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EXCLUDING FROM GROSS INCOME GAINS FROM THE  
CONDEMNATION OF CERTAIN FOREST LANDS HELD  
IN TRUST FOR THE KLAMATH INDIAN TRIBE

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JULY 9 (legislative day, JULY 7), 1975.—Ordered to be printed

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

REPORT

[To accompany H.R. 83]

The Committee on Finance, to which was referred the bill (H.R. 83) to exclude from gross income gains from the condemnation of certain forest lands held in trust for the Klamath Indian Tribe, having considered the same, reports favorably thereon without amendment and recommends that the bill do pass.

I. SUMMARY

This bill, H.R. 83, concerns the tax treatment of the proceeds received by tribal members as a result of the acquisition by condemnation by the Federal Government of forest lands held for the Klamath Indian Tribe. In 1954, Congress terminated its supervision over the Klamath Indian Tribe and provided for the disposition of the federally owned property held for the administration of the tribe. Actual termination of Federal supervision occurred in 1959. Pursuant to the 1954 legislation, tribal members who elected to withdraw from the tribe received cash distributions which were exempt from Federal or State income tax; the portion of the reservation land retained by the tribe at that time was transferred to a private trust and held by a bank as trustee for those members who remained in the tribe. In 1969, the remaining tribal members voted to terminate the trust, and Congress in 1973 provided legislation to acquire by condemnation the remaining Klamath Indian forest lands and distribute the proceeds to each tribal member having an interest in the land.

The committee believes it is appropriate to provide the same tax treatment for the proceeds received by the tribal members as a result

of the condemnation of their land by the Federal Government as was provided to those tribal members who received cash payments upon their withdrawal from the tribe in 1959. As a result, the bill excludes from Federal taxation the gain received by the trust or the tribal members as a result of the condemnation by the Federal Government of the Klamath Indian forest lands.

## II. GENERAL STATEMENT

In 1954 Congress passed legislation (Public Law 83-587, 68 Stat. 718) which provided for the termination of Federal supervision over the Klamath Indian Tribe and for the disposition of federally owned property held for the administration of the tribe. Under the 1954 legislation each tribal member was given an opportunity to elect to withdraw from the tribe and have his interest in tribal property converted into money and paid to him, or to remain in the tribe and participate in a plan for the management of tribal property through a trustee, corporation or other legal entity. The act specifically provided that cash payments to tribal members who elected to have their interest converted into money were not subject to Federal or State income tax. The act further provided that any income derived after the disposition of the property under the provisions of the act would be treated for tax purposes in the same manner as in the case of non-Indians. For purposes of capital gains and losses in subsequent dispositions, the act provided that the basis of the property was to be its value at the time the property was distributed.

Actual termination of Federal supervision and cash distributions to members who elected to withdraw from the tribe occurred in 1959. The portion of the Klamath Indian forest retained by the tribe at that time was transferred to a private trust and held by a bank as trustee for those members who remained in the tribe. This transfer of forest land to the trustee was not taxable to the remaining tribal members. In 1969 the remaining tribal members voted to terminate the trust. In 1973 Congress passed legislation (Public Law 93-102, 87 Stat. 349) which directed the Secretary of Agriculture to acquire by condemnation all of the remaining Klamath Indian forest lands held by the trustee and to add the acquired lands to the Winema National Forest. The proceeds of the Federal acquisition are to be distributed to each tribal member having an interest in the trust. The Federal Government has already distributed the amount of its initial valuation of the land but the amount of the final distribution will await court determination.

As indicated above, when Federal supervision over the Klamath Indian Tribe was terminated, the tribal members who elected to have their interest converted into money were not subject to Federal or State income tax on the cash payments they received. However, in the case of those tribal members who placed their interest in the property in the trust, they will be subject to tax on the proceeds distributed to them as a result of the condemnation of the property by the Federal Government. Since their property is a capital asset, they will be subject to a capital gains tax on their gain; that is, on the difference between the amount they receive from the Federal Government and

their basis for the property, which is the fair market value of the property at the time it was put in trust for their benefit.

The committee believes that the disposition of the remaining land owned by the trust should be treated in the same manner as the disposition of reservation land was treated in 1959 when Federal supervision over the Klamath Tribe was terminated. The committee feels that the arrangement whereby the land was placed in trust for the benefit of the members of the tribe is functionally equivalent to continuing the existence of Federal supervision over the tribe. Had Federal supervision been continued to the present, the entire gain from the sale of the land to the Federal Government would have been exempt from tax, and your committee believes that the trust arrangement that was worked out for those Indians who elected to keep their land should not alter this result. Consequently, the committee believes that the condemnation proceeds to be received by the remaining tribe members pursuant to Public Law 93-102 should not be taxable either to the trust or to the tribal members.

Accordingly, the bill provides that gain resulting from the condemnation of the Klamath Indian forest lands (pursuant to Public Law 93-102) presently held in trust for members of the Klamath Tribe shall be excluded from the gross income of the trust, and also that the distribution by the trust to each beneficiary of a share of the condemnation proceeds shall be excluded from the gross income of each beneficiary.

### III. EFFECT ON THE REVENUES OF THE BILL AND VOTE OF THE COMMITTEE IN REPORTING THE BILL

In compliance with section 252(a) of the Legislative Reorganization Act of 1970, the following statement is made relative to the effect on the revenues of this bill. The committee estimates that the bill will result in a revenue loss of approximately \$5 million. The Treasury Department agrees with this statement.

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. The bill was ordered reported by voice vote.

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