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SENATE

} REPORT
No 610

EXTENDING THE TIME FOR EXEMPTION FROM INCOME TAXES FOR CERTAIN MEMBERS OF THE ARMED FORCES

JULY 22 (legislative day, JULY 6,) 1953.—Ordered to be printed

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

REPORT

[To accompany H. R. 4152]

The Committee on Finance, to whom was referred the bill (H. R. 4152) to extend the time for exemption from income taxes for certain members of the Armed Forces, having considered the same, report favorably thereon with amendments and recommend that the bill as amended do pass.

The amendments are as follows:

Add at the end thereof a new section reading as follows:

SEC. 3. (a) That the third sentence of section 25 (b) (3) of the Internal Revenue Code, relating to the definition of dependent, is amended to read as follows: "For the purposes of determining whether any of the foregoing relationships exist (1) a legally adopted child of a person or (2) a child for which petition for adoption was filed by a person in the appropriate court and denied because of mental incapacity of surviving natural parent to agree to such adoption, shall be considered a child of such person by blood."

(b) The provisions of subsection (a) shall be applicable to taxable years beginning after December 31, 1945.

Amend the title so as to read:

A bill to extend the time for exemption from income taxes for certain members of the Armed Forces, and for other purposes.

GENERAL STATEMENT

Sections 1 and 2 of the bill extend for 1 year the existing provisions of section 22 (b) (13) of the Internal Revenue Code which exclude from taxable income the compensation of members of the Armed Forces of the United States received for active service in combat zones such as Korea, or hospitalized as a result of wounds, disease, or injury incurred while serving in a combat zone. This exclusion covers all the pay of enlisted men and warrant officers and the first

2 EXTEND TIME FOR TAX EXEMPTION TO MEMBERS OF ARMED FORCES

\$200 per month paid to commissioned officers. The present exclusion only applies to services performed after June 24, 1950, and prior to January 1, 1954. This bill continues the exclusion for 1 year beyond its present termination date to January 1, 1955.

As under existing law, if combatant activities in the Korean combat zone cease before the expiration date, the benefits of the exemption from income tax would terminate on the date designated by the President by Executive order as the date of termination of combatant activities in the zone.

Section 3 of the bill relates to a definition of a dependent for income-tax purposes. Under section 25 (b) (3) of the Internal Revenue Code a child, in order to be claimed as a dependent by the person claiming the exemption, must be either legally adopted by such person or must be a child by blood of such person. In some cases it has developed that the person supporting a child has filed a petition for its adoption in the appropriate court but such petition has been denied because of the mental incapacity of the surviving natural parent to agree to the adoption. Your committee is of the opinion that in such cases the person supporting the child who has filed a petition for adoption in the appropriate court should not be denied the right to claim the child as a dependent because of the mental incapacity of the surviving natural parent to agree to such adoption. Accordingly, this section treats such a child as a dependent of the person filing the petition for adoption if such person meets the required support test in section 25 (a) (3) of the Internal Revenue Code.

CHANGES IN EXISTING LAW

In compliance with subsection (4) of rule XXIX of the Standing Rules of the Senate, changes in existing law made by the bill, H. R. 3168, as reported, are shown as follows (existing law proposed to be omitted is enclosed in black brackets, new matter is printed in italics, existing law in which no change is proposed is shown in roman):

INTERNAL REVENUE CODE

SEC. 22. GROSS INCOME.

* * * * *
(b) EXCLUSIONS FROM GROSS INCOME.—The following items shall not be included in gross income and shall be exempt from taxation under this chapter:
* * * * *

(13) Additional allowance for certain members of the Armed Forces.—

(A) ENLISTED PERSONNEL.—Compensation received for active service as a member below the grade of commissioned officer in the armed forces of the United States for any month during any part of which such member—

(i) served in a combat zone after June 24, 1950, and prior to January 1, [1954] 1955, or

(ii) was hospitalized as a result of wounds, disease, or injury incurred while serving in a combat zone prior to January 1, [1954] 1955; but this clause shall not apply for any month during any part of which there are no combatant activities in any combat zone as determined under subparagraph (C) (iii) of this paragraph.

(B) COMMISSIONED OFFICERS.—So much of the compensation as does not exceed \$200 received for active service as a commissioned officer in the armed forces of the United States for any month during any part of which such officer—

(i) served in a combat zone after June 24, 1950, and prior to January 1, [1954] 1955, or

EXTEND TIME FOR TAX EXEMPTION TO MEMBERS OF ARMED FORCES 3

(ii) was hospitalized as a result of wounds, disease, or injury incurred while serving in a combat zone prior to January 1, [1954] 1955; but this clause shall not apply for any month during any part of which there are no combatant activities in any combat zone as determined under subparagraph (C) (iii) of this paragraph.

(C) DEFINITIONS.—For the purposes of this paragraph—

(i) the term “commissioned officer” does not include a commissioned warrant officer;

(ii) the term “combat zone” means any area which the President of the United States by Executive Order designates, for the purposes of this paragraph, as an area in which Armed Forces of the United States are or have (after June 24, 1950) engaged in combat;

(iii) service is performed in a combat zone only if performed on or after the date designated by the President by Executive Order as the date of the commencing of combatant activities in such zone, and on or before the date designated by the President by Executive Order as the date of the termination of combatant activities in such zone, except that June 25, 1950, shall be considered the date of the commencing of combatant activities in the combat zone designated in Executive Order 10195; and

(iv) the term “compensation” does not include pensions and retirement pay.

SEC. 25. (a) (3) Definition of dependents.

For the purposes of determining whether any of the foregoing relationships exist (1) a legally adopted child of a person or (2) a child for which petition for adoption was filed by a person in the appropriate court and denied because of mental incapacity of surviving natural parent to agree to such adoption, shall be considered a child of such person by blood.

SUBCHAPTER D—COLLECTION OF INCOME TAX AT SOURCE ON WAGES

SEC. 1621. DEFINITIONS.

As used in this subchapter—

(a) WAGES.—The term “wages” means all remuneration (other than fees paid to a public official) for services performed by an employee for his employer, including the cash value of all remuneration paid in any medium other than cash; except that such term shall not include remuneration paid—

(1) for active service as a member of the armed forces of the United States performed prior to January 1, [1954] 1955, in a month for which such member is entitled to the benefits of section 22 (b) (13), or

