House bill treats an option exercised by an estate or beneficiary of an employee in substantially the same manner as if the option were exercised by the employee directly. Your committee accepted this amendment but realized that this in turn created a new problem. Where stock acquired by an estate by exercising one of these options is transferred to a beneficiary, this event does not qualify as a "disposition" under either present law or the House bill. As a result, in the case of options issued at a price of between 85 and 95 percent of the value of the stock, there is no event, in the case of one of these options exercised by an estate, which results in the taxation, as ordinary income, of this spread between the option price and the value of the stock

at the time the option was granted. Your committee's bill provides, therefore, that the transfer to a beneficiary of stock acquired by an estate upon the exercise of an option is to be treated as a "disposition" for purposes of reporting ordinary income in the case of the options described.

Technical and clarifying changes were also made changing the requirements under the definitions of parent and subsidiary corporations from those owning more than 50 percent of the stock of another corporation to those owning 50 percent or more of such stock. Another technical and conforming change substitutes the appropriate subsections with reference to the new corporation reorganization sections under your bill for those referred to in the House bill.

Amendment No. 87 (p. 190 of committee amendments)

Under present law, where an option has been modified, extended or renewed, the price under the new option may not be less than 85 percent of the value of the stock at the time the old option was granted or less than 85 percent of the value of the stock at the time of any modification, extension or renewal, whichever is higher. As the House recognized, this is detrimental to employees having options where the value of the stock has decreased. The House bill provided that if the option was granted after December 31, 1953, or was exercisable over a period of 10 years or less, the highest value of the stock would not control the option price at the time of any modification, extension, or renewal.

Your committee, while approving of this change in general, believes that employees should not be permitted to take advantage of temporary price declines in stock to obtain a more favorable option. For that reason the committee has provided that the highest value will apply unless there has been a decline of at least 20 percent in the value of the stock for a year or more. With this change it was also possible for your committee to remove the distinction contained in the House bill between options issued before or after December 31, 1953. Other changes made by the House in the definition of modification were retained by your committee.

Amendment No. 88 (p. 192 of committee amendments)

Under present law if an employer corporation is reorganized in a tax-free exchange and an employee has already exercised his option, no "disposition" of the stock occurs for purposes of the stock option provision upon the exchange of his stock. However, if the reorganization occurs before the employee has exercised his option, it is not clear whether he still has a restricted stock option if the reorganized corporation assumes responsibility for the old option or issues a new one. The House bill allows a successor corporation to be considered as the employer corporation and provides that the change in terms of an option to comply with the reorganization are not to be considered a modification.

Your committee's bill provides this treatment in a broader area than the House bill. Under your committee's bill in the case of a corporate merger, consolidation, acquisition of property or stock, separation, reorganization or liquidation, where there has been a substitution of a new option for an old option (or where the old option has been assumed by the new employer) the old option is to be considered as continuing in effect. However, under your com-

mittee's action the old option must be canceled (unless it is assumed by the new employer and no new option issued) and the value of the new option must not be greater than that of the old option. In addition, as provided by the House bill, the new option must not give additional benefits not available under the old option.

Amendment No. 89 (p. 194 of committee amendments)

The House bill gives statutory sanction to the 52–53-week fiscal year for corporate taxpayers. Your committee has extended the privilege to noncorporate taxpayers who use such a fiscal year for business purposes.

Amendment No. 90 (p. 194 of committee amendments)

Technical amendment to section 441, relating to period for computing taxable income (52–53-week fiscal year).

Amendment No. 91 (p. 195 of committee amendments)

This amendment, as a matter of administrative convenience, eliminates the proration of the personal exemption in the case of a return for a short period caused by the termination of the taxable year due to jeopardy.

Amendment No. 92 (p. 195 of committee amendments)

Under present law, payments received in advance for the use of property in future years or for services to be rendered in future years are generally includible in the income of the recipient in the year of receipt.

The House bill permits accrual-basis taxpayers to defer the reporting of advance payments as income until the year or years in which earned, under their regular method of accounting. The period over which the prepayment may be deferred may not exceed 5 years after the year of receipt.

A doubt is created by the House bill as to the treatment of advance payments which are to be earned over an indefinite period. Your committee has included a clarifying amendment indicating that such prepayments may, under regulations, be treated in part as income to be earned over a short period (where the taxpayer's experience shows a reasonably accurate average period) and in part as income to be earned over a period in excess of 5 years.

Amendment No. 93 (p. 196 of committee amendments)

Under present law, in order to use the installment method of reporting income in the case of sales of real property or casual sales of personal property, some payment must be made in the year in which the sale occurs but the initial payment may not exceed 30 percent of the selling price.

The House bill required that in the year in which payments were first received, such payments could not exceed 30 percent of the selling price. This requirement would leave in doubt, for perhaps a number of years, the status of certain sales in which the initial payments are indefinite and are not payable until some time subsequent to the year of sale. Your committee's bill, therefore, provides that sales of realty and casual sales of personalty, which otherwise qualify, may be reported under the installment method if in the year of sale either no payments are received, or the payments in that year do not exceed 30 percent of the selling price.

Amendment No. 94 (p. 197 of committee amendments)

Conforming change to amendment No. 228 to section 1035, relating to mortgage foreclosures.

Amendment No. 95 (p. 197 of committee amendments)

Conforming change to amendment to corporate reorganization provisions.

Amendment No. 96 (p. 198 of committee amendments)

Under present law a deduction for the payment of local property taxes by an accrual basis taxpayer is generally deemed to accrue upon the date when the amount and liability for the tax becomes fixed (usually the assessment date).

The House bill provides that an accrual basis taxpayer must, in the future, accrue a real property tax ratably over the period for which the property tax is imposed. Special rules are provided in the House bill to cover the transitional problems arising as a result of the change. These rules have the effect of creating a gap in property tax deductions in certain instances which would artificially inflate income in the year of transition.

Your committee has, therefore, provided that the new accrual rule may be elected at the taxpayer's option; thus, taxpayers whose income would otherwise be distorted in the transition year may continue to employ the method for accruing property taxes which they have consistently used in the past. The transition rules will apply only in those cases in which an election is made.

Amendment No. 97 (p. 199 of committee amendments) and

Amendment No. 98 (p. 199 of committee amendments)

Under present law, deductions for expenses and losses incurred by a taxpayer may be taken only when all events have occurred which fix the fact and the amount of the taxpayer's liability. The House bill permitted an accrual basis taxpayer to elect to deduct reasonable additions to reserves for estimated expenses. The expenses must be related to income of the taxable year and must be allowable deductions which can be estimated with reasonable accuracy.

Your committee has amended the House bill to provide that additions to reserves for estimated expenses are to be taken into account in the discretion of the Secretary or his delegate in order to conform the administrative control in this area with that provided under existing law in the deduction for additions to reserves for bad debts. Your committee has also added a specific provision to the effect that expenses estimated under this section must be attributable to income of the taxable year or prior taxable years for which an election to estimate expenses under this section has been in effect.

The House bill created uncertainty as to the status of deductions for expenses attributable to taxable years prior to 1954 (the first taxable year for which an election may be made) but actually incurred in 1954 or in subsequent years. To resolve this question your committee has specifically provided that expenses incurred in 1954 and in subsequent years which pertain to income of taxable years preceding the first year of election under this section may be deducted as though this section had not been enacted.

Amendment No. 99 (p. 200 of committee amendments) and
Amendment No. 100 (p. 200 of committee amendments)

Under present law, taxpayers who request permission to change their method of accounting (other than to the installment method) are required to make certain adjustments in the year of change in order to prevent income and expenses from being reported more than once or to prevent the omission of certain income. Where a change in accounting method is initiated, however, by the Internal Revenue Service the courts have generally denied any such adjustments for years barred by the statute of limitations. The House bill provided that whether the change in method of accounting was voluntary or involuntary, the taxpayer should take into account those adjustments determined by the Secretary or his delegate to be necessary solely by reason of the change. Where such transitional adjustments, however, would result in an increase in taxable income of more than $3,000 in the year of change, the House bill provided that the net transitional adjustment should be spread ratably over the year of change and the 2 preceding years.

Your committee has amended the House bill to provide that no transitional adjustments are to be made in respect of any taxable year to which the new code does not apply. This provision will provide relief from the effect of the House bill which would have imposed a harsher transitional adjustment in involuntary changes in most instances than would be imposed by recent court decisions under existing law. The transitional adjustments in all future changes under the amendment adopted by your committee will be those resulting from a change in accounting method (whether voluntary or involuntary) which are determined under the facts of the case to be necessary in order to adjust for erroneous treatment of items occurring in taxable years to which the new code applies.

An additional relief provision from the effect of an increase in tax liability resulting from a change in accounting method has been added by your committee. The tax resulting from a change is limited to the aggregate of taxes which would result from allocating the adjustments to years prior to the year of change (but not including any year to which the new code does not apply) and recomputing taxable income for those years under the new method of accounting. This limitation on tax liability will be effective only to the extent that the records of the taxpayer are adequate to permit such recomputation.

Amendment No. 101 (p. 203 of committee amendments)

This is a clerical amendment to a table of contents.

Amendment No. 102 (p. 203 of committee amendments)

This provides a tax exemption for a coporation engaged in testing for public safety if it meets the same requirements imposed on a tax-exempt scientific or educational organization.

Clerical changes are also made.

Amendment No. 103 (p. 204 of committee amendments) and

Amendment No. 104 (p. 204 of committee amendments)

These amendments strike the new provisions inserted by the House relating to the requirements for qualification of a pension, profit-

sharing, or stock-bonus plan. Present law was restored in this area by amendment No. 83.

This is a clerical amendment.

Amendment No. 105 (p. 204 of committee amendments)

These are clerical amendments.

Amendment No. 106 (p. 204 of committee amendments)

These are conforming changes required by amendment No. 103.

Amendment No. 107 (p. 204 of committee amendments)

The House bill provides that an employees' trust will lose its tax-exempt status, if the trust engages in certain activities, including the loan of income or corpus without a reasonable rate of interest and adequate security. Certain other tax-exempt organizations already are subject to the same rules.

Your committee's amendment is consistent with the House provision but allows up to December 31, 1955, to arrange refinancing in cases where the employees' trust had such a loan (presumably to the employer) outstanding as of March 1, 1954.

Amendment No. 108 (p. 205 of committee amendments)

This has the effect of removing an amendment to present law which was made by the House bill. The House provision would have placed employees' trusts under the operation of certain rules in present law which deny exemption for the organization on account of certain unreasonable accumulations of income. The committee considered that other provisions dealing explicitly with employees' trust provided sufficient restrictions on accumulations.

Amendment No. 109 (p. 205 of committee amendments)

This is an amendment to present law which is designed to reduce the impact of the rules against unreasonable accumulations in the cases of certain testamentary trusts which require a period of accumulation of income in order to be able to carry out some specified charitable objective.

Amendment No. 110 (p. 206 of committee amendments)

This amendment removes the restrictions imposed by the House bill on the investment policy of employees' trusts. These restrictions were subject to very widespread criticism.

Amendment No. 111 (p. 206 of committee amendments)

These are clerical amendments.

Amendment No. 112 (p. 206 of committee amendments)

These are clerical amendments.

Amendment No. 113 (p. 206 of committee amendments)

This is a conforming amendment to permit the new limitation of 30 percent on certain types of charitable contributions to be available against the unrelated business income of a tax-exempt trust.

Amendment No. 114 (p. 207 of committee amendments)

This is a clerical amendment related to amendment No. 103.

Amendment No. 115 (p. 207 of committee amendments)

This is a clerical amendment.

Amendment No. 116 (p. 207 of committee amendments)

Present law imposes a tax on rental income received by certain tax-exempt organizations to the extent that property, subject to a lease for more than 5 years, was obtained with borrowed funds. However, an exception is provided under present law in the case of certain leases for more than 5 years, in the case of property occupied by more than 1 tenant. The amendment of your committee provides that a leasor affected by this exception may renew short-term leases in the latter part of their term without having the unexpired portion of the first lease added to the period of the second lease, making the second lease one for more than 5 years.

Amendment No. 117 (p. 207 of committee amendments)

This amendment provides an effective date for the application to employee trusts of the provisions taxing rental income received by certain tax-exempt organizations to the extent that borrowed funds are used to acquire the property. This is designed generally to avoid imposing a penalty on commitments entered into prior to March 1, 1954.

A further change made by this amendment provides, subject to appropriate limitations, that if one employees' trust borrows funds from another trust of the same employer, in order to acquire property to be leased, this will not subject the rental income to tax provided the second in turn has not borrowed in order to make the loan.

A clerical amendment is also made.

Amendment No. 118 (p. 209 of committee amendments)

This is a clerical amendment to the table of contents for part I of subchapter G relating to corporation improperly accumulating surplus.

Amendment No. 119 (p. 209 of committee amendments) and

Amendment No. 120 (p. 209 of committee amendments)

These committee amendments relate to the exemption from the accumulated earnings tax provided by the House bill for publicly held corporations. Under present law such corporations are theoretically subject to the accumulated earnings tax but as a practical matter this tax has been applied only where 50 percent or more of the stock of a corporation is held by a limited group. The House bill provided a specific statutory exception for any corporation which has more than 1,500 shareholders if no more than 10 percent of the stock is held by any 1 person, including members of his family.

Testimony before your committee indicated that it would be very difficult for many corporations, generally recognized to be publicly held, to establish from their records that not more than 10 percent of their stock was held by any 1 person and members of his family. Yet, if publicly held corporations are to be exempted from this tax, it is recognized that a requirement of this type is needed. In view of this and the fact that this tax is not now in practice applied to publicly held corporations, your committee removed the exemption from the accumulated earnings tax for publicly held corporations.

Amendment No. 121 (p. 209 of committee amendments)

Under present law if the earnings and profits of a corporation have accumulated beyond the reasonable needs of the business, the corporation is assumed to have accumulated earnings for the purpose of

avoiding income tax with respect to its shareholders unless, by the clear preponderance of evidence, it can prove to the contrary. Your committee made an amendment removing the word "clear" before "preponderance" and made a conforming change with respect to an amendment made by the House. The House had inserted a parenthesis modifying the phrase "reasonable needs of the business" to make it clear that such needs included "reasonably anticipated needs." Your committee has moved this clarifying phrase to another section, but, in doing so, has not changed the intent of the House provision.

Amendment No. 122 (p. 210 of committee amendments)

At the present time the taxpayer has the burden of proving that his accumulated earnings and profits are not in excess of the reasonable needs of the business. The House added a provision providing that if the taxpayer upon request filed a statement of the grounds (together with sufficient facts to apprise the Secretary or his delegate of the basis thereof) on which he relied to establish the reasonableness of the accumulation, the Government is to have the burden of proof.

In this amendment your committee modified this House provision slightly to provide that with the statement submitted by the taxpayer to shift the burden of proof, there is only to be submitted "facts sufficient to show the basis thereof" rather than "facts sufficient to apprise the Secretary or his delegate of the basis thereof." Your committee believes that the statement it has supplied is somewhat less rigid and, therefore, less likely to result in the burden of proof not being shifted to the Government.

Your committee also made several other conforming changes in this amendment which relate to changes made by your committee in the accumulated earnings credit.

Amendment No. 123 (p. 210 of committee amendments)

This is a clarifying amendment in the definition of accumulated taxable income for purposes of the accumulated earnings tax.

Amendment No. 124 (p. 210 of committee amendments)

This is a technical amendment to the definition of accumulated taxable income for purposes of the accumulated earnings tax. It provides that any alternative capital-gains tax paid by a corporation is to be deducted as a tax rather than as a part of the capital gain which also is deductible in computing the base for this tax.

Amendment No. 125 (p. 211 of committee amendments)

The House bill provided a minimum accumulated earnings credit of $30,000 for purposes of computing the accumulated earnings tax.

This amendment of your committee substantially revises the accumulated earnings credit provided by the House bill. It provides an accumulated earnings credit for the profits of the taxable year which are retained for the reasonable needs of the business. It further provides that in no case is this credit to be less than the amount by which $60,000 exceeds the accumulated profits of the corporation at the end of the prior year. This in effect provides two changes. In the future this tax will apply only to the amount unreasonably accumulated. Moreover, in no case will the tax be imposed on any corporation which has not accumulated earnings to the extent of $60,000, rather than $30,000 as provided by the House bill.

Your committee has made these changes because it sees no justification for imposing a penalty tax on accumulated earnings to the extent that the earnings are needed in the business. Moreover, it increased the minimum credit provided by the House bill from $30,000 to $60,000 in order to better protect small business.

Amendment No. 126 (p. 212 of committee amendments)

This is a clerical change which moves from section 533 to 537 the phrase "including reasonably anticipated needs," and defines reasonable needs of the business as including such reasonably anticipated needs.

Amendment No. 127 (p. 213 of committee amendments)

The House bill provides that a consolidated return may be filed for purposes of the personal holding company tax, by a group of corporations if (1) the common parent corporation derives 80 percent or more of its income from the affiliated group for the 3 preceding taxable years, (2) no member of the group would be a personal holding company if its income derived from the group were disregarded, and (3) no member of the group is a corporation exempt from the personal holding company provisions.

Your committee's amendment strikes the first limitation provided by the House bill and makes two modifications in the second limitation. By striking the first requirement your committee makes it possible for a common parent corporation of a group of corporations filing a consolidated return to derive more than 20 percent of its income from its own operations. No reason is seen why the mere fact that the parent corporation itself is engaged in business should deny it the privilege of filing a consolidated return for purposes of the personal holding company tax.

The second limitation imposed by the House bill is modified by your committee to provide that investment-type income from outside the consolidated group may deny a corporation the right to file a consolidated return only if its income from outside the group constitutes 10 percent or more of its gross income. This appears desirable because otherwise a corporation which derives the great bulk of its income from within the group may be deprived of filing a consolidated return for personal holding company purposes merely on the ground that it has incidental income of the investment type.

The third change made by your committee provides that in determining whether or not a common parent corporation has personal holding company income in sufficient quantity to preclude it from filing a consolidated return with its subsidiaries, income from a corporation in which it has more than a 50 percent stock ownership is to be left out of consideration in making this determination. This means the mere fact that a corporation has received income from a corporation, which it controls but in which its control is not sufficient to permit the filing of a consolidated return, will not prevent this company from filing a consolidated return with other more closely associated companies merely on the grounds that it receives investment income from such outside corporation.

Amendment No. 128 (p. 215 of committee amendments)

This amendment excludes from the definition of personal holding company income interest earned on special reserve funds established

under the Merchant Marine Act of 1936. Such interest is required to be retained in the reserve funds under the Merchant Marine Act for investment in shipping and your committee believes that it should not be treated as personal holding company income.

Amendment No. 129 (p. 215 of committee amendments)

Personal holding company income includes amounts received for the use of property where 25 percent or more of the stock of the corporation is owned by an individual having the use of the property. The House bill provides that this provision is to apply only to a corporation having personal holding company income in excess of 10 percent of its gross income, apart from that received from the use of property. Your committee has provided that in determining whether or not a corporation has personal holding company income in excess of 10 percent, for this purpose, rental income from persons other than shareholders is to be ignored. This makes the exception in the House bill clearly applicable for example, in the case of property which is rented both to shareholders and to persons who are not shareholders of the corporation.

Amendment No. 130 (p. 215 of committee amendments)

Amendment No. 131 (p. 216 of committee amendments)

These are clerical and technical changes. The deduction for the capital loss carryover in the case of the computation of personal holding company income which was omitted by the House bill is restored, the deduction of any alternative tax paid is allowed as a tax deduction rather than as a part of the capital gain deduction and certain conforming changes are made in the charitable contribution deduction for purposes of the personal holding company tax.

Amendment No. 132 (p. 217 of committee amendments)

These are technical and conforming amendments made to the deduction for deficiency dividends in the case of personal holding companies.

Amendment No. 133 (p. 217 of committee amendments)

These are technical and conforming amendments to the cross references at the end of section 551 relating to foreign personal holding company income taxed to United States shareholders.

Amendment No. 134 (p. 218 of committee amendments)

This is a technical and conforming amendment to the definition of charitable contributions allowed as a deduction in computing undistributed foreign personal holding company income.

Amendment No. 135 (p. 218 of committee amendments)

This is a conforming amendment to the table of contents of part IV, relating to deductions for dividends paid to corporations improperly accumulating surplus and personal holding companies.

Amendment No. 136 (p. 219 of committee amendments)

This is a conforming amendment to section 561 (a) relating to the definition of deduction for dividends paid to corporations improperly accumulating surplus and personal holding companies.

Amendment No. 137 (p. 219 of committee amendments)

This is a clarifying amendment to section 561 (b) relating to the definition of the deduction for dividends paid in the case of corporations improperly accumulating surplus and personal holding companies.

Amendment No. 138 (p. 219 of committee amendments)

This is a clerical amendment.

Amendment No. 139 (p. 220 of committee amendments)

This is a clarifying amendment to section 563 relating to rules for dividends paid after the close of the taxable year in the case of the accumulated earnings tax and the personal holding company tax.

Amendment No. 140 (p. 220 of committee amendments)

This is a clarifying amendment to section 564 (c) relating to the determination of the dividend carryover in the case of certain taxable years beginning after December 31, 1953, and applies to the tax on accumulated earnings and the personal holding company tax.

Amendment No. 141 (p. 220 of committee amendments)

The House bill deleted the consent dividend provisions of present law. Your committee has restored these provisions since although they are not employed frequently, they may be of vital importance to a corporation required to distribute its earnings which is prevented from distributing cash because of loan restrictions, inadequate liquid resources, or for other reasons.

Amendment No. 142 (p. 223 of committee amendments)

This is a conforming amendment to delete a duplicate provision.

Amendment No. 143 (p. 223 of committee amendments)

This amendment provides that the deduction for depletion is to be apportioned between an estate and the heirs on the basis of the income of the estate allocable to each.

Amendment No. 144 (p. 224 of committee amendments)

This is a clerical change in section 611, allowance of deduction for depletion.

Amendment No. 145 (p. 224 of committee amendments)

This is a technical change in section 612, basis for cost depletion.

Amendment No. 146 (p. 224 of committee amendments)

This amendment conforms section 613, percentage depletion, to the amendments made under section 614.

Amendment No. 147 (p. 224 of committee amendments)

This amendment changes some percentage-depletion rates provided in the House bill as follows:

(1) The rate on uranium is raised from 15 percent to 23 percent.

(2) The rates of the following are raised to 23 percent if from deposits in the United States: Anorthosite (to the extent alumina or aluminum compounds are extracted therefrom), asbestos, bauxite, beryl, celestite, chromite, corundum, fluorspar, graphite, ilmenite, kyanite, mica, quartz crystals (radio grade), rutile, block steatite talc, and zircon, and ores of the following metals: Antimony, bismuth, cadmium, cobalt, columbium, lead, lithium, manganese, mercury,

nickel, platinum and platinum-group metals, tantalum, thorium, tin, tungsten, vanadium, and zinc. These minerals are necessary in the defense program and added incentive to discover new deposits in the United States is particularly desirable.

(3) Bentonite was added to the 15 percent class.

(4) The rate for sodium chloride was raised from 5 percent to 10 percent.

(5) Stone used as dimension stone or ornamental stone, and granite and marble were deleted from the 5 percent class.

All other minerals, not specifically listed in the categories described above (as amended by your committee), will receive 15 percent depletion, as provided in the House bill, unless used for certain specified purposes. The amendment limits these purposes to riprap, ballast, road material, rubble, concrete aggregates, or for similar purposes. In addition to these uses that would result in a 5 percent rate, the House bill listed dimension stone and ornamental stone. To give greater certainty to the term "all other minerals" all the minerals listed in present law and not otherwise specifically mentioned in the section are listed as being included in the "all other minerals" category. In addition slate, soapstone, and limestone are listed as being in this group. Slate, chemical grade limestone, and metallurgical-grade limestone were listed in the category that receives the 15-percent rate regardless of use under the House bill and these references have been deleted. This action places competitive minerals at the same rate.

Technical changes were also made.

Amendment No. 148 (p. 226 of committee amendments)

Amended section 613 (c) (4) (A), ordinary treatment processes for purposes of computing percentage depletion, to include dust allaying and treating to prevent freezing in the case of coal.

Amendment No. 149 (p. 226 of committee amendments)

Amended section 613 (c) (4) (A), ordinary treatment processes for purposes of computing percentage depletion, to include the sintering and nodulizing of phosphate rock.

Amendment No. 150 (p. 226 of committee amendments)

The House bill provided that the taxpayer might elect to aggregate 2 or more mineral interests included in 1 operating unit for purposes of computing percentage depletion. No aggregation of interests was allowed for purposes of computing cost depletion. This amendment broadens the rule so that the election to aggregate 2 or more mineral interests included in 1 operating unit will apply for purposes of cost depletion and the determination of basis as well as the computation of percentage depletion.

Clerical amendments were also made.

Amendment No. 151 (p. 227 of committee amendments)

Conforming amendment to section 614, definition of property, to the action described under amendment No. 150.

Amendment No. 152 (p. 227 of committee amendments)

This adds a new provision to section 614, definition of property, to allow an aggregation of nonoperating interest with the permission of the Secretary or his delegate. The House bill did not allow any aggregation of nonoperating interest. These aggregations are per-

mitted under existing law and this amendment will continue the authority of the Secretary to permit the taxpayer to combine royalty interests.

Amendment No. 153 (p. 228 of committee amendments)

This amendment increases the allowance for exploration expenditures allowed in section 615 to $100,000 from $75,000.

Clerical changes are also made.

Amendment No. 154 (p. 228 of committee amendments)

Clerical amendment to table of contents.

Amendment No. 155 (p. 228 of committee amendments)

Clerical amendment to section 631, gain or loss in the case of timber or coal.

Amendment No. 156 (p. 228 of committee amendments)

This amendment extends to iron ore royalties from deposits within the United States the treatment presently limited to coal. The provisions in the House bill relating to timber were separated from those relating to coal and the provisions relating to timber were amended by removing the special rules for the treatment of expenditures incurred in connection with the timber that had been added in the House bill.

In addition, it provided that the date of disposal of timber is deemed to be the date the timber is cut unless the timber is paid for prior to cutting, in which case the taxpayer may elect to treat either date as the date of disposal. It has been held under present law that the date of disposal is the date the contract is made. This amendment also specifically includes a sublessor as an owner of timber.

Technical and clerical amendments were also made relating to timber, coal, and iron ore.

Amendment No. 157 (p. 231 of committee amendments)

Conforming to the new credit allowed individuals for dividends received from certain domestic corporations, the House bill provides that an estate or trust is to be allowed the dividends credit only in respect of so much of the dividends which it receives which are not properly allocable to a beneficiary. Thus, the dividends received credit is divided by the estate or trust and its beneficiaries in proportion to the dividends allocable to each. Your committee has added a clarifying provision for purposes of determining the time of receipt of dividends, both for the dividends credit under section 34 and the dividends exclusion under section 116. Under this provision the amount of dividends properly allocable to the beneficiary under the estate and trust provisions is deemed to have been received by the beneficiary ratably on the same dates that the dividends were received by the estate or trust.

The House bill also contained a provision making available to beneficiaries succeeding to the property of an estate or trust on its termination any unused net operating loss or capital loss carryover and any excess deductions (other than certain specified deductions) in excess of gross income. Your committee has retained this provision but has added certain clarifying amendments which will insure that the excess of deductions of gross income are made available only for the last taxable year of the estate or trust.

Amendment No. 158 (p. 232 of committee amendments)

Technical and clarifying amendment to section 643 relating to definitions applicable to certain estate and trust provisions.

Amendment No. 159 (p. 232 of committee amendments)

Technical and clarifying amendments to definition of distributable net income contained in section 643.

Amendment No. 160 (p. 233 of committee amendments)

Technical and conforming amendment to section 661 relating to additional deduction allowed to estates and trusts for distributions to beneficiaries.

Amendment No. 161 (p. 234 of committee amendments)

Conforming amendment to amendment No. 157 made by your committee.

Amendment No. 162 (p. 234 of committee amendments)

Section 663 of the House bill provided rules pertaining to sections 661 and 662 which excluded from the additional deduction allowed a trust or estate for distributions under section 661 and from the corresponding inclusion of amounts in the income of beneficiaries under section 662 certain distributions, such as charitable contributions, final distributions, and gifts or bequests not to be paid at intervals and not paid solely out of income.

Your committee has substantially revised section 663 of the House bill. Subsection (a) (1), relating to gifts, bequests, and so forth, which are excluded from the application of section 661 and 662, has been clarified in order to more clearly define the distributions which are to be excluded as gifts or bequests. In general, a gift or bequest of a specific sum of money or specific property which is paid in a lump sum or in not more than three installments is excluded unless it can only be paid from income. Clarifying changes are also made in subsections (a) (2) and (a) (3) to the provisions of the House bill.

Subsection (b) of section 663 is entirely new. It was brought to the attention of your committee that in certain instances the terms of the trust instrument of existing trusts preclude distributions until the close of the taxable year and thus distributions are made in reliance on the 65-day rule of existing law. Your committee has adopted subsection (b) to prevent undue hardships and inequities in this connection with respect to these trusts which were in existence prior to January 1, 1954, by giving the fiduciary a right to irrevocably elect to apply the 65-day rule.

Subsection (c) of section 663 is also new. Under the theory adopted in the bill, as under present law, it is possible that one beneficiary may be subjected to tax by reason of trust income which is reserved for and only available to another beneficiary. Under this provision if it is determined under pertinent regulations prescribed by the Secretary that a trust having two or more beneficiaries is to be administered in well-defined separate and independent shares, such separate shares are to be treated as separate trusts for the purpose of determining the amount of distributable net income available for allocation to the beneficiaries. It is believed that this provision will remove inequitable results that may result under present law in those instances in which the grantor clearly intends each beneficiary to have a definite share.

Amendment No. 163 (p. 236 of committee amendments)

The House bill adopted subpart D of the estate and trust provisions to close a loophole under existing law. This subpart provides, in effect, that distributions by a trust in excess of its distributable net income (taxable income with certain modifications) will be "thrown back" to each of the 5 preceding years in inverse order and will be taxed to the beneficiaries to the extent that the distributable net income of those years was not, in fact, distributed. To prevent double taxation, the beneficiaries receive a credit for any taxes previously paid by the trust which are attributable to the excess so thrown back. However, the beneficiaries are deemed to have received their share of the tax paid by the trust on this excess. In effect, the beneficiaries, except for the fact that they report the income currently, are placed in the same position as if the trust had made the distribution at the time it received the income. This throwback provision applies only to accumulations of income in taxable years to which this part applies. It does not apply to estates or generally to simple trusts.

Under the House bill distributions exceeding distributable net income by less than $2,000, distributions representing accumulations during the minority (or before the birth) of the beneficiary, and distributions for the maintenance, support, or education of a beneficiary were specifically excluded from the application of the 5-year throwback rule. Your committee believes that the exception for "maintenance, support, or education of the beneficiary" is too broad and, in order to prevent employment of this provision as an escape from the application of the rule, has amended this section so that the exception will apply only to amounts distributed to meet the "emergency needs" of a beneficiary.

In addition, your committee has inserted two new exceptions. section 665 (b) (3) excepts from the application of the throwback rule certain distributions required to be made under the terms of trusts in existence prior to January 1, 1954, under which accumulated income is required to be distributed at not more than four specified ages separated by at least 4-year intervals.

Paragraph (4) of section 665 (b) excludes amounts distributed to a beneficiary as a final distribution of the trust where such distribution does not occur within the first 10 years following the last transfer of property to the trust. It is believed that these two additional exceptions to the throwback rule cover those situations in which legitimate estate planning and management, rather than tax avoidance, motivate the distributions.

Certain technical and clarifying amendments are also made by this amendment.

Amendment No. 164 (p. 238 of committee amendments)

Technical and clarifying amendment to section 667 relating to denial of refund of taxes to trust in computation of distribution deemed thrown back.

Amendment No. 165 (p. 239 of committee amendments)

Technical and clarifying amendments to section 668 relating to treatment of amounts deemed distributed in preceding years.

Amendment No. 166 (p. 239 of committee amendments)

This amendment permits credit for taxes previously paid by the trust to offset the entire tax imposed on the beneficiaries for the year to which a distribution is thrown back, rather than (as under the House bill) limiting the credit to the amounts included in income of the beneficiaries only because of the throwback.

Amendment No. 167 (p. 239 of committee amendments)

Existing law contains a statutory provision dealing with trusts in which the grantor retains a power of revocation. There is also a statutory provision under existing law dealing with trusts whose income is accumulated or used for the benefit of the grantor. In addition, regulations (commonly known as the Clifford regulations) provide a series of rules to determine when trust income is to be taxed to the grantor because of: A reversionary interest within a specified period; powers to control the beneficial enjoyment; or certain broad administrative powers. These regulations are based on the assumption that the grantor may be taxed under the general definition of income where he retains such elements of control as to be deemed the owner of the trust property even through the trust is irrevocable.

In subpart E of the estate and trust provisions, the House bill provides statutory rules to determine when a trust's income is to be taxed to the grantor because of the grantor's substantial dominion and control of a trust property or income. These provisions incorporate the existing statutory provisions, as well as the substance of the Clifford regulations, with certain modifications. For example, under the Clifford regulations the grantor will be taxed on trust income if certain related or subordinate trustees possess a power to apportion income or principal among different beneficiaries. Under the House bill the grantor will not be taxed if he can establish that the related or subordinate trustee is not acting in compliance with the grantor's wishes; however, the grantor must establish by a clear preponderance of the evidence that the related or subordinate party is not subservient to him. Your committee agrees in principle with this provision of the House bill but believes that the taxpayer should be permitted to rebut the presumption that the related or subordinate party is not subservient by only a preponderance of the evidence.

The House bill provides that a person will be deemed to be a nonadverse party if he has a substantial beneficial interest in the trust which would be adversely affected by his exercising or nonexercising of any power with respect to the trust. Your committee has added a provision to insure that a person possessing a general power of appointment over the trust property will be treated as having a "beneficial interest" in the property in accordance with the economic realities of the situation.

Amendment No. 168 (p. 240 of committee amendments)

Clarifying and conforming amendment to section 674 dealing with the power to control beneficial enjoyment of trust property.

Amendment No. 169 (p. 240 of committee amendments)

Under section 673 the grantor of a trust may be held taxable where the beneficial enjoyment of the corpus or income is subject to a power of disposition, exercisable by the grantor or a nonadverse party, or

both. This general provision is subject to a number of exceptions in the House bill which correspond generally to the provisions of the Clifford regulations. Your committee has added an exception, contained in the regulations but not in the House bill, under which the grantor will not be subject to tax by reason of a power exercisable by a trustee (not including the grantor or spouse living with the grantor) which enables the trustee to apportion income among a class of beneficiaries provided that the power is limited by a reasonably definite external standard.

Certain other clarifying and technical changes are made by your committee in this amendment to section 674 of the House bill.

Amendment No. 170 (p. 242 of committee amendments)

Section 675 of the House bill (which corresponds generally to the Clifford regulations) provides that the grantor of a trust is taxable on the trust income where the administrative control of the trust is exercisable primarily for the benefit of the grantor rather than for the benefit of the beneficiaries. For example, if general powers of administration are exercisable by a person in a nonfiduciary capacity, including the power to vote stock of a corporation in which the holdings of the grantor and the trust are significant from the viewpoint of voting control, then the grantor may be held taxable on the trust income. Your committee has revised the House provision in this respect to eliminate any inference that the only investments over which control would be treated as held in a fiduciary capacity would be stocks or securities of corporations.

Amendment No. 171 (p. 243 of committee amendments)

Clarifying and technical amendment to section 676 dealing with power to revoke a trust exercisable by a grantor or nonadverse party.

Amendment No. 172 (p. 244 of committee amendments)

Technical and clarifying amendment to section 677 dealing with income of trust accumulated or applied for benefit of grantor.

Amendment No. 173 (p. 244 of committee amendments)

Technical and clarifying amendment to section 678 dealing with taxation of person other than grantor treated as substantial owner because of dominion or control over trust.

Amendment No. 174 (p. 244 of committee amendments)

Under existing law, an unlimited charitable deduction is denied if the accumulated income of the trust for which the deduction is claimed is unreasonable in amount or duration in order to carry out the charitable purposes of the trust. Your committee has excepted from the operation of this provision of existing law a testamentary trust created by the will of a decedent who died before January 1, 1951 (the effective date of this provision as added by the Revenue Act of 1950). In the case of a testamentary trust created under the will of a decedent dying on or after January 1, 1951, if the income is required to be accumulated pursuant to the mandatory terms of the will, then the unreasonable accumulation rule will apply only to income accumulated during a taxable year of the trust beginning more than 21 years after the date of death of the last life in being designated in the trust instrument.

Amendment No. 175 (p. 244 of committee amendments)

The House bill provides that the new estate and trust provisions are to be applied to taxable years to which the new code applies (taxable years beginning after December 31, 1953, and ending after date of enactment).

Your committee has provided that distributions made by a trust or estate to beneficiaries in the first 65 days of a taxable year to which the new code applies will be deemed to have been distributed on the last day of the preceding taxable year as though the 1939 Code remained in effect as to such distributions. This amendment is deemed necessary because fiduciaries in many instances made distributions in reliance on the 65-day rule of existing law. Where returns were filed on this basis, the effective date provisions of the House bill would have required the filing of amended returns and could have had inequitable results in some cases.

Amendment No. 176 (p. 246 of committee amendments)

This is a replacement for section 72 (j) of the House bill which in turn was a part of a new treatment for joint and survivor annuities most of which was retained in this bill. The House bill provided that in the case of primary annuitants dying after 1953 the present law system of a new start for the survivor in a joint and survivor annuity would be discontinued. Instead an additional deduction was allowed to the survivor based upon the estate tax attributable to a part of the estate tax value of the annuity. This amendment differs in substance from the corresponding provision in the House bill only in the manner of computing the part of the estate tax value. Under the House bill the part would have corresponded to the relative cost of the survivor feature. Under the amendment the part corresponds to that amount which the survivor expects to receive which is, in fact, interest earned during the lifetime of the primary annuitant.

Amendment No. 177 (p. 248 of committee amendments)

For the most part your committee has retained the House-adopted provisions relating to partners and partnerships. However, your committee has made a number of substantive changes and a still larger number of relatively minor technical changes. For these reasons your committee's amendments incorporate a new subchapter K for partners and partnerships. The chief differences between the House provisions relating to partners and partnerships and your committee's amendments are described below.

(a) *Aggregate rule for contributed property (sec. 704).*—As an alternate to the so-called entity rule provided in the House bill for determining the basis of property contributed to a partnership, your committee's bill provides that, if the partnership agreement so provides, the basis of contributed property may in effect be divided among the partners in a way which attributes precontribution appreciation or depreciation in value to the contributor of the property. This special basis can be used for purposes of computing depreciation, depletion and gain or loss upon sale of the contributed property. Thus, for example, in an equal partnership where the one partner contributed cash of $100 to a partnership and the other contributed property with a basis of $40 but a current value of $100, the partners could agree that the partner contributing the cash could have all of the $40 basis for allocating

depreciation and for allocating the gain or loss if the property is sold. A special rule is also provided in the case of joint tenancies and other undivided interests. This gives partners greater flexibility in operating in the partnership form.

(*b*) *Alternative method of determining basis of partner's interest* (*sec. 705*).—Your committee has provided that in lieu of the relatively detailed adjustments outlined in the House bill (and also in your committee's bill) for determining the basis of a partner's interest, this basis, to the extent permitted by regulations, may be determined by a reference to the partner's proportionate share of the adjusted basis of partnership property. For many partnerships this will represent a relatively simple means of determining the basis of a partner's interest.

(*c*) *Changing or adopting new taxable years* (*sec. 706*).—The House bill compels partners and partnerships to adopt calendar years unless permitted to do otherwise by the Secretary or his delegate. In lieu of this provision, your committee has provided that partners and partnerships may change to or adopt any year they see fit, so long as both the principal partners and the partnership change to or adopt the same year. Moreover, different taxable years may be adopted by the partnership and its principal partners if a business purpose is established to the satisfaction of the Secretary or his delegate for the different years. This provision is designed to close the same loophole with which the House was concerned, but at the same time provide partners and partnerships with more flexibility in selecting taxable years.

(*d*) *Transactions between partners and partnerships* (*sec. 707*).—Under your committee's bill, capital gains in transactions between partners and partnerships will be recognized unless the partner involved has an interest of 80 percent or more in the partnership, in which case the gain will be an ordinary gain. In the case of losses the deduction for a loss in the case of a transaction between a partner and a partnership, the deduction for the loss will be denied only in the case of a partner having an interest of 50 percent or more in the partnership. The House bill had a 50-percent rule in both gain and loss cases, and where such an interest was exceeded, treated the transaction as either a contribution or a distribution of property. The rule adopted by your committee is more lenient and provides the same rule which is already available in the case of transactions between controlled corporations and their shareholders.

(*e*) *Distributions* (*secs. 731–735*).—In the place of the House rules for distributions, your committee has provided that in the case of liquidating distributions the distributee will generally substitute for the partnership basis of property distributed the basis he held for his interest in the partnership. The basis to the distributee of inventory items and unrealized receivables, however, is to be limited to the basis they had in the partnership to prevent the conversion of ordinary income into capital gains. To the extent the basis of the distributee for his interest in the partnership differs from the partnership basis for the distributed property the partnership may (if it has generally elected to make such adjustments) make adjustments to the basis of the property remaining in the partnership to account for this difference.

The carryover basis provided by the House bill is continued by your committee in the case of nonliquidating distributions. However,

instead of realizing gain as is provided under the House bill where this basis for the property distributed exceeds the partner's basis for his interest, your committee's bill provides that the basis of the property distributed is to be limited to the partner's basis for his interest.

In general, these new distribution rules differ from the House rules primarily in that they narrow the area in which gain or loss is recognized upon a distribution. These rules combined with the nonrecognition of gain or loss upon contribution of property to a partnership will remove deterrents to property being moved in and out of partnerships as business reasons dictate.

(*f*) *Transfers of an interest in a partnership* (*secs. 741–743*).—In general, your committee has adopted the House provisions relating to transfers. However, if the partnership elects to adjust the basis of partnership properties with respect to transfers, the adjustment under your committee's bill as distinct from the House bill, to the extent it represents appreciation or depreciation in the value of assets after their contribution to the partnership, is to be available only to the transferee partner. Your committee believes that assigning this special basis largely to the transferee partner is desirable because it is more accurate than the House bill in reflecting the increase (or decrease) in basis to the partner to whom it is attributable.

(*g*) *Payments to a retiring partner or successor of a deceased partner* (*sec. 736*).—Your committee has abandoned the 5-year rule provided in the House bill for providing different treatment with respect to payments to a withdrawing partner depending on the period over which the payments are made. To the extent that payments to a retiring partner or deceased partner's successor in interest are not in exchange for a capital interest, under your committee's bill they are treated as deductions to the remaining partners and as income to the withdrawing partner or his successor, irrespective of over how long a period they may be paid. Under the House bill, to the extent these payments were made more than 5 years after the retirement of the partner, they were treated as a gift by the remaining partners to the withdrawing partner. Your committee believes that the artificial rule of the House bill is undesirable because it tends to interfere with the normal period over which these payments may be spread.

(*h*) *Collapsible partnerships and other provisions common to distributions and transfers* (*secs. 751–755*).—In general, your committee followed the House rules with respect to collapsible partnerships, although a number of relatively minor technical changes were made in this area.

(*i*) *Effective dates* (*sec. 771*).—Your committee's bill makes the new partnership provisions generally applicable for partnership years beginning after December 31, 1954, instead of December 31, 1953, as provided by the House bill. However, several loophole-closing provisions are made effective as of March 9, 1954, the date the bill was introduced in the House. The March 9 effective date applies in the case of—

(1) the adoption of a new taxable year by a partner or partnership;

(2) the holding period for receivables or inventory items distributed to a partner; and

(3) the collapsible partnership provision.

The postponement of the general effective date for 1 year will give partners more time to become acquainted with the new provisions.

Amendment No. 178 (p. 283 of committee amendments)
Amendment No. 179 (p. 283 of committee amendments), and
Amendment No. 180 (p. 283 of committee amendments)

In section 803, relating to other definitions and rules in connection with the taxation of life-insurance companies, the House bill refers to items of income received or accrued or items of deductions paid or accrued. Your committee's bill wherever the expression "or accrued" occurs deletes this phrase in order to maintain the use of a cash-accounting system by life-insurance companies.

Amendment No. 181 (p. 283 of committee amendments), and
Amendment No. 283 of committee amendments)

Under present law regulated investment companies generally must have one-half of their investments represented by cash items, Government securities, securities of other regulated investment companies, and other securities which with respect to any one company—

(*a*) do not represent more than 5 percent of the value of the assets of the investment company, and

(*b*) do not represent more than 10 percent of the voting securities of the company issuing the securities. In addition, not more than 25 percent of the value of the regulated investment company's total assets may be invested in securities of one company or two or more companies under the control of the regulated investment company and engaged in a similar trade or business.

An exception to the 10-percent rule described previously is made in the case of investment companies principally engaged in financing so-called development companies. Development companies are companies principally engaged in the development or exploitation of inventions, technological improvements, new processes, or products not previously generally available. A company principally engaged in investing in one or more of these development companies may hold more than 10 percent of the voting securities of the development company, but under present law and the House bill still is not permitted to invest more than 5 percent of the value of its assets in any one such company.

Your committee has made the 5-percent limitation, just described, inapplicable in the case of investments in a development company. In lieu of this limitation, your committee's bill provides that the investments in such a company are to be limited to 5 percent of the investment company's assets at the time the investment was made, and only at such time. Thus, if the development company is successful and the initial investment of the investment company increases in value to where it represents more than 5 percent of the value of its total assets, it need not reduce its investments in such a development company in order to continue to qualify for the tax treatment provided in the case of regulated investment companies.

Amendment No. 183 (p. 284 of committee amendments)

This is a minor technical amendment to section 852 relating to the taxation of regulated investment companies and their shareholders.

Amendment No. 184 (p. 285 of committee amendments)

This is a clerical amendment to section 853 relating to the foreign tax credit allowed shareholders of regulated investment companies.

Amendment No. 185 (p. 285 of committee amendments)

This amendment makes it clear that the foreign-tax credit, which is allowed to shareholders of regulated investment companies under the House bill in certain cases, is to be available only if the regulated investment company has supplied the shareholder with the necessary written information with respect to the foreign taxes paid within 30 days after the close of the taxable year.

Amendment No. 186 (p. 286 of committee amendments)

This provision amends section 854 of the House bill relating to limitations applicable to dividends received by corporate or individual shareholders of regulated investment companies. Under the House and your committee's bill, if more than 25 percent of the income of the regulated investment company is from interest or other nondividend income, the dividends-received deduction for corporations and the dividend exclusion and credit for individuals is to be available only with respect to the portion of the regulated investment company's distribution which actually represent dividend income.

For purposes of applying this 25-percent limitation your committee's amendments provide that the dividends received are to include only dividends received from domestic corporations. Moreover, they are not to include any dividends which, if received by an individual, would be ineligible under the general dividends-received rules for a credit or exclusion. One of the principal effects of this is to exclude from dividends received, for purposes of applying this 25-percent limitation, dividends paid by foreign corporations since such amounts if received by the shareholders directly would not be eligible for the dividends-received deduction, credit, or exclusion.

Your committee's amendment also provides that the investment company must notify the stockholders within 30 days after the end of the year as to any distribution which is eligible for the dividends-received deduction, credit, or exclusion in order for the stockholders to receive the benefits of such treatment.

Amendment No. 187 (p. 287 of committee amendments)

This is a conforming change in table of parts to subchapter N relating to tax based on income from sources within or without the United States.

Amendment No. 188 (p. 287 of committee amendments)

This amendment of your committee which relates to section 871, dealing with the tax on nonresident aliens, amends a House change providing that the tax base of nonresident alien individuals not engaged in trade or business in the United States is to be enlarged to include any amounts which are considered to be gains from the sale or exchange of capital assets. Your committee has restricted this House change to gains derived from lump-sum distributions under qualified pension trusts where the distribution is made in 1 year on account of separation from service; gains from the disposal of timber, coal, or iron ore if such amounts would be considered as gains from the sale or exchange of capital assets; and gains from the transfer of an interest in a patent which under your committee's bill is considered to be gains from the sale or exchange of a capital asset.

Amendment No. 189 (p. 288 of committee amendments)

This amendment relates to section 874 which allows deductions and credits in the case of nonresident alien individuals only if they file returns. Your committee has revised this section to make it clear that it is not to be construed as denying the credits for tax withheld at source provided by section 31 (relating to tax withheld at the source on wages) and section 32 (relating to tax withheld at source on nonresident aliens and tax-free covenant bonds).

Amendment No. 190 (p. 288 of committee amendments)

This provision relates to section 881, the tax on foreign corporations not engaged in trade or business in the United States. The House bill enlarged the tax base of such corporations to include any amounts which are considered to be gains from the sale or exchange of capital assets. Your committee has restricted the scope of this change to gains derived from the disposal of timber, coal and iron ore, which are considered to be gains from the sale or exchange of capital assets.

Amendment No. 191 (p. 288 of committee amendments)

This is a technical amendment to subsection (c) of section 882, relating to the tax on resident foreign corporations.

Amendment No. 192 (p. 289 of committee amendments)

This is a conforming change to the table of subparts to part III, relating to income from sources without the United States.

Amendment No. 193 (p. 289 of committee amendments)

This is a conforming amendment to the table of sections to the subpart dealing with the foreign tax credit.

Amendment No. 194 (p. 289 of committee amendments)

This amendment makes technical conforming changes in section 901 (a) dealing with taxes of foreign countries and possessions of the United States for which a credit is allowed.

Amendment No. 195 (p. 289 of committee amendments)

This amendment, relating to allowance of credit for taxes paid to foreign countries and United States possessions, restores existing law. The House bill would have permitted a taxpayer to credit a "principal tax" paid or accrued to the national government of a foreign country or of a United States possession. See amendment No. 200, striking out the so-called principal tax provision of the House bill, and inserting as a substitute the provision in existing law allowing a credit for taxes paid in lieu of income, etc., taxes.

Amendment No. 196 (p. 290 of committee amendments)

Amendment No. 197 (p. 290 of committee amendments), and

Amendment No. 198 (p. 291 of committee amendments)

These amendments, relating to credit of domestic corporation stockholder for taxes of foreign corporations paid to foreign countries or United States possessions, conform with your committee's action in amendment No. 200, striking out the principal tax provision of the House bill, and restoring present law.

Amendment No. 199 (p. 291 of committee amendments)

This amendment revises subsection (d) of section 902 of the House bill, relating to special rules for certain wholly owned foreign corporations in the case of the credit for corporate stockholders in foreign corporations. Under the House bill, in limited circumstances, the receipt of property in the form of a royalty from a wholly owned foreign subsidiary is treated as a dividend distribution for purposes of the foreign tax credit. Your committee's amendment revises the House bill by providing that the excess of the fair market value of property received by a domestic corporation from a wholly owned foreign subsidiary over the cost of the property and services furnished by the domestic corporation is to be treated as a distribution by the foreign corporation to the domestic corporation. Your committee's bill differs from the House bill in that the excess of the fair market value of the property received over the cost to the domestic corporation is to be considered as a distribution; whereas, under the House bill, the portion of the property which was not attributable to services or property furnished by the domestic corporation was to be considered as a distribution by the foreign corporation and the amount of the distribution was generally to be determined by reference to the adjusted basis in the hands of the foreign subsidiary of the property distributed.

Amendment No. 200 (p. 292 of committee amendments)

Existing law provides for a credit against United States taxes for foreign income taxes which are defined so as to include so-called "in lieu of" income taxes. The House bill substituted for these "in lieu of" taxes a credit against United States taxes for "principal" taxes. Under the "principal tax" concept, the taxpayer may claim a credit either for the traditional income or profits and excess profits taxes or for a "principal" tax levied by a national government. The "principal" tax under the House bill is defined as the tax imposed by a foreign national government on the taxpayer's trade or business, which constitutes a principal source of tax revenue from that business to the foreign country. However, sales, turnover, property, or excise taxes are excluded if they are generally imposed. Your committee's amendment deletes this "principal" tax concept and restores the tax credit for "in lieu" income taxes as provided by present law. Objection was raised to the adoption of the "principal" tax concept on the grounds that it would in many instances reduce the amount of credit available under existing law and that it would lead to many difficult interpretative problems.

Amendment No. 201 (p. 292 of committee amendments)

These are amendments to section 904, relating to the limitation on the foreign tax credit to conform with the committee's action in deleting the 14-point foreign tax credit.

Amendment No. 202 (p. 293 of committee amendments)

This amendment conforms with the change made by the committee deleting the concept of principal tax and substituting the present law provision relating to "in lieu" income, etc. taxes.

Amendment No. 203 (p. 293 of committee amendments)

This is a clerical amendment made to section 905 (c), adjustments on payment of accrued taxes.

Amendment No. 204 (p. 293 of committee amendments), and

Amendment No. 205 (p. 293 of committee amendments)

These amendments make changes in the headings and table of sections to subpart C to conform with your committee's action in amendment No. 207 deleting the 14-point tax differential for certain business income from foreign sources.

Amendment No. 206 (p. 293 of committee amendments)

The House bill provided that a corporation was not disqualified for the 14-point tax differential provided by present law in the case of Western Hemisphere trade corporations merely because of incidental purchases outside of the Western Hemisphere.

Your committee amended this section to provide that for any taxable year beginning prior to January 1, 1954, the determination of whether or not a corporation qualifies as a Western Hemisphere trade corporation is to be made as if the change made by the House bill with respect to incidental purchases outside of the Western Hemisphere had not been made, and without inference from the fact that this provision is not expressly made applicable with respect to taxable years beginning prior to January 1, 1954.

Amendment No. 207 (p. 294 of committee amendments)

The House bill provided a new credit against tax to the extent of 14 percent for certain income received from foreign sources. In general income from dividends, interest, or from branch operations could qualify for this treatment if most of the earnings of the business involved were derived from outside of the United States and from the conduct of a trade or business. Special limitations had the effect of ruling out most income from wholesaling and income (if over 25 percent of the total) from products manufactured abroad but intended for sale in the United States. The special tax benefit was also available in certain other cases, such as income received from technical engineering, scientific, and like services.

Your committee's amendment deletes this section, because it is not at this time prepared to adopt the approach incorporated in the House bill. However, it is hoped that exploration of the matter in conference with the House of Representatives will make it possible to find a provision in this area which will prove to be satisfactory.

Amendment No. 208 (p. 294 of committee amendments)

This is a conforming amendment to the table of sections in subpart E, dealing with China Trade Act corporations.

Amendment No. 209 (p. 294 of committee amendments) and

Amendment No. 210 (p. 294 of committee amendments)

Present law in general provides that China Trade Act corporations are to receive a credit against net income (deduction against taxable income under the bill) for the ratio of their stock which is held by persons who are citizens or residents of the United States and citizens or residents of China. This credit (or deduction) is available only to the extent the income of such corporations is distributed to these stockholders. Under the House bill these corporations are denied this deduction with respect to stock held or dividends paid to citizens or residents of China unless they are residents of Formosa.

Your committee's amendment provides that in addition, this deduction is to be available with respect to stock held by, and dividends paid to, residents of Hong Kong. Hong Kong was specifically included in the area in which the China Trade Act corporation treatment was available under the original act.

Amendment No. 211 (p. 294 of committee amendments)

In addition to the deduction available to China Trade Act corporations, explained in connection with the prior two amendments, present law provides an exclusion for dividends received from China Trade Act corporations by residents of China. The House bill limited this exclusion for dividends received by the stockholders of such corporations to residents of Formosa. In conformance with your committee's action in the case of the deduction for the corporations, it has extended this exclusion at the individual shareholder level to residents of Hong Kong.

Amendment No. 212 (p. 294 of committee amendments)

Under existing law, profits of a foreign branch of a domestic corporation are taxed currently. The House bill provides a procedure whereby domestic corporations may elect to defer tax on income of certain foreign branches in a manner similar to the way in which tax on income of foreign subsidiaries is deferred, that is, foreign income would be subject to United States tax only when it is brought home. Branches qualifying under this provision under the House bill also were eligible for the 14-point tax differential provided by the House bill.

Your committee's amendment deletes sections 951 to 958 of the House bill dealing with the deferral of tax in the case of foreign branches of domestic corporations. This action has been taken because of the interrelationship of this provision with the 14-point tax differential which as previously indicated has been omitted from the bill for further consideration with the House conferees.

Amendment No. 213 (p. 295 of committee amendments)

This is a clarifying amendment to section 1001, determination of amount of and recognition of gain or loss.

Amendment No. 214 (p. 295 of committee amendments)

This is a technical amendment to section 1001, determination of amount of and recognition of gain or loss.

Amendment No. 215 (p. 295 of committee amendments)

This is a technical amendment to section 1002, recognition of gain or loss.

Amendment No. 216 (p. 296 of committee amendments)

This is a technical and conforming change in section 1012, basis of property—cost.

Amendment No. 217 (p. 296 of committee amendments)

This is a clerical and conforming change to section 1014, basis of property acquired from a decedent. For substantive change see amendment No. 218 in this summary.

Amendment No. 218 (p. 297 of committee amendments)

The House bill established rules for granting a new basis at death for all property received from a decedent. This amendment provides that the basis at date of death of the property covered for the first time by this new provision is to be its value at date of death (or alternate valuation date where applicable) less the deductions for depreciation, amortization, and depletion taken by the taxpayer on such property prior to the date of death.

Clerical changes are also made.

Amendment No. 219 (p. 298 of committee amendments)

This is a conforming amendment to section 1014, basis of property acquired from a decedent.

Amendment No. 220 (p. 298 of committee amendments)

These are technical and conforming changes in section 1016, adjustments to basis.

Amendment No. 221 (p. 299 of committee amendments)

This amendment adds a new cross reference to section 1016, adjustments to basis.

Amendment No. 222 (p. 299 of committee amendments)

This is a clerical amendment to section 1917, discharge of indebtedness.

Amendment No. 223 (p. 299 of committee amendments)

This is a clerical amendment to section 1022, cross references.

Amendment No. 224 (p. 299 of committee amendments)

This is a clerical amendment to table of contents.

Amendment No. 225 (p. 299 of committee amendments)

This is a clerical and technical amendment to section 1031, exchange of property held for productive use or investment.

Amendment No. 226 (p. 300 of committee amendments)

This is a clerical amendment to section 1032, exchange of stock for property.

Amendment No. 227 (p. 300 of committee amendments)

This amendment provides that the sale or other disposition of property lying within an irrigation project will be deemed an involuntary conversion if the sale is made in order to conform to the acreage limitation provisions of Federal reclamation laws.

Clerical changes are also made.

Amendment No. 228 (p. 301 of committee amendments)

This amendment strikes out section 1035 of the House bill, foreclosures on property held as security. The House bill contains a special provision dealing with mortgage foreclosures and related transactions. The approach under the House bill provided that in the case of foreclosures no gain or loss would be recognized until the creditor disposed of the property. Under this treatment, the foreclosed property would take the amount of the debt as its tax basis, and the gain or loss on its ultimate disposition by the creditor would be capital or

ordinary, depending on the previous character of the mortgage or other evidence of indebtedness in the hands of the creditor.

This section was rejected since, particularly in the commercial credit field, a foreclosure is commonly regarded as a closed transaction and the House provision might result in unduly complicated credit transactions.

Amendment No. 229 (p. 301 of committee amendments)

This amendment limits section 1036 of the House bill, relating to certain exchanges of insurance policies, to allow tax-free exchange of an endowment policy for another endowment policy only if the new policy provides for regular payments beginning at a date not later than the date payments would have begun under the contract exchanged.

Clerical changes are also made.

Amendment No. 230 (p. 302 of committee amendments)

This is a conforming amendment to retain rule of existing law which was contained in subchapter C of House bill.

Amendment No. 231 (p. 302 of committee amendments)

This is a conforming amendment to section 1051, property acquired during affiliation.

Amendment No. 232 (p. 303 of committee amendments)

Technical amendment to section 1052, relating to basis established by the Revenue Act of 1932 or 1934 or by the Internal Revenue Code of 1939.

Amendment No. 233 (p. 303 of committee amendments)

This amendment applies to capital gains received by a corporation in a taxable year beginning before April 1, 1954. Under this amendment a rate of 25 percent is to apply in the case of years beginning after March 31, 1954. This is the same as is provided by present law. Under the House bill, in the case of a year beginning before April 1, 1954, and ending after March 31, 1954, the tax would be prorated between the 25- and 26-percent rates, based upon the portion of the taxable year falling after March 31 and the portion before April 1.

Amendment No. 234 (p. 303 of committee amendments)

This is a technical amendment relating to the treatment of capital gains and losses in the case of certain trust beneficiaries.

Amendment No. 235 (p. 304 of the committee amendments)

This is a technical amendment relating to the treatment of capital gains and losses in the case of certain trust beneficiaries.

Amendment No. 236 (p. 304 of the committee amendments)

This is a technical clarifying amendment.

Amendment No. 237 (p. 304 of the committee amendments)

Under present law certain short-term Government obligations sold without interest coupons are not considered as capital assets. The House bill provided that these assets were to be considered capital assets, but the difference between the issue price and redemption value was to be taxed as ordinary income at the time of redemption. The two rules reach substantially the same result in most instances,

but your committee has adopted the rule of present law since this is the simpler.

Amendment No. 238 (p. 305 of committee amendments and p. 254 of House bill)

This is a technical amendment to section 1223, relating to the holding period of property, which is made necessary by an omission in the House bill.

Amendment No. 239 (p. 305 of committee amendments)

This is a technical amendment conforming to the amended provisions in subchapter C relating to certain distributions.

Amendment No. 240 (p. 305 of committee amendments)

This provision allows the holding period of stock received in certain tax-free distributions, for example an ordinary stock dividend, to include the holding period of the basic stock with respect to which it was received. The amendment to the House bill in this regard provides that this rule will apply in the case of stock received in a spinoff even if the spinoff itself occurred before 1954. This method of computing the holding period does not apply to spinoffs under present law.

Amendment No. 241 (p. 305 of committee amendments)

This is a clerical amendment to a cross reference.

Amendment No. 242 (p. 306 of committee amendments)

These are clerical amendments in a table of contents.

Amendment No. 243 (p. 306 of committee amendments)

This is a technical amendment conforming to the capital gain treatment allowed in amendment No. 156 to iron ore royalties.

Amendment No. 244 (p. 307 of committee amendments)

Section 1232 of the House bill provides a new rule for treating as ordinary income a portion of gain realized on bonds and other evidences of indebtedness issued at a discount. The committee accepted the major part of the House provision with a few changes. This amendment removes from the operation of the rule, and from its necessary calculations, certain cases in which the ordinary income part of the gain is likely to be nonexistent or very small. These cases include any buyer who acquires one of these original discount bonds at a premium, and any bond issued at certain very small discounts.

The amendment also clarifies the operation of the discount rule in connection with a particular type of security known as a face-amount certificate.

In addition there are clerical changes.

Amendment No. 245 (p. 308 of committee amendments)

This is an addition to the House bill. It applies the substance of the rule developed in the House bill for dealing with bonds originally issued at a discount, to another case where a discount is created by an artificial transaction having no business purpose. The device involves selling a long-term bond from which there has been detached coupons for a number of years. The coupons are sold separately and the bond is sold at a reduced price. As the period covered by the detached coupons runs out the bond returns to full value. The

consequent gain may be treated as capital gain at the present time but since this gain resembles interest it is treated as ordinary income under the committee amendment.

Amendment No. 246 (p. 309 of committee amendments)

This amendment completely rewrites the provision in the House bill dealing with patents. The effect is to make it more favorable to the taxpayer in several respects. Under the House bill an inventor could sell his interest in a patent under an arrangement whereby his price would be contingent on the profitability or productivity of the patent in the hands of the buyer provided that he got his full payment within 5 years of the date of sale.

As a result of widespread protests over the restrictive effects of the House bill (compared to certain decisions under case law), your committee made three important changes in the House bill. First, the 5-year limitation is eliminated with the effect that all income from an exclusive license to all the substantial rights under a patent will be a capital gain. Second, the requirement of a 6-month holding period is dropped in your committee's bill. Third, under your committee's bill, as under the House bill, the professional inventor is accorded the same treatment as the amateur inventor but your committee's amendment extends this favorable treatment to any individual who purchases an interest in the invention before the time it is actually "reduced to practice." The employer of the inventor and an individual closely related to the inventor. however, are ruled out of this latter group which can obtain the favorable treatment.

Amendment No. 247 (p. 310 of committee amendments)

This amendment strikes the section of the House bill which provides circumstances under which a dealer in real estate could obtain long-term capital gains on certain real property held in a specially designated investment account. The conditions imposed by the House bill were found objectionable by real estate dealers who indicated a preference for deletion of the provision rather than its retention in the form passed by the House. Since the amendment was intended by the House as a relief provision, your committee decided to pass it over so the matter could be given further study.

Amendment No. 248 (p. 311 of committee amendments)

Section 1238 of the House bill (sec. 1237 of committee bill) provided circumstances under which an individual who held real property for investment would be enabled to subdivide the property to dispose of it and not thereby be held to be a dealer in real property and taxable at ordinary income rates on the entire gain. The committee has accepted most of this provision. However, it has clarified the restriction in the House bill which provides that the taxpayer must not have made substantial improvement on the property he subdivides and sells. The amendments specify that to disqualify a property the improvement must substantially enhance the value of the particular lot sold and they specifically exclude from consideration certain improvements made by certain related persons, a government or by a lessor.

A clerical amendment is also made.

Amendment No. 249 (p. 311 of committee amendments)

This is a clerical amendment.

Amendment No. 250 (p. 312 of committee amendments)

This is a clerical amendment.

Amendment No. 251 (p. 312 of committee amendments)

This amendment strikes from the bill those provisions added by the House that would have attempted to settle some conflicting court decisions dealing with the transfer of property in exchange for a private annuity. The committee has deleted these provisions because it appeared there were special types of annuities which would not be taxed equitably under these general rules.

Amendment No. 252 (p. 312 of committee amendments)

This amendment has the effect of restoring the present law provision which allows capital-gains treatment on distributions on the termination of certain employment contracts. It is provided that this provision will only apply, however, to contracts entered into before the date of enactment of this provision.

Amendment No. 253 (p. 313 of committee amendments)

Your committee has added a new section to provide certainty with respect to the treatment, as capital gains, of the gain on the cancellation of certain contracts. The items covered are (1) the receipt by a lessee of a payment for the cancellation of a lease, and (2) the receipt by a distributor of goods of a payment for the cancellation of his distributor's agreement, but the latter is only covered if he has a substantial capital investment in the distributorship.

Amendment No. 254 (p. 313 of committee amendments)

Under existing law certain income attributable to several years may be treated as though received ratably over the period in which the work is performed (with certain limitations). For example, amounts received from an invention as artistic work created by the taxpayer may be spread back ratably over the period in which the work is performed (but not more than 36 months) if—(1) the amount received constitutes ordinary income and is at least 80 percent of the gross income from the invention or artistic work for the taxable year, all prior taxable years, and the 12 months succeeding the taxable year, and (2) the work on the invention or artistic work covered a period of 36 months or more from beginning to completion.

In the case of an invention, the House bill extended the maximum period over which income could be spread back from 36 to 60 months.

Your committee has reduced from 36 to 24 months the minimum period of work on an invention or artistic work for purposes of qualifying for the benefits of this section. This amendment should make the averaging benefits more readily available to authors, musicians, etc., who spend more than 2 but less than 3 years in work on their literary, musical, or artistic compositions.

A clerical amendment was also made to this section.

Amendment No. 255 (p. 314 of committee amendments)

Amendment to section 1313 (relating to mitigation of effect of statute of limitations) to conform to changes made in consolidated returns provisions.

Amendment No. 256 (p. 314 of committee amendments)

Technical and clarifying amendments to section 1314, relating to amount and method of adjustment in mitigating effect of statute of limitations.

Amendment No. 257 (p. 314 of committee amendments)

Technical and clarifying amendment (manner of determining interest in certain cases) to section 1314, relating to amount and method of adjustment in mitigating effect of statute of limitations.

Amendment No. 258 (p. 315 of committee amendments)

Under present law, if a taxpayer is obliged to repay amounts which he had received in a prior year and included in income because it appeared that he had an unrestricted right to such amounts, he may take a deduction in the year of restitution. The House bill provides that where the amount restored exceeds $3,000, the taxpayer will pay the lesser of: (1) The tax for the taxable year, or (2) the tax for the taxable year minus the deduction but reduced by the decrease in the tax for the prior taxable year in which the income was erroneously included (the tax for such year being computed without regard to the erroneous inclusion). The House provision is inapplicable, however, to refunds, allowances, etc., pertaining to sales of inventory or stock in trade.

Your committee has provided that the exception for refunds arising from inventory sales will not apply to refunds made by a regulated public utility where such refunds are required by the regulatory agency.

Amendment No. 259 (p. 315 of committee amendments)

Your committee has amended the House bill to add a new subchapter R, providing an election for certain corporations, partnerships, and proprietorships as to taxable status. Section 1351 gives certain corporations the option to be taxed as partnerships and section 1361 allows certain proprietorships and partnerships to be taxed as corporations.

The provision permitting corporations to be taxed as partnerships applies only in the case of corporations organized after December 31, 1953. This election is limited to corporations with 10 or fewer stockholders, all of whom are actively engaged in the business and the consent of each shareholder is required for the use of this election. Moreover, once such an election is made, the corporation cannot disavow the election unless there is a change in ownership of more than 20 percent. In addition, this election is not available if the corporation has more than one class of stock outstanding. Employees of the corporation who are shareholders are not permitted to participate in tax-exempt employee pension or profit-sharing plans.

In order for a proprietorship or partnership to qualify for corporate tax treatment it must have 50 or less members and elect such treatment. This privilege is limited to those businesses where capital is a material income-producing factor or where 50 percent or more of the gross income consists of gains, profits, or income derived from trading as a principal or from certain types of brokerage commissions. The effect of this latter limitation is to deny the corporate treatment in the case of proprietorships or partnerships engaged in such professional services as law, accounting, medicine, and engineering. Even though

the proprietorship or partnership elects to be taxed like a corporation, its investment-type income, such as dividends, interest, and certain rents and royalties, which is classified elsewhere in the code as personal holding company income, will still be taxed to the proprietor or partners in their own individual capacities and not as a part of the corporate enterprise. As in the case of corporations electing partnership treatment, proprietorships or partnerships electing corporate treatment are bound by their election unless there is a change in membership of more than 20 percent.

Your committee has added these two provisions in order to make it possible for business enterprises to select the type of organizational structure which best suits their business needs without having to take tax effects into consideration.

Amendment No. 260 (p. 325 of committee amendments)

This is a change in a cross reference in section 1403 of chapter 2, relating to the tax on self-employment income, to conform with changes made elsewhere in the code.

Amendment No. 261 (p. 326 of committee amendments) and

Amendment No. 262 (p. 326 of committee amendments)

These amendments require the withholding of tax in the case of nonresident aliens on lump-sum distributions of a pension trust, on income from the disposal of timber, coal, or iron, and on a transfer of an interest in a patent eligible for capital gains treatment. In the case of income from the disposal of timber, coal, or iron a withholding tax payment is also required in the case of a foreign corporation not in business in the United States. See also amendments Nos. 188 and 190.

Amendment No. 263 (p. 327 of committee amendments)

This amendment returns substantially to existing-law provisions as far as the filing of consolidated returns by an affiliated group of corporations is concerned. The House bill inserted the consolidated-return regulations into the statute. However, in view of the many substantive changes in the income-tax laws which must be reflected in these consolidated rules, your committee believes that it is more appropriate to have those detailed rules in regulatory, rather than statutory, form. In this manner they may more readily be amended to reflect any changes in the interpretation of the underlying income-tax laws.

Consistent with continuing the consolidated return rules in the regulations, your committee retains 95 percent as the intercorporate stock ownership test for joining in the filing of a consolidated return. The House bill had lowered this stock ownership test to 80 percent.

Your committee and the House bill generally retain the 2 percent additional tax on the income of an affiliated group exercising the privilege of filing a consolidated return. Your committee has provided, however, that this additional tax is not to apply with respect to the incomes of those members of an affiliated group which are regulated public utilities.

Amendment No. 264 (p. 336 of committee amendments)

This amendment broadens section 2013, credit for tax on prior transfers, to include property subject to a power of appointment.

It also covers property transferred by an inter vivos gift but included in the gross estate of the transferor where the transferor dies within 2 years before the donee. These provisions will prevent the imposition of the estate tax twice within a short period on property of these types.

Amendment No. 265 (p. 336 of committee amendments)

This substitutes a new provision for the valuation of property passing from the decedent for purposes of the credit for tax on prior transfers. This provision is similar in context to the valuation rule for the estate tax marital deduction.

Technical and conforming changes are also made.

Amendment No. 266 (p. 338 of committee amendments)

This is a technical amendment to section 2015, credit for death taxes on remainders.

Amendment No. 267 (p. 338 of committee amendments)

This amendment provides that in the case of the refund of a foreign tax previously claimed as a credit against the estate tax the interest on the amount due as a result of the refund is not to exceed the amount of interest paid by the foreign country on the refund.

Amendment No. 268 (p. 338 of committee amendments)

This amendment removes the restrictions placed on section 2032, alternate valuation, in the House bill and returns to present law. The House bill limited the election to value the estate at 1 year after death to estates which declined over one-third in value. This limitation would produce inequitable results where the estate declines substantially in value but by less than one-third.

Amendment No. 269 (p. 339 of committee amendments)

This change makes those provisions of section 2039, relating to the exclusion from the gross estate of certain annuities, applicable to all decedents dying after December 31, 1953. To this extent, the income and estate tax provisions relating to annuities will be correlated.

Amendment No. 270 (p. 340 of committee amendments)

This is a clerical amendment to section 2041, powers of appointment.

Amendment No. 271 (p. 340 of committee amendments)

This amendment will allow as a deduction for estate-tax purposes the amount of any transfers to veterans' organizations incorporated by act of Congress, or its departments, local chapter, or posts if no part of the net earnings of the organization inures to the benefit of any private individual.

Amendment No. 272 (p. 341 of committee amendments)

This makes technical and clerical changes in section 2056, bequests to surviving spouse.

Amendment No. 273 (p. 341 of committee amendments)

This change deletes the provision in the House bill that provided that all payments made under a court order for the support of a spouse while an estate was in administration were to be considered as transfers qualifying for the marital deduction. Many widows' allowances qualify for the marital deduction under existing law without regard to the time of payment and it is felt that this House provision might prejudice those that do now qualify.

Amendment No. 274 (p. 341 of committee amendments)

This is a clerical amendment to section 2201, member of the Armed Forces dying during an induction period.

Amendment No. 274 (p. 341 of committee amendments)

This is a clerical amendment to section 2501, imposition of gift tax.

Amendment No. 276 (p. 342 of committee amendments)

This is a clerical amendment to section 2502, rate of gift tax.

Amendment No. 277 (p. 342 of committee amendments)

This changes section 2503, relating to taxable gifts, to provide that in the case of a gift of a present interest the possibility that the present interest may be decreased by the exercise of a power is to be ignored in applying the $3,000 specific exclusion if no part of the interest can pass to another person. Under the House bill and present law the exclusion might be denied since the present interest may be terminated (and hence have no value) through the exercise of the power which creates a future interest.

Technical amendments are also made.

Amendment No. 278 (p. 343 of committee amendments)

This makes changes in the table of contents.

Amendment No. 279 (p. 343 of committee amendments)

This is a clerical amendment in title of section 2513, gift of husband or wife to third party.

Amendment No. 280 (p. 343 of committee amendments)

This expands the new provisions in the House bill relating to tenancies by the entirety in real property to include joint tenancies between husband and wife with right of survivorship. Real property is often held in joint tenancies in those States that do not recognize tenancies by the entirety. Due to the similarity between the two estates, it is equitable to extend the liberal provisions in the House bill to these joint tenancies.

Amendment No. 281 (p. 343 of committee amendments)

This amendment removes uncertainty from section 2516, property settlements incident to divorce. The requirement that a transfer will not be considered a gift if pursuant to a property settlement "incident to divorce" and the property settlement is followed within a "reasonable time" by a divorce is changed to provide that transfers pursuant to any property settlement within 2 years of a divorce will not be a gift.

Amendment No. 282 (p. 344 of committee amendments)

This is a clerical change in section 2522, charitable and similar gifts.

Amendment Nos. 283 to 289, inclusive (pp. 344, 345 of committee amendments)

Subtitle C of the House bill consists of a rearrangment and simplification of the employment taxing provisions of the 1939 Code. No substantive changes were made by the House bill in these provisions. However, for the most part provisions relating to procedure and administration have been separated from the employment-tax provisions and now appear as a part of subtitle F in both the House and your committee's bill.

Your committee's amendments to subtitle C consist entirely of amendments necessary to conform this subtitle with changes made by your committee in subtitle A of H. R. 8300.

Amendment Nos. 290 to 342, inclusive (pp. 346–361 of committee amendments)

Subtitle D, miscellaneous excise taxes, including sections 4001 to 4907, inclusive, as passed by the House, consists of a rearrangement and simplification of the taxing provisions of the 1939 Code relating to all excise taxes except those on alcohol, tobacco, and machineguns and certain other firearms. The House made no substantive changes in these provisions.

Your committee's bill amends this subtitle to conform it with the changes made by the Excise Tax Reduction Act of 1954 (Public Law 324, 83d Cong.).

Amendment Nos. 343 to 407, inclusive (pp. 361–380 of committee amendments)

Except as noted below these amendments make technical, clerical, clarifying, and conforming changes (including the changes necessary to conform to the Excise Tax Reduction Act of 1954, Public Law 324, 83d Cong., 2d sess., approved March 31, 1954) to subtitle E, relating to alcohol, tobacco, and certain other excise taxes:

(1) Nos. 348, 349, 350, 357, and 404: The House bill provided for a charge of a sum sufficient to defray the cost of preparing certain stamps used in the administration of the liquor and tobacco taxes. These amendments eliminate the charge for such stamps because they are primarily for the purpose of protecting the revenue.

(2) No. 352: The House bill subjected sake (rice wine) to the tax imposed on wines. This amendment restores existing law, which subjects sake to the lower tax rate applicable to beer.

(3) No. 363: The House bill provided that distilled spirits to be used in the manufacture or production of nonbeverage products eligible for drawback must be fully taxpaid. This amendment provides that the tax must have been determined on such distilled spirits in order to prevent delay in payment of drawback claims. Since the tax will be collected from the distiller or warehouseman who will be under bond for the payment of such tax, it is not anticipated that this change will jeopardize the revenue.

(4) No. 389: The House bill retained the language of existing law, relating to the notice required to be filed by brewers before commencing business, but omitted the requirement of existing law that notice of changes in ownership or operation by brewers be furnished to the Secretary or his delegate. This amendment restores the language contained in existing law, since information regarding changes in ownership or operation is of material value with regard to the brewer's bond.

(5) No. 407: The House bill did not provide for forfeiture of gangster-type weapons for violation of provisions in chapter 53 (machineguns and certain other firearms) relating to registration or importation of such weapons. This amendment would make the forfeiture provisions of chapter 53 conform to the corresponding provisions of the Federal Firearms Act (15 U. S. C. 905 (b))

relating to the transfer of similar gangster-type weapons in interstate commerce. The amendment will eliminate present administrative difficulties in the disposition of gangster-type weapons used in violation of chapter 53 but not now forfeitable under the provisions of the House bill.

Amendment No. 408 (p. 380 of committee amendments)

This adds a new subsection to section 6011, general requirement of returns, and so forth, to preserve the specific requirement of existing law that the taxpayer provide identification for social-security and wage-withholding purposes.

Amendment No. 409 (p. 381 of committee amendments)

This is a technical amendment. It combines two paragraphs of section 6012 (a), persons required to make returns of income.

Amendment No. 410 (p. 381 of committee amendments)

This is a conforming change in section 6012 (a) required by No. 409.

Amendment No. 411 (p. 381 of committee amendments)

This is a clerical change in section 6013 (a), joint income-tax returns, resulting from No. 413.

Amendment No. 412 (p. 381 of committee amendments)

This is a technical change to insert an omitted reference in section 6013 (b) to another section.

Amendment No. 413 (p. 381 of committee amendments)

This is a technical amendment adding a new subsection to section 6013, joint income-tax returns, to eliminate problems which would arise if the deceased spouse's taxable year were governed by the 1939 Code and the surviving spouse's taxable year were under the 1954 Code.

Amendment No. 414 (p. 382 of committee amendments)

This is a conforming amendment to section 6014 (a), relating to the income-tax returns where tax is computed by the Internal Revenue Service.

Amendment No. 415 (p. 383 of committee amendments)

These are conforming changes in section 6015 (a) (1), declaration of estimated tax by individuals.

Amendment No. 416 (p. 383 of committee amendments)

This is a clerical amendment to section 6015, declaration of estimated tax by individuals.

Amendment No. 417 (p. 383 of committee amendments)

This amendment to section 6015 (f) changes the date when an individual may file a tax return in lieu of an amended declaration of estimated tax from January 15, as under present law, to January 31. There are also 3 clerical changes.

Amendment No. 418 (p. 384 of committee amendments)

This adds a new subsection to section 6015, which makes the new provisions with respect to the estimated tax of individuals apply to taxable years beginning after December 31, 1954, instead of taxable years beginning after December 31, 1953 (if ending after the date of

enactment), as in the House bill. This is necessary since most persons will already have made declarations of estimated tax for 1954.

Amendment No. 419 (p. 384 of committee amendments)

This amends section 6016, relating to the new declarations of estimated tax by corporations, to exempt from the necessity of filing declarations corporations with an estimated income-tax liability of $100,000, as contrasted with $50,000 under the House bill. This change will relieve an additional 15,000 corporations from the necessity of filing declarations and making advance payments of income tax.

Amendment No. 420 (p. 384 of committee amendments)

This is a clerical amendment to section 6019, gift-tax returns, to restate a cross reference.

Amendment No. 421 (p. 384 of committee amendments)

This is a conforming amendment to section 6020, returns made by Secretary, adding a reference to another section.

A technical amendment is also restoring present law with respect to the legal sufficiency of returns made by the Secretary.

Amendment No. 422 (p. 385 of committee amendments)

This is a conforming amendment to section 6031, return of partnership income, to refer to a specific definition of "partnership."

A clerical change is also made.

Amendment No. 423 (p. 385 of committee amendments)

This is a clerical amendment to section 6032, returns of banks with respect to common trust funds.

Amendment No. 424 (p. 385 of committee amendments)

This amendment to section 6033 (a), returns by exempt organizations, relieves a pension or profit-sharing trust from making an information return if the employer has supplied the required information.

Amendment No. 425 (p. 385 of committee amendments)

Six clarifying clerical changes are made in section 6033, returns by exempt organizations.

Amendment No. 426 (p. 386 of committee amendments)

This is a clerical clarifying change in the heading of section 6033 (b), returns by exempt corporations.

Amendment No. 427 (p. 386 of committee amendments)

This is a clerical amendment to section 6035 (a), returns of officers and directors of foreign personal holding companies.

Amendment No. 428 (p. 386 of committee amendments)

This is a clarifying amendment to section 6036, notice of qualification of receiver, limiting application of "assignee."

Amendment No. 429 (p. 387 of committee amendments)

This is a clerical amendment to the table of contents.

Amendment No. 430 (p. 387 of committee amendments)

This is a clerical change in the heading of section 6041 to conform to No. 431.

Amendment No. 431 (p. 387 of committee amendments)

This amendment to section 6041, dealing with information returns, restores the requirement of present law that information returns must be filed reporting payments (except to corporations) of rent, wages, fees, and any other income or gain of $600 or more per year, except that under this amendment such information returns are to be made only if the payments were made by an individual, partnership, corporation, or other entity engaged in a trade or business and only if made in the course of such trade or business.

Amendment No. 432 (p. 388 of committee amendments)

These are conforming changes resulting from No. 431.

Amendment No. 433 (p. 388 of committee amendments)

This is a clerical amendment to section 6051 (b), receipts to employees for wage withholding.

Amendment No. 434 (p. 389 of committee amendments)

This is a clerical change to section 6071, time for filing returns, etc., to insert a cross reference.

Amendment No. 435 (p. 389 of committee amendments)

These are clerical amendments to section 6072, time for filing income-tax returns.

Amendment No. 436 (p. 389 of committee amendments)

This amendment to section 6075 (b), time for filing gift-tax returns, changes the filing date from March 15 to April 15, thus conforming this date to the date for filing income-tax returns.

Amendment No. 437 (p. 390 of committee amendments)

This is a clarifying amendment to section 6081 (b), automatic extension for corporation income-tax returns.

Amendment No. 438 (p. 330 of committee amendments)

This is a technical amendment to section 6103 (a), publicity of income returns, to avoid a change from present law.

Amendment No. 439 (p. 390 of committee amendments)

This is a clerical change in section 6154 (b), time for payment of installment.

Amendment No. 440 (p. 390 of committee amendments)

These are technical amendments to section 6161 (a), extension of time for paying tax, to avoid any change in present law.

Amendment No. 441 (p. 391 of committee amendments)

Conforming changes are made in section 6162 (a), extension of time for paying tax on liquidation of personal holding companies, resulting from amendments to subchapter C of chapter 1.

Amendment No. 442 (p. 391 of committee amendments)

This is a clerical amendment to section 6204, supplemental assessments, inserting a cross reference.

Amendment No. 443 (p. 392 of committee amendments)

This is a clarifying clerical amendment to section 6212 (c) (1), restriction of further deficiency notices.

Amendment No. 444 (p. 392 of committee amendments)

This is a clarifying clerical amendment to section 6303 (a), notice and demand for tax.

Amendment No. 445 (p. 392 of committee amendments)

This is a conforming amendment to the table of contents, related to No. 446.

Amendment No. 446 (p. 392 of committee amendments)

This amendment adds a new section, 6316, which provides that the Secretary or his delegate may, under certain circumstances to be prescribed by regulations, accept foreign currency in payment of taxes.

Amendment No. 447 (p. 393 of committee amendments)

This amendment to section 6321, lien for taxes, restores present law by deleting a specific reference to the interest of the delinquent taxpayer in an estate by the entirety.

Amendment No. 448 (p. 393 of committee amendments)

These are conforming amendments related to No. 449.

Amendment No. 449 (p. 393 of committee amendments)

This amendment, striking out subsection (c) of section 6323, liens for taxes, eliminates specific rules relating to the validity of a tax lien, without the filing of notice, as against a mortgagee, pledgee, or purchaser who had knowledge or notice of the tax lien at the time of making such mortgage, pledge, or purchase, or as against a judgment creditor who had not perfected his lien under the judgment. The deletion of this subsection will continue in effect existing law as it has been interpreted by the courts in such situations.

Amendment No. 450 (p. 393 of committee amendments)

This makes conforming changes in section 6323 resulting from No. 449.

Amendment No. 451 (p. 393 of committee amendments)

This is a conforming amendment to section 6324, special liens for estate and gift taxes.

Amendment No. 452 (p. 393 of committee amendments)

This is a clerical amendment to section 6324 (c), exception in case of securities.

Amendment No. 453 (p. 393 of committee amendments)

This amendment to section 6325 (b), release of lien, is an express provision to the effect that the Secretary may discharge from a tax lien any specific property which he has determined is valueless, considering any prior liens.

Amendment No. 454 (p. 394 of committee amendments)

This amendment to section 6331 (a), levy and distraint, specifically provides that accrued salary or wages of any officer or employee of the United States or agency thereof may be levied upon (so as to collect unpaid taxes) by serving a notice of levy on the appropriate employer. This is a substitute for a provision in section 6332 of the House bill intended to have the same effect.

Amendment No. 455 (p. 395 of committee amendments)

This is a conforming amendment to section 6332, surrender of property subject to levy, resulting from No. 454.

Amendment No. 456 (p. 395 of committee amendments)

This amendment to section 6334 (a) adds arms for personal use, and livestock and poultry, to the list of items exempt from levy.

Amendment No. 457 (p. 395 of committee amendments)

This amendment to section 6335 (b), sale of seized property, and amendment No. 503 to section 6863, provide for a delayed sale of property seized because of jeopardy. This amendment provides that where levy is made before the expiration of the 10 days usually given after notice and demand for payment no public offering of sale is to be made (unless the goods are perishable) until after the 10-day period.

Amendment No. 458 (p. 395 of committee amendments)

This is a technical amendment inserting a cross-reference to section 6863 in section 6335, sale of seized property.

Amendment No. 459 (p. 396 of committee amendments)

This is a clarifying clerical amendment to section 6339 (a) (2), legal effect of certificate of sale of personal property.

Amendment No. 460 (p. 396 of committee amendments)

This is a clerical amendment changing style of a cross-reference in section 6344.

Amendment No. 461 (p. 396 of committee amendments)

These make technical changes in section 6412, floor stocks refunds, made necessary by the enactment of the Excise Tax Reduction Act of 1954.

Amendment No. 462 (p. 398 of committee amendments)

This makes a technical change in section 6412 (b) (2), floor stocks refunds, in the date of application of the floor stocks refunds on gasoline, to conform to the Excise Tax Reduction Act of 1954.

Amendment No. 463 (p. 398 of committee amendments)

Technical amendment to section 6412, floor stocks refunds, to make administrative provisions applicable to the floor stocks refunds for motor vehicles and gasoline. This change is made necessary because of the enactment of the Excise Tax Reduction Act of 1954.

Amendment No. 464 (p. 399 of committee amendments)

Clerical amendments of section 6415, credits or refunds to persons who collected certain taxes.

Amendment No. 465 (p. 399 of committee amendments)

This amendment makes four technical changes in section 6416 (a), relating to refunds of certain excise taxes to avoid changes in present law.

Amendment No. 466 (p. 400 of committee amendments)

This is a technical amendment to section 6416 (b) (2) to conform it with changes made in the Excise Tax Reduction Act of 1954.

Amendment No. 467 (p. 400 of committee amendments)

This is a technical amendment to section 6416 (b) (3), relating to refunds of certain excise taxes.

Amendment No. 468 (p. 401 of committee amendments)

This is a clerical amendment to section 6416 (b) (3), relating to refunds of certain excise taxes.

Amendment No. 469 (p. 401 of committee amendments)

This is a clerical change in section 6416 (c), refunds of certain excise taxes.

Amendment No. 470 (p. 401 of committee amendments)

This amendment to section 6501 (c) (2), limitations on assessment and collection, restores present law with respect to the period for assessment of income, estate, and gift taxes where there has been a willful attempt to evade the tax (other than by a fraudulent return).

Amendment No. 471 (p. 401 of committee amendments)

This amendment makes clarifying changes in section 6501 (e), relating to the 6-year period of limitations where gross income is substantially understated.

Amendment No. 472 (p. 401 of committee amendments)

This is a clarifying amendment to section 6501 (e) (2), relating to the 6-year period of limitations where gross estate or total gifts are understated by 25 percent or more. It gives assurance that the understatement must be related to items, not values.

Amendment No. 473 (p. 402 of committee amendments)

This is a companion amendment to No. 472 and has the same effect.

Amendment No. 474 (p. 402 of committee amendments)

This amendment adds a new paragraph to section 6501, periods of limitations on assessment, to provide that an information return filed in good faith by an organization which believes it is exempt shall be viewed as a corporation tax return for the purpose of starting the period of limitations.

Amendment No. 475 (p. 403 of committee amendments)

This amendment of section 6503 (b), suspending the period of limitations while assets are in the custody of a court, eliminates such a suspension if the assets are those of the estate of a decedent or of an incompetent.

Amendment No. 476 (p. 403 of committee amendments)

This is a technical amendment to eliminate one of the cross references in section 6504.

Amendment No. 477 (p. 403 of committee amendments)

This amendment of section 6511 (a), dealing with limitations on credits or refunds, provides that the period during which a valid claim may be filed is to be 3 years after the due date of a return, not 3 years after it was filed (if an extension was granted). This is intended to eliminate a trap for the unwary, who might, under present law, wait nearly 3 years after a late return was filed to file a claim, only to find that refund of estimated tax and tentative tax paid on or before the due date of the return was barred.

Amendment No. 478 (p. 403 of committee amendments)

This is a conforming change required by amendment No. 477.

Amendment No. 479 (p. 403 of committee amendments)

This is a clerical amendment to section 6511 (b), limitations on credits or refunds.

Amendment No. 480 (p. 404 of committee amendments)

This is a clarifying clerical change in section 6511 (c) (1), special rules relating to claims for refund.

Amendment No. 481 (p. 404 of committee amendments)

This is a clarifying clerical change in section 6511 (c) (2), special rules relating to claims for refund.

Amendment No. 482 (p. 404 of committee amendments)

This is a clarifying clerical change in section 6512 (a), limitations in case of petition to Tax Court.

Amendment No. 483 (p. 404 of committee amendments)

This is a clarifying clerical change in section 6512 (b) (1), limitations in case of petition to Tax Court.

Amendment No. 484 (p. 404 of committee amendments)

This is a clarifying clerical change in the heading of section 6513 (b), relating to prepayments of income tax.

This is a technical amendment to section 6513 (b), relating to prepayments of income tax.

Amendment No. 485 (p. 405 of committee amendments)

This is a technical amendment eliminating one of the cross-references.

Amendment No. 486 (p. 405 of committee amendments)

This amendment restores existing law with respect to the period of limitations on criminal prosecutions with respect to 4 offenses.

The amendment also provides that the new rule suspending the period of limitations on prosecutions while the offender is without the United States (instead of being outside the judicial district as under present law) is to be applicable to offenses committed prior to the date of enactment, but only with respect to periods which would otherwise expire more than 3 years after enactment of this act, and only to prosecutions after such 3-year period.

Other clerical changes are also made.

Amendment No. 487 (p. 406 of committee amendments)

This amendment to section 6532, dealing with periods of limitation on suits, restores the 5-year period, provided by present law (6 years under House bill), during which the United States may sue to recover an erroneous refund.

Amendment No. 488 (p. 406 of committee amendments)

This amendment to section 6601 (f), rules with respect to interest on underpayments, provides that no interest is to be charged for the period of not more than 10 days between the date of notice and demand and the date of payment in accordance with the notice.

Amendment No. 489 (p. 406 of committee amendments)

This is a technical amendment to section 6601 (g), providing exceptions, with respect to estimated tax, as to interest.

Amendment No. 490 (p. 406 of committee amendments)

This is a clerical change in the style of a cross-reference, under section 6611 relating to interest on overpayments.

Amendment No. 491 (p. 407 of committee amendments)

This is a technical amendment to section 6651 (a), dealing with failure to file tax return.

Amendment No. 492 (p. 407 of committee amendments)

This is a technical amendment to section 6651 (c), relating to exceptions with respect to estimated taxes.

Amendment No. 493 (p. 407 of committee amendments)

This is a conforming clerical amendment to section 6652, failure to file information returns.

Amendment No. 494 (p. 407 of committee amendments)

This amendment provides that the 5-percent penalty for an intentional disregard of rules or regulations is not to be imposed if the taxpayer has reasonable grounds for believing the rules or regulations to be invalid and attaches a statement to that effect to his return.

Amendment No. 495 (p. 408 of committee amendments)

This amendment provides an additional "escape valve" for the estimated tax payable by an individual. It provides that no additional charge will be made if the installment paid is equal to 90 percent of a tax computed on the basis of the actual taxable income for the period in the year up to the month in which the installment is required to be paid, as if that income were the income for a full taxable year. This new provision is designed to permit the taxpayer to pay smaller installments during the first part of the year, without danger of substantial additional charges, where a substantial income is received during the first part of the year and it is expected that little income will be subsequently received.

There is also a technical amendment to preclude the use of the tax for the preceding taxable year as the measure of a reasonable installment payment if the preceding taxable year was a period of less than 12 months.

Amendment No. 496 (p. 410 of committee amendments)

This is a technical amendment to section 6654, dealing with additional charges with respect to underpayment of estimated tax, which provides that taxes withheld on wages are to be considered as payments of extimated tax for the purpose of applying the various tests.

Amendment No. 497 (p. 411 of committee amendments)

This amendment confirms to No. 496.

Amendment No. 498 (p. 411 of committee amendments)

This is a technical amendment to section 6654, relating to additional charges with respect to underpayments of estimated tax by individuals, and deals with cases where the taxable year is one of less than 12 months.

Amendment No. 499 (p. 411 of committee amendments)

This amendment to section 6655, dealing with additional charges for underpayments of estimated corporation income tax, increases from $50,000 to $100,000 the amount by which the estimated tax may be less than the tax shown on the tax return.

Another part of this amendment provides that, where a corporation, to avoid this additional charge, prepares its declaration of estimated tax by annualizing its income earned in the forepart of the year it may base its estimate due in the ninth month on its earnings in either the first 6 months or first 8 months, and its estimate due in the twelfth month on its earnings in the first 9 months or first 11 months. This provision will substantially ease the difficulties of compliance for corporations which take inventories only at the end of each quarter, and for others which, because of the complexity of their accounts, would find 15 days an inadequate time in which to determine income for the preceding period.

Amendment No. 500 (p. 412 of committee amendments)

These are conforming changes to section 6655 resulting from amendment No. 499.

Amendment No. 501 (p. 412 of committee amendments)

This is a technical amendment to section 6655, relating to additional charges with respect to underpayments of corporation estimated tax, to provide for the situation where the taxable year of the corporation is a period of less than 12 months.

Amendment No. 502 (p. 413 of committee amendments)

This amendment to section 6863, dealing with stay of collection of a jeopardy assessment, provides that the bond required for such a stay is to be in the amount of the tax assessed, rather than as much as double that amount, as provided under present law.

Amendment No. 503 (p. 413 of committee amendments)

This amendment to section 6863, relating to stay of collection of jeopardy assessments, provides that, where a jeopardy assessment of income, estate, or gift tax has been made, the property seized for the collection of the tax is not to be sold prior to the expiration of the 90 days provided for an appeal to the Tax Court or, in case of such an appeal, prior to the determination of the tax liability by the Tax Court, except in the case of perishable property or property which could not be long retained without a reduction in value or substantial expenses. The new provision is to be applicable only with respect to a jeopardy assessment made after December 31, 1954.

Amendment No. 504 (p. 415 of committee amendments)

This is a conforming amendment to section 6901, relating to transferred assets, made necessary by changes in subchapter C of chapter 1.

Amendment No. 505 (p. 415 of committee amendments)

This is a clarifying amendment to section 6901, relating to transferred assets, to insure that a transferee who has agreed to an extension of the period of assessment may, during an extended period, receive not only refunds or credits of overpayments of tax by him but also any overpayments of tax made by the transferor to the extent that he is legally entitled to the credit or refund of such overpayments.

Amendment No. 506 (p. 415 of committee amendments)

This amendment to section 7201, relating to the offense of attempting to evade or defeat tax, restores existing law with respect to failure to make a tax return at the prescribed time. Under existing law this offense is a misdemeanor, with maximum punishment of a $10,000 fine or imprisonment for 1 year, or both. Under the House bill this offense would have been a felony, with a maximum penalty of $10,000 fine, or imprisonment for 5 years, or both.

Amendment No. 507 (p. 416 of committee amendments)

This is a conforming amendment to section 7203, offense of willful failure to file returns, etc., made necessary by No. 506.

Amendment No. 508 (p. 416 of committee amendments)

This amendment to section 7206, dealing with various offenses relating to false statements or documents, provides a maximum fine of $5,000, instead of $10,000 as in the House bill, or imprisonment for not more than 3 years, instead of 5 years as in the House bill, or both, for these offenses. Various penalties are provided under present law, some less and some more onerous than those provided by this amendment. While uniformity is desirable, it is believed that there should be no great increase in the maximum penalties permitted under present law.

Amendment No. 509 (p. 416 of committee amendments)

This is a clerical amendment to section 7211, false statements to purchasers, etc.

Amendment No. 510 (p. 416 of committee amendments)

This amendment to section 7212 (a), dealing with attempts to interfere with the administration of internal revenue laws, limits "threats of force" to threats meaning bodily harm to the officer or employee of the United States or to his family, and reduces the punishment for making such threats to a maximum fine of $3,000 instead of $5,000, or imprisonment for not more than 1 year, instead of 3 years, or both.

Amendment No. 511 (p. 417 of committee amendments)

This amendment to section 7232, dealing with certain offenses committed by manufacturers or producers of gasoline, etc., restores existing law by making the maximum fine $5,000, instead of $10,000 as in the House bill.

Amendment No. 512 (p. 417 of committee amendments)

This is a clerical amendment to section 7233, relating to offenses in connection with the tax on cotton futures.

Amendment No. 513 (p. 417 of committee amendments)

This is a clerical amendment of section 7322, delivery of seized personal property.

Amendment No. 514 (p. 417 of committee amendments)

This is a clerical amendment changing style of the cross-reference at the end of section 7402, jurisdiction of district courts.

Amendment No. 515 (p. 418 of committee amendments)

This amendment to section 7403, action to enforce lien, restores present law by eliminating a specific provision in the House bill to the

effect that the assessment shall be conclusively presumed to be valid for purposes of adjudication in an action to enforce the lien of the United States.

Amendment No. 516 (p. 418 of committee amendments)

This is a technical amendment to section 7404, relating to civil actions for estate taxes, to eliminate unnecessary references to other sections.

Amendment No. 517 (p. 418 of committee amendments)

This is a technical amendment to section 7422 (c), civil actions for refund, to restore present law with respect to a date.

Amendment No. 518 (p. 418 of committee amendments)

This amendment to section 7422 (e), relating to concurrent actions in two forums, provides that the new provisions are not to be applicable with respect to suits started prior to enactment of this act.

Amendment No. 519 (p. 419 of committee amendments)

This is a clerical amendment to the table of contents.

Amendment No. 520 (p. 419 of committee amendments)

This is a clerical amendment to section 7444, organization of Tax Court.

Amendment No. 521 (p. 419 of committee amendments)

This amendment to section 7445, dealing with offices for the Tax Court, strikes out the provision in the House bill and present law directing the Secretary or his delegate to make available suitable rooms for Tax Court hearings.

Amendment No. 522 (p. 419 of committee amendments)

These are clerical amendments to section 7446, times and places of meetings of Tax Court.

Amendment No. 523 (p. 419 of committee amendments)

These are clerical amendments to section 7447 (a), dealing with retirement of Tax Court judges.

Amendment No. 524 (p. 420 of committee amendments)

This amendment to section 7447, dealing with retirement of Tax Court judges, provides that retired judges who are recalled to active duty are to be paid for such services the same compensation as that then paid judges.

Amendment No. 525 (p. 420 of committee amendments)

This a clerical amendment to section 7447 (g), retirement of Tax Court judges.

Amendment No. 526 (p. 420 of committee amendments)

This change in section 7456, administration of oaths, etc., provides that the clerk of the Tax Court may administer oaths.

Amendment No. 527 (p. 420 of committee amendments)

This is a technical change in section 7459, reports and decisions of Tax Court.

Amendment No. 528 (p. 420 of committee amendments)

This amendment to section 7483, petition for review of Tax Court decision, provides that not only an adverse party, but any party other

than the appellant, is to have an extra month in which to file an appeal from the Tax Court's decision.

Amendment No. 529 (p. 420 of committee amendments)

This is a clerical amendment to the table of contents.

Amendment No. 530 (p. 421 of committee amendments)

This amendment strikes out section 7494 of the House bill, which provides that the place of mailing a return, etc., is to be deemed the place where the offense was committed, for the purpose of determining venue.

Amendment No. 531 (p. 421 of committee amendments)

This is a clerical amendment to the table of contents to conform to No. 535.

Amendment No. 532 (p. 421 of committee amendments)

This is a clerical amendment to section 7502 (a), timely mailing treated as timely filing.

Amendment No. 533 (p. 421 of committee amendments)

This amendment of section 7503, time for performance of acts where last day falls on legal holiday, etc., provides that the term "legal holiday" as applied to acts to be performed at local offices, means a Statewide legal holiday.

Amendment No. 534 (p. 421 of committee amendments)

This is a clerical change in section 7508, postponement of certain acts by reason of war.

Amendment No. 535 (p. 421 of committee amendments)

This amendment, adding a new section 7511, restores a provision of present law relating to the exemption of consular officers of foreign countries with respect to excise taxes on imported articles.

Amendment No. 536 (p. 423 of committee amendments)

This amendment to section 7602, examination of books and witnesses, restores a provision of present law requiring persons having possession of books of account to produce them on demand of the revenue authorities.

Amendment No. 537 (p. 423 of committee amendments)

This amendment restores present law with respect to the establishment or change of internal revenue districts.

Amendment No. 538 (p. 423 of committee amendments)

This is a clerical change in section 7652, shipments from possessions to the United States.

Amendment No. 539 (p. 424 of committee amendments)

This is a technical amendment to section 7701 (a) (2) to conform the definition of "partnership" to a specific definition in other provisions.

Amendment No. 540 (p. 424 of committee amendments)

These are clerical and technical amendments to section 7701 (a) (15) and (17), definitions.

Amendment No. 541 (p. 424 of committee amendments)

This amendment to section 7701 (a) (20) provides that a full-time life insurance salesman will be viewed as an employee for the purpose of obtaining the benefits of sections 104, 105, and 106 with respect to accident and health insurance.

Amendment No. 542 (p. 424 of committee amendments)

This amendment to section 7701, definitions, provides that references to possessions of the United States throughout the code are, unless otherwise indicated, to be treated as also referring to the Commonwealth of Puerto Rico.

Amendment No. 543 (p. 425 of committee amendments)

This is a clerical change in section 7803, relating to personnel of the Internal Revenue Service.

Amendment No. 544 (p. 425 of committee amendments)

This is a clarification of the provisions of section 7807 (b) (2), relating to effect of elections or other acts under the provisions of the 1939 Code.

Amendment No. 545 (p. 425 of committee amendments)

This amendment is a rearrangement and revision of part of the effective date provisions of section 7851.

1. The provisions of the new code with respect to the tax on machineguns and certain other firearms is made applicable on the day after enactment instead of on January 1, 1955.
2. The provisions of the 1954 Code relating to transfers to avoid income tax are made applicable to transfers made after December 31, 1954, instead of to transfers made after the date of enactment, as under the House bill.
3. The House bill provides that subtitle E, dealing with alcohol and tobacco taxes, is to take effect on January 1, 1955. This amendment provides that two sections in subtitle E, section 5411, relating to the use of a brewery for the purpose of producing soft drinks, and section 5554 relating to pilot plant operations, is to take effect on the day after the enactment of this bill.
4. Several clerical and technical changes have also been made.

Amendment No. 546 (p. 427 of committee amendments)

This amendment is a revision and rearrangement of section 7851 (a) (6), which provides applicable dates with respect to provisions relating to procedure and administration. The amendment provides that the provisions of the 1954 Code, relating to assessment (with one exception), to collection, and to abatements, credits, and refunds, are to become applicable to taxes under both the 1939 Code and the 1954 Code on January 1, 1955.

Amendment No. 547 (p. 430 of committee amendments)

This is a clerical amendment to section 7851 (a) (7), relating to other provisions with respect to effective dates.

Amendment No. 548 (p. 430 of committee amendments)

This section amends section 7851 (b), dealing with the effect of the repeal of the 1939 Code, to include a provision that any internal revenue district in existence on the date of the enactment of the 1954

Code is to be continued as such. A new paragraph has been added to provide that all delegations and redelegations of authority under the reorganization acts in effect immediately preceding the enactment of the 1954 Code are to remain in effect under that code unless distinctly inconsistent with its provisions.

Amendment No. 549 (p. 431 of committee amendments)

This amendment to section 7852 (b), relating to references in other laws to the 1939 Code, provides that any reference in any Executive Order to any provision of the 1939 Code is likewise to be deemed to refer to the corresponding provisions of the 1954 Code.

Amendment No. 550 (p. 431 of committee amendments)

This amendment to section 7852 (d) which provides that no provision of the 1954 Code is to apply where its application would be contrary to any treaty obligation, limits the application of this provision to treaties in effect on the date of enactment of this title.

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