

INTEREST RATE ON SERIES E AND H U.S. SAVINGS BONDS

SEPTEMBER 5, 1959.—Ordered to be printed.

Mr. BYRD of Virginia, from the Committee on Finance, submitted the following

R E P O R T

together with

SUPPLEMENTAL VIEWS

[To accompany H.R. 9035]

The Committee on Finance, to whom was referred the bill (H.R. 9035) to permit the issuance of series E and H U.S. savings bonds at interest rates above the existing maximum, to permit the Secretary of the Treasury to designate certain exchanges of Government securities to be made without recognition of gain or loss, and for other purposes, having considered the same, report favorably thereon with amendments and recommend that the bill, as amended, do pass.

I. SUMMARY OF BILL

This bill makes a number of changes in the laws relating to savings bond interest rates and other aspects of debt management.

First, the bill permits the maximum interest rate (or investment yield) limitation of 3.26 percent on series E and H savings bonds to be exceeded where there is a finding by the President that the national interest so requires. The bill also authorizes increasing the interest rates on outstanding series E and H savings bonds. In this case also, the existing maximum limitation of 3.26 percent on these bonds may be exceeded but only in the case of a finding by the President that the national interest so requires.

Second, the bill as amended adds a new section to the Internal Revenue Code providing for nonrecognition of gain or loss on the exchange of U.S. savings bonds when so provided by regulations. This is intended to aid the Government in its attempts to achieve a better balance in the debt structure by facilitating the refinancing of outstanding securities in advance of their final maturities.

Third, the bill authorizes the issuance of obligations of the United States to Government trust funds at the issue price, whether or not at par. Under existing law in the case of certain trust funds these obligations may be issued to the funds only at par.

Fourth, the bill makes it clear that both the principal and interest on U.S. obligations are exempt from all State taxes except nondiscriminatory franchise, etc., taxes.

Fifth, the bill relieves from liability to the U.S. Government agents who erroneously paid U.S. bonds if they did not receive written notice from the United States within 10 years from the date of the erroneous payment.

II. GENERAL STATEMENT

A. SUSPENSION OF THE INTEREST RATE CEILING ON SAVINGS BONDS

The savings bond program was initiated in legislation passed in 1935. In that legislation a maximum permissible interest rate of 3 percent was established for savings bonds held until maturity. The first savings bonds were offered to the public on March 1, 1935, and the interest rate established by the Treasury Department for those bonds when held to maturity was 2.90 percent. The first series E-bonds, which represent the bulk of the savings bonds outstanding today, were offered to the public on May 1, 1941, and were subject to the same 2.90 percent maturity yield. In May 1951, owners of series E bonds for the first time were permitted to hold these bonds after maturity for periods up to 10 additional years. In May 1952 the Treasury Department increased the yield on the series E-bonds to 3 percent, the maximum then allowed by law. In 1957 this maximum yield allowed by law was increased to the 3.26 percent, still in effect today.

The bulk of the savings bonds outstanding today represent series E- and H-bonds. These represent more than \$42.6 billion of the \$50.3 billion of outstanding savings bonds on August 31, 1959. The series E- and H-bonds now can be held by all investors, other than commercial banks. These bonds are complementary in that E-bonds are issued at a discount (75 percent of original maturity value) while the H-bonds are issued at par but bear interest payable semiannually. In both cases the interest yield currently is $3\frac{1}{4}$ percent to the maturity of the bond. Of the \$42.6 billion in E- and H-bonds outstanding on August 31, \$37.9 billion represent the discount-type series E-bonds and \$4.7 billion the series H-bonds which pay interest semiannually. In addition, approximately \$7.6 billion in old series F-, G-, J-, and K-bonds are still outstanding, although the sales of these bonds were discontinued after April 30, 1957.

The importance of maintaining a large segment of the public debt in the form of savings bonds is generally recognized. The holding by the public of such bond is an important means of checking inflationary pressures because it absorbs funds which otherwise might be in the market competing for consumer goods. In this same connection the savings bond program also promotes saving throughout the country, as is evidenced by the fact that some 8 million individuals regularly make purchases of these bonds under payroll savings plans. In addition, the encouragement of the savings bond program is desirable because the holders of this debt represent relatively long-term investors

and on the average maintain their investments in these bonds for a period of approximately 7 years.

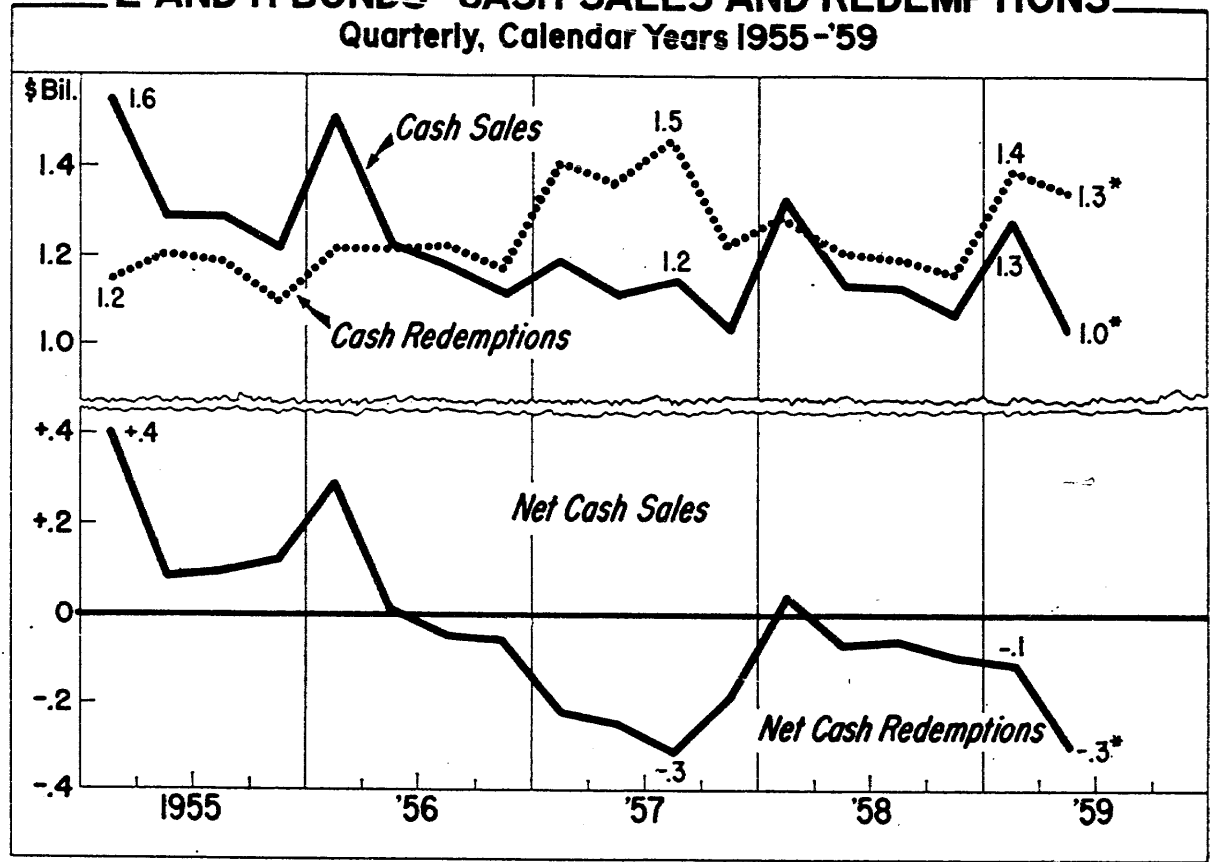
The problem in connection with savings bonds is that, beginning in the third quarter of 1956 and running to the current date, redemptions on series E and H savings bonds, with the exception of the first quarter of 1958, have continually exceeded cash sales of these bonds. Sales of series E and H bonds improved somewhat from 1957 to 1958, although they were still significantly behind sales in 1955 and 1956. Redemptions of savings bonds in 1958 also declined significantly. However, in 1959 the sales of series E and H savings bonds have declined 10 percent in the first 8 months, with the downward trend of sales steepening in recent months. Moreover, the 1959 redemptions through August were 13 percent above a year ago, with the trend in this case also worsening. The excess of redemptions over sales of E and H bonds in July amounted to \$156 million, the largest amount in any month since April 1946. Moreover, the excess of redemptions over cash sales of E and H bonds in the first 8 months of 1959 has amounted to \$758 million, the largest cash loss for any January through August in the history of the savings bond program. Moreover, given the present interest rates, this excess of redemptions over cash sales is expected to continue in the future. Chart 1, which shows E and H bond cash sales and redemptions from January 1955 to May 1959, shows graphically the problem presented.

This problem of excess redemptions over sales in the case of savings bonds in large measure can be attributed to the increasing spread on yield which may be obtained on savings bonds and alternative forms of investment. The rate of return on E- and H-bonds is now much less favorable, relative to that on savings accounts and other forms of investment, than in earlier years. This can be shown by comparing the rates of yield for series E-bonds and for different forms of investments competitive with E-bonds at the end of World War II and currently:

	End of World War II	Current yield
Series E bonds.....	2.9 percent.....	3¼ percent.
Long-term maturities of marketable Government securities.....	2¼ percent.....	More than 4 percent.
Savings and loan shares.....	2¾ percent.....	3¾ percent.
Mutual savings bank deposits.....	1¾ percent.....	3¼ percent.
Commercial bank savings deposits.....	Less than 1 percent.....	2¼ percent.

CHART 1

E AND H BONDS - CASH SALES AND REDEMPTIONS
 Quarterly, Calendar Years 1955-'59



Office of the Secretary of the Treasury

*Estimate based on April and May 1959.

It will be noted that while the interest rate on series E bonds has risen only about a third of 1 percentage point during this period, the interest rates on all of these competitive forms of investment have risen at least a full percentage point, and in some cases by about 2 percentage points. Although the interest rate on series E bonds during and after the end of World War II was significantly higher than that for long-term maturities on marketable Government securities, the current yield on the series E bonds is about a percentage point below the current yield on these marketable Government securities. Chart 2 demonstrates this shift in interest rates for series E bonds and long-term Treasury bonds over the period 1941 to date.

The administration has presented to your committee plans to solve the savings bond problem by bringing the saving bond interest rate back approximately to the same relative competitive position with other forms of comparable investments which it held in 1952. It hopes to do this by providing a higher rate of interest on savings bonds. The administration has indicated that it would like to provide a higher interest rate not only for new bonds beginning with those issued as of June 1, 1959, but also with respect to the E- and H-bonds which are already outstanding. Thus, its present plans call for a rise in the interest rate on new issues of savings bonds from approximately $3\frac{1}{4}$ percent yield to maturity to a yield to maturity of approximately $3\frac{3}{4}$ percent. Similarly, an increase of approximately one-half of 1 percentage point would also be provided in the case the future yield of outstanding E- and H-bonds, if held to maturity.

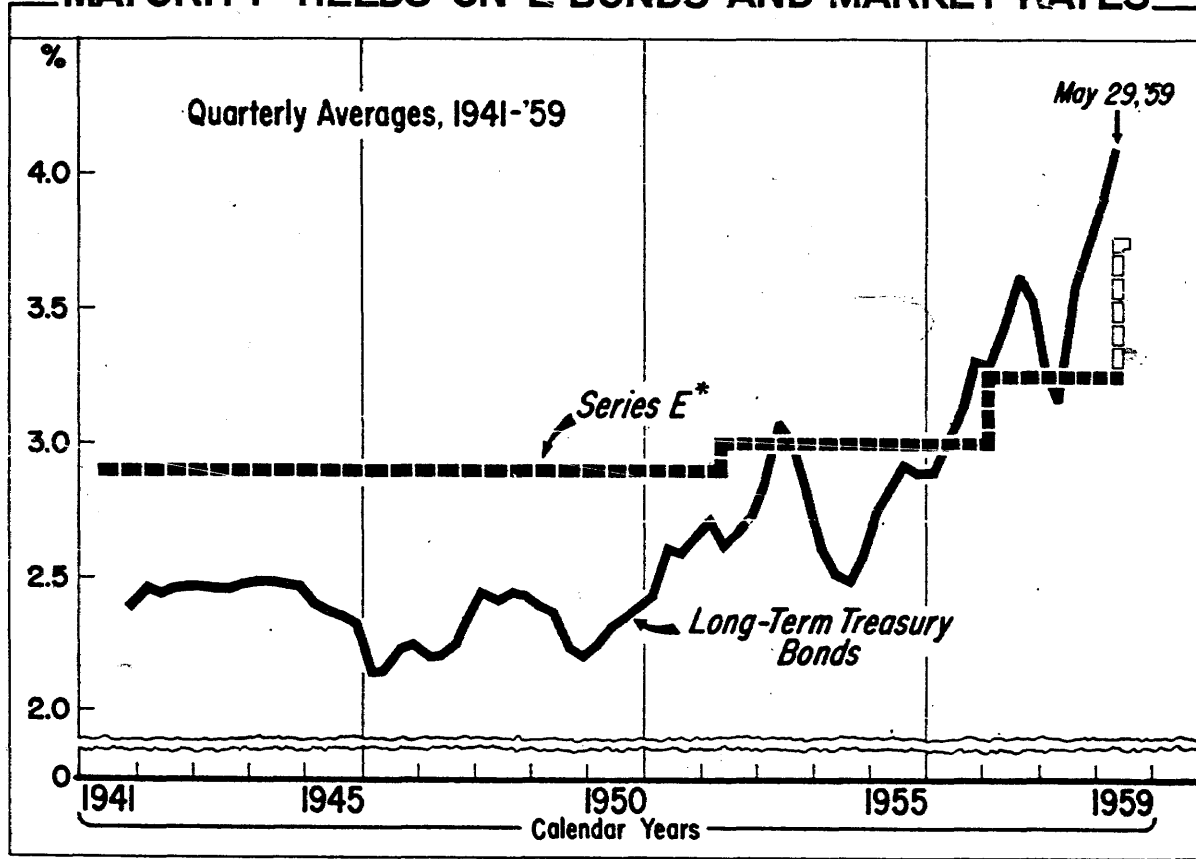
Your committee's bill grants the administration's request in that it permits the present 3.26 percent interest rate ceiling for savings bonds to be exceeded. However, it has provided that this 3.26 percent ceiling may be exceeded only when the President finds with respect to any offering that such action would be in the national interest.

Your committee intends that this grant of authority to the President to exceed the interest rate ceiling in the case of savings bonds be exercised only when the President finds that a higher interest rate for savings bonds is desirable from the standpoint of the welfare of the national economy. Factors your committee intends to be weighed in any such determination include—

- (1) the effect on the growth of the economy,
- (2) the effect on the economic stability of the country,
- (3) the interest rates paid on other major forms of savings and investments,
- (4) the distribution of the public debt between savings bonds and other obligations, and
- (5) the long-run effect of any offering made above the statutory ceiling on monetary policies and on economical debt management.

CHART 2

MATURITY YIELDS ON E BONDS AND MARKET RATES



Office of the Secretary of the Treasury

**Also H bonds beginning June 1952.*

As requested by the administration, your committee's bill also makes it possible to exceed the interest rate ceiling and raise the interest rate applicable to outstanding savings bonds on which the rates of interest have already been fixed. This too, however, requires a finding by the President, in the same manner as outlined above, that the public interest requires this ceiling rate to be exceeded. This authority to increase the interest rates also applies to savings bonds being held for an extended period beyond their original maturity date. These provisions are designed to encourage the retention of savings bonds presently outstanding and will avoid the costs and inconveniences which would be involved if the outstanding bonds were cashed in and new bonds purchased by the holders of the old bonds. The same section of the bill also makes it possible to extend the period series H-bonds may be held and provides in the case of both the series E- and H-bonds that there can be more than one extension period.

B. TIME LIMIT ON LIABILITY OF AGENTS FOR ERRONEOUS PAYMENTS OF SAVINGS BONDS

Under present law qualified paying agents authorized to cash in savings bonds for holders can be relieved from liability to the United States for losses only upon a determination by the Secretary of the Treasury that there was no fault or negligence on the part of the agent, regardless of the length of time elapsing before the loss is discovered. However, where there is a long period of time before the United States discovers a loss, it is difficult for the paying agents to prove that the loss resulted from no fault or negligence on their part. In view of this, and also since the risks involved arise from the assumption of a task which was urged upon them by the United States and is a task unrelated to their ordinary business, your committee believes that the qualified paying agents (commercial banks, trust companies, savings and loan associations, building and loan associations, and similar financial institutions) should have some limitation as to the period of their liability in such cases.

The bill (sec. 103) provides, therefore, that the liability of the paying agent is to terminate at the end of 10 years after the erroneous payment, unless a written notice of the liability, or potential liability, has been given during the interval. The same limitation on liability is provided in the case of payments made in redemption of savings bonds by the Treasurer of the United States, the Federal Reserve banks and the Post Office Department or postal service. The bill does not provide this period of limitations, however, where agents unconditionally assume liability to the United States for any losses. This arises in cases where they do not need to obtain signatures of the owners of the bonds. Also, the bill in no way limits the time within which the real owner may make a claim upon a savings bond which was fraudulently negotiated.

C. PERMITTING TRUST FUNDS TO OBTAIN BONDS AT THE ISSUE PRICE

Under present law Government obligations may be acquired on original issue by six Government trust funds only by purchasing the obligations at par. The trust funds involved are the unemployment

trust fund, the Federal old-age and survivors insurance trust fund, the Federal disability insurance trust fund, the railroad retirement account, the special trust account for the payment of certain bonds of the Philippines, and the highway trust fund. This requirement that obligations be acquired on original issue only at par has only recently created a problem, since only within the past year has the Treasury offered marketable securities at a discount. To the extent that the Treasury in the future follows its expressed intention of offering securities on occasion at slight discounts (or premiums), existing law will prevent these trust funds from buying the securities from the Treasury on original issue at prices other than par. The trust funds would have to purchase the securities later from market holders at prevailing market prices. Therefore, the bill (sec. 104) amends existing law to provide that these trust funds may acquire obligations of the United States on original issue at the issue price, whether or not this is at par.

D. CLARIFYING EXEMPTION OF U.S. OBLIGATIONS FROM STATE OR LOCAL TAXATION

Present law provides that obligations of the United States are to be exempt from taxation by or under State or local authority. The Supreme Court has held that this includes the exemption of interest on U.S. obligations from taxation by or under State or local authority. It has been pointed out to your committee, however, that one State has taken the position that the statute as now worded does not prohibit a State from including interest on Federal obligations in computing "gross income" upon which taxable net income is determined. The bill (sec. 105) makes it clear that the exemption for Federal obligations extends to every form of taxation that would require either the obligation, or the interest on it, or both to be considered directly or indirectly in the computation of the tax, except nondiscriminatory franchise taxes (or other nondiscriminatory non-property taxes imposed in lieu thereof) on corporations and except estate or inheritance taxes.

E. NONRECOGNITION OF GAIN OR LOSS IN THE CASE OF EXCHANGES OF CERTAIN U.S. SAVINGS BONDS

The House bill contained a provision providing for the nonrecognition of gain or loss on the surrender to the United States of outstanding U.S. obligations solely in exchange for new U.S. obligations. This tax-free exchange was to be available only when so provided by regulations issued by the Secretary of the Treasury.

Your committee has retained this provision of the House bill, but modified it so that it applies only to the exchange of series E-savings bonds for series H-savings bonds. Your committee believed it was desirable to limit the application of this nonrecognition provision to series E- and H-savings bonds, in view of the fact that the treatment of these bonds represent the primary subject of this bill, postponing for future consideration the application of this nonrecognition provision in the case of other bonds for future consideration.

There is no need to make this nonrecognition provision applicable in the case of the exchange of old series E-bonds for new series E-bonds because the Treasury can obtain the same result merely by

extending the terms of the old series E-bond. Moreover, there is little, if any, gain for tax purposes where a series H-bond is exchanged for a series E-bond. Therefore your committee's bill is not concerned with such exchanges.

Instead, the nonrecognition provision under your committee's amendment is to apply (where so provided by regulations issued by the Secretary of the Treasury) in the case of the exchange of a series E-bond for a series H-bond. In such cases since a series E-bond is a discount-type bond, there is likely to be a significant gain (up to 25 percent of cost) upon maturity. Postponement of such a gain, where the person for the future desires a bond paying interest currently (such as a series H-bond), will substantially encourage the individual to continue holding Government bonds.

III. TECHNICAL EXPLANATION OF THE BILL

TITLE I—IN GENERAL

Section 101(a).—Section 101(a) of the bill amends the Second Liberty Bond Act by adding at the end of such act a new section 25. The new section 25 provides that, in the case of any offering of U.S. savings bonds issued or to be issued under section 22 of the Second Liberty Bond Act, the maximum limits on the interest rate or the investment yield or both may be exceeded upon a finding by the President with respect to such offering that the national interest requires that such maximum limits be exceeded.

Section 22(b)(1) of the Second Liberty Bond Act provides that the interest rate on, and the issue price of, savings bonds and savings certificates, and the terms on which they may be redeemed, are to be such as to afford an investment yield not in excess of 3.26 percent per annum, compounded semiannually.

The new section 25 would permit the maximum limits prescribed by section 22(b)(1) of the Second Liberty Bond Act to be exceeded, but only upon a finding, made by the President with respect to the offering concerned, that the national interest requires that such maximum limits be exceeded.

Section 101(b).—Section 101(b) of the bill amends paragraph (2) of section 22(b) of the Second Liberty Bond Act. Paragraph (2) of existing law provides that the Secretary of the Treasury, with the approval of the President, is authorized to provide by regulation that owners of series E-savings bonds may, at their option, retain the matured bonds and earn interest on the maturity values thereof for not more than 10 years at rates consistent with the provisions of paragraph (1) of section 22(b) (which imposes a maximum limit of 3.26 percent per annum on the investment yield).

Under the amendment made by section 101(b) of the bill the authority contained in paragraph (2) of section 22(b) of the Second Liberty Bond Act is expanded so that the Secretary of the Treasury, with the approval of the President, may provide by regulations:

- (1) for an extension period for series H-savings bonds;
- (2) for more than one extension period with respect to the same series E- or H-savings bond; and
- (3) that series E- and H-savings bonds on which the rates of interest (including rates of interest for an extension period)

have been fixed before such regulations will earn interest at higher rates.

As under existing law, the limitation is retained that the rates fixed pursuant to paragraph (2) of section 22(b) of the Second Liberty Bond Act are to be consistent with the provisions of paragraph (1) of that section (that is, they will afford an investment yield not in excess of 3.26 percent per annum, compounded semiannually); except that it is made clear that the 3.26³ ceiling may be exceeded for any offering with respect to series E- or H-savings bonds, if the provisions of the new section 25 of the Second Liberty Bond Act (relating to a finding by the President) are complied with with respect to such offering.

Section 101(c).—Subsection (c) of section 101 of the bill contains the effective date provisions for the amendments made by subsections (a) and (b) of section 101. Subsection (c) provides that the authority granted by the amendments made by these subsections may be exercised with respect to U.S. savings bonds which bear issue dates of June 1, 1959, or thereafter. It provides that such authority may also be exercised with respect to U.S. savings bonds issued before June 1, 1959 (whether or not matured), but that in no case shall the interest rate (or the investment yield) on any bond be changed pursuant to such authority for any period beginning before June 1, 1959.

For purposes of section 25 of the Second Liberty Bond Act, as added by section 101(a) of the bill, and for purposes of section 101(c) of the bill, the prescribing of regulations under section 22(b)(2) of such act (as amended by sec. 101(b) of the bill) fixing rates of interest or investment yield constitutes the making of an offering.

Section 102.—Section 102 of the bill amends section 454(c) of the Internal Revenue Code of 1954. Section 454(c) now provides that in the case of a taxpayer who holds a series E-savings bond at the date of maturity and who, pursuant to regulations, retains his investment in the maturity value of such bond in an obligation (other than a current income obligation) which matures not more than 10 years from the date of maturity of such series E-bond, the increase in redemption value in excess of the amount paid for the series E-savings bond is (to the extent not previously includible in gross income) to be includible in gross income in the taxable year in which the obligation is finally redeemed or in the taxable year of final maturity, whichever is the earlier.

The amendment made by section 102 is a technical amendment to section 454(c) of the 1954 code which is made necessary by reason of—

- (1) those provisions of section 101(b) of the bill which make possible more than one extension period, and
- (2) those provisions of title II of the bill which, as amended by your committee, make possible (under certain circumstances) the tax-free exchange of a series E-bond of the United States for a series H-bond of the United States.

Under the amendment, there will be includible in gross income (to the extent not previously includible) the amount by which the redemption value of the obligation held exceeds the amount paid for the series E-savings bond to which such obligation relates. The taxable year in which such amount is so includible is the taxable year in which the

obligation held is finally redeemed, or the taxable year of final maturity, whichever is the earlier.

Section 103.—Section 103 of the bill amends section 22(i) of the Second Liberty Bond Act. Section 22(i) now provides that the Treasurer of the United States, any Federal Reserve bank, or any qualified paying agent authorized or permitted to make payments in connection with the redemption of U.S. savings bonds is to be relieved from liability to the United States for losses resulting from payments, upon a determination by the Secretary of the Treasury that such losses resulted from no fault or negligence on the part of the Treasurer, the Federal Reserve bank, or the qualified paying agent. The section also contains a similar provision with respect to the Post Office Department and the postal service, except that in this case the finding of no fault or negligence is a joint determination made by the Postmaster General and the Secretary of the Treasury.

Section 103 of the bill amends section 22(i) to add a new sentence which provides that relief from liability is to be granted in all cases where the Secretary of the Treasury determines, under regulations prescribed by him, that written notice of liability or potential liability has not been given by the United States, within 10 years from the date of the erroneous payment, to any of the agents or agencies described in the second or third sentences of section 22(i) whose liability is to be determined. However, no relief is to be granted in any case in which a qualified paying agent has assumed unconditional liability to the United States.

Section 104.—Under existing law, six Government trust funds may acquire obligations on original issue only at par. Thus, they are not authorized to acquire obligations on original issue at a price above or below par. This section amends the applicable statutory provisions to provide that these trust funds may acquire obligations of the United States on original issue at the issue price. The trust funds affected by the amendments made by section 105 of the bill are—

- (1) The Federal old-age and survivors insurance trust fund.
- (2) The Federal disability insurance trust fund.
- (3) The unemployment trust fund.
- (4) The railroad retirement account.
- (5) The highway trust fund.

(6) The trust account for the payment of bonds issued before May 1, 1934, by the Government of the Philippines, its provinces, and political subdivisions thereof.

Section 105.—This section amends section 3701 of the Revised Statutes of the United States. Section 3701 now provides that, except as otherwise provided by law, all stocks, bonds, Treasury notes, and other obligations of the United States are to be exempt from taxation by or under State or municipal or local authority.

Under the amendment, a new sentence is added to section 3701. The new sentence makes it clear that the exemption now provided by section 3701 extends to every form of taxation that would require that either the obligations or the interest thereon, or both, be considered, directly or indirectly, in the computation of the tax, except nondiscriminatory franchise or other nonproperty taxes in lieu thereof imposed on corporation taxes and except estate taxes or inheritance taxes.

TITLE II—INCOME TAX TREATMENT OF CERTAIN EXCHANGES OF U.S. OBLIGATIONS

Section 201(a).—Subsection (a) of section 201 of the bill amends part III of subchapter O of chapter 1 of the Internal Revenue Code of 1954 (relating to common nontaxable exchanges) by adding at the end thereof a new section 1037 (relating to certain exchanges of U.S. savings bonds).

Under the House bill subsection (a) of the new section 1037, when so provided by regulations promulgated by the Secretary of the Treasury in connection with the issue of obligations of the United States, provided that no gain or loss shall be recognized on the surrender to the United States of obligations of the United States issued under the Second Liberty Bond Act in exchange solely for other such obligations. Your committee's bill amends this provision so that this nonrecognition of gain applies only in the case of the exchange of a series E-bond for a series H-bond.

The first sentence of the new amended section 1037(b) provides that if a bond, the gain on which is subject to the first sentence of section 1232(a)(2)(A) because the bond was issued at a discount, is exchanged for a series H-bond and the gain realized is not then recognized because of the provisions of section 1037(a) (or sec. 1031(b)), that portion of the gain recognized upon the disposition or redemption of the series H-bond received in the exchange which is equal to the gain to which such first sentence would have applied at the time of the exchange (if gain had then been recognized) shall be ordinary income.

The new section 1037(b)(1) provides (for purposes of sec. 1037(b) and sec. 1232) that the aggregate amount considered, with respect to the series E-bond surrendered, as ordinary income is not to exceed the difference between the issue price and the stated redemption price of the series E-bond surrendered which applies at the time of the exchange. Also, the new section 1037(b)(2) provides (for such purposes) that the issue price of the series H-bond received in the exchange is to be the stated redemption price of the series E-bond surrendered, increased by the amount of other consideration (if any) paid to the United States as a part of the exchange.

To the extent not affected by the special provisions of section 1037(b), gain realized and recognized with respect to a bond received in an exchange to which section 1037 applies shall be characterized, under section 1232, in accordance with the facts and circumstances relating to its acquisition and redemption or disposition.

Subsection (c) of the new section 1037 provides cross references to subsections (b) (relating to gain from exchanges of property not solely in kind), (c) (relating to loss from exchanges of property not solely in kind), and (d) (relating to basis in case of exchanges of property held for productive use or investment) of section 1031 of the 1954 code.

Section 201(b).—Subsection (b) of section 201 of the bill amends the table of sections for part III of subchapter O of chapter 1 of the 1954 code by adding at the end thereof the heading for the new section 1037 added to the code by section 201(a) of the bill.

Section 201 (c), (d), and (e).—Subsections (c) and (d) of section 201 of the bill amend subsections (b) and (c) of section 1031 (relating to gain and loss, respectively, from exchanges of property not

solely in kind) to make the principles of such subsections apply with respect to the surrender of obligations of United States described in section 1037 in exchange for other such obligations plus boot. Subsection (c) of section 201 of the bill amends the first and second sentences of subsection (d) of section 1031 (relating to basis in the case of exchanges of property held for productive use or investment) to make the principles of such sentences apply with respect to obligations received in exchanges under section 1037(a) and section 1031 (b) and (c).

Section 202.—Section 4(a) of the Public Debt Act of 1941 provides that interest on certain obligations of the United States, and gain from the sale or other disposition of such obligations, shall not have any exemption, as such, and loss from the sale or other disposition of such obligations shall not have any special treatment, as such, under the Internal Revenue Code, or laws amendatory or supplementary thereto. Section 202 of the bill amends section 4(a) of the Public Debt Act to conform the section to the amendments made by section 201 of the bill.

Section 203.—Section 203 of the bill provides that the amendments made by title II of the bill shall be effective for taxable years ending after the date of enactment of the bill.

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, as reported, are shown as follows (existing law proposed to be omitted is enclosed in black brackets; new matter is printed in italic; existing law in which no change is proposed is shown in roman):

SECOND LIBERTY BOND ACT, AS AMENDED

AN ACT To authorize an additional issue of bonds to meet expenditures for the national security and defense, and, for the purpose of assisting in the prosecution of the war, to extend additional credit to foreign Governments, and for other purposes.

Be it enacted by the Senate and House of Representatives of the United States of America in Congress assembled, The Secretary of the Treasury, with the approval of the President, is hereby authorized to borrow, from time to time, on the credit of the United States for the purposes of this Act, to provide for the purchase, redemption, or refunding, at or before maturity, of any outstanding bonds, notes, certificates of indebtedness, or Treasury bills of the United States, and to meet expenditures authorized for the national security and defense and other public purposes authorized by law, such sum or sums as in his judgment may be necessary, and to issue therefor bonds of the United States.

The bonds herein authorized shall be in such form or forms and denomination or denominations and subject to such terms and conditions of issue, conversion, redemption, maturities, payment, and rate or rates of interest, not exceeding four and one-quarter per centum per annum, and time or times of payment of interest, as the Secretary of the Treasury from time to time at or before the issue thereof may prescribe. The principal and interest thereof shall be payable in United States gold coin of the present standard of value.

The bonds herein authorized shall from time to time first be offered at not less than par as a popular loan, under such regulations prescribed by the Secretary of the Treasury from time to time, as will in his opinion give the people of the United States as nearly as may be an equal opportunity to participate therein, but he may make allotment in full upon applications for smaller amounts of bonds in advance of any date which he may set for the closing of subscriptions and may reject or reduce allotments upon later applications and applications for larger amounts, and may reject or reduce allotments upon applications from incorporated banks and trust companies for their own account and make allotment in full or larger allotments to others, and may establish a graduated scale of allotments, and may from time to time adopt any or all of said methods, should any such action be deemed by him to be in the public interest: *Provided*, That such reduction or increase of allotments of such bonds shall be made under general rules to be prescribed by said Secretary and shall apply to all subscribers similarly situated. And any portion of the bonds so offered and not taken may be otherwise disposed of by the Secretary of the Treasury in such manner and at such price or prices, not less than par, as he may determine. The Secretary may make special arrangements for subscriptions at not less than par from persons in the military or naval forces of the United States, but any bonds issued to such persons shall be in all respects the same as other bonds of the same issue.

Notwithstanding the provisions of the foregoing paragraph, the Secretary of the Treasury may from time to time, when he deems it to be in the public interest, offer such bonds otherwise than as a popular loan and he may make allotments in full, or reject or reduce allotments upon any applications whether or not the offering was made as a popular loan.

* * * * *

SEC. 5. (a) In addition to the bonds and notes authorized by sections 1, 18, and 22 of this Act, as amended, the Secretary of the Treasury is authorized, subject to the limitation imposed by section 21 of this Act, to borrow from time to time, on the credit of the United States, for the purposes of this Act, to provide for the purchase, redemption, or refunding, at or before maturity, of any outstanding bonds, notes, certificates of indebtedness or Treasury bills of the United States, and to meet public expenditures authorized by law, such sum or sums as in his judgment may be necessary, and to issue therefor (1) certificates of indebtedness of the United States at not less than par (except as provided in section 20 of this Act, as amended) and at such rate or rates of interest, payable at such time or times as he may prescribe; or (2) Treasury bills on a discount basis and payable at maturity without interest. Treasury bills to be issued hereunder shall be offered for sale on a competitive basis, under such regulations and upon such terms and conditions as the Secretary of the Treasury may prescribe, and the decisions of the Secretary in respect of any issue shall be final. Certificates of indebtedness and Treasury bills issued hereunder shall be in such form or forms and subject to such terms and conditions, shall be payable at such time not exceeding one year from the date of issue, and may be redeemable before maturity upon such terms and conditions as the Secretary of the Treasury may prescribe. Treasury bills issued hereunder shall not be accept-

able before maturity in payment of interest or of principal on account of obligations of foreign governments held by the United States of America.

[(b) All certificates of indebtedness and Treasury bills issued hereunder (after the date upon which this subdivision becomes law) shall be exempt, both as to principal and interest, from all taxation (except estate and inheritance taxes) now or hereafter imposed by the United States, any State, or any of the possessions of the United States, or by any local taxing authority; and the amount of discount at which Treasury bills are originally sold by the United States shall be considered to be interest within the meaning of this subdivision.]

(c) Wherever the words "bonds and notes of the United States," or "bonds and notes of the Government of the United States," or "bonds or notes of the United States" are used in the Federal Reserve Act, as amended, they shall be held to include certificates of indebtedness and Treasury bills issued hereunder.

[(d) Any gain from the sale or other disposition of Treasury bills issued hereunder (after the date upon which this subdivision becomes law) shall be exempt from all taxation (except estate or inheritance taxes) now or hereafter imposed by the United States, any State, or any of the possessions of the United States, or by any local taxing authority; and no loss from the sale or other disposition of such Treasury bills shall be allowed as a deduction, or otherwise recognized, for the purposes of any tax now or hereafter imposed by the United States or any of its possessions.]

* * * * *

SEC. 7. That none of the bonds authorized by section one, nor of the certificates authorized by section five, or by section six, of this Act, shall bear the circulation privilege. [All such bonds and certificates shall be exempt, both as to principal and interest, from all taxation now or hereafter imposed by the United States, any State, or any of the possessions of the United States, or by any local taxing authority, except (a) estate or inheritance taxes, and (b) graduated additional income taxes, commonly known as surtaxes, and excess profits and war-profits taxes, now or hereafter imposed by the United States upon the income or profits of individuals, partnerships, associations, or corporations. The interest on an amount of such bonds and certificates the principal of which does not exceed in the aggregate \$5,000, owned by any individual, partnership, association, or corporation, shall be exempt from the taxes provided for in subdivision (b) of this section.]

* * * * *

SEC. 18. (a) In addition to the bonds and certificates of indebtedness and war-savings certificates authorized by this Act and amendments thereto, the Secretary of the Treasury, with the approval of the President, is authorized, subject to the limitation imposed by section 21 of this Act, to borrow from time to time on the credit of the United States for the purposes of this Act, to provide for the purchase, redemption, or refunding, at or before maturity, of any outstanding bonds, notes, certificates of indebtedness, or Treasury bills of the United States, and to meet public expenditures authorized by law, such sum or sums as in his judgment may be necessary and to issue therefor notes of the United States at not less than par (except as

provided in section 20 of this Act, as amended) in such form or forms and denomination or denominations, containing such terms and conditions, and at such rate or rates of interest, as the Secretary of the Treasury may prescribe, and each series of notes so issued shall be payable at such time not less than one year nor more than five years from the date of its issue as he may prescribe, and may be redeemable before maturity (at the option of the United States) in whole or in part, upon not more than one year's nor less than four months' notice, and under such rules and regulations and during such period as he may prescribe.

[(b) The notes herein authorized may be issued in any one or more of the following series as the Secretary of the Treasury may prescribe in connection with the issue thereof:

[(1) Exempt, both as to principal and interest, from all taxation (except estate or inheritance taxes) now or hereafter imposed by the United States, any State or any of the possessions of the United States, or by any local taxing authority;

[(2) Exempt, both as to principal and interest, from all taxation now or hereafter imposed by the United States, any State, or any of the possessions of the United States, or by any local taxing authority, except (a) estate or inheritance taxes, and (b) graduated additional income taxes, commonly known as surtaxes, and excess-profits and war-profits taxes, now or hereafter imposed by the United States, upon the income or profits of individuals, partnerships, associations, or corporations;

[(3) Exempt, both as to principal and interest, as provided in paragraph (2); and with an additional exemption from the taxes referred to in clause (b) of such paragraph, of the interest on an amount of such notes the principal of which does not exceed \$30,000, owned by any individual, partnership, association, or corporation; or

[(4) Exempt, both as to principal and interest, from all taxation now or hereafter imposed by the United States, any State, or any of the possessions of the United States, or by any local taxing authority, except (a) estate or inheritance taxes, and (b) all income, excess-profits, and war-profits taxes, now or hereafter imposed by the United States, upon the income or profits of individuals, partnerships, associations, or corporations.]

(c) If the notes authorized under this section are offered in more than one series bearing the same date of issue, the holder of notes of any such series shall (under such rules and regulations as may be prescribed by the Secretary of the Treasury) have the option of having such notes held by him converted at par into notes of any other such series offered bearing the same date of issue.

(d) None of the notes authorized by this section shall bear the circulation privilege. The principal and interest thereof shall be payable in United States gold coin of the present standard of value. The word "bond" or "bonds" where it appears in sections 8, 9, 10, 14, and 15 of this Act as amended, and sections 3702, 3703, 3704, and 3705 of the Revised Statutes, and section 5200 of the Revised Statutes as amended, but in such sections only, shall be deemed to include notes issued under this section.

* * * * *

SEC. 22. (a) The Secretary of the Treasury, with the approval of the President, is authorized to issue, from time to time, through the Postal Service or otherwise, United States savings bonds and United States Treasury savings certificates, the proceeds of which shall be available to meet any public expenditures authorized by law, and to retire any outstanding obligations of the United States bearing interest or issued on a discount basis. The various issues and series of the savings bonds and the savings certificates shall be in such forms, shall be offered in such amounts, subject to the limitation imposed by section 21 of this Act, as amended, and shall be issued in such manner and subject to such terms and conditions consistent with subsections (b), (c), and (d) hereof, and including any restrictions on their transfer, as the Secretary of the Treasury may from time to time prescribe.

(b)(1) Savings bonds and savings certificates may be issued on an interest-bearing basis, on a discount basis, or on a combination interest-bearing and discount basis and shall mature, in the case of bonds, not more than twenty years, and in the case of certificates, not more than ten years, from the date as of which issued. Such bonds and certificates may be sold at such price or prices, and redeemed before maturity upon such terms and conditions as the Secretary of the Treasury may prescribe: *Provided*, That the interest rate on, and the issue price of, savings bonds and savings certificates and the terms upon which they may be redeemed shall be such as to afford an investment yield not in excess of 3.26 per centum per annum, compounded semiannually. The denominations of savings bonds and of savings certificates shall be such as the Secretary of the Treasury may from time to time determine and shall be expressed in terms of their maturity values. The Secretary of the Treasury is authorized by regulation to fix the amount of savings bonds and savings certificates issued in any one year that may be held by any one person at any one time.

[(2) The Secretary of the Treasury, with the approval of the President, is authorized to provide by regulation that owners of series E savings bonds thereafter maturing may, at their option, retain the matured bonds and earn interest upon the maturity values thereof for not more than ten years at rates consistent with the provisions of paragraph (1).]

(2) *The Secretary of the Treasury, with the approval of the President, is authorized to provide by regulations:*

(A) *That owners of series E and H savings bonds may, at their option, retain the bonds after maturity, or after any period beyond maturity during which such bonds have earned interest, and continue to earn interest upon them at rates which (subject to section 25) are consistent with the provisions of paragraph (1).*

(B) *That series E and H savings bonds on which the rates of interest have been fixed prior to such regulations will earn interest at higher rates which (subject to section 25) are consistent with the provisions of paragraph (1).*

* * * * *

(d) [The provisions of section 7 of this Act, as amended (relating to exemptions from taxation), shall apply to savings bonds issued before the effective date of the Public Debt Act of 1941.] For pur-

poses of taxation any increment in value represented by the difference between the price paid and the redemption value received (whether at or before maturity) for savings bonds and savings certificates shall be considered as interest. The savings bonds and the savings certificates shall not bear the circulation privilege.

* * * * *

(h) The Secretary of the Treasury, under such regulations as he may prescribe, may authorize or permit payments in connection with the redemption of savings bonds to be made by commercial banks, trust companies, savings banks, savings and loan associations, building and loan associations (including cooperative banks), credit unions, cash depositories, industrial banks, and similar financial institutions. No bank or other financial institution shall act as a paying agent until duly qualified as such under the regulations prescribed by the Secretary, nor unless (1) it is incorporated under Federal law or under the laws of a State, Territory, possession, the District of Columbia, or the Commonwealth of the Philippine Islands; (2) in the usual course of business it accepts, subject to withdrawal, funds for deposit or the purchase of shares; (3) it is under the supervision of the banking department or equivalent authority of the jurisdiction in which it is incorporated; and (4) it maintains a regular office for the transaction of its business.

(i) Any losses resulting from payments made in connection with the redemption of savings bonds shall be replaced out of the fund established by the Government Losses in Shipment Act, as amended, under such regulations as may be prescribed by the Secretary of the Treasury. The Treasurer of the United States, any Federal Reserve bank, or any qualified paying agent authorized or permitted to make payments in connection with the redemption of such bonds, shall be relieved from liability to the United States for such losses, upon a determination by the Secretary of the Treasury that such losses resulted from no fault or negligence on the part of the Treasurer, the Federal Reserve bank, or the qualified paying agent. The Post Office Department or the Postal Service shall be relieved from such liability upon a joint determination by the Postmaster General and the Secretary of the Treasury that such losses resulted from no fault or negligence on the part of the Post Office Department or the Postal Service. *Relief from liability shall be granted in all cases where the Secretary of the Treasury shall determine, under regulations prescribed by him, that written notice of liability or potential liability has not been given by the United States, within ten years from the date of the erroneous payment, to any of the foregoing agents or agencies whose liability is to be determined: Provided, That no relief shall be granted in any case in which a qualified paying agent has assumed unconditional liability to the United States.* The provisions of section 3 of the Government Losses in Shipment Act, as amended, with respect to the finality of decisions by the Secretary of the Treasury shall apply to the determinations made pursuant to this subsection. All recoveries and repayments on account of such losses, as to which replacement shall have been made out of the fund, shall be credited to it and shall be available for the purposes thereof. The Secretary of the Treasury shall include in his annual report to the Congress a statement of all payments made from the fund pursuant to this subsection.

* * * * *

Sec. 25. In the case of any offering of United States savings bonds issued or to be issued under section 22 of this Act, the maximum limits on the interest rate or the investment yield or both may be exceeded upon a finding by the President with respect to such offering that the national interest requires that such maximum limits be exceeded.

SECTION 6(g)(5) OF THE ACT OF MARCH 24, 1934, AS AMENDED

SEC. 6. During the period beginning January 1, 1940, and ending July 3, 1946, trade relations between the United States and the Philippines shall be as now provided by law, subject to the following exceptions:

- (a) * * *
- (g)(1) * * *

(5) On and after July 4, 1946, the Secretary of the Treasury of the United States is authorized, with the approval of the independent Government of the Philippines, to purchase at the market price for the special trust account bonds of the Philippines, its Provinces, cities, and municipalities, issued prior to May 1, 1934, under authority of Acts of Congress. The Secretary of the Treasury of the United States is also authorized, with the approval of the independent Government of the Philippines, to invest all or any part of such special trust account in any interest-bearing obligations of the United States or in any obligations guaranteed as to both principal and interest by the United States. Such obligations may be acquired on original issue at [par] the issue price or by purchase of outstanding obligations at the market price, and any obligations acquired by the special trust account may, with the approval of the independent Government of the Philippines, be sold by the Secretary of the Treasury at the market price, and the proceeds of the payment upon maturity or redemption of such obligations shall be held as a part of such special trust account. Whenever the special trust account is determined by the Secretary of the Treasury of the United States to be adequate to meet interest and principal payments on all outstanding bonds of the Philippines, its Provinces, cities, and municipalities, issued prior to May 1, 1934, under authority of Acts of Congress, the Secretary of the Treasury is authorized to pay from such trust account the principal of such outstanding bonds and to pay all interest due and owing on such bonds. All such bonds and interest coupons paid or purchased by the special trust account shall be canceled and destroyed by the Secretary of the Treasury of the United States. From time to time after July 4, 1946, any moneys in such special trust account found by the Secretary of the Treasury of the United States to be in excess of an amount adequate to meet interest and principal payments on all such bonds shall be turned over to the treasurer of the independent Government of the Philippines.

SECTIONS 201(d) AND 904(b) OF THE SOCIAL SECURITY ACT

FEDERAL OLD-AGE AND SURVIVORS INSURANCE TRUST FUND AND
FEDERAL DISABILITY INSURANCE TRUST FUND

SECTION 201. (a) * * *

* * * * *

(d) It shall be the duty of the Managing Trustee to invest such portion of the Trust Funds as is not, in his judgment, required to meet current withdrawals. Such investments may be made only in interest-bearing obligations of the United States or in obligations guaranteed as to both principal and interest by the United States. For such purpose such obligations may be acquired (1) on original issue at [par] *the issue price*, or (2) by purchase of outstanding obligations at the market price. The purposes for which obligations of the United States may be issued under the Second Liberty Bond Act, as amended, are hereby extended to authorize the issuance at par of public-debt obligations for purchase by the Trust Funds. Such obligations issued for purchase by the Trust Funds shall have maturities fixed with due regard for the needs of the Trust Funds, and bear interest at a rate equal to the average rate of interest, computed as to the end of the calendar month next preceding the date of such issue, borne by all marketable interest-bearing obligations of the United States then forming a part of the Public Debt that are not due or callable until after the expiration of five years from the date of original issue; except that where such average rate is not a multiple of one-eighth of 1 per centum, the rate of interest of such obligations shall be the multiple of one-eighth of 1 per centum nearest such average rate. Such obligations shall be issued for purchase by the Trust Funds only if the Managing Trustee determines that the purchase in the market of other interest-bearing obligations of the United States, or of obligations guaranteed as to both principal and interest by the United States on original issue or at the market price, is not in the public interest.

* * * * *

UNEMPLOYMENT TRUST FUND

SEC. 904. (a) * * *

(b) It shall be the duty of the Secretary of the Treasury to invest such portion of the Fund as is not, in his judgment, required to meet current withdrawals. Such investment may be made only in interest-bearing obligations of the United States or in obligations guaranteed as to both principal and interest by the United States. For such purpose such obligations may be acquired (1) on original issue at [par] *the issue price*, or (2) by purchase of outstanding obligations at the market price. The purposes for which obligations of the United States may be issued under the Second Liberty Bond Act, as amended, are hereby extended to authorize the issuance at par of special obligations exclusively to the Fund. Such special obligations shall bear interest at a rate equal to the average rate of interest, computed as of the end of the calendar month next preceding the date of such issue, borne by all interest-bearing obligations of the United States then forming part of the public debt; except that where such average rate

is not a multiple of one-eighth of 1 per centum, the rate of interest of such special obligations shall be the multiple of one-eighth of 1 per centum next lower than such average rate. Obligations other than such special obligations may be acquired for the Fund only on such terms as to provide an investment yield not less than the yield which would be required in the case of special obligations if issued to the Fund upon the date of such acquisition. Advances to the Federal unemployment account pursuant to section 1202 (c) shall not be invested.

SECTION 15(b) OF THE RAILROAD RETIREMENT ACT

RAILROAD RETIREMENT ACCOUNT

SEC. 15. (a) * * *

(b) At the request and direction of the Board, it shall be the duty of the Secretary of the Treasury to invest such portion of the amounts credited to the account as, in the judgment of the Board, is not immediately required for the payment of annuities, pensions, and death benefits in accordance with the provisions of this Act and the Railroad Retirement Act of 1935 in interest-bearing obligations of the United States or in obligations guaranteed as to both principal and interest by the United States. For such purpose such obligations may be acquired on original issue at [par] *the issue price* or by purchase of outstanding obligations at the market price. The purposes for which obligations of the United States may be issued under the Second Liberty Bond Act, as amended, are hereby extended to authorize the issuance at par of special obligations exclusively to the account. Such special obligations shall bear interest at the rate of 3 per centum per annum. Obligations other than such special obligations may be acquired for the account only on such terms as to provide an investment yield of not less than 3 per centum per annum. It shall be the duty of the Secretary of the Treasury to sell and dispose of obligations in the account if it shall be in the interest of the account so to do. Any obligations acquired by the account, except special obligations issued exclusively to the account, may be sold at the market price. Special obligations issued exclusively to the account shall, at the request of the Board, be redeemed at par plus accrued interest. All amounts credited to the account shall be available for the payment of all annuities, pensions, and death benefits in accordance with the provisions of this Act and the Railroad Retirement Act of 1935.

SECTION 209(e)(2) OF THE HIGHWAY REVENUE ACT OF 1956

SEC. 209. HIGHWAY TRUST FUND.

(a) CREATION OF TRUST FUND.—There is hereby established in the Treasury of the United States a trust fund to be known as the "Highway Trust Fund" (hereinafter in this section called the "Trust Fund"). The Trust Fund shall consist of such amounts as may be appropriated or credited to the Trust Fund as provided in this section.

* * * * *

(e) MANAGEMENT OF TRUST FUND.—

(1) IN GENERAL.—* * *

(2) INVESTMENT.—It shall be the duty of the Secretary of the Treasury to invest such portion of the Trust Fund as is not, in his judgment, required to meet current withdrawals. Such investments may be made only in interest-bearing obligations of the United States or in obligations guaranteed as to both principal and interest by the United States. For such purpose such obligations may be acquired (A) on original issue at [par] the issue price, or (B) by purchase of outstanding obligations at the market price. The purposes for which obligations of the United States may be issued under the Second Liberty Bond Act, as amended, are hereby extended to authorize the issuance at par of special obligations exclusively to the Trust Fund. Such special obligations shall bear interest at a rate equal to the average rate of interest, computed as to the end of the calendar month next preceding the date of such issue, borne by all marketable interest-bearing obligations of the United States then forming a part of the Public Debt; except that where such average rate is not a multiple of one-eighth of 1 percent, the rate of interest of such special obligations shall be the multiple of one-eighth of 1 percent next lower than such average rate. Such special obligations shall be issued only if the Secretary of the Treasury determines that the purchase of other interest-bearing obligations of the United States, or of obligations guaranteed as to both principal and interest by the United States on original issue or at the market price, is not in the public interest. Advances to the Trust Fund pursuant to subsection (d) shall not be invested.

SECTION 3701 OF THE REVISED STATUTES

SEC. 3701. All stocks, bonds, Treasury notes, and other obligations of the United States, shall be exempt from taxation by or under State or municipal or local authority. *This exemption extends to every form of taxation that would require that either the obligations or the interest thereon, or both, be considered, directly or indirectly, in the computation of the tax, except nondiscriminatory franchise or other nonproperty taxes in lieu thereof imposed on corporations and except estate taxes or inheritance taxes.*

SECTION 4(a) OF THE PUBLIC DEBT ACT OF 1941, AS AMENDED

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 the Internal Revenue Code, or laws amendatory or supplementary

thereto] *except as provided under the Internal Revenue Code of 1954*; 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.

INTERNAL REVENUE CODE OF 1954

SEC. 454. OBLIGATIONS ISSUED AT DISCOUNT.

(a) **NON-INTEREST-BEARING OBLIGATIONS ISSUED AT A DISCOUNT.**—If, in the case of a taxpayer owning any non-interest-bearing obligation issued at a discount and redeemable for fixed amounts increasing at stated intervals or owning an obligation described in paragraph (2) of subsection (c), the increase in the redemption price of such obligation occurring in the taxable year does not (under the method of accounting used in computing his taxable income) constitute income to him in such year, such taxpayer may, at his election made in his return for any taxable year, treat such increase as income received in such taxable year. If any such election is made with respect to any such obligation, it shall apply also to all such obligations owned by the taxpayer at the beginning of the first taxable year to which it applies and to all such obligations thereafter acquired by him and shall be binding for all subsequent taxable years, unless on application by the taxpayer the Secretary or his delegate permits him, subject to such conditions as the Secretary or his delegate deems necessary, to change to a different method. In the case of any such obligations owned by the taxpayer at the beginning of the first taxable year to which his election applies, the increase in the redemption price of such obligations occurring between the date of acquisition (or, in the case of an obligation described in paragraph (2) of subsection (c), the date of acquisition of the series E bond involved) and the first day of such taxable year shall also be treated as income received in such taxable year.

(b) **SHORT-TERM OBLIGATIONS ISSUED ON DISCOUNT BASIS.**—In the case of any obligation—

(1) of the United States; or

(2) of a State, a Territory, or a possession of the United States, or any political subdivision of any of the foregoing, or of the District of Columbia,

which is issued on a discount basis and payable without interest at a fixed maturity date not exceeding 1 year from the date of issue, the amount of discount at which such obligation is originally sold shall not be considered to accrue until the date on which such obligation is paid at maturity, sold, or otherwise disposed of.

(c) **MATURED UNITED STATES SAVINGS BONDS.**—In the case of a taxpayer who—

(1) holds a series E United States savings bond at the date of maturity, and

[(2) pursuant to regulations prescribed under the Second Liberty Bond Act retains his investment in the maturity value of such series E bond in an obligation, other than a current income obligation, which matures not more than 10 years from the date of maturity of such series E bond,]

(2) pursuant to regulations prescribed under the Second Liberty Bond Act (A) retains his investment in such series E bond in an obligation of the United States, other than a current income obligation, or (B) exchanges such series E bond for a series H United States savings bond in an exchange upon which gain or loss is not recognized because of section 1037 (or so much of section 1031 as relates to section 1037),

the increase in redemption value (to the extent not previously includible in gross income) in excess of the amount paid for such series E bond shall be includible in gross income in the taxable year in which [the obligation] such obligation of the United States or such series H bond, as the case may be, is finally redeemed or in the taxable year of final maturity of such obligation of the United States or of such series H bond, whichever is earlier. This subsection shall not apply to a corporation, and shall not apply in the case of any taxable year for which the taxpayer's taxable income is computed under an accrual method of accounting or for which an election made by the taxpayer under subsection (a) applies.

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PART III—COMMON NONTAXABLE EXCHANGES

Sec. 1031. Exchange of property held for productive use or investment.

Sec. 1032. Exchange of stock for property.

Sec. 1033. Involuntary conversions.

Sec. 1034. Sale or exchange of residence.

Sec. 1035. Certain exchanges of insurance policies.

Sec. 1036. Stock for stock of same corporation.

Sec. 1037. Certain exchanges of United States savings bonds.

SEC. 1031. EXCHANGE OF PROPERTY HELD FOR PRODUCTIVE USE OR INVESTMENT

(a) **NONRECOGNITION OF GAIN OR LOSS FROM EXCHANGES SOLELY IN KIND.**—No gain or loss shall be recognized if property held for productive use in trade or business or for investment (not including stock in trade or other property held primarily for sale, nor stocks, bonds, notes, choses in action, certificates of trust or beneficial interest, or other securities or evidences of indebtedness or interest) is exchanged solely for property of a like kind to be held either for productive use in trade or business or for investment.

(b) **GAIN FROM EXCHANGES NOT SOLELY IN KIND.**—If an exchange would be within the provisions of subsection (a), of section 1035(a), [or] of section 1036(a), or of section 1037(a), if it were not for the fact that the property received in exchange consists not only of property permitted by such provisions to be received without the recognition of gain, but also of other property or money, then the gain, if any, to the recipient shall be recognized, but in an amount not in excess of the sum of such money and the fair market value of such other property.

(c) **LOSS FROM EXCHANGES NOT SOLELY IN KIND.**—If an exchange would be within the provisions of subsection (a), of section 1035(a), [or] of section 1036 (a), or of section 1037(a), if it were not for the fact that the property received in exchange consists not only of property permitted by such provisions to be received without the recognition of gain or loss, but also of other property or money, than no loss from the exchange shall be recognized.

(d) **BASIS.**—If property was acquired on an exchange described in this section, section 1035(a), [or] section 1036(a), or section 1037(a), then the basis shall be the same as that of the property exchanged, decreased in the amount of any money received by the taxpayer and increased in the amount of gain or decreased in the amount of loss to the taxpayer that was recognized on such exchange. If the property so acquired consisted in part of the type of property permitted by this section, section 1035(a), [or] section 1036(a), or section 1037(a), to be received without the recognition of gain or loss, and in part of other property, the basis provided in this subsection shall be allocated between the properties (other than money) received, and for the purpose of the allocation there shall be assigned to such other property an amount equivalent to its fair market value at the date of the exchange. For purposes of this section, section 1035(a), and section 1036(a), where as part of the consideration to the taxpayer another party to the exchange assumed a liability of the taxpayer or acquired from the taxpayer property subject to a liability, such assumption or acquisition (in the amount of the liability) shall be considered as money received by the taxpayer on the exchange.

* * * * *

SEC. 1037. CERTAIN EXCHANGES OF UNITED STATES SAVINGS BONDS.

(a) **GENERAL RULE.**—When so provided by regulations promulgated by the Secretary under section 22 of the Second Liberty Bond Act, no gain or loss shall be recognized on the surrender to the United States of series E United States savings bonds in exchange solely for series H United States savings bonds.

(b) **APPLICATION OF SECTION 1232.**—In any case in which gain has been realized but not recognized because of the provisions of subsection (a) (or so much of section 1031 (b) as relates to subsection (a) of this section), to the extent such gain is later recognized by reason of a disposition or redemption of a series H bond received in an exchange subject to such provisions, the first sentence of section 1232 (a)(2)(A) shall apply to such gain as though the series H bond disposed of or redeemed were the series E bond surrendered to the Government in the exchange rather than the series H bond actually disposed of or redeemed. For purposes of this subsection and section 1232—

(1) the aggregate amount considered, with respect to the series E bond surrendered, as gain from the sale or exchange of property which is not a capital asset shall not exceed the difference between the issue price and the stated redemption price which applies at the time of the exchange, and

(2) the issue price of the series H bond received in the exchange shall be considered to be the stated redemption price of the series E bond surrendered in the exchange, increased by the amount of other consideration (if any) paid to the United States as a part of the exchange.

(c) *CROSS REFERENCES.*—

(1) *For rules relating to the recognition of gain or loss in a case where subsection (a) would apply except for the fact that the exchange was not made solely for series H bonds, see subsections (b) and (c) of section 1031.*

(2) *For rules relating to the basis of series H bonds acquired in an exchange for series E bonds, see subsection (d) of section 1031.*

SUPPLEMENTARY VIEWS OF SENATORS DOUGLAS AND McCARTHY

We are in favor of raising the ceiling on the interest rate to be paid on series E- and H-bonds because we believe that those who hold them are for the most part ordinary citizens of modest means who should receive an interest rate more closely related to that received by the large individual and institutional investors who purchase marketable bonds.

But we are not in favor of removing the ceiling entirely. We believe that it should not be raised above 4¼ percent which is the present statutory limit on bonds with maturities in excess of 5 years. Otherwise we are afraid that the complete removal of the legal ceiling will be used as leverage with which to abolish the maximum rate on the long-term bonds.

We are also uneasy about the postponement of the payment of income taxes on the accumulated interest on E bonds if reinvested in H-bonds. This practice is already too extensive as, for example, in the case of rapid depreciation and capital gains, and should not be extended further except for the most pressing reasons. As the interest rate on E- and H-bonds is being raised by a full percentage point, there is less need than previously to postpone the payment of tax on the accumulated interest in order to attract purchasers of these bonds.

PAUL H. DOUGLAS.
EUGENE McCARTHY.