

DUTY EXEMPTIONS FOR CERTAIN FOREIGN REPAIRS  
MADE TO VESSELS OWNED BY OR OPERATED FOR  
THE UNITED STATES

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

REPORT

[To accompany H.R. 8217]

The Committee on Finance, to which was referred the bill (H.R. 8217) to exempt from duty certain equipment and repairs for vessels operated by or for any agency of the United States where the entries were made in connection with vessels arriving before January 5, 1971, having considered the same, reports favorably thereon with amendments and recommends that the bill as amended do pass.

I. General Statement

*House bill.*—The House bill would exempt from duty certain equipment and repairs for vessels operated by or for any agency of the United States where the entries were made in connection with vessels arriving before January 5, 1971.

*Committee amendment.*—The Committee amendment would not change the text of the House bill. However, the Committee added an amendment liberalizing and simplifying the retirement income credit for persons receiving annuity or other retirement income.

II. Duty Exemption for Certain Foreign Repairs Made to Vessels  
Owned by or Operated for the United States

Prior to the enactment of Public Law 91-654, approved on January 5, 1971, section 3114 of the Revised Statutes of the United States (19 U.S.C. 257) imposed a 50 percent duty on foreign equipment purchased for and foreign repairs made to vessels documented

under the laws of the United States. Remission of the tariff under certain circumstances was provided for in section 3115 of the Revised Statutes (19 U.S.C. 258).

Public Law 91-654, effective January 5, 1971, repealed sections 3114 and 3115 of the Revised Statutes with respect to entries made on or after January 5, 1971, left those sections in effect with respect to entries made prior to that date, and amended section 466 of the Tariff Act of 1930 to reenact the substance of sections 3114 and 3115 of the Revised Statutes with respect to entries made on and after that date.

The purpose of H.R. 8217 is to exempt from duty foreign equipments and repairs made to vessels operated by or for any agency of the United States where entry was made prior to January 5, 1971.

The duty on foreign repairs made to and foreign equipment purchased for American-flag vessels was suspended by Public Law 200, 78th Congress, for the period from December 17, 1943 to December 17, 1945. At the time the suspension expired, the War Shipping Administration (one of the predecessor agencies of the Department of Commerce in maritime matters) had approximately 3,250 vessels in operation through general agents to furnish logistics support to the Armed Forces. These operations ceased on June 30, 1949.

During the Korean War, the Maritime Administration of the Department of Commerce operated vessels through general agents for the same purpose from 1950 to 1953. The maximum number of such vessels in operation during this period was 541.

During the Vietnam War, the Maritime Administration of the Department of Commerce operated vessels through general agents for the same purpose from 1965 to 1970. The maximum number of such vessels in operation during this period was 172.

Many of these vessels were repaired abroad during these periods and substantial duties were incurred which still remain unpaid. The amount is unknown because the paper work to compute it has not been done.

It is agreed among the agencies concerned, including the General Accounting Office, that payment of the duty obligations would serve no useful purpose since it would merely involve a transfer of funds from one agency to another. Thus, H.R. 8217 would provide that the requirements of sections 3114 and 3115 of the Revised Statutes with respect to the duty imposed on equipment purchased for, and repairs made to, U.S. vessels in foreign countries, shall not apply to entries made in connection with arrivals before January 5, 1971, of vessels owned by the United States, or bareboat chartered to the United States, and operated by or for account of any department or agency of the United States. The bill also provides that on and after the date of its enactment no department or agency of the United States shall be entitled to a refund of any duties on foreign repairs or equipments which were paid prior to January 5, 1971.

H.R. 8217 was proposed by the Department of Commerce and that Department fully supports enactment of this provision. A favorable report has also been received from the Departments of Treasury and State. The General Accounting Office is also in favor of the provision. The Committee has received no objection from any other interested source.

### III. Retirement Income Credit

(Sec. 37 of the code)

#### SUMMARY

Under present law, a retirement income credit of up to \$1,524 multiplied by 15 percent (\$229) is allowed for single persons age 65 or over having "retirement income"—that is, income from pensions, dividends, interest, rents or other passive income sources. However, this credit is available only if the individual had ten prior years of earned income above \$600. The income eligible for this credit is reduced, however, by social security, railroad retirement or other tax-exempt pension income. It is also reduced by 50 percent of earnings over \$1,200 and 100 percent of earnings over \$1,700. (This earnings limitation, however, does not apply to those age 72 and over.) For married couples a credit equal to one and one-half times the credit referred to above is generally available under present law. However, in some cases where both can qualify for the credit a credit of up to twice that referred to above is available.

In addition, under present law, the retirement income credit determined substantially as indicated above is available for retirement income received from governmental units where the individual is under age 65, except that the credit is reduced on a dollar-for-dollar basis for earnings above \$900 (between age 62 and 65 the earnings test described above applies).

The committee has adopted a substitute retirement income credit which is both more liberal and also will be easier to compute on the return form. This credit for a single person will be based upon \$2,500 instead of \$1,524. It will not be necessary for the individual involved to have 10 years of prior earnings of \$600 or more. However, as under present law, the \$2,500 will be reduced for social security, railroad retirement and other tax-exempt pension income. Also, as under present law, it will be reduced for earned income above a specified level (if the individual is under age 72). However, the amount will only be reduced for 50 percent of earnings above \$2,100 instead of 50 percent of earnings above \$1,200 plus 100 percent of earnings above \$1,700.

As under present law, the amount derived in this manner is multiplied by 15 percent in order to obtain the credit (the new figure gives a maximum credit of \$375).

For a married couple, both over age 65, the retirement income credit is to be based upon \$3,750 instead of the \$2,500 applicable to a single person. Otherwise the credit is to be computed in the same manner indicated above except on the basis of the combined experience of the husband and wife.

For those below age 65 receiving government pension income the \$2,500 also becomes applicable but, as under present law, only with respect to government pension income. The earnings test for these persons is raised from \$900 to \$1,200 if under age 62 but for those above that age, the \$2,100 earnings test applies.

The revised credit is to apply for taxable years beginning after December 31, 1973.

## GENERAL STATEMENT

*1. Individuals 65 years of age or over*

*Present law.*—Under present law, individuals who are 65 years of age or over may receive a tax credit based on the first \$1,524 of retirement income. The credit is 15 percent of this retirement income. Each spouse who is 65 or over may compute his tax credit on up to \$1,524 of his own retirement income (whether he files a separate or joint return). Alternatively, spouses 65 or over who file joint returns may compute their credit on up to \$2,286 of retirement income (one and one-half times \$1,524) even though one spouse received the entire amount of the retirement income.

To be eligible for this credit, however, an individual must have received more than \$600 of earned income in each of 10 years prior to the taxable year (a widow or widower whose spouse had received such earned income is considered to meet this earned income test).

Retirement income, for purposes of this credit, includes taxable pensions and annuities, interest, rents, dividends, and interest on government bonds issued especially for the self-employed setting aside amounts under "H. R. 10" retirement type plans.

The maximum amount of this retirement income which an individual may claim (\$1,524 or \$2,286 for certain married couples) must be reduced for two broad categories of receipts. First, it must be reduced (on a dollar-for-dollar basis) by the amount of social security, railroad retirement or other exempt pension income received by the taxpayer. Second, the maximum amount of retirement income that can be eligible for the credit is further reduced by one-half of the annual amount of earned income over \$1,200 and under \$1,700 and by the entire amount of earned income in excess of \$1,700. This reduction for earned income does not apply, however, in the case of individuals who have reached the age of 72.

*Reasons for change.*—The committee believes that it is desirable to recast the present retirement income credit for several basic reasons. One reason is that the credit needs updating. Most of the features of the present credit have not been revised since 1962 when the maximum level of income on which the credit is computed was set and when the current earnings limits were established.<sup>1</sup> Since then, there have been numerous revisions of the social security law which substantially liberalized the social security benefits. As a result, the present maximum amount of income eligible for the credit is considerably below the maximum annual social security primary benefit of about \$3,530 for a 65-year-old retired worker and the maximum social security primary and supplementary benefit of about \$5,290 for a retired worker and his spouse.

In addition, the complexity of the present retirement income credit prevents it from providing the full measure of relief it was intended to grant to elderly people. This complexity stems from an attempt to pattern the credit after the social security law so as to give persons not

<sup>1</sup> One other feature of the credit was adopted in the 1964 Revenue Act. This provision allowed spouses 65 and over who file joint returns to claim a credit on up to \$2,286 of retirement income (one and one-half times the \$1,524 maximum base for single people) even if one spouse receives the entire amount of the married couple's retirement income.

receiving social security payments the same tax benefits as social security recipients. For example, to claim the credit on his tax return, a taxpayer must show that he has met the test of earning \$600 a year for 10 years; he must also segregate his retirement income from his other income; he must reduce the maximum amount of retirement income eligible for the credit by the amount of his social security income and by the specified portions of his earned income under the work test; a credit of one and one-half times the basic credit is available for a man and wife; and a credit is available for each spouse separately if each spouse independently meets the eligibility tests.

The purpose of all of these provisions is to provide individuals who receive little or no social security benefits, but receive retirement income, the opportunity to receive tax treatment roughly comparable to that accorded to those who get the maximum amount of tax-exempt social security benefits. However, these complex requirements have caused severe compliance burdens for large numbers of elderly people, many of whom are not skillful in filing tax returns. Such individuals must now compute their retirement income credit on a separate schedule, which occupies a full page in the tax return packet, with 19 separate items, some of which involve computations in three separate columns. It is these complexities which undoubtedly account for the fact that some of the organizations representing retired people have estimated that as many as one-half of all elderly individuals eligible to use the retirement income credit do not claim this credit on their tax returns.

To deal with the problems described above, the committee has decided to update the amount on which the credit is based and to revise upward the earnings limitations. The committee also believes that the problem of complexity should be dealt with by no longer attempting to pattern the credit closely after the social security provisions. Instead, to the extent practical, complicating features of the credit which previously were included in order to parallel social security treatment have been eliminated. Thus, the \$600, 10-year earnings test has been eliminated. In addition, the variation in treatment of married couples depending on whether they are separately eligible for credits is eliminated. However, the committee, as under present law, limits the credit to the amount of retirement income.

*Explanation of change.*—To update the credit, the maximum amount on which the credit is computed is increased from the \$1,524 under present law (or \$2,286 for some married couples or \$3,048 for other married couples where both are separately eligible for the credit) to \$2,500 for single persons or married couples filing joint returns with only one spouse age 65 or over and to \$3,750 for married couples, filing joint returns where both spouses are age 65 or over. (The maximum amount on which the credit is based is to be \$1,875 for a married person filing a separate return.)

These maximum amounts for computing the credit are reduced, as under present law, by social security benefits and exempt pension income.

In addition, the maximum amounts are reduced by one-half of earnings in excess of \$2,100 received by a single taxpayer or by each spouse if married and filing a joint return (or in excess of \$1,050 for

married couples filing separate returns). This may be compared with the reduction required by present law of one-half of earnings between \$1,200 and \$1,700 and of all of the earnings in excess of \$1,700.

Moreover, the determination of whether earned income or income from pensions or annuities for personal services is to be considered the income of a husband or of a wife is to be made without regard to community property laws since the relevant tests for purposes of reducing the base for the credit is who actually earned the income, not who has property rights in the income.

These reductions of the maximum amount for social security and earnings determine the amount of retirement income eligible for the credit. The credit is determined by simply multiplying the lesser of the retirement income or the maximum amount (after any of the reductions referred to above) by 15 percent.

Based upon 1974 exemption levels a single individual age 65 who receives the maximum retirement income credit could receive up to \$4,321 before paying any income tax under present law if the income is exclusively from pension or retirement income sources. Under the revised credit, he may receive up to \$5,142 of income and still pay no tax, again if the income is exclusively from pension or retirement income sources.

Under present law a married couple filing a joint return where both are age 65 or over may receive \$6,631 of pension or investment income before paying any tax.<sup>2</sup> Under the revised credit, they could receive up to \$7,962 of pension or investment income before paying any tax. Moreover, the revised credit continues to be of some value to a married couple with additional earned income of up to \$11,700.<sup>3</sup>

There will be a few rare instances in which a higher tax than under present law may result from the revised credit. These cases arise where one spouse has pension or investment income and is eligible for the credit under present law, the other spouse has earned income and a joint return is filed. Under present law, the earnings of the other spouse do not reduce the base for the retirement income credit as is provided under the new credit. The committee believes that the very substantial additional simplification of the tax form brought about for the majority of the elderly which results from eliminating the separate husband and wife computation procedure (which requires an additional two columns on the tax form) justifies the combination of the earnings requirement.

Moreover, the effect of the combined earning requirement is lessened by increasing the earnings limitation to \$2,100 for each spouse and by phasing out the amount on which the credit is based for earned income above \$2,100 on a 50 cents per dollar basis rather than on the dollar-for-dollar basis provided by present law.

An example of the type of simplified tax credit form for taxpayers age 65 and over which these changes make possible is shown below. This form is about one-third as long as the present form and involves only one column instead of three. It requires the taxpayer to select the appropriate amount on which to compute the credit and to deduct social security benefits and certain other tax-exempt income. It also requires the taxpayer to deduct earned income above specified levels. The credit is computed at a 15 percent rate on the lesser of the

<sup>2</sup> Assuming the alternative retirement income credit computation based on \$2,236.

<sup>3</sup> If each spouse has at least \$2,100 of earnings, the maximum amount of the credit is reduced \$1.00 for each \$2.00 of earnings in excess of \$4,200. Thus, in the above earned income case the credit disappears at twice \$3,750 (\$7,500), plus \$4,200, or \$11,700.

amount of the retirement income or the balance, and this is then entered on the tax return as a tax credit.<sup>4</sup>

SCHEDULE R.—*Credit for taxpayers age 65 and over*

(Joint returns with one spouse under age 65 who has public pension income, use Schedule S)

MAXIMUM AMOUNTS FOR CREDIT COMPUTATION

*Then your maximum amount for credit computation is—*

If you are: (check one box)

<input type="checkbox"/>	Single.....	\$2, 500
<input type="checkbox"/>	Married filing jointly and only one spouse is 65 or over.....	2, 500
<input type="checkbox"/>	Married filing jointly, both age 65 or over.....	3, 750
<input type="checkbox"/>	Married filing a separate return and age 65 or over.....	1, 875

1. Enter (from above) your maximum amount for credit computation.....
2. Amounts received as pensions or annuities under the Social Security Act, the Railroad Retirement Acts (but not supplemental annuities) and certain other exclusions from gross income.....
3. Earned income received (does not apply to persons age 72 and over). Enter  $\frac{1}{2}$  of earnings over—  
 \$2,100 if single;  
 \$2,100 received by the husband \_\_\_\_\_, plus  
 \$2,100 received by the wife \_\_\_\_\_, if married and filing jointly; or  
 \$1,050 if married and filing separately.....
4. Total of lines 2 and 3.....
5. Balance (subtract line 4 from line 1); if more than zero complete this form; if zero or less, do not file this form.....
6. Amount of retirement income.....
7. Amount of credit; enter (here and on form 1040, line 49) 15 percent of lesser of line 5 or line 6 but not more than the total tax on form 1040, line 16.....

2. *Those under 65 receiving pensions from public retirement systems*

*Present law.*—Under present law, individuals under the age of 65 also are eligible for tax credits for retirement income but only with respect to pensions received under a public retirement system. Only income from a pension, annuity, retirement, or similar fund or system established by the United States, a State, or a locality qualifies under this provision. This restriction of retirement income for purposes of the credit to income from a public retirement system applies only until the individual reaches the age of 65; thereafter he is entitled to take the credit on the same basis as other individuals who have reached that age.

The retirement income credit for individuals under 65, apart from the fact that it applies only to a pension under a public retirement system, presently is much like the credit applying to individuals 65 and over. (There are some other differences, however, which are noted below.) Thus, it is limited to 15 percent of retirement income up to \$1,524. Each spouse under 65 may claim the credit on up to \$1,524 with respect to his own public retirement income either on joint or separate returns. However, unlike married couples 65 or over, those under 65 who file joint returns are not entitled to a \$2,286 ceiling in computing the credit.

<sup>4</sup> An example of the type of tax form to be used by taxpayers under age 65 who receive pension income from public retirement systems is shown at the end of the technical discussion.

To be eligible for the credit, individuals under 65 also are required to meet the same 10-year, \$600 earnings test as those over 65. Similarly, for those under 65, the maximum amount of public retirement income that can be eligible for the credit is reduced one dollar for each dollar of social security or railroad retirement pensions received. However, the reduction in the maximum amount eligible for the credit by reason of earnings is different for individuals under age 62 who are receiving public retirement pensions. In the case of such individuals, this maximum amount is reduced dollar-for-dollar for all earned income over \$900. Starting with age 62, however, those receiving public retirement pensions are eligible for the same more liberal earnings rules which now apply to persons who are 65 or over; that is, under present law, the maximum amount on which the credit is based is reduced by one-half the amount of earned income over \$1,200 but not over \$1,700, and the full amount of earned income in excess of \$1,700.

*Reasons for change.*—In view of the liberalized base for the credit made available to those age 65 or over by this bill, the committee decided to make comparable liberalizations in the amount of public pension income eligible for the retirement income credit. To some extent the application of the earnings test has also been liberalized for those receiving public retirement pensions.

*Explanation of change.*—The maximum amount on which the tax credit computation may be made for this group is increased from the present \$1,524 to the same amounts provided by the revised credit for those age 65 and over. As is the case under present law, however, the credit is limited to the amount of public pension income received. In addition, the earnings level above which earnings reduce the base for the credit is increased from \$900 to \$1,200 for those under age 62. For those from age 62 to 65, the earnings limitation is increased so that the amount on which the credit is based is reduced for one-half of earnings over \$2,100. (These amounts are \$600 and \$1,050 respectively in the case of a married person filing a separate return.)

The principles and method of computation of the credit are essentially the same as present law. Like the revised credit for those 65 and over, however, the revised retirement income credit requires that the earnings of both spouses be combined in the case of a joint return; the separate computation of present law is eliminated.<sup>5</sup>

The committee concluded that the form used for computing the tax credit for those age 65 and over should not be combined with the form used for the public service retirees eligible for credit who are under age 65. Part (although by no means all) of the complexity of the present form stems from different requirements applicable with respect to public service retirees and the general retirees age 65 and over. The different variables which must be accounted for on the return form are increased substantially when the two somewhat different types of credits are combined on a single form. An example of a tax credit form which might be used for public retirees under age 65 is shown at the end of the general explanation below.

<sup>5</sup> In addition, in the case of a joint return with one spouse age 65 or over and the other under age 65 and receiving public pension income, the \$3,750 maximum amount for the credit is reduced by \$1,250 minus the public pension income received by the younger spouse. In effect, the taxpayer age 65 or over is entitled to the \$2,500 available to elderly taxpayers, and in order for the couple to receive the \$3,750 maximum, the spouse under age 65 must have at least \$1,250 of pension income. Otherwise, the taxpayer age 65 with a spouse receiving public pension income could, in effect, receive a larger maximum credit than a taxpayer age 65 whose spouse did not receive such pension income.



*Revenue effect.*—It is estimated that the changes made for those over age 65 and also for the public service retirees under age 65 will reduce tax liability in calendar year 1974 by \$200 million.

*Effective date.*—The provisions are to first apply to taxable years beginning after December 31, 1973.

## TECHNICAL DISCUSSION

### 1. *Individuals 65 years of age and over*

In general, the credit provided (sec. 37 of the code) liberalizes the retirement income credit available under present law for those age 65 and over in three respects. First, the amount of retirement income with respect to which the 15-percent credit may be claimed is increased to \$2,500 for a single person and to \$3,750 in the case of a married couple filing a joint return. Second, for individuals between ages 65 and 72, earned income received by them is to reduce the maximum amount eligible for the credit only to the extent of one-half the amount of this income in excess of \$2,100. Third, the credit is to be available regardless of whether the individual has had work experience (i.e., has received earned income) in prior years. (In addition, as discussed more fully below, the bill also liberalizes the credit presently allowed persons under 65 years of age who are receiving pensions or annuities from a public retirement system.)

*Retirement income.*—As indicated above, the committee has retained the concept of present law that the amount of the credit is based upon the amount of retirement income. For this purpose, retirement income, as under present law, is defined to mean income from pensions and annuities (including, as is the case under present law, public retirement system pension income), interest, rents, and dividends. As under existing law, there is a limit on the amount of retirement income which may be taken into account.

*Limitation on retirement income.*—Under the bill the amount of retirement income with respect to which the 15-percent credit may be claimed may not exceed \$2,500 in the case of a single individual age 65 or over or a married couple filing a joint return where only one spouse is age 65 or over. In the case of a married couple filing a joint return where both spouses are age 65 or over, the maximum amount is \$3,750. (As under present law the age of an individual is to be determined as of the close of the taxable year in question.) This credit is to be available whether or not the individual (or his spouse in the case of a joint return) has received \$600 of earned income in 10 prior years.

*Reductions.*—The maximum amount is to be reduced by amounts received by the individual (and by his spouse in the case of a married couple filing a joint return) as a pension or annuity under the Social Security Act, the Railroad Retirement Acts or as a pension or annuity which is otherwise excluded from gross income.

In addition, there is to be a further reduction of the maximum amount for certain amounts of earned income received by the individual (and by his spouse in the case of a married couple filing a joint return). (As under present law, no reduction is to be made for earned income of an individual age 72 or over.) In the case of a single individual, the maximum amount is to be reduced by one-half of the amount of earned income received by the individual for the year in excess of \$2,100.

In the case of a married couple filing a joint return, this earned income reduction is to be determined separately with respect to the earned income of each spouse. In other words, each spouse is to separately compute the amount of this reduction (i.e., one-half the amount of earned income received by him (or her) in the taxable year in excess of \$2,100), and then these separate amounts are to be aggregated to determine the total amount of the couple's earned income reduction. Where only one spouse (of a married couple filing a joint return) is age 65 or over, earned income of the spouse under age 65 is to reduce the couple's maximum amount to the extent of one-half of the excess of that income over \$2,100, regardless of the age of that spouse (unless that spouse is the recipient of a public retirement system pension in which case the earned income reduction rules discussed below are to apply).

*Separate returns.*—In the case of a married individual age 65 or over filing a separate return, the maximum amount of retirement income with respect to which the credit may be claimed is \$1,875. In addition, the amount of the reduction for earned income received by the individual is to be one-half the amount of the individual's earned income in excess of \$1,050, rather than \$2,100.

## 2. *Those under 65 receiving pensions from public retirement systems*

In the case of individuals under age 65, the bill continues the allowance of a credit to those who receive a pension or annuity from a public (Federal, State or local) retirement system. This treatment is to be available, however, only if the pension or annuity received by the individual is paid in respect of services performed by him (or if he is deceased, by his spouse). In the case of a single individual, or a married couple filing a joint return where only one spouse is receiving a public retirement system pension, the maximum amount of retirement income which may be taken into account for purposes of the credit is \$2,500. In the case of a married couple filing a joint return where both husband and wife receive public retirement system pensions the maximum amount of retirement income is \$3,750.

*Reductions.*—As in the case of those 65 years of age and over, the maximum amount of retirement income is to be reduced by pensions or annuities received by the individual (and by his spouse in the case of a married couple filing a joint return) under the Social Security Act, Railroad Retirement Acts, or which are otherwise excluded from gross income.

In addition, a reduction in the maximum amount of retirement income is to be made for certain amounts of earned income received by the individual (and by his spouse in the case of a married couple filing a joint return). If the individual is between the ages of 62 and 65, the amount of the reduction is to be one-half the amount of earned income received by him for the year in excess of \$2,100. If the individual has not attained the age of 62, then the amount of the reduction is to be the amount of his earned income for the year in excess of \$1,200. In the case of a married couple filing a joint return (whether one or both are receiving public retirement system pensions), the earned income reduction is to be applied separately with respect to each spouse (both with respect to the earned income received in the taxable year by each spouse and with respect to the age of each

spouse), and then the amounts of the separately computed reductions are to be aggregated to determine the couple's total earned income reduction.

*Limitation on public retirement income.*—The bill limits the amount which may be taken into account for purposes of the credit in the case of individuals under age 65 to public retirement system pension income. However, in no event may more than \$2,500 of this income received by an individual during a taxable year be taken into account. In the case of a married couple filing a joint return where both spouses are receiving public retirement system pension income, no more than \$2,500 of this type of pension income may be taken into account with respect to each spouse for purposes of this additional limitation (although the total base of the credit for such couple is limited, of course, to \$3,750).

For example, assume a married couple under age 65 filed a joint return and did not receive any social security (or similar amounts) or earned income which would cause a reduction in their \$3,750 maximum amount of retirement income which may be taken into account. If one spouse received a \$3,000 public retirement system pension while the other spouse received only a \$100 public retirement system pension, they could take into account \$2,600 (that is, \$2,500 of pension income of the one spouse and \$100 of pension income of the other spouse). Accordingly, the amount of retirement income with respect to which the credit could be claimed would be limited to \$2,600.

Where a married couple files a joint return and one spouse is age 65 or over and the other spouse is under age 65 but is receiving a public retirement pension, the bill provides that a further reduction in the maximum amount of retirement income is to be made if the pension income of the spouse who is under 65 is less than \$1,250.

The amount of the reduction is the amount by which \$1,250 exceeds the amount of that spouse's public retirement system pension. For example, if the public retirement system pension of the spouse under age 65 was \$1,000, the maximum initial amount for the married couple in this case would be reduced from \$3,750 to \$3,500 (the \$2,500 available for the spouse over age 65 plus the \$1,000 for the spouse under 65). If there were, in addition, \$750 of social security and/or earned income in excess of the limitations, there would be a further reduction of the \$3,500 to \$2,750.

If a married individual under age 65 is receiving a public retirement system pension and files a separate return, the maximum amount which may be taken for purposes of the credit is \$1,875. In addition, under the earned income reduction, this maximum amount where a separate return is filed is to be reduced if the individual is between 62 and 65 by one-half the amount of his earned income for the year in excess of \$1,050 or, if he is under age 62, by the amount of his earned income for the year in excess of \$600.

### *3. Miscellaneous provisions*

As under present law, since the bill makes no specific provision for a refund in this case, the credit may not exceed the individual's (or the married couple's, in the case of a joint return) tax for the year. For this purpose, however, the bill provides that the credit is to be taken before the foreign tax credit. In other words, the tax for the

year is to be computed before reduction for the foreign tax credit and the credit for tax withheld on certain tax free covenant bonds. A correlative change is made by the bill in the limitation on the foreign tax credit to reflect this reordering of the priority of these two credits. Thus, the limitation on the foreign tax credit is to be computed with respect to the tax for the year after reduction for the retirement income credit.

The bill also continues the definition of earned income which is found in present law. The committee has, however, amended present law to further provide that the community property laws are not to be taken into account in determining whether earned income and income from pensions and annuities for personal services (including public retirement income pensions) is the income of the husband or wife. Accordingly, in a community property State, earned income, or pension income, received by the husband for personal services performed by him is to be considered entirely his income and not in part attributable to his wife.

In addition, as under present law, nonresident aliens are not to be eligible for the credit provided by the bill.

The amendments made by the committee's bill with respect to the retirement income credit are to apply to years beginning after December 31, 1973.

Earlier in the report, an illustrative schedule for the credit in the case of those 65 and over was shown. The schedule which follows indicates how the tax credit can be computed separately for those under age 65 who have public retirement system pensions.

**SCHEDULE S.—Credit where at least one taxpayer is under age 65 and receives pension or annuity income from public retirement systems**

If you are (check one box):	Then your maximum amount for credit computation is—
<input type="checkbox"/> Single under 65 and receiving public retirement pension .....	\$2, 500
<input type="checkbox"/> Married filing jointly both under 65 and one receiving public retirement pension .....	2, 500
<input type="checkbox"/> Married filing jointly both under 65 and both receiving public retirement pension .....	3, 750
<input type="checkbox"/> Married filing jointly, one under 65 and receiving public retirement pension and other spouse over 65 .....	3, 750
<input type="checkbox"/> Married filing separately under age 65 and receiving public retirement pension .....	1, 875

1. Enter (from above) your maximum amount for credit computation \_\_\_\_\_
2. Amounts received as pensions or annuities under the Social Security Act, the Railroad Retirement Acts (but not supplemental annuities) and certain other exclusions from gross income .....
3. Earned income received (does not apply to persons age 72 or over):
  - Single: age 62 or over, enter  $\frac{1}{2}$  of earnings over \$2,100; under age 62, enter all earnings over \$1,200 .....
  - Married filing jointly: enter  $\frac{1}{2}$  of earnings in excess of \$2,100 for each spouse age 62 or over; and all earnings over \$1,200 for each spouse under age 62 .....
  - Married filing separately: age 62 or over, enter  $\frac{1}{2}$  of earnings in excess of \$1,200; under age 62, enter earnings in excess of \$600 .....

**SCHEDULE S.—Credit where at least one taxpayer is under age 65 and receives pension or annuity income from public retirement systems—Continued**

4. Total of lines 2 and 3.....	_____
5. Balance (subtract line 4 from line 1); if more than zero complete this form; if zero or less, do not file this form.....	_____
6. Income received by taxpayers under age 65 from pensions and annuities under public retirement systems (e.g., Federal, State Governments, etc.) included on form 1040, line 31. But no more than \$2,500 for each spouse for married filing jointly.....	_____
7. If married filing jointly, and one spouse is age 65 or over and the other spouse has public pension income, subtract the amount of such income from \$1,250 and enter difference (not less than zero).....	_____
8. Subtract line 7 from line 5 and enter remainder.....	_____
9. Enter the smallest of lines 5, 6, or line 8.....	_____
10. Amount of credit: enter (here and on form 1040, line 49) 15 percent of line 9 but not more than the total tax on form 1040, line 16.....	_____

**IV. Costs of Carrying Out the Bill and Effect on the Revenues of the Bill**

In compliance with section 252(a) of the Legislative Reorganization Act of 1970, the following statement is made relative to the costs to be incurred in carrying out this bill and the effect on the revenues of the bill. Since, in the absence of duty exemption provided in H.R. 8217, the duties would be paid from one government agency to another, there is no revenue loss involved in the first part of the bill. The estimated revenue loss in 1974 associated with the liberalization of the retirement income credit is \$200 million.

**V. Vote of Committee on Reporting the Bill**

In compliance with section 133 of the Legislative Reorganization Act, as amended, the following statement is made relative to the vote of the committee on reporting the bill. This bill was ordered favorably reported by the committee without a roll call vote and without objection.

**VI. Changes in Existing Law**

In the opinion of the committee, it is necessary, in order to expedite the business of the Senate, to dispense with the requirements of subsection 4 of rule XXIX of the Standing Rules of the Senate (relating to the showing of changes in existing law made by the bill, as reported).

