Calendar No. 1082

87TH CONGRESS 1st Session | SENATE | REPORT No. 1101

LOSSES SUSTAINED IN CONVERTING FROM STREET RAILWAY TO BUS OPERATIONS

SEPTEMBER 21, 1961.—Ordered to be printed

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

REPORT

[To accompany H.R. 8652]

The Committee on Finance, to whom was referred the bill (H.R. 8652) relating to the income tax treatment of certain losses sustained in converting from street railway to bus operations, having considered the same, report favorably thereon without amendment and recommend that the bill do pass.

I. SUMMARY OF THE BILL

This bill as passed by the House and approved by your committee provides that in the case of a net operating loss sustained in the years 1953 or 1954, principally as a result of the conversion from street railway to bus operations, this loss, to the extent not offset against income in years before 1960, will be available in the year 1960 and 4 subsequent years as a net operating loss carry forward.

II. GENERAL STATEMENT

Present law provides that business losses incurred in one year can be carried back to the 3 prior years and then, to the extent not absorbed by income in those years, carried forward to the 5 succeeding years after the year in which the losses occurred. For most companies which again earn income such a period is long enough to absorb most of their losses against income.

Rapid transit companies in recent years have had a special problem in connection with the very large losses they have incurred in converting from streetcar to bus operations. Because of the size of these losses, most transit companies have spread their conversion to buses over many years—some over as many as 15 years—so that a sufficient period will be available to absorb the losses against income. However, a situation has come to the attention of your committee; namely, that of the Twin Cities Rapid Transit Co., in which the conversion from streetcars to buses was completed in an 18-month period. It appears that the conversion was made in such a short period because of fraud on the part of the then existing management. Moreover, evidence is available that the then existing management made this conversion in the 18-month period despite the fact that it was pointed out to them by their financial experts that such losses could not be absorbed within the period of the 5-year carry forward.

After the mismanagement was discovered, the company was reorganized and new officers and a new board of directors elected. However, the conversion from streetcars to buses in the 18-month period could not be undone. As a result of this conversion the company sustained a loss of approximately $10,200,000. At the end of the 5-year carry-forward period about $5,200,000 of this loss remained unused. While the company is now making a small profit, it appears that rate increases may have to be requested if this remaining loss cannot be offset against the income of future years.

Your committee, like the Committee on Ways and Means of the House, believes that in cases of the type described above, where ordinary prudent, honest management would have spread the conversion over a number of years, a longer carry forward of the unused loss should be permitted. This becomes a particularly serious problem in the case of rapid transit systems because of the present inadequacy of our mass transportation system. Moreover, in such a case it is likely that in the long run it will be the users of the transportation who will suffer if the company is not permitted to utilize the benefit of this loss.

As a result of these factors, the House passed and your committee has approved this bill which provides that in the case of net operating losses incurred in the calendar years 1953 and 1954, principally as a result of the conversion from streetcar to bus operations, an additional 5 years is to be allowed to offset such losses against income. The bill achieves this result by providing that such losses are to be known as unused conversion losses to the extent they still remain unused after the end of the normal 5-year carry-forward period. The bill provides that such an unused conversion loss from these 2 years is to be considered a loss sustained in 1959 and therefore available as a net operating loss carry forward to the calendar year 1960 and 4 subsequent taxable years.

The treatment described above is to apply only for years in which the taxpayer is engaged in the furnishing or sale of transportation on a local electric railroad, trackless trolley system, or bus system. The rates for the transportation in such cases must have been established or approved by a governmental unit, by a public service or public utility commission or similar body.

In the case brought to your committee's attention there is an unused loss of approximately $5,200,000 from the years 1953 and 1954, and it is estimated, based upon anticipated revenues, that from $2 to $3 million of this loss can be offset against income in the additional 5-year period allowed by this bill.

O