

CLARIFYING THE PUBLIC DEBT ACT OF 1941

JUNE 13 (legislative day, APRIL 21), 1947.— Ordered to be printed

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

R E P O R T

[To accompany H. R. 2872]

The Committee on Finance to whom was referred the bill (H. R. 2872) to amend further section 4 of the Public Debt Act of 1941, as amended, and clarify its application, and for other purposes, having considered the same, report favorably thereon and recommend that the bill pass.

The bill amends the Public Debt Act of 1941, as amended by the Public Debt Act of 1942 by striking the phrase "Federal tax acts now or hereafter enacted" in section 4 (a), and substituting the phrase "the Internal Revenue Code, or laws amendatory or supplementary thereto." The bill makes no other change.

The purpose of the amended wording is to remedy an ambiguity arising out of the phrase "Federal tax acts now or hereafter enacted."

An act of the Congress of July 1, 1902 (32 Stat. 619), authorizes an annual tax upon the gross earnings of national banks in the District of Columbia. The Corporation Counsel construes the phrase "Federal tax acts" in section 4 (a) of the Public Debt Act of 1941, as amended, to include the act of July 1, 1902. The effect of this construction is to subject the interest received upon, and gain from the sale or other disposition of Federal securities held by national banks in the District of Columbia to taxation by the District.

In effect section 4 of the Public Debt Act of 1941 made interest upon, and gain from the sale or other disposition of obligations of the Federal Government issued thereafter subject to Federal taxation to the same extent as like obligations of private issuers. But the act did not in any way affect the taxable status of obligations of States, municipalities, or other local governments, nor change the existing law with respect to the taxation of Federal securities by the States and their political subdivisions.

The Treasury Department has stated that in proposing the enactment of the Public Debt Act of 1941, it was the intention to subject

Federal securities to taxation only under internal-revenue laws. The legislative history of the Public Debt Act of 1941 indicates that this was the intention also of the Congress. No indication appears of an intention to embrace by the phrase "Federal tax acts" tax laws which the Congress had enacted for local areas under Federal jurisdiction.

In the opinion of your committee, the language of the Public Debt Act of 1941, as amended, should be clarified by substitution of the phrase "the Internal Revenue Code, or laws amendatory or supplementary thereto" for the phrase "Federal tax acts now or hereafter enacted" as provided in the bill H. R. 2872.

(H. Rept. No. 423, 80th Cong. 1st sess.)

The Committee on Ways and Means, to whom was referred the bill (H. R. 2872) to amend further section 4 of the Public Debt Act of 1941, as amended, and clarify its application, and for other purposes, having had the same under consideration, report it back to the House without amendment and recommend that the bill do pass.

NEED FOR THE LEGISLATION

Section 4 (a) of the Public Debt Act of 1941, as amended by the Public Debt Act of 1942, provides that "interest upon obligations, and dividends, earnings, and other income from shares, certificates, stock, or other evidences of ownership, and gain from the sale or other disposition of such obligations and evidences of ownership issued on or after the effective date of the Public Debt Act of 1942 by the United States or any agency or instrumentality thereof shall not have any exemption, as such, and loss from the sale or other disposition of such obligations or evidences of ownership shall not have any special treatment, as such, under Federal tax acts now or hereafter enacted."

The Corporation Counsel for the District of Columbia has construed the words "Federal tax acts" to include the act of July 1, 1902 (32 Stat. 619) which imposes an annual tax upon the gross earnings of banks in the District of Columbia. The effect of such a construction, if followed by the District government, would be to require the inclusion of income from Federal securities held by such banks in their gross earnings subject to tax.

The legislative history of section 4 of the Public Debt Act of 1941, as originally enacted or as amended by the Public Debt Act of 1942, indicates no intent to permit taxation of Federal securities by other jurisdictions than the Federal Government. It is the opinion of your committee, therefore, that any ambiguity in this respect in the existing language of the section should be eliminated.

LIMITED EFFECT OF THE PUBLIC DEBT ACT

The Public Debt Act of 1941 made no change in the taxable status of Federal obligations under State or local law, nor any change in the taxable status of State or local obligations under Federal law.

The views of the Treasury Department and of the Board of Commissioners of the District of Columbia on the bill are expressed in the following letters addressed to the chairman of your committee:

TREASURY DEPARTMENT,
Washington 25, May 5, 1947.

HON. HAROLD KNUTSON,
Chairman, Committee on Ways and Means,
House of Representatives, Washington, D. C.

MY DEAR MR. CHAIRMAN: Further reference is made to your letter of April 1, requesting the views and recommendations of the Treasury Department on H. R. 2872, a bill to amend further section 4 of the Public Debt Act of 1941, as amended, and clarify its application, and for other purposes.

Section 4 of the Public Debt Act of 1941, as amended by section 6 of the Public Debt Act of 1942, provides that interest and other earnings from obligations and evidences of ownership issued by the United States or any agency or instru-

mentality thereof, and gain from the disposition of such securities, shall not have any exemption, as such, nor shall losses on the disposition of such securities have any special treatment, as such, "under Federal tax acts now or hereafter enacted." The only change in present law which would be made by H. R. 2872 is the substitution of the words "under the Internal Revenue Code, or laws amendatory or supplementary thereto" for the phrase quoted in the preceding sentence.

As stated in the title of the bill, the proposed amendment is clarifying in nature; since it was the intention of the Treasury Department in proposing enactment of the Public Debt Act of 1941, and it is believed that it was the intention of Congress in enacting that measure, to subject Federal securities to taxation only under the internal revenue laws. The reference to "Federal tax acts now or hereafter enacted" was not intended to embrace tax laws which the Congress might enact for local areas under Federal jurisdiction; and it is not believed that those words could appropriately be construed as having such extended application.

Since H. R. 2872 would eliminate any doubt as to the intended scope of taxability of Federal securities, the Treasury Department has no objection to its enactment.

The Director, Bureau of the Budget, has advised the Treasury Department that there is no objection to the presentation of this report.

Very truly yours,

ARCHIBALD L. M. WIGGINS,
Acting Secretary of the Treasury.

GOVERNMENT OF THE DISTRICT OF COLUMBIA,
Washington 4, D. C., May 9, 1947.

HON. HAROLD KNUTSON,
*Chairman, Committee on Ways and Means,
House of Representatives, Washington 25, D. C.*

MY DEAR MR. KNUTSON: The Commissioners have for report H. R. 2872, Eightieth Congress, a bill to amend further section 4 of the Public Debt Act of 1941, as amended, and clarify its application, and for other purposes.

This bill further amends subsection 1 of section 4 of the Public Debt Act of 1941, as amended, by striking out the words "Federal tax acts now or hereafter enacted" and inserting in lieu thereof the words "the Internal Revenue Code, or laws amendatory or supplementary thereto." The purpose of this amendment is to preclude, beyond question, the taxation of the interest on obligations of the United States under the provisions of the statute levying upon banks in the District of Columbia a tax upon gross earnings (sec. 47-1701, D. C. Code, 1940 ed.).

In the case of *District of Columbia v. Riggs National Bank* ((decided in 1929), 58 App. D. C. 349, 30 Fed. (2) 873), it was held that, under the then-existing statutes exempting obligations of the United States from taxation, the District of Columbia had no authority to include the interest therefrom in computing, for the purpose of taxation, the gross earnings of banks. However, on March 28, 1942, section 4 of the Public Debt Act was amended to provide that obligations of the United States issued after the effective date of the amendment should not have any exemption as such "under the Federal tax acts now or hereafter enacted." The Corporation Counsel of the District has recently held that, since the statute under which the District of Columbia levies taxes upon banks is an act of Congress, it is a Federal tax act within the meaning of the Public Debt Act and that the obligations issued by the United States after the effective date of such amendment are subject to District taxation. The Comptroller of the Currency and the general counsel for the Treasury Department have advised the Commissioners there was no intent on their part, in drafting the 1942 amendment to the Public Debt Act, to make the obligations of the United States and the income therefrom subject to taxation except under the Internal Revenue Code. This amendment makes clear the intent and the Commissioners have no objection to the passage of this bill.

The Commissioners have been advised by the Bureau of the Budget that there is no objection on the part of that office to submission of this report to the Congress.

Respectfully,

JOHN RUSSELL YOUNG,
President, Board of Commissioners.

CHANGES IN EXISTING LAW

In compliance with paragraph 2a of rule XIII of the Rules of the House of Representatives, changes made by the bill in existing law are shown below as follows (matter proposed to be omitted is enclosed in black brackets, new matter is printed in italic, and language in which no change is proposed is printed in roman):

"SECTION 4 OF THE PUBLIC DEBT ACT OF 1941, AS AMENDED BY THE PUBLIC DEBT ACT OF 1942

"SEC. 4. (a) Interest upon obligations, and dividends, earnings, or other income from shares, certificates, stock, or other evidences of ownership, and gain from the sale or other disposition of such obligations and evidences of ownership issued on or after the effective date of the Public Debt Act of 1942 by the United States or any agency or instrumentality thereof shall not have any exemption, as such, and loss from the sale or other disposition of such obligations or evidences of ownership shall not have any special treatment, as such, under [Federal tax Acts now or hereafter enacted] *the Internal Revenue Code, or laws amendatory or supplementary thereto*; except that any such obligations which the United States Maritime Commission or the Federal Housing Administration had, prior to March 1, 1941, contracted to issue at a future date, shall when issued bear such tax-exemption privileges as were, at the time of such contract, provided in the law authorizing their issuance. For the purposes of this subsection a Territory, a possession of the United States, and the District of Columbia, and any political subdivision thereof, and any agency or instrumentality of any one or more of the foregoing, shall not be considered as an agency or instrumentality of the United States.

"(b) The provisions of this section shall, with respect to such obligations and evidences of ownership, be considered as amendatory of and supplementary to the respective Acts or parts of Acts authorizing the issuance of such obligations and evidences of ownership, as amended and supplemented.

"(c) Nothing contained herein shall be construed to amend or repeal sections 114 and 115 of the Revenue Act of 1941."

