

REVENUE ACT OF 1945

OCTOBER 29, 1945.—Ordered to be printed

Mr. DOUGHTON of North Carolina, from the committee of conference, submitted the following

CONFERENCE REPORT

[To accompany H. R. 4309]

The committee of conference on the disagreeing votes of the two Houses on the amendments of the Senate to the bill (H. R. 4309) to reduce taxation, and for other purposes, having met, after full and free conference, have agreed to recommend and do recommend to their respective Houses as follows:

That the Senate recede from its amendments numbered 34, 37, and 82.

That the House recede from its disagreement to the amendments of the Senate numbered 1, 2, 3, 4, 5, 6, 7, 8, 9, 10, 11, 12, 13, 14, 15, 16, 17, 18, 19, 20, 21, 22, 23, 25, 26, 27, 28, 29, 30, 31, 32, 33, 35, 36, 38, 39, 41, 42, 43, 45, 46, 47, 48, 49, 50, 51, 52, 53, 54, 55, 56, 57, 58, 59, 60, 61, 62, 63, 64, 65, 66, 67, 68, 69, 70, 71, 72, 73, 74, 75, 76, 77, 78, 79, 80, and 81, and agree to the same.

Amendment numbered 24:

That the House recede from its disagreement to the amendment of the Senate numbered 24, and agree to the same with an amendment as follows:

In lieu of the matter proposed to be inserted by the Senate amendment insert the following:

SEC. 121. DECREASE IN CORPORATION SURTAX.

(a) *IN GENERAL.*—Section 15 (b) (relating to the corporation surtax) is amended to read as follows:

“(b) *IMPOSITION OF TAX.*—There shall be levied, collected, and paid for each taxable year upon the corporation surtax net income of every corporation (except a Western Hemisphere trade corporation as defined

in section 109, and except a corporation subject to a tax imposed by section 231 (a), Supplement G or Supplement Q) a surtax as follows:

"(1) Surtax net incomes not over \$25,000.—Upon corporation surtax net incomes not over \$25,000, 6 per centum of the amount thereof.

"(2) Surtax net incomes over \$25,000 but not over \$50,000.—Upon corporation surtax net incomes over \$25,000, but not over \$50,000, \$1,500 plus 22 per centum of the amount of the corporation surtax net income over \$25,000.

"(3) Surtax net incomes over \$50,000.—Upon corporation surtax net incomes over \$50,000, 14 per centum of the corporation surtax net income."

(b) *MUTUAL INSURANCE COMPANIES OTHER THAN LIFE OR MARINE.*—

(1) Section 207 (a) (1) (B) (relating to surtax on mutual insurance companies, other than life or marine) is amended to read as follows:

"(B) Surtax.—A surtax on the corporation surtax net income, computed at the rates provided in section 15 (b), except that if the corporation surtax net income is not more than \$6,000 the surtax shall be 12 per centum of the amount by which the corporation surtax net income exceeds \$3,000."

(2) Section 207 (a) (3) (B) (relating to surtax on interinsurers or reciprocal underwriters) is amended by striking out "32 per centum" and inserting in lieu thereof "28 per centum".

(c) *REGULATED INVESTMENT COMPANIES.*—Section 362 (b) (4) (relating to the surtax on regulated investment companies) is amended by striking out "16 per centum" and inserting in lieu thereof "14 per centum".

(d) *TAXABLE YEARS TO WHICH APPLICABLE.*—The amendments made by this section shall be applicable with respect to taxable years beginning after December 31, 1945. For treatment of taxable years beginning in 1945 and ending in 1946, see section 131.

And the Senate agree to the same.

Amendment numbered 40:

That the House recede from its disagreement to the amendment of the Senate numbered 40, and agree to the same with an amendment as follows:

Quit the matter proposed to be stricken out by the Senate amendment and in lieu thereof insert the following:

(2) *TECHNICAL AMENDMENTS.*—

(A) Section 2 (a) of the Tax Adjustment Act of 1945 (relating to the specific exemption) is repealed as of the date of its enactment.

(B) Section 710 (b) (1) (relating to the specific exemption) is restored to read as such paragraph read immediately prior to the enactment of the Tax Adjustment Act of 1945, to be effective, as so restored, as if section 2 (a) of the Tax Adjustment Act of 1945 had not been enacted.

And the Senate agree to the same.

Amendment numbered 44:

That the House recede from its disagreement to the amendment of the Senate numbered 44, and agree to the same with an amendment as follows:

In lieu of the matter proposed to be inserted by the Senate amendment insert the following:

SEC. 142. DEFERMENT OF CERTAIN TAXES OF VETERANS AND SERVICEMEN.

(a) *IN GENERAL.*—Chapter 38 (miscellaneous provisions) is amended by inserting at the end thereof a new section reading as follows:

“SEC. 3808. DEFERMENT OF TAX ATTRIBUTABLE TO SERVICE PAY FOR COMMISSIONED SERVICE AND OF TAX ATTRIBUTABLE TO PRE-SERVICE EARNED INCOME.

“(a) *DEFINITIONS.*—As used in this section—

“(1) *TAX ATTRIBUTABLE TO SERVICE PAY.*—The term ‘tax attributable to service pay’ means—

“(A) in the case of a war year for which the taxpayer had no gross income other than compensation for active service as a member of the military or naval forces of the United States, the tax imposed under chapter 1 for such year; or

“(B) in the case of a war year for which the taxpayer had gross income in addition to compensation for active service as a member of the military or naval forces of the United States, the excess of the tax imposed under chapter 1 for such year over the tax that would have been imposed if such compensation had been excluded from gross income;

except that in the case of a commissioned officer (or a commissioned warrant officer) of the regular component of the Army, Navy, Marine Corps, or Coast Guard, such term shall not apply to any war year unless, at the time prescribed for the payment of the tax under chapter 1 for such year, a period of time was being disregarded under section 3804.

“(2) *WAR YEAR.*—The term ‘war year’—

“(A) when used with respect to the tax attributable to service pay means any taxable year beginning after December 31, 1939, and before January 1, 1947; and

“(B) when used with respect to the tax attributable to pre-service earned income means any taxable year beginning after December 31, 1939, but before January 1, 1942, and before the taxpayer entered upon active service as a member of the military or naval forces of the United States, but does not include any year unless part of the tax imposed by chapter 1 for such year became due and payable after the taxpayer entered upon such active service.

“(3) *TAX ATTRIBUTABLE TO PRE-SERVICE EARNED INCOME.*—The term ‘tax attributable to pre-service earned income’ means the excess of the tax imposed by chapter 1 for any war year over the tax that would have been imposed for such year if there had been excluded from the net income for such year the amount of the earned net income (as such term was defined in section 25 (a) (4) as in

force with respect to such year, except that in computing such earned net income, compensation for active service in such forces shall be disregarded).

"(4) **FIRST INSTALLMENT DATE.**—The term 'first installment date' means May 15, 1946, in the case of taxpayers released from active duty in the military or naval forces of the United States prior to December 1, 1945; and in other cases June 15, 1947, or the fifteenth day of the sixth month which begins after the date of the taxpayer's release from active duty in such forces, whichever is the earlier; except that, if the first installment date with respect to any war year would otherwise occur earlier than the fifteenth day of the third month following the close of such year, the first installment date with respect to such year shall be the fifteenth day of such third month.

"(b) **EXTENSION OF TIME FOR PAYMENT.**—Upon application with respect to any war year, made prior to the first installment date, and under regulations prescribed by the Commissioner with the approval of the Secretary—

"(1) the time for payment of an amount of the tax under chapter 1 for such year which is equal to the tax attributable to service pay for such year and which has not been paid before the filing of such application; and

"(2) the time for the payment of an amount of the tax under chapter 1 for such year which is equal to the tax attributable to pre-service earned income for such year and which has not been paid before the filing of such application,

shall, in lieu of the time otherwise applicable, be as follows: one-twelfth thereof on the first installment date and an additional twelfth thereof every three months thereafter until such tax is paid.

"(c) **SUSPENSION OF PERIOD OF LIMITATION.**—The running of the period of limitation provided in section 276 (c) (relating to the collection of the tax after assessment) in respect of any tax the time for the payment of which is prescribed under subsection (b), shall be suspended for the period beginning with the date of the filing of the application under such subsection and ending six months after the date prescribed therein for the payment of the last installment of such tax.

"(d) **ESTIMATED TAX.**—If the taxpayer is eligible for the benefits of subsection (b) with respect to any war year—

"(1) for the purposes of the application of section 58 with respect to such year, compensation for active service as a member of the military or naval forces of the United States may be disregarded in determining the gross income reasonably expected for such year, and in determining the estimated tax for such year; and

"(2) for the purposes of section 294 (d) the tax for such year shall be determined as if such compensation were excluded from gross income.

This subsection shall not apply with respect to a taxpayer for any war year who at the time prescribed for making the declaration of estimated tax for such year is a commissioned officer (or a commissioned warrant officer) of the regular component of the Army, Navy, Marine Corps, or Coast Guard."

(b) *REFUND OF INTEREST PAID.*—Any interest paid prior to the date of the enactment of this Act with respect to tax attributable to service pay for any war year, or with respect to tax attributable to pre-service earned income for any war year, shall be credited or refunded if claim therefor is filed with the Commissioner prior to January 1, 1947.

And the Senate agree to the same.

R. L. DOUGHTON,
JERE COOPER,
JOHN D. DINGELL,
A. WILLIS ROBERTSON,
HAROLD KNUTSON,
DANIEL A. REED,
ROY O. WOODRUFF,

Managers on the Part of the House.

WALTER F. GEORGE,
DAVID I. WALSH,
ALBEN W. BARKLEY,
ROBERT M. LA FOLLETTE, JR.,
ROBERT A. TAFT,

Managers on the Part of the Senate.

STATEMENT OF THE MANAGERS ON THE PART OF THE HOUSE

The managers on the part of the House at the conference on the disagreeing votes of the two Houses on the amendments of the Senate to the bill (H. R. 4309) to reduce taxation, and for other purposes, submit the following statement in explanation of the effect of the action agreed upon by the conferees and recommended in the accompanying conference report:

Amendments Nos. 1 and 2: These are technical amendments and the House recedes.

Amendment No. 3: This is a clerical amendment and the House recedes.

Amendments Nos. 4, 5, 6, and 7: The House bill provided surtax rates on individuals, ranging from 16 percent to 81½ percent, and provided that in no case should the aggregate of the normal tax and surtax exceed 81 percent of the net income.

The Senate amendments strike out the House provisions, provide for a 5-percent reduction in the normal tax, and establish a tentative surtax table, running from 17 to 88 percent, with a 5-percent reduction in the tentative surtax so computed, and provide that the aggregate of the normal tax and surtax shall in no case exceed 85½ percent of the net income.

The House recedes on these amendments.

Amendments Nos. 8 to 19, inclusive: These are clerical amendments and the House recedes.

Amendment No. 20: The House bill provided a tax table for supplement T, dealing with the tax on individuals with adjusted gross incomes of less than \$5,000, which embodied the normal tax and surtax rates under the House bill. The Senate amendment substitutes another table based on the Senate's treatment of normal tax and surtax. The House recedes.

Amendment No. 21: The House bill provided tables for wage bracket withholding by employers of tax from wages paid employees. These tables were based on the normal tax and surtax rates provided in the House bill. The Senate amendment substitutes other tables based on the normal tax and surtax under the Senate amendments. The House recedes.

Amendment No. 22: Under both the House bill and the Senate amendments the exemptions applicable to the surtax are made applicable to the normal tax. Thus employers will no longer withhold tax from those previously subject solely to liability for the normal tax. Under present law an employer is required to provide a statement (known as Form W-2) only when tax has been withheld. Such statements are used by millions of taxpayers as a simple tax return. The amendment requires employers to continue to provide employees with such withholding statements where they would be required under present law even though no tax is withheld under the new withholding provisions. The House recedes.

Amendment No. 23: This is a clerical amendment and the House recedes.

Amendment No. 24: The House bill reduced the surtax on corporations by 4 percentage points in each bracket, effective for taxable

years beginning after December 31, 1945. The Senate amendment strikes out this provision and provides for a reduction in normal tax and surtax in the case of corporations whose normal tax net income or surtax net income is less than \$60,000, effective for taxable years beginning after December 31, 1945. The House recedes with an amendment (1) providing for a reduction of 2 percentage points in surtax rates on corporations with corporation surtax net incomes of \$50,000 and over, and (2) retaining the House provisions for corporations with corporation surtax net incomes of less than \$50,000, subject to a "notch" rate on the income between \$25,000 and \$50,000 so as to provide an equitable transition between the 2 percentage points reduction, on the one hand, and the 4 percentage points reduction provided in the House bill on the other hand.

Amendment No. 25: The House bill reduced the excess-profits-tax rate from the present effective rate of 85½ to 60 percent, the reduction to be effective for taxable years beginning after December 31, 1945. The Senate amendment strikes out this provision of the House bill. The House recedes.

Amendments Nos. 26 and 27: These are clerical amendments and the House recedes.

Amendments Nos. 28 and 29: The House bill repealed the excess-profits tax effective with respect to taxable years beginning after December 31, 1946. Amendment 28 strikes out this provision. Amendment 29 provides that the excess-profits-tax chapter of the Internal Revenue Code shall not apply to any taxable year beginning after December 31, 1945. Senate amendment 29 also provides that, despite the repeal of the excess-profits tax for 1946, the provisions of the excess-profits-tax law shall remain in force so as to permit carry-back of the unused excess-profits credit from 1946 to 1944 and 1945, and so as to assure the making of the necessary adjustments in the net operating loss carry-backs. The amendment provides that there shall be no carry-back of unused excess-profits credits from taxable years beginning after December 31, 1946. The amendment also makes provision for the application of the carry-back in the case of affiliated groups of corporations.

Technical changes are also made with respect to the periods of limitation for claiming or allowing credits or refunds and assessing deficiencies, attributable to carry-backs. The House recedes.

Amendments Nos. 30 to 33, inclusive: These are clerical amendments and the House recedes.

Amendment No. 34: This amendment changes the specific exemption in the case of taxable years beginning in 1945 and the Senate recedes.

Amendments Nos. 35 and 36: These are clerical amendments and the House recedes.

Amendment No. 37: This is a clerical amendment and the Senate recedes.

Amendments Nos. 38 and 39: These are technical amendments relating to fiscal years and the House recedes.

Amendment No. 40: This is a technical amendment and the House recedes with an amendment making a further technical amendment.

Amendment No. 41: This is a technical amendment and the House recedes.

Amendment No. 42: This is a clerical amendment and the House recedes.

Amendment No. 43: This amendment provides for the exclusion from gross income of the entire service pay of enlisted personnel for taxable years beginning after 1940 and preserves the \$1,500 exclusion from gross income in the case of officers for the taxable years beginning after 1942, the exclusion in either case to apply only to pay received before the termination of the war, whether or not before separation from the service; and the House recedes.

Amendment No. 44: Under this amendment the time for the payment of the tax liability of commissioned personnel of the armed forces for the years 1940 through 1946, inclusive, is, upon application of the taxpayer, deferred, insofar as such liability is attributable to service pay. The liability so deferred is payable over a period of approximately 3 years in 12 quarterly installments. The 3-year period begins on May 15, 1946, in the case of taxpayers released from active duty prior to December 1, 1945, and in other cases on June 15, 1947, or the 15th day of the sixth month which begins after the date of the taxpayer's release from active duty, whichever is the earlier. Under the Senate amendment if the 3-year period begins before the end of a period of time disregarded under section 3804 (relating to taxpayers overseas) the beginning of the 3-year period does not begin until the end of the period so disregarded.

The Senate amendment also provides that tax for the year 1940 or 1941 (to the extent that it is attributable to pre-service earned income), which became due and payable after the taxpayer entered upon active service in the armed forces, may also be deferred and paid in 12 quarterly installments over the 3-year period specified above.

Any interest paid prior to the date of the enactment of the act with respect to tax which could be deferred under the provisions of the Senate amendment is to be credited or refunded if claim therefor is filed before January 1, 1947.

The conference agreement adopts the provisions of the Senate amendment with certain clerical and technical amendments thereto. The technical amendments are as follows:

(1) The conference agreement does not authorize deferral of tax attributable to service pay in the case of officers of the regular component of the Army, Navy, Marine Corps, or Coast Guard, unless at the time prescribed for the payment of the tax a period of time was being disregarded under section 3804 (relating to taxpayers overseas).

(2) In determining when the first of the twelve quarterly installments is payable, the conference agreement omits the reference to section 3804 as unnecessary since section 3804 in itself will operate to postpone such first installment date in proper cases.

(3) The conference agreement inserts a provision relating to declaration and payment of estimated tax in order to make it clear that the deferral for which a taxpayer might apply in the future is not nullified by a requirement that the taxpayer currently declare and make payments of estimated tax. This provision does not apply to commissioned officers of the regular component of the Army, Navy, Marine Corps, or Coast Guard for the reason that the requirements with respect to declaration and payment of estimated tax by them is adequately dealt with in section 3804.

Amendment No. 45: This is a clerical amendment and the House recedes.

Amendment No. 46: This amendment provides that where amounts in excess of \$75,000 are allowed as tentative amortization adjustments, the Commissioner shall not be required to report such allowances to the Joint Committee on Internal Revenue Taxation prior to their payment but shall report them when the correct amount of the tax has been determined. The House recedes.

Amendment No. 47: This amendment extends to taxable years beginning in 1946, the provisions of section 22 (b) (9) and (10) of the code relating to discharge of indebtedness. The House recedes.

Amendment No. 48: This amendment applies to lost, stolen, or destroyed excess-profits-tax postwar-credit bonds the same treatment that is now applied to other Government securities by section 8 (c) of the Government Losses in Shipment Act. The House recedes.

Amendment No. 49: This amendment provides that for income—tax taxable years ending after June 30, 1945, and before July 1, 1946, the declared value excess-profits tax attributable to war-loss recoveries included in net income shall be at the rate of 1¼ percent in lieu of the generally applicable rate. The House recedes.

Amendment No. 50: This amendment strikes out section 301 of the House bill which provided for the termination on June 30, 1946, of the increases made in the Revenue Act of 1943 in various excise-tax rates. The House recedes.

Amendment No. 51: This is a clerical amendment and the House recedes.

Amendment No. 52: This is a technical amendment and the House recedes.

Amendments Nos. 53, 54, and 55: These are clerical amendments and the House recedes.

Amendments Nos. 56 to 78, inclusive: These are technical amendments. The principal effect of these amendments is to make the provisions of the House bill relating to floor stocks tax refunds for alcoholic beverages and electric-light bulbs applicable so that the refunds will be made whenever the increases in the rates made by the Revenue Act of 1943 terminate. The House recedes on these amendments.

Amendment No. 79: This amendment provides that the termination of the increases made by the Revenue Act of 1943 in the rates applicable to telegraph, telephone, radio, and cable facilities shall, when payment is made pursuant to bills rendered, take place upon the basis of bills rendered on or after the rate reduction date for services for which no previous bills were rendered except with respect to services rendered more than 2 months before such date. The House recedes.

Amendment No. 80: This is a technical amendment made necessary by the Senate treatment of the excise tax provisions and the House recedes.

Amendment No. 81: This is a clerical amendment and the House recedes.

Amendment No. 82: This amendment repeals certain excise taxes.
The Senate recesses.

R. L. DOUGHTON,
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