

DEVICES OTHER THAN STAMPS ON DISTILLED SPIRITS CONTAINERS  
AS EVIDENCE OF TAX PAYMENTS AND EXTENSION OF TAX BENEFITS  
OF MEMBERS OF THE ARMED FORCES AND CIVILIAN EMPLOYEES  
WHO ARE MISSING IN ACTION OR HOSPITALIZED AS A RESULT  
OF THE VIETNAM CONFLICT

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

## REPORT

[To accompany H.R. 7228]

The Committee on Finance, to which was referred the bill (H.R. 7228) to amend the Internal Revenue Code of 1954 to permit the authorization of means other than stamps on containers of distilled spirits as evidence of tax payment, having considered the same, reports favorably thereon with an amendment and recommends that the bill as amended do pass.

### I. SUMMARY

The House-passed bill (H.R. 7228) relates to the means used as evidence of tax payment for containers of distilled spirits. Under present law, containers of distilled spirits must have a stamp as evidence of the payment of the Federal excise tax. The bill permits the Treasury Department to authorize the use of means other than stamps as evidence of this tax payment. The bill also allows the Secretary of the Treasury to authorize persons outside the Treasury Department to prepare and distribute the stamps or other devices that may be used, which is to be done only under such controls as are necessary to protect Federal revenues.

The committee agreed to the House passed bill and added an amendment dealing with the special tax provisions relating to members of the Armed Forces and others involved in the Vietnam conflict. The amendment extends for one year (to January 2, 1978) the tax relief to members of the Armed Forces of the United States (and their spouses) and civilian employees who are missing in action or hospital-

ized as a result of wounds, disease, or injury incurred in the Vietnam conflict.

## II. GENERAL STATEMENT

### A. EVIDENCE OF TAX PAYMENT ON DISTILLED SPIRITS CONTAINERS

#### *Present law*

Under present law, evidence of the payment of the Federal excise tax on distilled spirits is required to be demonstrated by attaching to the container what is commonly known as a "strip stamp." This is a paper stamp that is attached to the container in such a manner that it will be broken (thereby voiding it) upon opening the container. (See especially secs. 5205 and 5235 of the Internal Revenue Code of 1954.) Present law (sec. 6801) restricts the preparation and distribution of the strip stamps to the Treasury Department. The stamps are now made by the Bureau of Engraving and Printing.

#### *Reasons for change*

Recent developments in the technology of bottle and container closures indicates that it may become simpler for distillers and less costly to the Federal Government in the future to use devices other than paper stamps as evidence of payment of the excise tax on distilled spirits. For example, the evidence of this tax payment might be printed on a metallic strip used to form the closure on a bottle; this strip also would be broken and thereby voided when the bottle is opened. The printing costs are to be borne by the parties who are authorized to print such stamps.

If the Treasury Department considers using means or devices other than a paper stamp as evidence of the tax payment, there may be a problem in providing the other means or devices. The paper stamps now are provided by the Bureau of Engraving and Printing, which is geared to printing on paper. That Bureau and other agencies of the Federal Government are not now equipped to process other materials for use as evidence of tax payment.

In order to permit the Treasury Department to take advantage of modern technology, and to reduce its manufacturing and administrative costs, the committee has approved this bill, which authorizes the use of "other devices" as well as tax stamps and which, with safeguards, authorizes the Treasury to have such devices prepared and distributed by private parties.

#### *Explanation of provision*

The bill authorizes the Treasury Department to use devices other than stamps as evidence of tax payment on containers of distilled spirits. The committee understands that consideration may be given to the use of metallic strips as an authorized device, with the strips being embossed with, or having printed or lithographed on them, the appropriate legend certifying to their use as tax stamps.

Because the Federal Government's agencies do not possess facilities for processing metallic strips or other nonpaper strips, the Secretary is given authority, in section 2 of the bill, to authorize other persons to prepare and distribute metallic and other nonpaper stamp strips. In practice, authorization to prepare the strips might be given to dis-

tillers, container manufacturers, or other manufacturers of the strips. The committee bill requires the Secretary to impose whatever controls he believes are necessary to assure that the Federal revenues are protected. This requirement means that the authorized printers of non-paper stamps must establish the kind of controls needed to assure that the tax is paid for each stamp that is used.

The importance of such controls may be gathered from the fact that upwards of \$4 billion are expected to be received from the tax on distilled spirits during fiscal year 1977.

In order to afford an opportunity for Congressional review of any system of private production of stamps or other devices, the Treasury Department should not put into effect any agreement for such private production until the Department has given the committee at least 90 days to examine the system of controls to be used.

**B. EXTENSION OF TAX BENEFITS OF MEMBERS OF THE ARMED FORCES AND CIVILIAN EMPLOYEES WHO ARE MISSING IN ACTION OR HOSPITALIZED AS A RESULT OF THE VIETNAM CONFLICT**

*Present law*

Under present law, members of the Armed Forces of the United States and civilian employees who are missing in action or remain hospitalized as a result of wounds, disease, or injury incurred in the Vietnam conflict are entitled to certain tax relief which generally will expire with respect to taxable years beginning after January 2, 1977.

Under section 112 of the code, members of the Armed Forces may exclude from income compensation received for each month any part of which is spent hospitalized as a result of wounds, disease, or injury incurred in combat. Generally, these benefits run for two years after the formal cessation of hostilities, that is for two years after the date designated under section 112 as the date of termination of combatant activities. Public Law 93-597, enacted on January 2, 1975, extended the latest date for qualification for the exclusion provided by section 112 in cases relating to the Vietnam conflict through months beginning on or before January 2, 1977.

Present law (sec. 692 of the Code) also forgives any taxes otherwise due for a taxable year during which a member of the Armed Forces dies while on active duty in a combat zone or for any prior taxable year which ends after the member first served in a combat zone. In the case of members missing in the Vietnam conflict, the tax forgiveness provision will not apply to any taxable year beginning after January 2, 1977.

In addition, certain widows and widowers are eligible for special tax rates as a surviving spouse for the two taxable years following the year in which the other spouse died. In the case of spouses missing in the Vietnam conflict, the survivor may elect (under sec. 2 of the code) the special rates for two years from the earlier of the date of the determination of death, or January 2, 1977. This allows the surviving spouse of an individual missing in Vietnam to elect the favorable "surviving spouse" rates for two taxable years after January 2, 1977.

Several provisions also affect the election to file a joint return by a spouse of a missing member. Under section 6013 the spouse of a member

missing as a result of the Vietnam conflict cannot elect to file a joint return for a taxable year beginning after January 2, 1977. The spouse of a missing individual is also granted extensions (under sec. 7508 of the code) for certain tax obligations and tax administrative actions for taxable years beginning before January 2, 1977. For that period the Internal Revenue Service is to disregard whether required tax returns were filed, payments made, petitions and credit or refund claims filed, etc., within the time prescribed by statute.

#### *Reasons for change*

Since the enactment of the 1975 legislation, the Department of Defense has been unable to conduct status reviews of persons missing in action because of unanticipated events. Between 1973 and March, 1974, the Department was judicially enjoined from making such reviews. In March 1974, the Federal District Court (Southern District of New York) stated that status reviews could be resumed if the Department adopted procedural safeguards including notification of intention to review, providing an opportunity for primary next of kin to attend the hearing with legal counsel, and providing reasonable access to information used at the hearings.<sup>1</sup>

Following that decree, the military again began status reviews. These reviews were again suspended by agreement between the Department of Defense and the House Select Committee on Missing Persons in Southeast Asia until late 1976 or early 1977 when the Committee will submit its report to the House. Thus, no status reviews will be resumed on the remaining cases until 1977. The committee has been informed that a one-year extension of the tax benefits should allow the military sufficient time to complete reviewing the status of open cases.

#### *Explanation of provision*

The bill generally extends the termination date for the special tax treatment for certain individuals missing in action or remaining hospitalized as a result of the Vietnam conflict for one year through taxable years beginning on or before January 2, 1978.

Specifically, the bill would allow members of the Armed Forces to exclude from gross income compensation received for any month during any part of which the member was hospitalized as a result of wounds, disease, or injury incurred while serving in a combat zone in the Vietnam conflict. Enlisted personnel may exclude all such compensation; commissioned officers may exclude up to \$500 of such compensation per month. These exclusions would apply through January 1978.

The bill would also extend from January 2, 1977, to January 2, 1978, the date after which the income tax forgiveness for the taxable year in which a member of the Armed Forces dies (or is determined to have died) as a result of combat in the Vietnam conflict, will no longer be allowed.

Also, the spouse of a person missing as a result of service in a combat zone in the Vietnam conflict would be allowed to elect to file a joint return until taxable years beginning after January 2, 1978, and would

<sup>1</sup> *McDonald v. McLucas*, 371 F. Supp. 831 (1974); 371 F. Supp. 837 (1974); aff'd, 95 Sup. Ct. 297 (1974).

be entitled to file as a surviving spouse for two taxable years beginning after January 2, 1978.

*Effective date.*—This provision will become effective on the date of enactment.

### III. COSTS OF CARRYING OUT THE BILL AND VOTE OF THE COMMITTEE IN REPORTING H.R. 7228, AS AMENDED

#### *Revenue cost*

In compliance with section 252(a) of the Legislative Reorganization Act of 1970, the following statements are made relative to the costs incurred in carrying out the provisions of H.R. 7228. The provision relating to the use of stamps other than paper as evidence of tax payment will have no effect on receipts from the excise tax on distilled spirits. The provision that extends the tax benefits for MIA's will reduce receipts by less than \$5 million in fiscal years 1977 and 1978.

#### *Tax expenditures*

With respect to the effects of the bill on tax expenditures during the next five fiscal years, the following statement has been received from the Director of the Congressional Budget Office:

"The Director of the Congressional Budget Office has not made an estimate or comparison of the estimates of the cost of H.R. 7228, as amended, but has examined the committee's estimates and agrees with the methods and the dollar estimates resulting therefrom."

#### *Vote of the committee*

In compliance with section 133 of the Legislative Reorganization Act of 1946, the following statement is made relative to the vote by the committee on the motion to report the bill. H.R. 7228, as amended by the committee, was ordered reported by a voice vote.

### IV. 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).

