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LEGISLATIVE HISTORY

OF

H.R. 8363

88TH CONGRESS

THE REVENUE ACT OF 1964

PUBLIC LAW 88–272

COMMITTEE ON WAYS AND MEANS
U.S. HOUSE OF REPRESENTATIVES

EIGHTY-NINTH CONGRESS

SECOND SESSION

PART 1

Prepared by the Staff of the Committee on Ways and Means for the use of the Committee on Ways and Means

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INTRODUCTION

The legislative history of H.R. 8363 is a compilation of legislative history materials relating to the enactment of Public Law 88–272. The purpose of this history is to make readily available all of the public documents containing pertinent information relative to the enactment of the law.

This document sets forth in chronological order the action taken by Congress with respect to this law. For example, section 1 sets forth the public law; section 2, the President's state of the Union message; section 3, President's 1963 tax message, and so on.

The material contained herein has been inserted in toto, therefore, the original pagination appears in all cases.

In order to facilitate the utilization of the House floor debate on H.R. 8363 as well as the House and Senate floor debates on the conference report, this document contains an alphabetical listing of Members of Congress with cross-references to their remarks, as well as their extension of remarks. However, in the case of the Senate floor debate, the cross-references are made by Senate amendments in the order in which they were taken up on the floor of the Senate. The names of the Senators making remarks with respect to a particular amendment are listed alphabetically under each amendment. In this connection, however, the page numbers refer to the pages of this document. The floor debates are taken from the Congressional Record for the date indicated. The page numbers of the daily Congressional Record are bracketed.

Appendix II of this document is a comparison of the provisions of H.R. 8363, as passed by the House, with present law, Treasury recommendations, Senate Finance Committee version, Senate version and as agreed to by the conferees. For quick reference, it also contains a summary of Senate Finance Committee revisions and Senate floor amendments with conference action on such revisions and amendments. Also contained therein are recommendations of the Treasury Department not adopted; amendments considered and rejected by the Senate Finance Committee; and Senate floor amendments offered and rejected or withdrawn.

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CHRONOLOGICAL HISTORY OF THE LEGISLATION

Date of President's state of the Union message	Jan. 14, 1963.
Date of President's tax message	Jan. 24, 1963.
Dates of public hearings before the House Committee on Ways and Means	Feb. 6, 7, 8, 18, 19, 20, 21, 25, and 26; Mar. 4, 6, 7, 8, 11, 12, 13, 14, 15, 18, 19, 20, 21, 22, 25, 26, and 27, 1963.
House bill number	H.R. 8363.
Date bill introduced in House of Representatives	Sept. 10, 1963.
Date bill reported by Committee on Ways and Means	Sept. 13, 1963.
House report number	H. Rept. 749 (with supplemental and separate views).
Date rule obtained—H. Res. 527, providing for a closed rule, waiving points of order against, 8 hours of debate, committee amendments, and 1 motion to recommit	Sept. 24, 1963.
Dates of House floor debate and final passage	Sept. 24 and 25, 1963.
Rule: H. Res. 527 adopted by a record vote—320 yeas, 66 nays, 46 not voting.	
Motion to recommit: Rejected by a record vote—199 yeas, 226 nays, 7 not voting.	
Final passage: Passed by a record vote—271 yeas, 155 nays, 6 not voting.	
Public hearings before the Senate Committee on Finance	Oct. 15, 16, 17, 18 21, 22, 23, 24, 25, 28, 29, 30, and 31; Nov. 1, 4, 5, 6, 7, 8, 12, 13, 14, 15, 21, and 22; Dec. 2, 3, 4, 5, 6, 9, and 10, 1963.
Date reported by Senate Committee on Finance	Jan. 28, 1964.
Senate report number	S. Rept. 830 (with separate views).
(Supplemental report, pt. 2 of S. Rept. 830, filed on Jan. 31, 1964.)	
Dates of Senate floor debate	Jan. 31; Feb. 3, 4, 5, and 6, 1964.
Date bill passed the Senate	Feb. 7, 1964.
Final passage: Passed by a record vote—77 yeas, 21 nays.	
Date conference report filed	Feb. 24, 1964.
Conference report number	Rept No. 1149.
Date conference report presented to and adopted by House of Representatives	Feb. 25, 1964.
Vote: 326 yeas, 83 nays.	
Date conference report presented to and adopted by the Senate	Feb. 26, 1964
Vote: 74 yeas, 19 nays.	
Date signed by the President	Do.
Public law number	Public Law 88–272.

ALPHABETICAL LISTING OF MEMBERS OF CONGRESS WITH CROSS-REFERENCES TO FLOOR DEBATES (INCLUDING EXTENSION OF REMARKS)

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- Clark, Joseph S. (Pennsylvania)
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- Eastland, James O. (Mississippi)
- Ellender, Allen J. (Louisiana)
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- Fulbright, J. W. (Arkansas)
- Gore, Albert (Tennessee)
- Gruening, Ernest (Alaska)
- Hart, Philip A. (Michigan)
- Hruska, Roman L. (Nebraska)
- Humphrey, Hubert H. (Minnesota)
- Javits, Jacob K. (New York)
- Jordan, Len B. (Idaho)
- Keating, Kenneth B. (New York)
- Lausche, Frank J. (Ohio)
- Long, Russell B. (Louisiana)
- McCarthy, Eugene J. (Minnesota)
- Mansfield, Mike (Montana)
- Miller, Jack R. (Iowa)
- Morton, Thruston B. (Kentucky)
- Pell, Claiborne (Rhode Island)
- Proxmire, William (Wisconsin)
- Randolph, Jennings (West Virginia)
- Ribicoff, Abraham A. (Connecticut)
- Smathers, George A. (Florida)
- Stennis, John (Mississippi)
- Talmadge, Herman E. (Georgia)
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- Humphrey, Hubert H. (Minnesota)
- Javits, Jacob K. (New York)
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- Lausche, Frank J. (Ohio)
- Long, Russell B. (Louisiana)
- Miller, Jack R. (Iowa)
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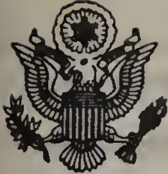
SECTION 1

PUBLIC LAW 88-272



Public Law 88-272
88th Congress, H. R. 8363
February 26, 1964

An Act

To amend the Internal Revenue Code of 1954 to reduce individual and corporate income taxes, to make certain structural changes with respect to the income tax, and for other purposes.

Be it enacted by the Senate and House of Representatives of the United States of America in Congress assembled,

SECTION 1. DECLARATION BY CONGRESS.

Revenue Act of 1964.

It is the sense of Congress that the tax reduction provided by this Act through stimulation of the economy, will, after a brief transitional period, raise (rather than lower) revenues and that such revenue increases should first be used to eliminate the deficits in the administrative budgets and then to reduce the public debt. To further the objective of obtaining balanced budgets in the near future, Congress by this action, recognizes the importance of taking all reasonable means to restrain Government spending and urges the President to declare his accord with this objective.

SEC. 2. SHORT TITLE, ETC.

(a) Short Title.—This Act may be cited as the "Revenue Act of 1964".

(b) Amendment of 1954 Code.—Except as otherwise expressly provided, whenever in this Act an amendment or repeal is expressed in terms of an amendment to, or repeal of, a section or other provision, the reference shall be considered to be made to a section or other provision of the Internal Revenue Code of 1954.

68A Stat. 3.

Title I—Reduction Of Income Tax Rates And Related Amendments

PART I—INDIVIDUALS

SEC. 111. REDUCTION OF TAX ON INDIVIDUALS.

(a) Individuals Other Than Heads of Households.—Subsection (a) of section 1 (relating to rates of tax on individuals other than heads of households) is amended to read as follows:

26 USC 1.

"(a) Rates of Tax on Individuals.—

"(1) Taxable years beginning in 1964.—In the case of a taxable year beginning on or after January 1, 1964, and before January 1, 1965, there is hereby imposed on the taxable income of every individual (other than a head of a household to whom subsection (b) applies) a tax determined in accordance with the following table:

"If the taxable income is:	The tax is:
Not over $500	16% of the taxable income.
Over $500 but not over $1,000	$80, plus 16.5% of excess over $500.
Over $1,000 but not over $1,500	$162.50, plus 17.5% of excess over $1,000.
Over $1,500 but not over $2,000	$250, plus 18% of excess over $1,500.
Over $2,000 but not over $4,000	$340, plus 20% of excess over $2,000.
Over $4,000 but not over $6,000	$740, plus 23.5% of excess over $4,000.
Over $6,000 but not over $8,000	$1,210, plus 27% of excess over $6,000.
Over $8,000 but not over $10,000	$1,750, plus 30.5% of excess over $8,000.
Over $10,000 but not over $12,000	$2,360, plus 34% of excess over $10,000.
Over $12,000 but not over $14,000	$3,040, plus 37.5% of excess over $12,000.

"If the taxable income is:	The tax is:
Over $14,000 but not over $16,000	$3,790, plus 41% of excess over $14,000.
Over $16,000 but not over $18,000	$4,610, plus 44.5% of excess over $16,000.
Over $18,000 but not over $20,000	$5,500, plus 47.5% of excess over $18,000.
Over $20,000 but not over $22,000	$6,450, plus 50.5% of excess over $20,000.
Over $22,000 but not over $26,000	$7,460, plus 53.5% of excess over $22,000.
Over $26,000 but not over $32,000	$9,600, plus 56% of excess over $26,000.
Over $32,000 but not over $38,000	$12,960, plus 58.5% of excess over $32,000.
Over $38,000 but not over $44,000	$16,470, plus 61% of excess over $38,000.
Over $44,000 but not over $50,000	$20,130, plus 63.5% of excess over $44,000.
Over $50,000 but not over $60,000	$23,940, plus 66% of excess over $50,000.
Over $60,000 but not over $70,000	$30,540, plus 68.5% of excess over $60,000.
Over $70,000 but not over $80,000	$37,390, plus 71% of excess over $70,000.
Over $80,000 but not over $90,000	$44,490, plus 73.5% of excess over $80,000.
Over $90,000 but not over $100,000	$51,840, plus 75% of excess over $90,000.
Over $100,000 but not over $200,000	$59,340, plus 76.5% of excess over $100,000.
Over $200,000	$135,840, plus 77% of excess over $200,000.

"(2) Taxable years beginning after December 31, 1964.—In the case of a taxable year beginning after December 31, 1964, there is hereby imposed on the taxable income of every individual (other than a head of a household to whom subsection (b) applies) a tax determined in accordance with the following table:

"If the taxable income is:	The tax is:
Not over $500	14% of the taxable income.
Over $500 but not over $1,000	$70, plus 15% of excess over $500.
Over $1,000 but not over $1,500	$145, plus 16% of excess over $1,000.
Over $1,500 but not over $2,000	$225, plus 17% of excess over $1,500.
Over $2,000 but not over $4,000	$310, plus 19% of excess over $2,000.
Over $4,000 but not over $6,000	$690, plus 22% of excess over $4,000.
Over $6,000 but not over $8,000	$1,130, plus 25% of excess over $6,000.
Over $8,000 but not over $10,000	$1,630, plus 28% of excess over $8,000.
Over $10,000 but not over $12,000	$2,190, plus 32% of excess over $10,000.
Over $12,000 but not over $14,000	$2,830, plus 36% of excess over $12,000.
Over $14,000 but not over $16,000	$3,550, plus 39% of excess over $14,000.
Over $16,000 but not over $18,000	$4,330, plus 42% of excess over $16,000.
Over $18,000 but not over $20,000	$5,170, plus 45% of excess over $18,000.
Over $20,000 but not over $22,000	$6,070, plus 48% of excess over $20,000.
Over $22,000 but not over $26,000	$7,030, plus 50% of excess over $22,000.
Over $26,000 but not over $32,000	$9,030, plus 53% of excess over $26,000.
Over $32,000 but not over $38,000	$12,210, plus 55% of excess over $32,000.
Over $38,000 but not over $44,000	$15,510, plus 58% of excess over $38,000.

"If the taxable income is:	The tax is:
Over $44,000 but not over $50,000	$18,990, plus 60% of excess over $44,000.
Over $50,000 but not over $60,000	$22,590, plus 62% of excess over $50,000.
Over $60,000 but not over $70,000	$28,790, plus 64% of excess over $60,000.
Over $70,000 but not over $80,000	$35,190, plus 66% of excess over $70,000.
Over $80,000 but not over $90,000	$41,790, plus 68% of excess over $80,000.
Over $90,000 but not over $100,000	$48,590, plus 69% of excess over $90,000.
Over $100,000	$55,490, plus 70% of excess over $100,000."

(b) HEADS OF HOUSEHOLDS.—Paragraph (1) of section 1(b) (relating to rates of tax on heads of households) is amended to read as follows:

26 USC 1.

"(1) RATES OF TAX.—

"(A) TAXABLE YEARS BEGINNING IN 1964.—In the case of a taxable year beginning on or after January 1, 1964, and before January 1, 1965, there is hereby imposed on the taxable income of every individual who is the head of a household a tax determined in accordance with the following table:

"If the taxable income is:	The tax is:
Not over $1,000	16% of the taxable income.
Over $1,000 but not over $2,000	$160, plus 17.5% of excess over $1,000.
Over $2,000 but not over $4,000	$335, plus 19% of excess over $2,000.
Over $4,000 but not over $6,000	$715, plus 22% of excess over $4,000.
Over $6,000 but not over $8,000	$1,155, plus 23% of excess over $6,000.
Over $8,000 but not over $10,000	$1,615, plus 27% of excess over $8,000.
Over $10,000 but not over $12,000	$2,155, plus 29% of excess over $10,000.
Over $12,000 but not over $14,000	$2,735, plus 32% of excess over $12,000.
Over $14,000 but not over $16,000	$3,375, plus 34% of excess over $14,000.
Over $16,000 but not over $18,000	$4,055, plus 37.5% of excess over $16,000.
Over $18,000 but not over $20,000	$4,805, plus 39% of excess over $18,000.
Over $20,000 but not over $22,000	$5,585, plus 42.5% of excess over $20,000.
Over $22,000 but not over $24,000	$6,435, plus 43.5% of excess over $22,000.
Over $24,000 but not over $26,000	$7,305, plus 45.5% of excess over $24,000.
Over $26,000 but not over $28,000	$8,215, plus 47% of excess over $26,000.
Over $28,000 but not over $32,000	$9,155, plus 48.5% of excess over $28,000.
Over $32,000 but not over $36,000	$11,095, plus 51.5% of excess over $32,000.
Over $36,000 but not over $38,000	$13,155, plus 53% of excess over $36,000.
Over $38,000 but not over $40,000	$14,215, plus 54% of excess over $38,000.
Over $40,000 but not over $44,000	$15,295, plus 56% of excess over $40,000.
Over $44,000 but not over $50,000	$17,535, plus 58.5% of excess over $44,000.
Over $50,000 but not over $52,000	$21,045, plus 59.5% of excess over $50,000.
Over $52,000 but not over $60,000	$22,235, plus 61% of excess over $52,000.

"If the taxable income is:	The tax is:
Over $60,000 but not over $64,000	$27,115, plus 62% of excess over $60,000.
Over $64,000 but not over $70,000	$29,595, plus 63.5% of excess over $64,000.
Over $70,000 but not over $76,000	$33,405, plus 65% of excess over $70,000.
Over $76,000 but not over $80,000	$37,305, plus 66% of excess over $76,000.
Over $80,000 but not over $88,000	$39,945, plus 67% of excess over $80,000.
Over $88,000 but not over $90,000	$45,305, plus 69% of excess over $88,000.
Over $90,000 but not over $100,000	$46,685, plus 69.5% of excess over $90.000.
Over $100,000 but not over $120,000	$53.635, plus 71% of excess over $100,000.
Over $120,000 but not over $140,000	$67,835, plus 72.5% of excess over $120,000.
Over $140,000 but not over $160,000	$82,335, plus 74% of excess over $140,000.
Over $160,000 but not over $180,000	$97,135, plus 75% of excess over $160.000.
Over $180,000 but not over $200,000	$112,135, plus 75.5% of excess over $180.000.
Over $200,000	$127,235, plus 77% of excess over $200,000.

"(B) TAXABLE YEARS BEGINNING AFTER DECEMBER 31, 1964.—In the case of a taxable year beginning after December 31, 1964, there is hereby imposed on the taxable income of every individual who is the head of a household a tax determined in accordance with the following table:

"If the taxable income is:	The tax is:
Not over $1,000	14% of the taxable income.
Over $1,000 but not over $2,000	$140, plus 16% of excess over $1,000.
Over $2.000 but not over $4,000	$300, plus 18% of excess over $2.000.
Over $4,000 but not over $6,000	$660, plus 20% of excess over $4,000.
Over $6,000 but not over $8,000	$1,060, plus 22% of excess over $6,000.
Over $8,000 but not over $10,000	$1,500, plus 25% of excess over $8,000.
Over $10,000 but not over $12,000	$2,000, plus 27% of excess over $10,000.
Over $12,000 but not over $14,000	$2,540, plus 31% of excess over $12,000.
Over $14,000 but not over $16,000	$3,160, plus 32% of excess over $14,000.
Over $16,000 but not over $18,000	$3,800, plus 35% of excess over $16,000.
Over $18.000 but not over $20,000	$4,500, plus 36% of excess over $18.000.
Over $20,000 but not over $22,000	$5.220, plus 40% of excess over $20.000.
Over $22,000 but not over $24.000	$6.020, plus 41% of excess over $22.000.
Over $24,000 but not over $26,000	$6.840, plus 43% of excess over $24,000.
Over $26.000 but not over $28.000	$7,700, plus 45% of excess over $26,000.
Over $28.000 but not over $32,000	$8,600, plus 46% of excess over $28.000.
Over $32,000 but not over $36,000	$10,440, plus 48% of excess over $32,000.
Over $36,000 but not over $38,000	$12,360, plus 50% of excess over $36,000.
Over $38,000 but not over $40,000	$13,360, plus 52% of excess over $38,000.
Over $40,000 but not over $44,000	$14,400, plus 53% of excess over $40,000.
Over $44.000 but not over $50,000	$16,520, plus 55% of excess over $44,000.

"If the taxable income is:	The tax is:
Over $50,000 but not over $52,000	$19,820, plus 56% of excess over $50,000.
Over $52,000 but not over $64,000	$20,940, plus 58% of excess over $52,000.
Over $64,000 but not over $70,000	$27,900, plus 59% of excess over $64,000.
Over $70,000 but not over $76,000	$31,440, plus 61% of excess over $70,000.
Over $76,000 but not over $80,000	$35,100, plus 62% of excess over $76,000.
Over $80,000 but not over $88,000	$37,580, plus 63% of excess over $80,000.
Over $88,000 but not over $100,000	$42,620, plus 64% of excess over $88,000.
Over $100,000 but not over $120,000	$50,300, plus 66% of excess over $100,000.
Over $120,000 but not over $140,000	$63,500, plus 67% of excess over $120,000.
Over $140,000 but not over $160,000	$76,900, plus 68% of excess over $140,000.
Over $160,000 but not over $180,000	$90,500, plus 69% of excess over $160.000.
Over $180,000	$104,300, plus 70% of excess over $180,000."

SEC. 112. MINIMUM STANDARD DEDUCTION.

(a) General Rule.—Section 141 (relating to standard deduction) is amended to read as follows:

26 USC 141.

"SEC. 141. STANDARD DEDUCTION.

"(a) Standard Deduction.—Except as otherwise provided in this section, the standard deduction referred to in this title is the larger of the 10-percent standard deduction or the minimum standard deduction. The standard deduction shall not exceed $1,000, except that in the case of a separate return by a married individual the standard deduction shall not exceed $500.

"(b) Ten-percent Standard Deduction.—The 10-percent standard deduction is an amount equal to 10 percent of the adjusted gross income.

"(c) Minimum Standard Deduction.—The minimum standard deduction is an amount equal to the sum of—

"(1) $100, multiplied by the number of exemptions allowed for the taxable year as a deduction under section 151, plus

"(2)(A) $200, in the case of a joint return of a husband and wife under section 6013,

"(B) $200, in the case of a return of an individual who is not married, or

"(C) $100, in the case of a separate return by a married individual.

"(d) Married Individuals Filing Separate Returns.—Notwithstanding subsection (a)—

"(1) The minimum standard deduction shall not apply in the case of a separate return by a married individual if the tax of the other spouse is determined with regard to the 10-percent standard deduction.

"(2) A married individual filing a separate return may, if the minimum standard deduction is less than the 10-percent standard deduction, and if the minimum standard deduction of his spouse is greater than the 10-percent standard deduction of such spouse, elect (under regulations prescribed by the Secretary or his delegate) to have his tax determined with regard to the minimum standard deduction in lieu of being determined with regard to the 10-percent standard deduction."

26 USC 2. Post, p. 129; ante, p. 23.

(b) AMENDMENT OF SECTION 2.—The second sentence of section 2(a) (relating to tax in case of joint return or return of surviving spouse) is amended by striking out "and section 3" and inserting in lieu thereof ", section 3, and section 141".

26 USC 144.

(c) AMENDMENTS OF SECTION 144.—

(1) The first sentence of section 144(b) (relating to change of election of standard deduction) is amended to read as follows: "Under regulations prescribed by the Secretary or his delegate, a change of election with respect to the standard deduction for any taxable year may be made after the filing of the return for such year."

(2) Section 144 is amended by adding at the end thereof the following new subsection:

"(c) CHANGE OF ELECTION DEFINED.—For purposes of this title, the term 'change of election with respect to the standard deduction' means—

"(1) a change of an election to take (or not to take) the standard deduction;

"(2) a change of an election to pay (or not to pay) the tax under section 3; or

"(3) a change of an election under section 141(d)(2)."

(d) CONFORMING AMENDMENTS.—

26 USC 6212.

(1) Subparagraph (A) of section 6212(c)(2) (relating to cross references) is amended by striking out "**to take**" and inserting in lieu thereof "**with respect to the**".

26 USC 6504.

(2) Paragraph (3) of section 6504 (relating to cross references) is amended by striking out "**to take**" and inserting in lieu thereof "**with respect to the**".

SEC. 113. RELATED AMENDMENTS.

26 USC 37; post, p. 32.

(a) RETIREMENT INCOME CREDIT.—Section 37(a) (relating to credit against tax for retirement income) is amended by striking out "an amount equal to the amount received by such individual as retirement income (as defined in subsection (c) and as limited by subsection (d)), multiplied by the rate provided in section 1 for the first $2,000 of taxable income;" and inserting in lieu thereof "an amount equal to 17 percent, in the case of a taxable year beginning in 1964, or 15 percent, in the case of a taxable year beginning after December 31, 1964, of the amount received by such individual as retirement income (as defined in subsection (c) and as limited by subsection (d));".

26 USC 871.

(b) TAX ON NONRESIDENT ALIEN INDIVIDUALS.—Section 871 (relating to tax on nonresident alien individuals) is amended—

(1) By striking out "is more than $15,400, except that—" in subsection (b) and inserting in lieu thereof "is more than $19,000 in the case of a taxable year beginning in 1964 or more than $21,200 in the case of a taxable year beginning after 1964, except that—".

(2) By striking out the heading to subsection (a) and inserting in lieu thereof the following:

"(a) NO UNITED STATES BUSINESS—30 PERCENT TAX.—".

(3) By striking out the heading to subsection (b) and inserting in lieu thereof the following:

"(b) NO UNITED STATES BUSINESS—REGULAR TAX.—".

SEC. 114. CROSS REFERENCES TO TAX TABLES, ETC.

(1) For optional tax if adjusted gross income is less than $5,000, see section 301 of this Act.

(2) For income tax collected at source, see section 302 of this Act.

PART II—CORPORATIONS

SEC. 121. REDUCTION OF TAX ON CORPORATIONS.

Section 11 (relating to tax on corporations) is amended to read as follows: 26 USC 11.

"SEC. 11. TAX IMPOSED.

"(a) CORPORATIONS IN GENERAL.—A tax is hereby imposed for each taxable year on the taxable income of every corporation. The tax shall consist of a normal tax computed under subsection (b) and a surtax computed under subsection (c).

"(b) NORMAL TAX.—The normal tax is equal to the following percentage of the taxable income:

"(1) 30 percent, in the case of a taxable year beginning before January 1, 1964, and

"(2) 22 percent, in the case of a taxable year beginning after December 31, 1963.

"(c) SURTAX.—The surtax is equal to the following percentage of the amount by which the taxable income exceeds the surtax exemption for the taxable year:

"(1) 22 percent, in the case of a taxable year beginning before January 1, 1964,

"(2) 28 percent, in the case of a taxable year beginning after December 31, 1963, and before January 1, 1965, and

"(3) 26 percent, in the case of a taxable year beginning after December 31, 1964.

"(d) SURTAX EXEMPTION.—For purposes of this subtitle, the surtax exemption for any taxable year is $25,000, except that, with respect to a corporation to which section 1561 (relating to surtax exemptions in case of certain controlled corporations) applies for the taxable year, the surtax exemption for the taxable year is the amount determined under such section. Post, p. 116.

"(e) EXCEPTIONS.—Subsection (a) shall not apply to a corporation subject to a tax imposed by—

"(1) section 594 (relating to mutual savings banks conducting life insurance business), 26 USC 594.

"(2) subchapter L (sec. 801 and following, relating to insurance companies), 26 USC 801 et seq.

"(3) subchapter M (sec. 851 and following, relating to regulated investment companies and real estate investment trusts), or 26 USC 851 et seq.

"(4) section 881(a) (relating to foreign corporations not engaged in business in United States)." 26 USC 881.

SEC. 122. CURRENT TAX PAYMENTS BY CORPORATIONS.

(a) INSTALLMENT PAYMENTS OF ESTIMATED INCOME TAX BY CORPORATIONS.—Section 6154 (relating to installment payments of estimated income tax by corporations) is amended to read as follows: 26 USC 6154.

"SEC. 6154. INSTALLMENT PAYMENTS OF ESTIMATED INCOME TAX BY CORPORATIONS.

"(a) AMOUNT AND TIME FOR PAYMENT OF EACH INSTALLMENT.—The amount of estimated tax (as defined in section 6016(b)) with respect to which a declaration is required under section 6016 shall be paid as follows: 26 USC 6016.

"(1) PAYMENT IN 4 INSTALLMENTS.—If the declaration is filed on or before the 15th day of the 4th month of the taxable year, the estimated tax shall be paid in 4 installments. The amount

and time for payment of each installment shall be determined in accordance with the following table:

"If the taxable year begins in—	The following percentages of the estimated tax shall be paid on the 15th day of the—			
	4th month	6th month	9th month	12th month
1964	1	1	25	25
1965	4	4	25	25
1966	9	9	25	25
1967	14	14	25	25
1968	19	19	25	25
1969	22	22	25	25
1970 or any subsequent year	25	25	25	25

"(2) PAYMENT IN 3 INSTALLMENTS.—If the declaration is filed after the 15th day of the 4th month and not after the 15th day of the 6th month of the taxable year, and is not required by section 6074(a) to be filed on or before the 15th day of such 4th month, the estimated tax shall be paid in 3 installments. The amount and time for payment of each installment shall be determined in accordance with the following table:

Post, p. 28.

"If the taxable year begins in—	The following percentages of the estimated tax shall be paid on the 15th day of the—		
	6th month	9th month	12th month
1964	1⅓	25⅓	25⅓
1965	5⅓	26⅓	26⅓
1966	12	28	28
1967	18⅔	29⅔	29⅔
1968	25⅓	31⅓	31⅓
1969	29⅓	32⅓	32⅓
1970 or any subsequent year	33⅓	33⅓	33⅓

"(3) PAYMENT IN 2 INSTALLMENTS.—If the declaration of estimated tax is filed after the 15th day of the 6th month and not after the 15th day of the 9th month of the taxable year, and is not required by section 6074(a) to be filed on or before the 15th day of such 6th month, the estimated tax shall be paid in 2 installments. The amount and time for payment of each installment shall be determined in accordance with the following table:

"If the taxable year begins in—	The following percentages of the estimated tax shall be paid on the 15th day of the—	
	9th month	12th month
1964	26	26
1965	29	29
1966	34	34
1967	39	39
1968	44	44
1969	47	47
1970 or any subsequent year	50	50

"(4) PAYMENT IN 1 INSTALLMENT.—If the declaration of estimated tax is filed after the 15th day of the 9th month of the taxable year, and is not required by section 6074(a) to be filed on or before the 15th day of such 9th month, the estimated tax shall be paid in 1 installment. The amount and time for payment of the installment shall be determined in accordance with the following table:

Post, p. 28.

"If the taxable year begins in—	The following percentages of the estimated tax shall be paid on the 15th day of the 12th month
1964	52
1965	58
1966	68
1967	78
1968	88
1969	94
1970 or any subsequent year	100

"(5) LATE FILING.—If the declaration is filed after the time prescribed in section 6074(a) (determined without regard to any extension of time for filing the declaration under section 6081), paragraphs (2), (3), and (4) of this subsection shall not apply, and there shall be paid at the time of such filing all installments of estimated tax which would have been payable on or before such time if the declaration had been filed within the time prescribed in section 6074(a), and the remaining installments shall be paid at the times at which, and in the amounts in which, they would have been payable if the declaration had been so filed.

26 USC 6081.

"(b) AMENDMENT OF DECLARATION.—If any amendment of a declaration is filed, the amount of each remaining installment (if any) shall be the amount which would have been payable if the new estimate had been made when the first estimate for the taxable year was made, increased or decreased (as the case may be), by the amount computed by dividing—

"(1) the difference between (A) the amount of estimated tax required to be paid before the date on which the amendment is made, and (B) the amount of estimated tax which would have been required to be paid before such date if the new estimate had been made when the first estimate was made, by

"(2) the number of installments remaining to be paid on or after the date on which the amendment is made.

"(c) APPLICATION TO SHORT TAXABLE YEAR.—The application of this section to taxable years of less than 12 months shall be in accordance with regulations prescribed by the Secretary or his delegate.

"(d) INSTALLMENTS PAID IN ADVANCE.—At the election of the corporation, any installment of the estimated tax may be paid before the date prescribed for its payment."

(b) TIME FOR FILING DECLARATIONS OF ESTIMATED INCOME TAX BY CORPORATIONS.—Section 6074 (relating to time for filing declarations of estimated income tax by corporations) is amended to read as follows:

"SEC. 6074. TIME FOR FILING DECLARATIONS OF ESTIMATED INCOME TAX BY CORPORATIONS.

"(a) GENERAL RULE.—The declaration of estimated tax required of corporations by section 6016 shall be filed as follows:

"If the requirements of section 6016 are first met—	The declaration shall be filed on or before—
before the 1st day of the 4th month of the taxable year	the 15th day of the 4th month of the taxable year
after the last day of the 3d month and before the 1st day of the 6th month of the taxable year	the 15th day of the 6th month of the taxable year
after the last day of the 5th month and before the 1st day of the 9th month of the taxable year	the 15th day of the 9th month of the taxable year
after the last day of the 8th month and before the 1st day of the 12th month of the taxable year	the 15th day of the 12th month of the taxable year

"(b) AMENDMENT.—An amendment of a declaration may be filed in any interval between installment dates prescribed for the taxable year, but only one amendment may be filed in each such interval.

"(c) SHORT TAXABLE YEAR.—The application of this section to taxable years of less than 12 months shall be in accordance with regulations prescribed by the Secretary or his delegate."

26 USC 6655.

(c) FAILURE BY CORPORATIONS TO PAY ESTIMATED INCOME TAX.—

(1) The last sentence of section 6655(c)(2) (relating to period of underpayment) is amended to read as follows: "For purposes of this paragraph, a payment of estimated tax on any installment date shall be considered a payment of any previous underpayment only to the extent such payment exceeds the amount of the installment determined under subsection (b)(1) for such installment date."

(2) Paragraph (3) of section 6655(d) (relating to exception) is amended to read as follows:

"(3)(A) An amount equal to 70 percent of the tax for the taxable year computed by placing on an annualized basis the taxable income:

"(i) for the first 3 months of the taxable year, in the case of the installment required to be paid in the 4th month,

"(ii) for the first 3 months or for the first 5 months of the taxable year, in the case of the installment required to be paid in the 6th month,

"(iii) for the first 6 months or for the first 8 months of the taxable year in the case of the installment required to be paid in the 9th month, and

"(iv) for the first 9 months or for the first 11 months of the taxable year, in the case of the installment required to be paid in the 12th month of the taxable year.

"(B) For purposes of this paragraph, the taxable income shall be placed on an annualized basis by—

"(i) multiplying by 12 the taxable income referred to in subparagraph (A), and

"(ii) dividing the resulting amount by the number of months in the taxable year (3, 5, 6, 8, 9, or 11, as the case may be) referred to in subparagraph (A)."

(d) TECHNICAL AMENDMENT.—Section 6016(f) (relating to declarations of estimated income tax by corporations) is amended to read as follows: 26 USC 6016.

"(f) CROSS REFERENCE.—

"For provisions relating to the number of amendments which may be filed, see section 6074(b)." Ante, p. 28.

SEC. 123. RELATED AMENDMENTS.

(a) TAX ON MUTUAL INSURANCE COMPANIES (OTHER THAN LIFE, ETC.)—

(1) Subsection (a) of section 821 (relating to imposition of tax) is amended to read as follows: 26 USC 821.

"(a) IMPOSITION OF TAX.—A tax is hereby imposed for each taxable year beginning after December 31, 1963, on the mutual insurance company taxable income of every mutual insurance company (other than a life insurance company and other than a fire, flood, or marine insurance company subject to the tax imposed by section 831). Such tax shall consist of—

"(1) NORMAL TAX.—A normal tax of 22 percent of the mutual insurance company taxable income, or 44 percent of the amount by which such taxable income exceeds $6,000, whichever is the lesser; plus

"(2) SURTAX.—A surtax on the mutual insurance company taxable income computed as provided in section 11(c) as though the mutual insurance company taxable income were the taxable income referred to in section 11(c)." Ante, p. 25.

(2) Paragraph (1) of section 821(c) (relating to alternative tax for certain small companies) is amended to read as follows:

"(1) IMPOSITION OF TAX.—In the case of taxable years beginning after December 31, 1963, there is hereby imposed for each taxable year on the income of each mutual insurance company to which this subsection applies a tax (which shall be in lieu of the tax imposed by subsection (a)) computed as follows:

"(A) NORMAL TAX.—A normal tax of 22 percent of the taxable investment income, or 44 percent of the amount by which such taxable income exceeds $3,000, whichever is the lesser; plus

"(B) SURTAX.—A surtax on the taxable investment income computed as provided in section 11(c) as though the taxable investment income were the taxable income referred to in section 11(c)."

(b) RECEIPT OF MINIMUM DISTRIBUTIONS BY DOMESTIC CORPORATIONS.—Subsection (b) of section 963 (relating to receipt of minimum distributions by domestic corporations) is amended to read as follows: 26 USC 963.

"(b) MINIMUM DISTRIBUTION.—For purposes of this section, a minimum distribution with respect to the earnings and profits for the taxable year of any controlled foreign corporation or corporations shall, in the case of any United States shareholder, be its

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pro rata share of an amount determined in accordance with whichever of the following tables applies to the taxable year:

"(1) TAXABLE YEARS BEGINNING IN 1963.—

"If the effective foreign tax rate is (percentage)—	The required minimum distribution of earnings and profits is (percentage)—
Under 10	90
10 or over but less than 20	86
20 or over but less than 28	82
28 or over but less than 34	75
34 or over but less than 39	68
39 or over but less than 42	55
42 or over but less than 44	40
44 or over but less than 46	27
46 or over but less than 47	14
47 or over	0

"(2) TAXABLE YEARS BEGINNING IN 1964.—

"If the effective foreign tax rate is (percentage)—	The required minimum distribution of earnings and profits is (percentage)—
Under 10	87
10 or over but less than 19	83
19 or over but less than 27	79
27 or over but less than 33	72
33 or over but less than 37	65
37 or over but less than 40	53
40 or over but less than 42	38
42 or over but less than 44	26
44 or over but less than 45	13
45 or over	0

"(3) TAXABLE YEARS BEGINNING AFTER DECEMBER 31, 1964.—

"If the effective foreign tax rate is (percentage)—	The required minimum distribution of earnings and profits is (percentage)—
Under 9	83
9 or over but less than 18	79
18 or over but less than 26	76
26 or over but less than 32	69
32 or over but less than 36	63
36 or over but less than 39	51
39 or over but less than 41	37
41 or over but less than 42	25
42 or over but less than 43	13
43 or over	0"

26 USC 242.

(c) AMENDMENT OF SECTION 242.—Section 242(a) (relating to deduction for partially tax-exempt interest) is amended by adding at the end thereof the following new sentence: "No deduction shall be allowed under this section for purposes of any surtax imposed by this subtitle."

PART III—EFFECTIVE DATES

SEC. 131. GENERAL RULE.

26 USC 21.

Except for purposes of section 21 of the Internal Revenue Code of 1954 (relating to effect of changes in rates during a taxable year), the amendments made by parts I and II of this title shall apply with respect to taxable years beginning after December 31, 1963.

SEC. 132. FISCAL YEAR TAXPAYERS.

Effective with respect to taxable years ending after December 31, 1963, subsection (d) of section 21 (relating to effect of changes in rates during a taxable year) is amended to read as follows:

"(d) CHANGES MADE BY REVENUE ACT OF 1964.—

"(1) INDIVIDUALS.—In applying subsection (a) to the taxable year of an individual beginning in 1963 and ending in 1964—

"(A) the rate of tax for the period on and after January 1, 1964, shall be applied to the taxable income determined as if part IV of subchapter B (relating to standard deduction for individuals), as amended by the Revenue Act of 1964, applied to taxable years ending after December 31, 1963, and

"(B) section 4 (relating to rules for optional tax), as amended by such Act, shall be applied to taxable years ending after December 31, 1963.

Post, pp. 111, 140.

In applying subsection (a) to a taxable year of an individual beginning in 1963 and ending in 1964, or beginning in 1964 and ending in 1965, the change in the tax imposed under section 3 shall be treated as a change in a rate of tax.

"(2) CORPORATIONS.—In applying subsection (a) to a taxable year of a corporation beginning in 1963 and ending in 1964, if—

"(A) the surtax exemption of such corporation for such taxable year is less than $25,000 by reason of the application of section 1561 (relating to surtax exemptions in case of certain controlled corporations), or

"(B) an additional tax is imposed on the taxable income of such corporation for such taxable year by section 1562(b) (relating to additional tax in case of component members of controlled groups which elect multiple surtax exemptions),

Post, p. 117.

the change in the surtax exemption, or the imposition of such additional tax, shall be treated as a change in a rate of tax taking effect on January 1, 1964."

Title II—Structural Changes

SEC. 201. DIVIDENDS RECEIVED BY INDIVIDUALS.

(a) REDUCTION OF 4 PERCENT CREDIT TO 2 PERCENT CREDIT FOR CALENDAR YEAR 1964.—

(1) GENERAL RULE.—Section 34(a) (relating to general rule for credit for dividends received) is amended by striking out "an amount equal to 4 percent of the dividends which are received after July 31, 1954, from domestic corporations and are included in gross income" and inserting in lieu thereof:

26 USC 34.

"an amount equal to the following percentage of the dividends which are received from domestic corporations and are included in gross income:

"(1) 4 percent of the amount of such dividends which are received before January 1, 1964, and

"(2) 2 percent of the amount of such dividends which are received during the calendar year 1964."

(2) LIMITATIONS.—Section 34(b)(2) (relating to limitations on amount of credit) is amended—

(A) by inserting ", or beginning after December 31, 1963" after "1955" at the end of subparagraph (A), and

(B) by inserting ", and beginning before January 1, 1964" after "1954" at the end of subparagraph (B).

(b) REPEAL OF CREDIT FOR DIVIDENDS RECEIVED BY INDIVIDUALS.—Effective with respect to dividends received after December 31, 1964,

section 34 (relating to dividends received by individuals) is hereby repealed.

26 USC 116.

(c) DOUBLING OF AMOUNT OF PARTIAL EXCLUSION FROM GROSS INCOME OF DIVIDENDS RECEIVED BY INDIVIDUALS.—Section 116(a) (relating to partial exclusion from gross income of dividends received by individuals) is amended by striking out "$50" each place it appears and inserting in lieu thereof "$100".

(d) CONFORMING AMENDMENTS.—

(1) The table of sections for subpart A of part IV of subchapter A of chapter 1 is amended by striking out

"Sec. 34. Dividends received by individuals."

26 USC 35.

(2) Section 35(b)(1) is amended by striking out "the sum of the credits allowable under sections 33 and 34" and inserting in lieu thereof "the credit allowable under section 33".

26 USC 37; ante, p. 24.

(3) Section 37(a) is amended by striking out "section 34 (relating to credit for dividends received by individuals),".

26 USC 46.

(4) Section 46(a)(3) is amended by striking out subparagraph (B), and by redesignating subparagraphs (C) and (D) as "(B)" and "(C)", respectively.

26 USC 584.

(5) Section 584(c)(2) is amended by striking out "section 34 or".

26 USC 642.

(6)(A) Section 642(a) is amended by striking out paragraph (3);

(B) Section 642(i) is amended to read as follows:

"(i) CROSS REFERENCES.—

26 USC 142.

"(1) For disallowance of standard deduction in case of estates and trusts, see section 142(b)(4).

26 USC 652, 662.

"(2) For special rule for determining the time of receipt of dividends by a beneficiary under section 652 or 662, see section 116(c)(3)."

(C) Section 116(c) is amended by adding at the end thereof the following new paragraph:

"(3) The amount of dividends properly allocable to a beneficiary under section 652 or 662 shall be deemed to have been received by the beneficiary ratably on the same date that the dividends were received by the estate or trust."

26 USC 702; supra.

(7) Section 702(a)(5) is amended by striking out "a credit under section 34," and the comma after "section 116".

26 USC 854.

(8) Section 854(a) is amended by striking out "section 34(a) (relating to credit for dividends received by individuals)," and the comma after "section 116 (relating to an exclusion for dividends received by individuals)".

(9) Section 854(b)(1) is amended by striking out "the credit under section 34(a)," and the comma after "section 116".

Post, p. 99.

(10) Section 854(b)(2) is amended by striking out "the credit under section 34," and the comma after "section 116".

26 USC 857.

(11) Section 857(c) is amended by striking out "section 34(a) (relating to credit for dividends received by individuals)," and the comma after "section 116 (relating to an exclusion for dividends received by individuals)".

26 USC 871.

(12) Section 871(b) is amended by striking out "the sum of the credits under sections 34 and 35" and inserting in lieu thereof "the credit under section 35".

26 USC 1375.

(13) Section 1375(b) is amended by striking out "section 34," and the comma after "section 37".

26 USC 6014.

(14) Section 6014(a) is amended by striking out "34 or".

(e) EFFECTIVE DATES.—The amendments made by subsection (a) shall apply with respect to taxable years ending after December 31, 1963. The amendment made by subsection (b) shall apply with

respect to taxable years ending after December 31, 1964. The amendment made by subsection (c) shall apply with respect to taxable years beginning after December 31, 1963. The amendments made by subsection (d) shall apply with respect to dividends received after December 31, 1964, in taxable years ending after such date.

SEC. 202. RETIREMENT INCOME CREDIT OF CERTAIN MARRIED INDIVIDUALS.

(a) DETERMINATION OF RETIREMENT INCOME.—Section 37 (relating to retirement income) is amended by redesignating subsection (i) as subsection (j) and by inserting after subsection (h) the following new subsection: 26 USC 37.

"(i) SPECIAL RULES FOR CERTAIN MARRIED COUPLES.—

"(1) ELECTION.—A husband and wife who make a joint return for the taxable year and both of whom have attained the age of 65 before the close of the taxable year may elect (at such time and in such manner as the Secretary or his delegate by regulations prescribes) to determine the amount of the credit allowed by subsection (a) by applying the provisions of paragraph (2).

"(2) SPECIAL RULES.—If an election is made under paragraph (1) for the taxable year, for purposes of subsection (a)—

"(A) if either spouse is an individual who has received earned income within the meaning of subsection (b), the other spouse shall be considered to be an individual who has received earned income within the meaning of such subsection; and

"(B) subsection (d) shall be considered as providing that the amount of the combined retirement income of both spouses shall not exceed $2,286, less the sum of the amounts specified in paragraphs (1) and (2) of subsection (d) for each spouse."

(b) EFFECTIVE DATE.—The amendments made by subsection (a) shall apply to taxable years beginning after December 31, 1963.

SEC. 203. REPEAL OF REQUIREMENT THAT BASIS OF SECTION 38 PROPERTY BE REDUCED BY 7 PERCENT; OTHER PROVISIONS RELATING TO INVESTMENT CREDIT.

(a) REPEAL OF REQUIREMENT THAT BASIS BE REDUCED.—

(1) IN GENERAL.—Subsection (g) of section 48 (requiring that the basis of section 38 property be reduced by 7 percent of the qualified investment) is hereby repealed. 26 USC 48. 26 USC 38.

(2) INCREASE IN BASIS OF PROPERTY PLACED IN SERVICE BEFORE JANUARY 1, 1964.—

(A) The basis of any section 38 property (as defined in section 48(a) of the Internal Revenue Code of 1954) placed in service before January 1, 1964, shall be increased, under regulations prescribed by the Secretary of the Treasury or his delegate, by an amount equal to 7 percent of the qualified investment with respect to such property under section 46(c) of the Internal Revenue Code of 1954. If there has been any increase with respect to such property under section 48(g)(2) of such Code, the increase under the preceding sentence shall be appropriately reduced therefor. 26 USC 46.

(B) If a lessor made the election provided by section 48(d) of the Internal Revenue Code of 1954 with respect to property placed in service before January 1, 1964—

(i) subparagraph (A) shall not apply with respect to such property, but

(ii) under regulations prescribed by the Secretary of the Treasury or his delegate, the deductions otherwise allowable under section 162 of such Code to the lessee for amounts paid to the lessor under the lease (or, if such lessee has purchased such property, the basis of such property) shall be adjusted in a manner consistent with subparagraph (A).

26 USC 162.

(C) The adjustments under this paragraph shall be made as of the first day of the taxpayer's first taxable year which begins after December 31, 1963.

(3) CONFORMING AMENDMENTS.—

(A) The last sentence of section 48(d) (relating to certain leased property) is hereby repealed.

26 USC 48.

(B) Section 181 (relating to deduction for certain unused investment credit) is hereby repealed.

26 USC 181.

(C) Section 1016(a)(19) (relating to adjustments to basis) is amended to read as follows:

26 USC 1016.

"(19) to the extent provided in section 48(g) and in section 203(a)(2) of the Revenue Act of 1964, in the case of property which is or has been section 38 property (as defined in section 48(a));"

26 USC 203.

(D) The table of sections for part VI of subchapter B of chapter 1 is amended by striking out the following:

"Sec. 181. Deduction for certain unused investment credit.".

(4) EFFECTIVE DATE.—Paragraphs (1) and (3) of this subsection shall apply—

(A) in the case of property placed in service after December 31, 1963, with respect to taxable years ending after such date, and

(B) in the case of property placed in service before January 1, 1964, with respect to taxable years beginning after December 31, 1963.

(b) BASIS OF CERTAIN LEASED PROPERTY TO LESSEE.—Paragraphs (1) and (2) of section 48(d) (relating to certain leased property) are amended to read as follows:

"(1) except as provided in paragraph (2), the fair market value of such property, or

"(2) if such property is leased by a corporation which is a member of an affiliated group (within the meaning of section 46(a)(5)) to another corporation which is a member of the same affiliated group, the basis of such property to the lessor."

(c) TREATMENT OF ELEVATORS AND ESCALATORS FOR PURPOSES OF THE INVESTMENT CREDIT.—Section 48(a)(1) (relating to section 38 property) is amended—

26 USC 48, 38.

(1) by striking out the period at the end of subparagraph (B) and inserting in lieu thereof ", or"; and

(2) by adding after subparagraph (B) the following new subparagraph:

"(C) elevators and escalators, but only if—

"(i) the construction, reconstruction, or erection of the elevator or escalator is completed by the taxpayer after June 30, 1963, or

"(ii) the elevator or escalator is acquired after June 30, 1963, and the original use of such elevator or escalator commences with the taxpayer and commences after such date."

(d) TREATMENT OF ELEVATORS AND ESCALATORS FOR PURPOSES OF SECTION 1245.—Section 1245(a) (relating to gain from dispositions of certain depreciable property) is amended— 26 USC 1245.

(1) by striking out so much of paragraph (2) as precedes the second sentence thereof and inserting in lieu thereof the following:

"(2) RECOMPUTED BASIS.—For purposes of this section, the term 'recomputed basis' means—

"(A) with respect to any property referred to in paragraph (3) (A) or (B), its adjusted basis recomputed by adding thereto all adjustments, attributable to periods after December 31, 1961, or

"(B) with respect to any property referred to in paragraph (3)(C), its adjusted basis recomputed by adding thereto all adjustments, attributable to periods after June 30, 1963,

reflected in such adjusted basis on account of deductions (whether in respect of the same or other property) allowed or allowable to the taxpayer or to any other person for depreciation, or for amortization under section 168."; 26 USC 168.

(2) by striking out the period at the end of paragraph (3) (B) and inserting in lieu thereof ", or"; and

(3) by adding at the end of paragraph (3) the following new subparagraph:

"(C) an elevator or an escalator.".

(e) TREATMENT OF INVESTMENT CREDIT BY FEDERAL REGULATORY AGENCIES.—It was the intent of the Congress in providing an investment credit under section 38 of the Internal Revenue Code of 1954, and it is the intent of the Congress in repealing the reduction in basis required by section 48(g) of such Code, to provide an incentive for modernization and growth of private industry (including that portion thereof which is regulated). Accordingly, Congress does not intend that any agency or instrumentality of the United States having jurisdiction with respect to a taxpayer shall, without the consent of the taxpayer, use— 26 USC 38. Ante, p. 33.

(1) in the case of public utility property (as defined in section 46(c)(3)(B) of the Internal Revenue Code of 1954), more than a proportionate part (determined with reference to the average useful life of the property with respect to which the credit was allowed) of the credit against tax allowed for any taxable year by section 38 of such Code, or 26 USC 46.

(2) in the case of any other property, any credit against tax allowed by section 38 of such Code,

to reduce such taxpayer's Federal income taxes for the purpose of establishing the cost of service of the taxpayer or to accomplish a similar result by any other method.

(f) EFFECTIVE DATES.—

(1) The amendments made by subsection (b) shall apply with respect to property possession of which is transferred to a lessee on or after the date of enactment of this Act.

(2) The amendments made by subsection (c) shall apply with respect to taxable years ending after June 30, 1963.

(3) The amendments made by subsection (d) shall apply with respect to dispositions after December 31, 1963, in taxable years ending after such date.

SEC. 204. GROUP-TERM LIFE INSURANCE PURCHASED FOR EMPLOYEES.

(a) INCLUSION IN INCOME.—

26 USC 71 et seq.

(1) Part II of subchapter B of chapter 1 (relating to items specifically included in gross income) is amended by adding at the end thereof the following new section:

"SEC. 79. GROUP-TERM LIFE INSURANCE PURCHASED FOR EMPLOYEES.

"(a) GENERAL RULE.—There shall be included in the gross income of an employee for the taxable year an amount equal to the cost of group-term life insurance on his life provided for part or all of such year under a policy (or policies) carried directly or indirectly by his employer (or employers); but only to the extent that such cost exceeds the sum of—

"(1) the cost of $50,000 of such insurance, and

"(2) the amount (if any) paid by the employee toward the purchase of such insurance.

"(b) EXCEPTIONS.—Subsection (a) shall not apply to—

"(1) the cost of group-term life insurance on the life of an individual which is provided under a policy carried directly or indirectly by an employer after such individual has terminated his employment with such employer and either has reached the retirement age with respect to such employer or is disabled (within the meaning of paragraph (3) of section 213(g), determined without regard to paragraph (4) thereof),

26 USC 213.

"(2) the cost of any portion of the group-term life insurance on the life of an employee provided during part or all of the taxable year of the employee under which—

"(A) the employer is directly or indirectly the beneficiary, or

"(B) a person described in section 170(c) is the sole beneficiary,

26 USC 170.

for the entire period during such taxable year for which the employee receives such insurance, and

"(3) the cost of any group-term life insurance which is provided under a contract to which section 72(m)(3) applies.

26 USC 72.

"(c) DETERMINATION OF COST OF INSURANCE.—For purposes of this section and section 6052, the cost of group-term insurance on the life of an employee provided during any period shall be determined on the basis of uniform premiums (computed on the basis of 5-year age brackets) prescribed by regulations by the Secretary or his delegate. In the case of an employee who has attained age 64, the cost prescribed shall not exceed the cost with respect to such individual if he were age 63."

26 USC 6052.

(2) The table of sections for part II of subchapter B of chapter 1 is amended by adding at the end thereof the following:

"Sec. 79. Group-term life insurance purchased for employees."

26 USC 7701.

(3) Section 7701(a)(20) (defining employee) is amended by striking out "For the purpose of applying the provisions of sections 104" and inserting in lieu thereof "For the purpose of applying the provisions of section 79 with respect to group-term life insurance purchased for employees, for the purpose of applying the provisions of sections 104".

Post, p. 52.

(b) WITHHOLDING.—Section 3401(a) (relating to definition of wages) is amended by striking out the period at the end of paragraph (13) and inserting in lieu thereof "; or", and by adding at the end thereof the following new paragraph:

"(14) in the form of group-term life insurance on the life of an employee; or".

(c) INFORMATION REPORTING.—

(1) REQUIREMENT.—Subpart C of part III of subchapter A of chapter 61 (relating to information and returns) is amended by adding at the end thereof the following new section: 26 USC 6051.

"SEC. 6052. RETURNS REGARDING PAYMENT OF WAGES IN THE FORM OF GROUP-TERM LIFE INSURANCE.

"(a) REQUIREMENT OF REPORTING.—Every employer who during any calendar year provides group-term life insurance on the life of an employee during part or all of such calendar year under a policy (or policies) carried directly or indirectly by such employer shall make a return according to the forms or regulations prescribed by the Secretary or his delegate, setting forth the cost of such insurance and the name and address of the employee on whose life such insurance is provided, but only to the extent that the cost of such insurance is includible in the employee's gross income under section 79(a). For purposes of this section, the extent to which the cost of group-term life insurance is includible in the employee's gross income under section 79(a) shall be determined as if the employer were the only employer paying such employee remuneration in the form of such insurance. Ante, p. 36.

"(b) STATEMENTS TO BE FURNISHED TO EMPLOYEES WITH RESPECT TO WHOM INFORMATION IS FURNISHED.—Every employer making a return under subsection (a) shall furnish to each employee whose name is set forth in such return a written statement showing the cost of the group-term life insurance shown on such return. The written statement required under the preceding sentence shall be furnished to the employee on or before January 31 of the year following the calendar year for which the return under subsection (a) was made."

(2) PENALTIES FOR FAILURE TO FURNISH STATEMENTS TO PERSONS WITH RESPECT TO WHOM RETURNS ARE FILED.—Section 6678 (relating to failure to furnish certain statements) is amended— Post, p. 75.

(A) by striking out "or 6049(c)" and inserting in lieu thereof "6049(c), or 6052(b)"; and

(B) by striking out "or 6049(a)(1)," and inserting in lieu thereof "6049(a)(1), or 6052(a),".

(3) CLERICAL AMENDMENT.—The table of sections for subpart C of part III of subchapter A of chapter 61 is amended by adding at the end thereof the following:

"Sec. 6052. Returns regarding payment of wages in the form of group-term life insurance."

(4) CROSS REFERENCE.—

For penalty for failure to file information returns required by section 6052(a) of the Internal Revenue Code of 1954 (added by paragraph (1) of this subsection), see section 6652(a)(3) of such Code (as amended by section 221(b)(2) of this Act).

(d) EFFECTIVE DATES.—The amendments made by subsections (a) and (c), and paragraph (3) of section 6652(a) of the Internal Revenue Code of 1954 (as amended by section 221(b)(2) of this Act), shall apply with respect to group-term life insurance provided after December 31, 1963, in taxable years ending after such date. The amendments made by subsection (b) shall apply with respect to remuneration paid after December 31, 1963, in the form of group-term life insurance provided after such date. In applying section 79(b) of the Internal Revenue Code of 1954 (as added by subsection (a)(1) of this section) to a taxable year beginning before May 1, 1964, if paragraph (2)(B) of such section applies with respect to an employee for the period beginning May 1, 1964, and ending with the close of his first taxable year ending after April 30, 1964, such paragraph (2)(B) shall be treated as applying with respect to such Post, p. 74. Ante, p. 36.

employee for the period beginning January 1, 1964, and ending April 30, 1964.

SEC. 205. AMOUNTS RECEIVED UNDER WAGE CONTINUATION PLANS.

(a) Wage Continuation Plans.—The second sentence of section 105(d) (relating to wage continuation plans) is amended to read as follows: "The preceding sentence shall not apply to amounts attributable to the first 30 calendar days in such period, if such amounts are at a rate which exceeds 75 percent of the regular weekly rate of wages of the employee (as determined under regulations prescribed by the Secretary or his delegate). If amounts attributable to the first 30 calendar days in such period are at a rate which does not exceed 75 percent of the regular weekly rate of wages of the employee, the first sentence of this subsection (1) shall not apply to the extent that such amounts exceed a weekly rate of $75, and (2) shall not apply to amounts attributable to the first 7 calendar days in such period unless the employee is hospitalized on account of personal injuries or sickness for at least one day during such period."

26 USC 105.

(b) Effective Date.—The amendment made by subsection (a) shall apply to amounts attributable to periods of absence commencing after December 31, 1963.

SEC. 206. EXCLUSION FROM GROSS INCOME OF GAIN ON SALE OR EXCHANGE OF RESIDENCE OF INDIVIDUAL WHO HAS ATTAINED AGE 65.

(a) In General.—Part III of subchapter B of chapter 1 (relating to items specifically excluded from gross income) is amended by redesignating section 121 as section 122 and by inserting before such section the following new section:

26 USC 121, 122.

"SEC. 121. GAIN FROM SALE OR EXCHANGE OF RESIDENCE OF INDIVIDUAL WHO HAS ATTAINED AGE 65.

"(a) General Rule.—At the election of the taxpayer, gross income does not include gain from the sale or exchange of property if—

"(1) the taxpayer has attained the age of 65 before the date of such sale or exchange, and

"(2) during the 8-year period ending on the date of the sale or exchange, such property has been owned and used by the taxpayer as his principal residence for periods aggregating 5 years or more.

"(b) Limitations.—

"(1) Where adjusted sales price exceeds $20,000.—If the adjusted sales price of the property sold or exchanged exceeds $20,000, subsection (a) shall apply to that portion of the gain which bears the same ratio to the total amount of such gain as $20,000 bears to such adjusted sales price. For purposes of the preceding sentence, the term 'adjusted sales price' has the meaning assigned to such term by section 1034(b)(1) (determined without regard to subsection (d)(7) of this section).

"(2) Application to only one sale or exchange.—Subsection (a) shall not apply to any sale or exchange by the taxpayer if an election by the taxpayer or his spouse under subsection (a) with respect to any other sale or exchange is in effect.

"(c) Election.—An election under subsection (a) may be made or revoked at any time before the expiration of the period for making a claim for credit or refund of the tax imposed by this chapter for the taxable year in which the sale or exchange occurred, and shall be made or revoked in such manner as the Secretary or his delegate shall by regulations prescribe. In the case of a taxpayer who is married, an election under subsection (a) or a revocation thereof may be made only if his spouse joins in such election or revocation.

"(d) SPECIAL RULES.—

"(1) PROPERTY HELD JOINTLY BY HUSBAND AND WIFE.—For purposes of this section, if—

"(A) property is held by a husband and wife as joint tenants, tenants by the entirety, or community property,

"(B) such husband and wife make a joint return under section 6013 for the taxable year of the sale or exchange, and

26 USC 6013.

"(C) one spouse satisfies the age, holding, and use requirements of subsection (a) with respect to such property,

then both husband and wife shall be treated as satisfying the age, holding, and use requirements of subsection (a) with respect to such property.

"(2) PROPERTY OF DECEASED SPOUSE.—For purposes of this section, in the case of an unmarried individual whose spouse is deceased on the date of the sale or exchange of property, if—

"(A) the deceased spouse (during the 8-year period ending on the date of the sale or exchange) satisfied the holding and use requirements of subsection (a)(2) with respect to such property, and

"(B) no election by the deceased spouse under subsection (a) is in effect with respect to a prior sale or exchange,

then such individual shall be treated as satisfying the holding and use requirements of subsection (a)(2) with respect to such property.

"(3) TENANT-STOCKHOLDER IN COOPERATIVE HOUSING CORPORATION.—For purposes of this section, if the taxpayer holds stock as a tenant-stockholder (as defined in section 216) in a cooperative housing corporation (as defined in such section), then—

26 USC 216.

"(A) the holding requirements of subsection (a)(2) shall be applied to the holding of such stock, and

"(B) the use requirements of subsection (a)(2) shall be applied to the house or apartment which the taxpayer was entitled to occupy as such stockholder.

"(4) INVOLUNTARY CONVERSIONS.—For purposes of this section, the destruction, theft, seizure, requisition, or condemnation of property shall be treated as the sale of such property.

"(5) PROPERTY USED IN PART AS PRINCIPAL RESIDENCE.—In the case of property only a portion of which, during the 8-year period ending on the date of the sale or exchange, has been owned and used by the taxpayer as his principal residence for periods aggregating 5 years or more, this section shall apply with respect to so much of the gain from the sale or exchange of such property as is determined, under regulations prescribed by the Secretary or his delegate, to be attributable to the portion of the property so owned and used by the taxpayer.

"(6) DETERMINATION OF MARITAL STATUS.—In the case of any sale or exchange, for purposes of this section—

"(A) the determination of whether an individual is married shall be made as of the date of the sale or exchange; and

"(B) an individual legally separated from his spouse under a decree of divorce or of separate maintenance shall not be considered as married.

"(7) APPLICATION OF SECTIONS 1033 AND 1034.—In applying sections 1033 (relating to involuntary conversions) and 1034 (relating to sale or exchange of residence), the amount realized from the sale or exchange of property shall be treated as being the amount determined without regard to this section, reduced by

26 USC 1033, 1034.

the amount of gain not included in gross income pursuant to an election under this section."

(b) TECHNICAL AND CLERICAL AMENDMENTS.—

26 USC 6012.

(1) Section 6012(c) (relating to persons required to make returns of income) is amended to read as follows:

"(c) CERTAIN INCOME EARNED ABROAD OR FROM SALE OF RESIDENCE.—For purposes of this section, gross income shall be computed without regard to the exclusion provided for in section 121 (relating to sale of residence by individual who has attained age 65) and without regard to the exclusion provided for in section 911 (relating to earned income from sources without the United States)."

Ante, p. 38.
Post, p. 128.

(2) The table of sections for part III of subchapter B of chapter 1 is amended by striking out

"Sec. 121. Cross references to other Acts."

and inserting in lieu thereof

"Sec. 121. Gain from sale or exchange of residence of individual who has attained age 65.
"Sec. 122. Cross references to other Acts."

26 USC 1033.

(3) Section 1033(h) (relating to involuntary conversions) is amended by adding at the end thereof the following new paragraph:

"(3) For exclusion from gross income of certain gain from involuntary conversion of residence of taxpayer who has attained age 65, see section 121."

26 USC 1034.

(4) Section 1034 (relating to sale or exchange of residence) is amended by adding at the end thereof the following new subsection:

"(k) CROSS REFERENCE.—

"For exclusion from gross income of certain gain from sale or exchange of residence of taxpayer who has attained age 65, see section 121."

Ante, p. 38.

(c) EFFECTIVE DATE.—The amendments made by this section shall apply to dispositions after December 31, 1963, in taxable years ending after such date.

SEC. 207. DENIAL OF DEDUCTION FOR CERTAIN STATE, LOCAL, AND FOREIGN TAXES.

26 USC 164.

(a) IN GENERAL.—Subsections (a), (b), and (c) of section 164 (relating to deduction for taxes) are amended to read as follows:

"(a) GENERAL RULE.—Except as otherwise provided in this section, the following taxes shall be allowed as a deduction for the taxable year within which paid or accrued:

"(1) State and local, and foreign, real property taxes.

"(2) State and local personal property taxes.

"(3) State and local, and foreign, income, war profits, and excess profits taxes.

"(4) State and local general sales taxes.

"(5) State and local taxes on the sale of gasoline, diesel fuel, and other motor fuels.

In addition, there shall be allowed as a deduction State and local, and foreign, taxes not described in the preceding sentence which are paid or accrued within the taxable year in carrying on a trade or business or an activity described in section 212 (relating to expenses for production of income).

26 USC 212.

"(b) DEFINITIONS AND SPECIAL RULES.—For purposes of this section—

"(1) PERSONAL PROPERTY TAXES.—The term 'personal property tax' means an ad valorem tax which is imposed on an annual basis in respect of personal property.

"(2) General sales taxes.—

"(A) In general.—The term 'general sales tax' means a tax imposed at one rate in respect of the sale at retail of a broad range of classes of items.

"(B) Special rules for food, etc.—In the case of items of food, clothing, medical supplies, and motor vehicles—

"(i) the fact that the tax does not apply in respect of some or all of such items shall not be taken into account in determining whether the tax applies in respect of a broad range of classes of items, and

"(ii) the fact that the rate of tax applicable in respect of some or all of such items is lower than the general rate of tax shall not be taken into account in determining whether the tax is imposed at one rate.

"(C) Items taxed at different rates.—Except in the case of a lower rate of tax applicable in respect of an item described in subparagraph (B), no deduction shall be allowed under this section for any general sales tax imposed in respect of an item at a rate other than the general rate of tax.

"(D) Compensating use taxes.—A compensating use tax in respect of an item shall be treated as a general sales tax. For purposes of the preceding sentence, the term 'compensating use tax' means, in respect of any item, a tax which—

"(i) is imposed on the use, storage, or consumption of such item, and

"(ii) is complementary to a general sales tax, but only if a deduction is allowable under subsection (a)(4) in respect of items sold at retail in the taxing jurisdiction which are similar to such item.

"(3) State or local taxes.—A State or local tax includes only a tax imposed by a State, a possession of the United States, or a political subdivision of any of the foregoing, or by the District of Columbia.

"(4) Foreign taxes.—A foreign tax includes only a tax imposed by the authority of a foreign country.

"(5) Separately stated general sales taxes and gasoline taxes.—If the amount of any general sales tax or of any tax on the sale of gasoline, diesel fuel, or other motor fuel is separately stated, then, to the extent that the amount so stated is paid by the consumer (otherwise than in connection with the consumer's trade or business) to his seller, such amount shall be treated as a tax imposed on, and paid by, such consumer.

"(c) Deduction Denied in Case of Certain Taxes.—No deduction shall be allowed for the following taxes:

"(1) Taxes assessed against local benefits of a kind tending to increase the value of the property assessed; but this paragraph shall not prevent the deduction of so much of such taxes as is properly allocable to maintenance or interest charges.

"(2) Taxes on real property, to the extent that subsection (d) requires such taxes to be treated as imposed on another taxpayer."

(b) Technical Amendments.—

(1) The first sentence of section 164(f) (relating to payments for municipal services in atomic energy communities) is amended by inserting "State" before "real property taxes".

26 USC 164.

26 USC 164.

(2) Section 164(g) (relating to cross references) is amended to read as follows:

"(g) CROSS REFERENCES.—

"(1) For provisions disallowing any deduction for the payment of the tax imposed by subchapter B of chapter 3 (relating to tax-free covenant bonds), see section 1451.

"(2) For provisions disallowing any deduction for certain taxes, see section 275."

(3) (A) Part IX of subchapter B of chapter 1 (relating to items not deductible) is amended by adding at the end thereof the following new section:

"SEC. 275. CERTAIN TAXES.

"(a) GENERAL RULE.—No deduction shall be allowed for the following taxes:

"(1) Federal income taxes, including—

"(A) the tax imposed by section 3101 (relating to the tax on employees under the Federal Insurance Contributions Act);

26 USC 3101 et seq.

26 USC 3201, 3211.

"(B) the taxes imposed by sections 3201 and 3211 (relating to the taxes on railroad employees and railroad employee representatives); and

"(C) the tax withheld at source on wages under section 3402, and corresponding provisions of prior revenue laws.

Post, p. 140.

"(2) Federal war profits and excess profits taxes.

"(3) Estate, inheritance, legacy, succession, and gift taxes.

"(4) Income, war profits, and excess profits taxes imposed by the authority of any foreign country or possession of the United States, if the taxpayer chooses to take to any extent the benefits of section 901 (relating to the foreign tax credit).

26 USC 901.

26 USC 164.

"(5) Taxes on real property, to the extent that section 164(d) requires such taxes to be treated as imposed on another taxpayer.

"(b) CROSS REFERENCE.—

"For disallowance of certain other taxes, see section 164(c)."

(B) The table of sections for such part IX is amended by adding at the end thereof the following:

"Sec. 275. Certain taxes."

26 USC 535.

(4) Paragraph (1) of section 535(b) (relating to adjustments to accumulated taxable income) is amended by striking out "section 164(b)(6)" and inserting in lieu thereof "section 275(a)(4)".

26 USC 545.

(5) The first sentence of paragraph (1) of section 545(b) (relating to adjustments to personal holding company taxable income) is amended by striking out "section 164(b)(6)" and inserting in lieu thereof "section 275(a)(4)".

26 USC 556.

(6) The first sentence of paragraph (1) of section 556(b) (relating to adjustments to foreign personal holding company taxable income) is amended by striking out "section 164 (b)(6)" and inserting in lieu thereof "section 275(a)(4)".

26 USC 901.

(7) Paragraph (1) of section 901(d) (relating to credit for taxes imposed by foreign countries) is amended by striking out "section 164" and inserting in lieu thereof "sections 164 and 275".

26 USC 903.

(8) Section 903 (relating to credit for taxes imposed by a foreign country in lieu of income, etc., taxes) is amended by striking out "section 164(b)" and inserting in lieu thereof "sections 164(a) and 275(a)".

(c) EFFECTIVE DATE.—

(1) GENERAL RULE.—Except as provided in paragraph (2), the amendments made by this section shall apply to taxable years beginning after December 31, 1963.

(2) SPECIAL TAXING DISTRICTS.—Section 164(c)(1) of the Internal Revenue Code of 1954 (as amended by subsection (a)) shall not prevent the deduction under section 164 of such Code (as so amended) of taxes levied by a special taxing district which is described in section 164(b)(5) of such Code (as in effect for a taxable year ending on December 31, 1963) and which was in existence on December 31, 1963, for the purpose of retiring indebtedness existing on such date.

Ante, p. 40.

SEC. 208. PERSONAL CASUALTY AND THEFT LOSSES.

(a) LIMITATION ON AMOUNT OF CASUALTY OR THEFT LOSS DEDUCTION.—Section 165(c)(3) (relating to losses of property not connected with trade or business) is amended to read as follows:

26 USC 165.

"(3) losses of property not connected with a trade or business, if such losses arise from fire, storm, shipwreck, or other casualty, or from theft. A loss described in this paragraph shall be allowed only to the extent that the amount of loss to such individual arising from each casualty, or from each theft, exceeds $100. For purposes of the $100 limitation of the preceding sentence, a husband and wife making a joint return under section 6013 for the taxable year in which the loss is allowed as a deduction shall be treated as one individual. No loss described in this paragraph shall be allowed if, at the time of filing the return, such loss has been claimed for estate tax purposes in the estate tax return."

(b) EFFECTIVE DATE.—The amendment made by subsection (a) shall apply to losses sustained after December 31, 1963, in taxable years ending after such date.

SEC. 209. CHARITABLE, ETC., CONTRIBUTIONS AND GIFTS.

(a) CERTAIN ORGANIZATIONS ADDED TO ADDITIONAL 10-PERCENT CHARITABLE LIMITATION.—Section 170(b)(1)(A) (relating to limitation on amount of deduction for charitable contributions by individuals) is amended by striking out "or" at the end of clause (iii), and by inserting after clause (iv) the following new clauses:

26 USC 170.

"(v) a governmental unit referred to in subsection (c)(1), or

"(vi) an organization referred to in subsection (c)(2) which normally receives a substantial part of its support (exclusive of income received in the exercise or performance by such organization of its charitable, educational, or other purpose or function constituting the basis for its exemption under section 501(a)) from a governmental unit referred to in subsection (c)(1) or from direct or indirect contributions from the general public,".

26 USC 501.

(b) UNLIMITED CHARITABLE CONTRIBUTION DEDUCTION.—Section 170 (relating to charitable, etc., contributions and gifts) is amended by inserting after subsection (f) (added by subsection (e) of this section) the following new subsection:

26 USC 170.

"(g) APPLICATION OF UNLIMITED CHARITABLE CONTRIBUTION DEDUCTION.—

"(1) ALLOWANCE OF DEDUCTION FOR TAXABLE YEARS BEGINNING AFTER DECEMBER 31, 1963.—If the taxable year begins after December 31, 1963—

"(A) subsection (b)(1)(C) shall apply only if the taxpayer so elects (at such time and in such manner as the Secretary or his delegate by regulations prescribes); and

"(B) for purposes of subsection (b)(1)(C), the amount of the charitable contributions for the taxable year (and for all prior taxable years beginning after December 31, 1963) shall be determined without the application of subsection (b)(5) and solely by reference to charitable contributions described in paragraph (2).

If the taxpayer elects to have subsection (b)(1)(C) apply for the taxable year, then for such taxable year subsection (a) shall apply only with respect to charitable contributions described in paragraph (2), and no amount of charitable contributions made in the taxable year or any prior taxable year may be treated under subsection (b)(5) as having been made in the taxable year or in any succeeding taxable year.

"(2) QUALIFIED CONTRIBUTIONS.—The charitable contributions referred to in paragraph (1) are—

"(A) any charitable contribution described in subsection (b)(1)(A);

"(B) any charitable contribution, not described in subsection (b)(1)(A), to an organization described in subsection (c)(2) substantially more than half of the assets of which is devoted directly to, and substantially all of the income of which is expended directly for, the active conduct of the activities constituting the purpose or function for which it is organized and operated;

"(C) any charitable contribution, not described in subsection (b)(1)(A), to an organization described in subsection (c)(2) which meets the requirements of paragraph (3) with respect to such charitable contribution; and

"(D) any charitable contribution payment of which is made on or before the date of the enactment of the Revenue Act of 1964.

"(3) ORGANIZATIONS EXPENDING AT LEAST 50 PERCENT OF DONOR'S CONTRIBUTIONS.—An organization shall be an organization referred to in paragraph (2)(C), with respect to any charitable contribution, only if—

"(A) not later than the close of the third year after the organization's taxable year in which the contribution is received (or before such later time as the Secretary or his delegate may allow upon good cause shown by such organization), such organization expends an amount equal to at least 50 percent of such contribution for—

"(i) the active conduct of the activities constituting the purpose or function for which it is organized and operated,

"(ii) assets which are directly devoted to such active conduct,

"(iii) contributions to organizations which are described in subsection (b)(1)(A) or in paragraph (2)(B) of this subsection, or

"(iv) any combination of the foregoing; and

"(B) for the period beginning with the taxable year in which such contribution is received and ending with the taxable year in which subparagraph (A) is satisfied with respect to such contribution, such organization expends all of its net income (determined without regard to capital gains and losses) for the purposes described in clauses (i), (ii), (iii), and (iv) of subparagraph (A).

If the taxpayer so elects (at such time and in such manner as the Secretary or his delegate by regulations prescribes) with respect

to contributions made by him to any organization, then, in applying subparagraph (B) with respect to contributions made by him to such organization during his taxable year for which such election is made and during all his subsequent taxable years, amounts expended by the organization after the close of any of its taxable years and on or before the 15th day of the third month following the close of such taxable year shall be treated as expended during such taxable year.

"(4) DISQUALIFYING TRANSACTIONS.—An organization shall be an organization referred to in subparagraph (B) or (C) of paragraph (2) only if at no time during the period consisting of the organization's taxable year in which the contribution is received, its 3 preceding taxable years, and its 3 succeeding taxable years, such organization—

"(A) lends any part of its income or corpus to,

"(B) pays compensation (other than reasonable compensation for personal services actually rendered) to,

"(C) makes any of its services available on a preferential basis to,

"(D) purchases more than a minimal amount of securities or other property from, or

"(E) sells more than a minimal amount of securities or other property to,

the donor of such contribution, any member of his family (as defined in section 267(c)(4)), any employee of the donor, any officer or employee of a corporation in which he owns (directly or indirectly) 50 percent or more in value of the outstanding stock, or any partner or employee of a partnership in which he owns (directly or indirectly) 50 percent or more of the capital interest or profits interest. This paragraph shall not apply to transactions occurring on or before the date of the enactment of the Revenue Act of 1964."

26 USC 267.

(c) 5-YEAR CARRYOVER OF CERTAIN CHARITABLE CONTRIBUTIONS MADE BY INDIVIDUALS.—

(1) IN GENERAL.—Section 170(b) (relating to limitations on amount of deduction for charitable contributions) is amended by adding at the end thereof the following new paragraph:

26 USC 170.

"(5) CARRYOVER OF CERTAIN EXCESS CONTRIBUTIONS BY INDIVIDUALS.—

"(A) In the case of an individual, if the amount of charitable contributions described in paragraph (1)(A) payment of which is made within a taxable year (hereinafter in this paragraph referred to as the 'contribution year') beginning after December 31, 1963, exceeds 30 percent of the taxpayer's adjusted gross income for such year (computed without regard to any net operating loss carryback to such year under section 172), such excess shall be treated as a charitable contribution described in paragraph (1)(A) paid in each of the 5 succeeding taxable years in order of time, but, with respect to any such succeeding taxable year, only to the extent of the lesser of the two following amounts:

26 USC 172.

"(i) the amount by which 30 percent of the taxpayer's adjusted gross income for such succeeding taxable year (computed without regard to any net operating loss carryback to such succeeding taxable year under section 172) exceeds the sum of the charitable contributions described in paragraph (1)(A) payment of which is made by the taxpayer within such succeeding taxable year (determined without regard to this subparagraph)

and the charitable contributions described in paragraph (1)(A) payment of which was made in taxable years (beginning after December 31, 1963) before the contribution year which are treated under this subparagraph as having been paid in such succeeding taxable year; or

"(ii) in the case of the first succeeding taxable year, the amount of such excess, and in the case of the second, third, fourth, or fifth succeeding taxable year, the portion of such excess not treated under this subparagraph as a charitable contribution described in paragraph (1)(A) paid in any taxable year intervening between the contribution year and such succeeding taxable year.

"(B) In applying subparagraph (A), the excess determined under subparagraph (A) for the contribution year shall be reduced to the extent that such excess reduces taxable income (as computed for purposes of the second sentence of section 172(b)(2)) and increases the net operating loss deduction for a taxable year succeeding the contribution year."

26 USC 172.

(2) TECHNICAL AMENDMENTS.—Sections 545(b)(2) (relating to deductions for charitable contributions by personal holding companies) and 556(b)(2) (relating to deductions for charitable contributions by foreign personal holding companies) are each amended by striking out "section 170(b)(2)" and inserting in lieu thereof "section 170(b)(2) and (5)".

26 USC 545.
26 USC 556.

(d) 5-YEAR CARRYOVER OF CERTAIN CHARITABLE CONTRIBUTIONS MADE BY CORPORATIONS.—

(1) IN GENERAL.—Section 170(b)(2) (relating to limitation on amount of deduction for charitable contributions by corporations) is amended by striking out the sentence following subparagraph (D) and inserting in lieu thereof the following:

26 USC 170.

"Any contribution made by a corporation in a taxable year (hereinafter in this sentence referred to as the 'contribution year') in excess of the amount deductible for such year under the preceding sentence shall be deductible for each of the 5 succeeding taxable years in order of time, but only to the extent of the lesser of the two following amounts: (i) the excess of the maximum amount deductible for such succeeding taxable year under the preceding sentence over the sum of the contributions made in such year plus the aggregate of the excess contributions which were made in taxable years before the contribution year and which are deductible under this sentence for such succeeding taxable year; or (ii) in the case of the first succeeding taxable year, the amount of such excess contribution, and in the case of the second, third, fourth, or fifth succeeding taxable year, the portion of such excess contribution not deductible under this sentence for any taxable year intervening between the contribution year and such succeeding taxable year."

(2) CARRYOVERS IN CERTAIN CORPORATE ACQUISITIONS.—Paragraph (19) of section 381(c) (relating to items of distributor or transferor corporation) is amended to read as follows:

26 USC 381.

"(19) CHARITABLE CONTRIBUTIONS IN EXCESS OF PRIOR YEARS' LIMITATIONS.—Contributions made in the taxable year ending on the date of distribution or transfer and the 4 prior taxable years by the distributor or transferor corporation in excess of the amount deductible under section 170(b)(2) for such taxable years shall be deductible by the acquiring corporation for its taxable years which begin after the date of distribution or transfer, subject to the limitations imposed in section 170(b)(2). In applying the preceding sentence, each taxable year

of the distributor or transferor corporation beginning on or before the date of distribution or transfer shall be treated as a prior taxable year with reference to the acquiring corporation's taxable years beginning after such date."

(e) FUTURE INTERESTS IN TANGIBLE PERSONAL PROPERTY.—Section 170 (relating to charitable, etc., contributions and gifts) is amended by redesignating subsections (f) and (g) as subsections (h) and (i), respectively, and by inserting after subsection (e) the following new subsection:

26 USC 170.

"(f) FUTURE INTERESTS IN TANGIBLE PERSONAL PROPERTY.—For purposes of this section, payment of a charitable contribution which consists of a future interest in tangible personal property shall be treated as made only when all intervening interests in, and rights to the actual possession or enjoyment of, the property have expired or are held by persons other than the taxpayer or those standing in a relationship to the taxpayer described in section 267(b). For purposes of the preceding sentence, a fixture which is intended to be severed from the real property shall be treated as tangible personal property."

26 USC 267.

(f) EFFECTIVE DATES.—

(1) The amendments made by subsections (a), (b), and (c), shall apply with respect to contributions which are paid in taxable years beginning after December 31, 1963.

(2) The amendments made by subsection (d) shall apply to taxable years beginning after December 31, 1963, with respect to contributions which are paid (or treated as paid under section 170(a)(2) of the Internal Revenue Code of 1954) in taxable years beginning after December 31, 1961.

(3) The amendments made by subsection (e) shall apply to transfers of future interests made after December 31, 1963, in taxable years ending after such date, except that such amendments shall not apply to any transfer of a future interest made before July 1, 1964, where—

(A) the sole intervening interest or right is a nontransferable life interest reserved by the donor, or

(B) in the case of a joint gift by husband and wife, the sole intervening interest or right is a nontransferable life interest reserved by the donors which expires not later than the death of whichever of such donors dies later.

For purposes of the exception contained in the preceding sentence, a right to make a transfer of the reserved life interest to the donee of the future interest shall not be treated as making a life interest transferable.

SEC. 210. LOSSES ARISING FROM EXPROPRIATION OF PROPERTY BY GOVERNMENTS OF FOREIGN COUNTRIES.

(a) NET OPERATING LOSS CARRYOVER.—Section 172 (relating to net operating loss deduction) is amended—

26 USC 172.

(1) by striking out "Except as provided in clause (ii)" in subsection (b)(1)(A)(i) and inserting in lieu thereof "Except as provided in clause (ii) and in subparagraph (D)";

(2) by striking out "Except as provided in subparagraph (C)" in subsection (b)(1)(B) and inserting in lieu thereof "Except as provided in subparagraphs (C) and (D)";

(3) by adding at the end of subsection (b)(1) the following new subparagraph:

"(D) In the case of a taxpayer which has a foreign expropriation loss (as defined in subsection (k)) for any taxable year ending after December 31, 1958, the portion of the net operating loss for such year attributable to such foreign ex-

Post, p. 48.

propriation loss shall not be a net operating loss carryback to any taxable year preceding the taxable year of such loss and shall be a net operating loss carryover to each of the 10 taxable years following the taxable year of such loss.";

(4) by adding at the end of subsection (b)(3) the following new subparagraphs:

"(C) Paragraph (1)(D) shall apply only if—

"(i) the foreign expropriation loss (as defined in subsection (k)) for the taxable year equals or exceeds 50 percent of the net operating loss for the taxable year,

"(ii) in the case of a foreign expropriation loss for a taxable year ending after December 31, 1963, the taxpayer elects (at such time and in such manner as the Secretary or his delegate by regulations prescribes) to have paragraph (1)(D) apply, and

"(iii) in the case of a foreign expropriation loss for a taxable year ending after December 31, 1958, and before January 1, 1964, the taxpayer elects (in such manner as the Secretary or his delegate by regulations prescribes) on or before December 31, 1965, to have paragraph (1)(D) apply.

"(D) If a taxpayer makes an election under subparagraph (C)(iii), then (notwithstanding any law or rule of law), with respect to any taxable year ending before January 1, 1964, affected by the election—

26 USC 901-905.

"(i) the time for making or changing any choice or election under subpart A of part III of subchapter N (relating to foreign tax credit) shall not expire before January 1, 1966,

"(ii) any deficiency attributable to the election under subparagraph (C)(iii) or to the application of clause (i) of this subparagraph may be assessed at any time before January 1, 1969, and

"(iii) refund or credit of any overpayment attributable to the election under subparagraph (C)(iii) or to the application of clause (i) of this subparagraph may be made or allowed if claim therefor is filed before January 1, 1969.";

(5) by redesignating subsection (k) as (l), and by inserting after subsection (j) the following new subsection:

"(k) FOREIGN EXPROPRIATION LOSS DEFINED.—For purposes of subsection (b)—

"(1) The term 'foreign expropriation loss' means, for any taxable year, the sum of the losses sustained by reason of the expropriation, intervention, seizure, or similar taking of property by the government of any foreign country, any political subdivision thereof, or any agency or instrumentality of the foregoing. For purposes of the preceding sentence, a debt which becomes worthless shall, to the extent of any deduction allowed under section 166(a), be treated as a loss.

"(2) The portion of the net operating loss for any taxable year attributable to a foreign expropriation loss is the amount of the foreign expropriation loss for such year (but not in excess of the net operating loss for such year)."

26 USC 172.

(b) TECHNICAL AMENDMENTS.—Section 172(b)(2) is amended—

(1) by striking out subparagraph (B) and inserting in lieu thereof the following:

"(B) by determining the amount of the net operating loss deduction—

"(i) without regard to the net operating loss for the loss year or for any taxable year thereafter, and

"(ii) without regard to that portion, if any, of a net operating loss for a taxable year attributable to a foreign expropriation loss, if such portion may not, under paragraph (1)(D), be carried back to such prior taxable year,"; and

(2) by adding at the end thereof the following new sentence: "For purposes of this paragraph, if a portion of the net operating loss for the loss year is attributable to a foreign expropriation loss to which paragraph (1)(D) applies, such portion shall be considered to be a separate net operating loss for such year to be applied after the other portion of such net operating loss."

(c) Effective Date.—The amendments made by this section shall apply in respect of foreign expropriation losses (as defined in section 172(k) of the Internal Revenue Code of 1954, as amended by subsection (a)(5) of this section), sustained in taxable years ending after December 31, 1958.

Ante, p. 48.

SEC. 211. ONE-PERCENT LIMITATION ON MEDICINE AND DRUGS.

(a) General Rule.—Subsection (b) of section 213 (relating to medical, dental, etc., expenses) is amended by adding at the end thereof the following new sentence: "The preceding sentence shall not apply to amounts paid for the care of—

26 USC 213.

"(1) the taxpayer and his spouse, if either of them has attained the age of 65 before the close of the taxable year, or

"(2) any dependent described in subsection (a)(1)(A)."

(b) Effective Date.—The amendment made by subsection (a) shall apply to taxable years beginning after December 31, 1963.

SEC. 212. CARE OF DEPENDENTS.

(a) Child Care Allowance.—Section 214 (relating to expenses for care of certain dependents) is amended to read as follows:

26 USC 214.

"SEC. 214. EXPENSES FOR CARE OF CERTAIN DEPENDENTS.

"(a) General Rule.—There shall be allowed as a deduction expenses paid during the taxable year by a taxpayer who is a woman or widower, or is a husband whose wife is incapacitated or is institutionalized, for the care of one or more dependents (as defined in subsection (d)(1)), but only if such care is for the purpose of enabling the taxpayer to be gainfully employed.

"(b) Limitations.—

"(1) Dollar limit.—

"(A) Except as provided in subparagraph (B), the deduction under subsection (a) shall not exceed $600 for any taxable year.

"(B) The $600 limit of subparagraph (A) shall be increased (to an amount not above $900) by the amount of expenses incurred by the taxpayer for any period during which the taxpayer had 2 or more dependents.

"(2) Working wives and husbands with incapacitated wives.—In the case of a woman who is married and in the case of a husband whose wife is incapacitated, the deduction under subsection (a)—

"(A) shall not be allowed unless the taxpayer and his spouse file a joint return for the taxable year, and

"(B) shall be reduced by the amount (if any) by which the adjusted gross income of the taxpayer and his spouse exceeds $6,000.

This paragraph shall not apply, in the case of a woman who is married, to expenses incurred while her husband is incapable of

self-support because mentally or physically defective, or, in the case of a husband whose wife is incapacitated, to expenses incurred while his wife is institutionalized if such institutionalization is for a period of at least 90 consecutive days (whether or not within one taxable year) or a shorter period if terminated by her death.

"(3) CERTAIN PAYMENTS NOT TAKEN INTO ACCOUNT.—Subsection (a) shall not apply to any amount paid to an individual with respect to whom the taxpayer is allowed for his taxable year a deduction under section 151 (relating to deductions for personal exemptions).

26 USC 151.

"(c) SPECIAL RULE WHERE WIFE IS INCAPACITATED OR INSTITUTIONALIZED.—In the case of a husband whose wife is incapacitated or is institutionalized, the deduction under subsection (a) shall be allowed only for expenses incurred while the wife was incapacitated or institutionalized (as the case may be) for a period of at least 90 consecutive days (whether or not within one taxable year) or a shorter period if terminated by her death.

"(d) DEFINITIONS.—For purposes of this section—

"(1) DEPENDENT.—The term 'dependent' means a person with respect to whom the taxpayer is entitled to an exemption under section 151(e)(1)—

"(A) who has not attained the age of 13 years and who (within the meaning of section 152) is a son, stepson, daughter, or stepdaughter of the taxpayer; or

26 USC 152.

"(B) who is physically or mentally incapable of caring for himself.

"(2) WIDOWER.—The term 'widower' includes an unmarried individual who is legally separated from his spouse under a decree of divorce or of separate maintenance.

"(3) INCAPACITATED WIFE.—A wife shall be considered incapacitated only (A) while she is incapable of caring for herself because mentally or physically defective, or (B) while she is institutionalized.

"(4) INSTITUTIONALIZED WIFE.—A wife shall be considered institutionalized only while she is, for the purpose of receiving medical care or treatment, an inpatient, resident, or inmate of a public or private hospital, sanitarium, or other similar institution.

"(5) DETERMINATION OF STATUS.—A woman shall not be considered as married if—

"(A) she is legally separated from her spouse under a decree of divorce or of separate maintenance at the close of the taxable year, or

"(B) she has been deserted by her spouse, does not know his whereabouts (and has not known his whereabouts at any time during the taxable year), and has applied to a court of competent jurisdiction for appropriate process to compel him to pay support or otherwise to comply with the law or a judicial order, as determined under regulations prescribed by the Secretary or his delegate."

(b) EFFECTIVE DATE.—The amendment made by subsection (a) shall apply to taxable years beginning after December 31, 1963.

SEC. 213. MOVING EXPENSES.

(a) DEDUCTION ALLOWED FOR MOVING EXPENSES.—

(1) Part VII of subchapter B of chapter 1 (relating to additional itemized deductions for individuals) is amended by redesignating section 217 as section 218 and by inserting after section 216 the following new section:

"SEC. 217. MOVING EXPENSES.

"(a) DEDUCTION ALLOWED.—There shall be allowed as a deduction moving expenses paid or incurred during the taxable year in connection with the commencement of work by the taxpayer as an employee at a new principal place of work.

"(b) DEFINITION OF MOVING EXPENSES.—

"(1) IN GENERAL.—For purposes of this section, the term 'moving expenses' means only the reasonable expenses—

"(A) of moving household goods and personal effects from the former residence to the new residence, and

"(B) of traveling (including meals and lodging) from the former residence to the new place of residence.

"(2) INDIVIDUALS OTHER THAN TAXPAYER.—In the case of any individual other than the taxpayer, expenses referred to in paragraph (1) shall be taken into account only if such individual has both the former residence and the new residence as his principal place of abode and is a member of the taxpayer's household.

"(c) CONDITIONS FOR ALLOWANCE.—No deduction shall be allowed under this section unless—

"(1) the taxpayer's new principal place of work—

"(A) is at least 20 miles farther from his former residence than was his former principal place of work, or

"(B) if he had no former principal place of work, is at least 20 miles from his former residence, and

"(2) during the 12-month period immediately following his arrival in the general location of his new principal place of work, the taxpayer is a full-time employee, in such general location, during at least 39 weeks.

"(d) RULES FOR APPLICATION OF SUBSECTION (c)(2).—

"(1) Subsection (c)(2) shall not apply to any item to the extent that the taxpayer receives reimbursement or other expense allowance from his employer for such item.

"(2) If a taxpayer has not satisfied the condition of subsection (c)(2) before the time prescribed by law (including extensions thereof) for filing the return for the taxable year during which he paid or incurred moving expenses which would otherwise be deductible under this section, but may still satisfy such condition, then such expenses may (at the election of the taxpayer) be deducted for such taxable year notwithstanding subsection (c)(2).

"(3) If—

"(A) for any taxable year moving expenses have been deducted in accordance with the rule provided in paragraph (2), and

"(B) the condition of subsection (c)(2) is not satisfied by the close of the subsequent taxable year,

then an amount equal to the expenses which were so deducted shall be included in gross income for such subsequent taxable year.

"(e) DISALLOWANCE OF DEDUCTION WITH RESPECT TO REIMBURSEMENTS NOT INCLUDED IN GROSS INCOME.—No deduction shall be allowed under this section for any item to the extent that the taxpayer receives reimbursement or other expense allowance for such item which is not included in his gross income.

"(f) REGULATIONS.—The Secretary or his delegate shall prescribe such regulations as may be necessary to carry out the purposes of this section."

(2) The table of sections for part VII of subchapter B of chapter 1 is amended by striking out—

"Sec. 217. Cross references."

and inserting in lieu thereof the following:

"Sec. 217. Moving expenses.
"Sec. 218. Cross references."

26 USC 62.

(b) ADJUSTED GROSS INCOME.—Section 62 (defining adjusted gross income) is amended by inserting after paragraph (7) the following new paragraph:

"(8) MOVING EXPENSE DEDUCTION.—The deduction allowed by section 217."

Ante, p. 51.

(c) WITHHOLDING.—Section 3401(a) (relating to definition of "wages") is amended by adding after paragraph (14) (added by section 204(b) of this Act) the following new paragraph:

Ante, p. 36.

"(15) to or on behalf of an employee if (and to the extent that) at the time of the payment of such remuneration it is reasonable to believe that a corresponding deduction is allowable under section 217."

(d) EFFECTIVE DATES.—The amendments made by subsections (a) and (b) shall apply to expenses incurred after December 31, 1963, in taxable years ending after such date. The amendment made by subsection (c) shall apply with respect to remuneration paid after the seventh day following the date of the enactment of this Act.

SEC. 214. 100 PERCENT DIVIDENDS RECEIVED DEDUCTION FOR MEMBERS OF ELECTING AFFILIATED GROUPS.

26 USC 243.

(a) 100 PERCENT DIVIDENDS RECEIVED DEDUCTION.—Section 243 (relating to dividends received by corporations) is amended to read as follows:

"SEC. 243. DIVIDENDS RECEIVED BY CORPORATIONS.

"(a) GENERAL RULE.—In the case of a corporation, there shall be allowed as a deduction an amount equal to the following percentages of the amount received as dividends from a domestic corporation which is subject to taxation under this chapter:

"(1) 85 percent, in the case of dividends other than dividends described in paragraph (2) or (3);

"(2) 100 percent, in the case of dividends received by a small business investment company operating under the Small Business Investment Act of 1958; and

72 Stat. 689.
15 USC 661 note.

"(3) 100 percent, in the case of qualifying dividends (as defined in subsection (b)(1)).

"(b) QUALIFYING DIVIDENDS.—

"(1) DEFINITION.—For purposes of subsection (a)(3), the term 'qualifying dividends' means dividends received by a corporation which, at the close of the day the dividends are received, is a member of the same affiliated group of corporations (as defined in paragraph (5)) as the corporation distributing the dividends, if—

"(A) such affiliated group has made an election under paragraph (2) which is effective for the taxable years of its members which include such day, and

"(B) such dividends are distributed out of earnings and profits of a taxable year of the distributing corporation ending after December 31, 1963—

"(i) on each day of which the distributing corporation and the corporation receiving the dividends were members of such affiliated group, and

Post, p. 117.

"(ii) for which an election under section 1562 (relating to election of multiple surtax exemptions) is not effective.

"(2) ELECTION.—An election under this paragraph shall be made for an affiliated group by the common parent corporation, and shall be made for any taxable year of the common parent corporation at such time and in such manner as the Secretary or his delegate by regulations prescribes. Such election may not be made for an affiliated group for any taxable year of the common parent corporation for which an election under section 1562 is effective. Each corporation which is a member of such group at any time during its taxable year which includes the last day of such taxable year of the common parent corporation must consent to such election at such time and in such manner as the Secretary or his delegate by regulations prescribes. An election under this paragraph shall be effective—

Post, p. 117.

"(A) for the taxable year of each member of such affiliated group which includes the last day of the taxable year of the common parent corporation with respect to which the election is made (except that in the case of a taxable year of a member beginning in 1963 and ending in 1964, if the election is effective for the taxable year of the common parent corporation which includes the last day of such taxable year of such member, such election shall be effective for such taxable year of such member, if such member consents to such election with respect to such taxable year), and

"(B) for the taxable year of each member of such affiliated group which ends after the last day of such taxable year of the common parent corporation but which does not include such date, unless the election is terminated under paragraph (4).

"(3) EFFECT OF ELECTION.—If an election by an affiliated group is effective with respect to a taxable year of the common parent corporation, then under regulations prescribed by the Secretary or his delegate—

"(A) no member of such affiliated group may consent to an election under section 1562 for such taxable year,

"(B) the members of such affiliated group shall be treated as one taxpayer for purposes of making the elections under section 901(a) (relating to allowance of foreign tax credit) and section 904(b)(1) (relating to election of overall limitation), and

26 USC 901.
26 USC 904.

"(C) the members of such affiliated group shall be limited to one—

"(i) $100,000 minimum accumulated earnings credit under section 535(c) (2) or (3),

26 USC 535.

"(ii) $100,000 limitation for exploration expenditures under section 615 (a) and (b),

26 USC 615.

"(iii) $400,000 limitation for exploration expenditures under section 615(c)(1),

"(iv) $25,000 limitation on small business deduction of life insurance companies under sections 804(a)(4) and 809(d)(10), and

26 USC 804.
26 USC 809.

"(v) $100,000 exemption for purposes of estimated tax filing requirements under section 6016 and the addition to tax under section 6655 for failure to pay estimated tax.

26 USC 6016.
26 USC 6655.

"(4) TERMINATION.—An election by an affiliated group under paragraph (2) shall terminate with respect to the taxable year of the common parent corporation and with respect to the taxable years of the members of such affiliated group which include the last day of such taxable year of the common parent corporation if—

"(A) CONSENT OF MEMBERS.—Such affiliated group files a termination of such election (at such time and in such manner as the Secretary or his delegate by regulations prescribes) with respect to such taxable year of the common parent corporation, and each corporation which is a member of such affiliated group at any time during its taxable year which includes the last day of such taxable year of the common parent corporation consents to such termination, or

"(B) REFUSAL BY NEW MEMBER TO CONSENT.—During such taxable year of the common parent corporation such affiliated group includes a member which—

"(i) was not a member of such group during such common parent corporation's immediately preceding taxable year, and

"(ii) such member files a statement that it does not consent to the election at such time and in such manner as the Secretary or his delegate by regulations prescribes.

"(5) DEFINITION OF AFFILIATED GROUP.—For purposes of this subsection, the term 'affiliated group' has the meaning assigned to it by section 1504(a), except that for such purposes sections 1504(b)(2) and 1504(c) shall not apply.

26 USC 1504.

"(6) SPECIAL RULES FOR INSURANCE COMPANIES.—If an election under this subsection is effective for the taxable year of an insurance company subject to taxation under section 802 or 821—

26 USC 802.
Ante, p. 29.
Post, p. 120.

"(A) part II of subchapter B of chapter 6 (relating to certain controlled corporations) shall be applied without regard to section 1563(a)(4) (relating to certain insurance companies) and section 1563(b)(2)(D) (relating to certain excluded members) with respect to such company and the other corporations which are members of the controlled group of corporations (as determined under section 1563 without regard to subsections (a)(4) and (b)(2)(D)) of which such company is a member, and

"(B) for purposes of paragraph (1), a distribution by such company out of earnings and profits of a taxable year for which an election under this subsection was not effective, and for which such company was not a component member of a controlled group of corporations within the meaning of section 1563 solely by reason of section 1563(b)(2)(D), shall not be a qualifying dividend.

"(c) SPECIAL RULES FOR CERTAIN DISTRIBUTIONS.—For purposes of subsection (a)—

26 USC 591.

"(1) Any amount allowed as a deduction under section 591 (relating to deduction for dividends paid by mutual savings banks, etc.) shall not be treated as a dividend.

"(2) A dividend received from a regulated investment company shall be subject to the limitations prescribed in section 854.

Ante, p. 32; post, p. 99.

"(3) Any dividend received from a real estate investment trust which, for the taxable year of the trust in which the dividend is paid, qualifies under part II of subchapter M (section 856 and following) shall not be treated as a dividend.

26 USC 856-858.

"(4) Any dividend received which is described in section 244 (relating to dividends received on preferred stock of a public utility) shall not be treated as a dividend.

26 USC 244.

"(d) CERTAIN DIVIDENDS FROM FOREIGN CORPORATIONS.—For purposes of subsection (a) and for purposes of section 245, any dividend from a foreign corporation from earnings and profits accumulated by a domestic corporation during a period with respect to which such domestic corporation was subject to taxation under this chapter

26 USC 245.

(or corresponding provisions of prior law) shall be treated as a dividend from a domestic corporation which is subject to taxation under this chapter."

(b) TECHNICAL AMENDMENTS.—

(1) Section 244 (relating to dividends received on certain preferred stock) is amended by inserting "(a) GENERAL RULE.—" before "In case of a corporation," and by adding at the end thereof the following new subsection: 26 USC 244.

"(b) EXCEPTION.—If the dividends described in subsection (a)(1) are qualifying dividends (as defined in section 243(b)(1), but determined without regard to section 243(c)(4))—

"(1) subsection (a) shall be applied separately to such qualifying dividends, and Ante, p. 52.

"(2) for purposes of subsection (a)(3), the percentage applicable to such qualifying dividends shall be 100 percent in lieu of 85 percent."

(2) Section 246(b) (relating to limitation on aggregate amount of deductions for dividends received) is amended by striking out "243(a), 244," each place it appears therein and inserting in lieu thereof "243(a)(1), 244(a),". 26 USC 246.

(3) Section 804(a)(5) (relating to the application of section 246(b) to taxable investment income of life insurance companies) is amended by striking out "243(a), 244," and inserting in lieu thereof "243(a)(1), 244(a),". 26 USC 804.

(4) Section 809(d)(8)(B) (relating to the application of section 246(b) to the life insurance company's share of certain dividends) is amended by striking out "243(a), 244," each place it appears therein and inserting in lieu thereof "243(a)(1), 244(a),". 26 USC 809.

(c) EFFECTIVE DATE.—The amendments made by subsections (a) and (b) shall apply with respect to dividends received in taxable years ending after December 31, 1963.

SEC. 215. INTEREST ON LOANS INCURRED TO PURCHASE CERTAIN INSURANCE AND ANNUITY CONTRACTS.

(a) DISALLOWANCE OF INTEREST DEDUCTION.—Section 264(a) (relating to certain amounts paid in connection with insurance contracts) is amended— 26 USC 264.

(1) by inserting after paragraph (2) the following new paragraph:

"(3) Except as provided in subsection (c), any amount paid or accrued on indebtedness incurred or continued to purchase or carry a life insurance, endowment, or annuity contract (other than a single premium contract or a contract treated as a single premium contract) pursuant to a plan of purchase which contemplates the systematic direct or indirect borrowing of part or all of the increases in the cash value of such contract (either from the insurer or otherwise)."

(2) by adding at the end thereof the following new sentence: "Paragraph (3) shall apply only in respect of contracts purchased after August 6, 1963."

(b) EXCEPTIONS.—Section 264 is amended by adding at the end thereof the following new subsection:

"(c) EXCEPTIONS.—Subsection (a)(3) shall not apply to any amount paid or accrued by a person during a taxable year on indebtedness incurred or continued as part of a plan referred to in subsection (a)(3)—

"(1) if no part of 4 of the annual premiums due during the 7-year period (beginning with the date the first premium on the

contract to which such plan relates was paid) is paid under such plan by means of indebtedness,

"(2) if the total of the amounts paid or accrued by such person during such taxable year for which (without regard to this paragraph) no deduction would be allowable by reason of subsection (a)(3) does not exceed $100,

"(3) if such amount was paid or accrued on indebtedness incurred because of an unforeseen substantial loss of income or unforeseen substantial increase in his financial obligations, or

"(4) if such indebtedness was incurred in connection with his trade or business.

For purposes of applying paragraph (1), if there is a substantial increase in the premiums on a contract, a new 7-year period described in such paragraph with respect to such contract shall commence on the date the first such increased premium is paid."

(c) Effective Date.—The amendments made by this section shall apply with respect to amounts paid or accrued in taxable years beginning after December 31, 1963.

SEC. 216. INTEREST ON INDEBTEDNESS INCURRED OR CONTINUED TO PURCHASE OR CARRY TAX-EXEMPT BONDS.

26 USC 265.

(a) Application With Respect to Certain Financial Institutions.—Section 265 (relating to expenses and interest relating to tax-exempt income) is amended by adding at the end of paragraph (2) the following new sentence: "In applying the preceding sentence to a financial institution (other than a bank) which is a face-amount certificate company registered under the Investment Company Act of 1940 (15 U.S.C. 80a–1 and following) and which is subject to the banking laws of the State in which such institution is incorporated, interest on face-amount certificates (as defined in section 2(a)(15) of such Act) issued by such institution, and interest on amounts received for the purchase of such certificates to be issued by such institution, shall not be considered as interest on indebtedness incurred or continued to purchase or carry obligations the interest on which is wholly exempt from the taxes imposed by this subtitle, to the extent that the average amount of such obligations held by such institution during the taxable year (as determined under regulations prescribed by the Secretary or his delegate) does not exceed 15 percent of the average of the total assets held by such institution during the taxable year (as so determined)."

54 Stat. 789.

15 USC 80a-2.

(b) Effective Date.—The amendment made by subsection (a) shall apply with respect to taxable years ending after the date of the enactment of this Act.

SEC. 217. LIMITATION OF TRAVEL ALLOCATION REQUIREMENT TO FOREIGN TRAVEL.

26 USC 274.

(a) Limitation of Application of Section 274(c).—Section 274 (c) (relating to traveling) is amended to read as follows:

"(c) Certain Foreign Travel.—

"(1) In general.—In the case of any individual who travels outside the United States away from home in pursuit of a trade or business or in pursuit of an activity described in section 212, no deduction shall be allowed under section 162 or section 212 for that portion of the expenses of such travel otherwise allowable under such section which, under regulations prescribed by the Secretary or his delegate, is not allocable to such trade or business or to such activity.

26 USC 212.
26 USC 162.

"(2) EXCEPTION.—Paragraph (1) shall not apply to the expenses of any travel outside the United States away from home if—

"(A) such travel does not exceed one week, or

"(B) the portion of the time of travel outside the United States away from home which is not attributable to the pursuit of the taxpayer's trade or business or an activity described in section 212 is less than 25 percent of the total time on such travel.

26 USC 212.

"(3) DOMESTIC TRAVEL EXCLUDED.—For purposes of this subsection, travel outside the United States does not include any travel from one point in the United States to another point in the United States."

(b) EFFECTIVE DATE.—The amendment made by subsection (a) shall apply with respect to taxable years ending after December 31, 1962, but only in respect of periods after such date.

SEC. 218. ACQUISITION OF STOCK IN EXCHANGE FOR STOCK OF CORPORATION WHICH IS IN CONTROL OF ACQUIRING CORPORATION.

(a) DEFINITION OF REORGANIZATION.—Section 368(a)(1) (relating to definition of reorganization) is amended by inserting after "voting stock" in subparagraph (B) "(or in exchange solely for all or a part of the voting stock of a corporation which is in control of the acquiring corporation)".

26 USC 368.

(b) TECHNICAL AMENDMENTS.—

(1) Section 368(a)(2)(C) (relating to special rules) is amended to read as follows:

"(C) TRANSFERS OF ASSETS OR STOCK TO SUBSIDIARIES IN CERTAIN PARAGRAPH (1)(A), (1)(B), AND (1)(C) CASES.—A transaction otherwise qualifying under paragraph (1)(A), (1)(B), or (1)(C) shall not be disqualified by reason of the fact that part or all of the assets or stock which were acquired in the transaction are transferred to a corporation controlled by the corporation acquiring such assets or stock."

(2) Section 368(b) (relating to definition of party to a reorganization) is amended by striking out the last two sentences and inserting in lieu thereof the following: "In the case of a reorganization qualifying under paragraph (1)(B) or (1)(C) of subsection (a), if the stock exchanged for the stock or properties is stock of a corporation which is in control of the acquiring corporation, the term 'a party to a reorganization' includes the corporation so controlling the acquiring corporation. In the case of a reorganization qualifying under paragraph (1)(A), (1)(B), or (1)(C) of subsection (a) by reason of paragraph (2)(C) of subsection (a), the term 'a party to a reorganization' includes the corporation controlling the corporation to which the acquired assets or stock are transferred."

(c) EFFECTIVE DATE.—The amendments made by this section shall apply with respect to transactions after December 31, 1963, in taxable years ending after such date.

SEC. 219. RETROACTIVE QUALIFICATION OF CERTAIN UNION-NEGOTIATED MULTIEMPLOYER PENSION PLANS.

(a) BEGINNING OF PERIOD AS QUALIFIED TRUST.—Section 401 (relating to qualified pension, profit-sharing, and stock bonus plans) is amended by redesignating subsection (i) as subsection (j), and by inserting after subsection (h) the following new subsection:

26 USC 401.

"(i) CERTAIN UNION-NEGOTIATED MULTIEMPLOYER PENSION PLANS.—In the case of a trust forming part of a pension plan which

has been determined by the Secretary or his delegate to constitute a qualified trust under subsection (a) and to be exempt from taxation under section 501(a) for a period beginning after contributions were first made to or for such trust, if it is shown to the satisfaction of the Secretary or his delegate that—

26 USC 501.

"(1) such trust was created pursuant to a collective bargaining agreement between employee representatives and two or more employers who are not related (determined under regulations prescribed by the Secretary or his delegate),

"(2) any disbursements of contributions, made to or for such trust before the time as of which the Secretary or his delegate determined that the trust constituted a qualified trust, substantially complied with the terms of the trust, and the plan of which the trust is a part, as subsequently qualified, and

"(3) before the time as of which the Secretary or his delegate determined that the trust constitutes a qualified trust, the contributions to or for such trust were not used in a manner which would jeopardize the interests of its beneficiaries,

then such trust shall be considered as having constituted a qualified trust under subsection (a) and as having been exempt from taxation under section 501(a) for the period beginning on the date on which contributions were first made to or for such trust and ending on the date such trust first constituted (without regard to this subsection) a qualified trust under subsection (a)."

(b) Effective Date.—The amendments made by subsection (a) shall apply with respect to taxable years beginning after December 31, 1953, and ending after August 16, 1954, but only with respect to contributions made after December 31, 1954.

SEC. 220. QUALIFIED PENSION, ETC., PLAN COVERAGE FOR EMPLOYEES OF CERTAIN SUBSIDIARY EMPLOYERS.

(a) Employees of Foreign Subsidiaries Covered by Social Security Agreements.—Part I of subchapter D of chapter 1 (relating to pension, profit-sharing, stock bonus plans, etc.) is amended by adding at the end thereof the following new section:

26 USC 401-405.

"SEC. 406. CERTAIN EMPLOYEES OF FOREIGN SUBSIDIARIES.

"(a) Treatment as Employees of Domestic Corporation.—For purposes of applying this part with respect to a pension, profit-sharing, or stock bonus plan described in section 401(a), an annuity plan described in section 403(a), or a bond purchase plan described in section 405(a), of a domestic corporation, an individual who is a citizen of the United States and who is an employee of a foreign subsidiary (as defined in section 3121(l)(8)) of such domestic corporation shall be treated as an employee of such domestic corporation, if—

26 USC 401.
26 USC 403.
26 USC 405.
26 USC 3121.

"(1) such domestic corporation has entered into an agreement under section 3121(l) which applies to the foreign subsidiary of which such individual is an employee;

"(2) the plan of such domestic corporation expressly provides for contributions or benefits for individuals who are citizens of the United States and who are employees of its foreign subsidiaries to which an agreement entered into by such domestic corporation under section 3121(l) applies; and

"(3) contributions under a funded plan of deferred compensation (whether or not a plan described in section 401(a), 403(a), or 405(a)) are not provided by any other person with respect to the remuneration paid to such individual by the foreign subsidiary.

"(b) SPECIAL RULES FOR APPLICATION OF SECTION 401(a).—

"(1) NONDISCRIMINATION REQUIREMENTS.—For purposes of applying paragraphs (3)(B) and (4) of section 401(a) with respect to an individual who is treated as an employee of a domestic corporation under subsection (a)—

26 USC 401.

"(A) if such individual is an officer, shareholder, or person whose principal duties consist in supervising the work of other employees of a foreign subsidiary of such domestic corporation, he shall be treated as having such capacity with respect to such domestic corporation; and

"(B) the determination of whether such individual is a highly compensated employee shall be made by treating such individual's total compensation (determined with the application of paragraph (2) of this subsection) as compensation paid by such domestic corporation and by determining such individual's status with regard to such domestic corporation.

"(2) DETERMINATION OF COMPENSATION.—For purposes of applying paragraph (5) of section 401(a) with respect to an individual who is treated as an employee of a domestic corporation under subsection (a)—

"(A) the total compensation of such individual shall be the remuneration paid to such individual by the foreign subsidiary which would constitute his total compensation if his services had been performed for such domestic corporation, and the basic or regular rate of compensation of such individual shall be determined under regulations prescribed by the Secretary or his delegate; and

"(B) such individual shall be treated as having paid the amount paid by such domestic corporation which is equivalent to the tax imposed by section 3101.

26 USC 3101.

"(c) TERMINATION OF STATUS AS DEEMED EMPLOYEE NOT TO BE TREATED AS SEPARATION FROM SERVICE FOR PURPOSES OF CAPITAL GAIN PROVISIONS.—For purposes of applying section 402(a)(2) and section 403(a)(2) with respect to an individual who is treated as an employee of a domestic corporation under subsection (a), such individual shall not be considered as separated from the service of such domestic corporation solely by reason of the fact that—

26 USC 402.
26 USC 403.

"(1) the agreement entered into by such domestic corporation under section 3121(l) which covers the employment of such individual is terminated under the provisions of such section,

26 USC 3121.

"(2) such individual becomes an employee of a foreign subsidiary with respect to which such agreement does not apply,

"(3) such individual ceases to be an employee of the foreign subsidiary by reason of which he is treated as an employee of such domestic corporation, if he becomes an employee of another corporation controlled by such domestic corporation, or

"(4) the provision of the plan described in subsection (a)(2) is terminated.

"(d) DEDUCTIBILITY OF CONTRIBUTIONS.—For purposes of applying sections 404 and 405(c) with respect to contributions made to or under a pension, profit-sharing, stock bonus, annuity, or bond purchase plan by a domestic corporation, or by another corporation which is entitled to deduct its contributions under section 404(a)(3)(B), on behalf of an individual who is treated as an employee of such domestic corporation under subsection (a)—

26 USC 404, 405.

"(1) except as provided in paragraph (2), no deduction shall be allowed to such domestic corporation or to any other corporation which is entitled to deduct its contributions under such sections,

"(2) there shall be allowed as a deduction to the foreign subsidiary of which such individual is an employee an amount equal to the amount which (but for paragraph (1)) would be deductible under section 404 (or section 405(c)) by the domestic corporation if he were an employee of the domestic corporation, and

26 USC 404, 405.

"(3) any reference to compensation shall be considered to be a reference to the total compensation of such individual (determined with the application of subsection (b)(2)).

Any amount deductible by a foreign subsidiary under this subsection shall be deductible for its taxable year with or within which the taxable year of such domestic corporation ends.

"(e) TREATMENT AS EMPLOYEE UNDER RELATED PROVISIONS.—An individual who is treated as an employee of a domestic corporation under subsection (a) shall also be treated as an employee of such domestic corporation, with respect to the plan described in subsection (a)(2), for purposes of applying the following provisions of this title:

"(1) Section 72(d) (relating to employees' annuities).

26 USC 72.

"(2) Section 72(f) (relating to special rules for computing employees' contributions).

"(3) Section 101(b) (relating to employees' death benefits).

26 USC 101.

"(4) Section 2039 (relating to annuities).

26 USC 2039.

"(5) Section 2517 (relating to certain annuities under qualified plans)."

26 USC 2517.

(b) EMPLOYEES OF DOMESTIC SUBSIDIARIES ENGAGED IN BUSINESS OUTSIDE THE UNITED STATES.—Part I of subchapter D of chapter 1 (relating to pension, profit-sharing, stock bonus plans, etc.) is amended by adding after section 406 (as added by subsection (a)) the following new section:

26 USC 401-405.

Ante, p. 58.

"SEC. 407. CERTAIN EMPLOYEES OF DOMESTIC SUBSIDIARIES ENGAGED IN BUSINESS OUTSIDE THE UNITED STATES.

"(a) TREATMENT AS EMPLOYEES OF DOMESTIC PARENT CORPORATION.—

"(1) IN GENERAL.—For purposes of applying this part with respect to a pension, profit-sharing, or stock bonus plan described in section 401(a), an annuity plan described in section 403(a), or a bond purchase plan described in section 405(a), of a domestic parent corporation, an individual who is a citizen of the United States and who is an employee of a domestic subsidiary (within the meaning of paragraph (2)) of such domestic parent corporation shall be treated as an employee of such domestic parent corporation, if—

"(A) the plan of such domestic parent corporation expressly provides for contributions or benefits for individuals who are citizens of the United States and who are employees of its domestic subsidiaries; and

"(B) contributions under a funded plan of deferred compensation (whether or not a plan described in section 401(a), 403(a), or 405(a)) are not provided by any other person with respect to the remuneration paid to such individual by the domestic subsidiary.

"(2) DEFINITIONS.—For purposes of this section—

"(A) DOMESTIC SUBSIDIARY.—A corporation shall be treated as a domestic subsidiary for any taxable year only if—

"(i) such corporation is a domestic corporation 80 percent or more of the outstanding voting stock of which is owned by another domestic corporation;

"(ii) 95 percent or more of its gross income for the three-year period immediately preceding the close of its taxable year which ends on or before the close of the taxable year of such other domestic corporation (or for such part of such period during which the corporation was in existence) was derived from sources without the United States; and

"(iii) 90 percent or more of its gross income for such period (or such part) was derived from the active conduct of a trade or business.

If for the period (or part thereof) referred to in clauses (ii) and (iii) such corporation has no gross income, the provisions of clauses (ii) and (iii) shall be treated as satisfied if it is reasonable to anticipate that, with respect to the first taxable year thereafter for which such corporation has gross income, the provisions of such clauses will be satisfied.

"(B) DOMESTIC PARENT CORPORATION.—The domestic parent corporation of any domestic subsidiary is the domestic corporation which owns 80 percent or more of the outstanding voting stock of such domestic subsidiary.

"(b) SPECIAL RULES FOR APPLICATION OF SECTION 401(a).—

26 USC 401.

"(1) NONDISCRIMINATION REQUIREMENTS.—For purposes of applying paragraphs (3)(B) and (4) of section 401(a) with respect to an individual who is treated as an employee of a domestic parent corporation under subsection (a)—

"(A) if such individual is an officer, shareholder, or person whose principal duties consist in supervising the work of other employees of a domestic subsidiary, he shall be treated as having such capacity with respect to such domestic parent corporation; and

"(B) the determination of whether such individual is a highly compensated employee shall be made by treating such individual's total compensation (determined with the application of paragraph (2) of this subsection) as compensation paid by such domestic parent corporation and by determining such individual's status with regard to such domestic parent corporation.

"(2) DETERMINATION OF COMPENSATION.—For purposes of applying paragraph (5) of section 401(a) with respect to an individual who is treated as an employee of a domestic parent corporation under subsection (a), the total compensation of such individual shall be the remuneration paid to such individual by the domestic subsidiary which would constitute his total compensation if his services had been performed for such domestic parent corporation, and the basic or regular rate of compensation of such individual shall be determined under regulations prescribed by the Secretary or his delegate.

"(c) TERMINATION OF STATUS AS DEEMED EMPLOYEE NOT TO BE TREATED AS SEPARATION FROM SERVICE FOR PURPOSES OF CAPITAL GAIN PROVISIONS.—For purposes of applying section 402(a)(2) and section 403(a)(2) with respect to an individual who is treated as an employee of a domestic parent corporation under subsection (a), such individual shall not be considered as separated from the service of such domestic parent corporation solely by reason of the fact that—

26 USC 402, 403.

"(1) the corporation of which such individual is an employee ceases, for any taxable year, to be a domestic subsidiary within the meaning of subsection (a)(2)(A),

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"(2) such individual ceases to be an employee of a domestic subsidiary of such domestic parent corporation, if he becomes an employee of another corporation controlled by such domestic parent corporation, or

"(3) the provision of the plan described in subsection (a)(1)(A) is terminated.

"(d) DEDUCTIBILITY OF CONTRIBUTIONS.—For purposes of applying sections 404 and 405(c) with respect to contributions made to or under a pension, profit-sharing, stock bonus, annuity, or bond purchase plan by a domestic parent corporation, or by another corporation which is entitled to deduct its contributions under section 404(a)(3)(B), on behalf of an individual who is treated as an employee of such domestic corporation under subsection (a)—

26 USC 404, 405.

"(1) except as provided in paragraph (2), no deduction shall be allowed to such domestic parent corporation or to any other corporation which is entitled to deduct its contributions under such sections,

"(2) there shall be allowed as a deduction to the domestic subsidiary of which such individual is an employee an amount equal to the amount which (but for paragraph (1)) would be deductible under section 404 (or section 405(c)) by the domestic parent corporation if he were an employee of the domestic parent corporation, and

"(3) any reference to compensation shall be considered to be a reference to the total compensation of such individual (determined with the application of subsection (b)(2)).

Any amount deductible by a domestic subsidiary under this subsection shall be deductible for its taxable year with or within which the taxable year of such domestic parent corporation ends.

"(e) TREATMENT AS EMPLOYEE UNDER RELATED PROVISIONS.—An individual who is treated as an employee of a domestic parent corporation under subsection (a) shall also be treated as an employee of such domestic parent corporation, with respect to the plan described in subsection (a)(1)(A), for purposes of applying the following provisions of this title:

26 USC 72.

"(1) Section 72(d) (relating to employees' annuities).

"(2) Section 72(f) (relating to special rules for computing employees' contributions).

26 USC 101.

"(3) Section 101(b) (relating to employees' death benefits).

26 USC 2039.

"(4) Section 2039 (relating to annuities).

26 USC 2517.

"(5) Section 2517 (relating to certain annuities under qualified plans)."

(c) TECHNICAL AMENDMENTS.—

(1) The table of sections for part I of subchapter D of chapter 1 is amended by adding at the end thereof the following:

"Sec. 406. Certain employees of foreign subsidiaries.
"Sec. 407. Certain employees of domestic subsidiaries engaged in business outside the United States."

26 USC 3121.

(2) Section 3121(a)(5) (relating to definition of wages) is amended by striking out "or" at the end of subparagraph (A) and by striking out subparagraph (B) and inserting in lieu thereof the following new subparagraphs:

"(B) under or to an annuity plan which, at the time of such payment, is a plan described in section 403(a), or

26 USC 403.

"(C) under or to a bond purchase plan which, at the time of such payment, is a qualified bond purchase plan described in section 405(a);".

(3) Section 209(e) of the Social Security Act (relating to the definition of wages) is amended to read as follows:

64 Stat. 492. 42 USC 409.

"(e) Any payment made to, or on behalf of, an employee or his beneficiary (1) from or to a trust exempt from tax under section 165(a) of the Internal Revenue Code of 1939 at the time of such payment or, in the case of a payment after 1954, under sections 401 and 501(a) of the Internal Revenue Code of 1954, unless such payment is made to an employee of the trust as remuneration for services rendered as such employee and not as a beneficiary of the trust, or (2) under or to an annuity plan which, at the time of such payment, meets the requirements of section 165(a) (3), (4), (5), and (6) of the Internal Revenue Code of 1939 or, in the case of a payment after 1954 and prior to 1963, the requirements of section 401(a) (3), (4), (5), and (6) of the Internal Revenue Code of 1954, or (3) under or to an annuity plan which, at the time of any such payment after 1962, is a plan described in section 403(a) of the Internal Revenue Code of 1954, or (4) under or to a bond purchase plan which, at the time of any such payment after 1962, is a qualified bond purchase plan described in section 405(a) of the Internal Revenue Code of 1954;".

53 Stat. 67.

26 USC 401, 501.

26 USC 403.

26 USC 405.

(d) Effective Date.—The amendments made by subsections (a), (b), and (c)(1) shall apply to taxable years ending after December 31, 1963. The amendments made by subsections (c) (2) and (3) shall apply to remuneration paid after December 31, 1962.

SEC. 221. EMPLOYEE STOCK OPTIONS AND PURCHASE PLANS.

(a) In General.—Part II of subchapter D of chapter 1 is amended to read as follows:

"PART II—CERTAIN STOCK OPTIONS

"Sec. 421. General rules.
"Sec. 422. Qualified stock options.
"Sec. 423. Employee stock purchase plans.
"Sec. 424. Restricted stock options.
"Sec. 425. Definitions and special rules.

"SEC. 421. GENERAL RULES.

"(a) Effect of Qualifying Transfer.—If a share of stock is transferred to an individual in a transfer in respect of which the requirements of section 422(a), 423(a), or 424(a) are met—

"(1) except as provided in section 422(c)(1), no income shall result at the time of the transfer of such share to the individual upon his exercise of the option with respect to such share;

Post, pp. 64, 67, 69.

"(2) no deduction under section 162 (relating to trade or business expenses) shall be allowable at any time to the employer corporation, a parent or subsidiary corporation of such corporation, or a corporation issuing or assuming a stock option in a transaction to which section 425(a) applies, with respect to the share so transferred; and

26 USC 162.

Post, p. 71.

"(3) no amount other than the price paid under the option shall be considered as received by any of such corporations for the share so transferred.

"(b) Effect of Disqualifying Disposition.—If the transfer of a share of stock to an individual pursuant to his exercise of an option would otherwise meet the requirements of section 422(a), 423(a), or 424(a) except that there is a failure to meet any of the holding period requirements of section 422(a)(1), 423(a)(1), or 424(a)(1), then any increase in the income of such individual or deduction from the income of his employer corporation for the taxable year in which such exercise occurred attributable to such disposition, shall be treated as an increase in income or a deduction from income in the taxable year of such individual or of such employer corporation in which such disposition occurred.

"(c) EXERCISE BY ESTATE.—

"(1) IN GENERAL.—If an option to which this part applies is exercised after the death of the employee by the estate of the decedent, or by a person who acquired the right to exercise such option by bequest or inheritance or by reason of the death of the decedent, the provisions of subsection (a) shall apply to the same extent as if the option had been exercised by the decedent, except that—

"(A) the holding period and employment requirements of sections 422(a), 423(a), and 424(a) shall not apply, and

"(B) any transfer by the estate of stock acquired shall be considered a disposition of such stock for purposes of sections 423(c) and 424(c)(1).

Post, pp. 67, 69.

"(2) DEDUCTION FOR ESTATE TAX.—If an amount is required to be included under section 422(c)(1), 423(c), or 424(c)(1) in gross income of the estate of the deceased employee or of a person described in paragraph (1), there shall be allowed to the estate or such person a deduction with respect to the estate tax attributable to the inclusion in the taxable estate of the deceased employee of the net value for estate tax purposes of the option. For this purpose, the deduction shall be determined under section 691(c) as if the option acquired from the deceased employee were an item of gross income in respect of the decedent under section 691 and as if the amount includible in gross income under section 422(c)(1), 423(c), or 424(c)(1) were an amount included in gross income under section 691 in respect of such item of gross income.

26 USC 691.

"(3) BASIS OF SHARES ACQUIRED.—In the case of a share of stock acquired by the exercise of an option to which paragraph (1) applies—

"(A) the basis of such share shall include so much of the basis of the option as is attributable to such share; except that the basis of such share shall be reduced by the excess (if any) of (i) the amount which would have been includible in gross income under section 422(c)(1), 423(c), or 424(c)(1) if the employee had exercised the option on the date of his death and had held the share acquired pursuant to such exercise at the time of his death, over (ii) the amount which is includible in gross income under such section; and

"(B) the last sentence of sections 422(c)(1), 423(c), and 424(c)(1) shall apply only to the extent that the amount includible in gross income under such sections exceeds so much of the basis of the option as is attributable to such share.

"SEC. 422. QUALIFIED STOCK OPTIONS.

Ante, p. 63.

"(a) IN GENERAL.—Subject to the provisions of subsection (c)(1), section 421(a) shall apply with respect to the transfer of a share of stock to an individual pursuant to his exercise of a qualified stock option if—

"(1) no disposition of such share is made by such individual within the 3-year period beginning on the day after the day of the transfer of such share, and

"(2) at all times during the period beginning with the date of the granting of the option and ending on the day 3 months before the date of such exercise, such individual was an employee of either the corporation granting such option, a parent or subsidiary corporation of such corporation, or a corporation or a parent or subsidiary corporation of such corporation issuing or

assuming a stock option in a transaction to which section 425(a) applies.

Post, p. 71.

"(b) QUALIFIED STOCK OPTION.—For purposes of this part, the term 'qualified stock option' means an option granted to an individual after December 31, 1963 (other than a restricted stock option granted pursuant to a contract described in section 424(c)(3)(A)), for any reason connected with his employment by a corporation, if granted by the employer corporation or its parent or subsidiary corporation, to purchase stock of any of such corporations, but only if—

Post, p. 69.

"(1) the option is granted pursuant to a plan which includes the aggregate number of shares which may be issued under options, and the employees (or class of employees) eligible to receive options, and which is approved by the stockholders of the granting corporation within 12 months before or after the date such plan is adopted;

"(2) such option is granted within 10 years from the date such plan is adopted, or the date such plan is approved by the stockholders, whichever is earlier;

"(3) such option by its terms is not exercisable after the expiration of 5 years from the date such option is granted;

"(4) except as provided in subsection (c)(1), the option price is not less than the fair market value of the stock at the time such option is granted;

"(5) such option by its terms is not exercisable while there is outstanding (within the meaning of subsection (c)(2)) any qualified stock option (or restricted stock option) which was granted, before the granting of such option, to such individual to purchase stock in his employer corporation or in a corporation which (at the time of the granting of such option) is a parent or subsidiary corporation of the employer corporation, or in a predecessor corporation of any of such corporations;

"(6) such option by its terms is not transferable by such individual otherwise than by will or the laws of descent and distribution, and is exercisable, during his lifetime, only by him; and

"(7) such individual, immediately after such option is granted, does not own stock possessing more than 5 percent of the total combined voting power or value of all classes of stock of the employer corporation or of its parent or subsidiary corporation; except that if the equity capital of such corporation or corporations (determined at the time the option is granted) is less than $2,000,000, then, for purposes of applying the limitation of this paragraph, there shall be added to such 5 percent the percentage (not higher than 5 percent) which bears the same ratio to 5 percent as the difference between such equity capital and $2,000,000 bears to $1,000,000.

"(c) SPECIAL RULES.—

"(1) EXERCISE OF OPTION WHEN PRICE IS LESS THAN VALUE OF STOCK.—If a share of stock is transferred pursuant to the exercise by an individual of an option which fails to qualify as a qualified stock option under subsection (b) because there was a failure in an attempt, made in good faith, to meet the requirement of subsection (b)(4), the requirement of subsection (b)(4) shall be considered to have been met, but there shall be included as compensation (and not as gain upon the sale or exchange of a capital asset) in his gross income for the taxable year in which such option is exercised, an amount equal to the lesser of—

"(A) 150 percent of the difference between the option price and the fair market value of the share at the time the option was granted, or

"(B) the difference between the option price and the fair market value of the share at the time of such exercise.

The basis of the share acquired shall be increased by an amount equal to the amount included in his gross income under this paragraph in the taxable year in which the exercise occurred.

"(2) CERTAIN OPTIONS TREATED AS OUTSTANDING.—For purposes of subsection (b)(5)—

"(A) any restricted stock option which is not terminated before January 1, 1965, and

"(B) any qualified stock option granted after December 31, 1963,

shall be treated as outstanding until such option is exercised in full or expires by reason of the lapse of time. For purposes of the preceding sentence, a restricted stock option granted before January 1, 1964, shall not be treated as outstanding for any period before the first day on which (under the terms of such option) it may be exercised.

"(3) OPTIONS GRANTED TO CERTAIN SHAREHOLDERS.—For purposes of subsection (b)(7)—

"(A) the term 'equity capital' means—

"(i) in the case of one corporation, the sum of its money and other property (in an amount equal to the adjusted basis of such property for determining gain), less the amount of its indebtedness (other than indebtedness to shareholders), and

"(ii) in the case of a group of corporations consisting of a parent and its subsidiary corporations, the sum of the equity capital of each of such corporations adjusted, under regulations prescribed by the Secretary or his delegate, to eliminate the effect of intercorporate ownership and transactions among such corporations:

Post, p. 71.

"(B) the rules of section 425(d) shall apply in determining the stock ownership of the individual; and

"(C) stock which the individual may purchase under outstanding options shall be treated as stock owned by such individual.

If an individual is granted an option which permits him to purchase stock in excess of the limitation of subsection (b)(7) (determined by applying the rules of this paragraph), such option shall be treated as meeting the requirement of subsection (b)(7) to the extent that such individual could, if the option were fully exercised at the time of grant, purchase stock under such option without exceeding such limitation. The portion of such option which is treated as meeting the requirement of subsection (b)(7) shall be deemed to be that portion of the option which is first exercised.

"(4) CERTAIN DISQUALIFYING DISPOSITIONS WHERE AMOUNT REALIZED IS LESS THAN VALUE AT EXERCISE.—If—

"(A) an individual who has acquired a share of stock by the exercise of a qualified stock option makes a disposition of such share within the 3-year period described in subsection (a)(1), and

"(B) such disposition is a sale or exchange with respect to which a loss (if sustained) would be recognized to such individual,

then the amount which is includible in the gross income of such individual, and the amount which is deductible from the income of his employer corporation, as compensation attributable to the exercise of such option shall not exceed the excess (if any) of the

amount realized on such sale or exchange over the adjusted basis of such share.

"(5) CERTAIN TRANSFERS BY INSOLVENT INDIVIDUALS.—If an insolvent individual holds a share of stock acquired pursuant to his exercise of a qualified stock option, and if such share is transferred to a trustee, receiver, or other similar fiduciary, in any proceeding under the Bankruptcy Act or any other similar insolvency proceeding, neither such transfer, nor any other transfer of such share for the benefit of his creditors in such proceeding, shall constitute a 'disposition of such share' for purposes of subsection (a)(1).

30 Stat. 544; 52 Stat. 840. 11 USC 1 note.

"(6) APPLICATION OF SUBSECTION (b)(5) WHERE OPTIONS ARE FOR STOCK OF SAME CLASS IN SAME CORPORATION.—The requirement of subsection (b)(5) shall be considered to have been met in the case of any option (referred to in this paragraph as 'new option') granted to an individual if—

"(A) the new option and all outstanding options referred to in subsection (b)(5) are to purchase stock of the same class in the same corporation, and

"(B) the new option by its terms is not exercisable while there is outstanding (within the meaning of paragraph (2)) any qualified stock option (or restricted stock option) which was granted, before the granting of the new option, to such individual to purchase stock in such corporation at a price (determined as of the date of grant of the new option) higher than the option price of the new option.

"SEC. 423. EMPLOYEE STOCK PURCHASE PLANS.

"(a) GENERAL RULE.—Section 421(a) shall apply with respect to the transfer of a share of stock to an individual pursuant to his exercise of an option granted after December 31, 1963 (other than a restricted stock option granted pursuant to a plan described in section 424(c)(3)(B)), under an employee stock purchase plan (as defined in subsection (b)) if—

Ante, p. 63.

Post, p. 69.

"(1) no disposition of such share is made by him within 2 years after the date of the granting of the option nor within 6 months after the transfer of such share to him; and

"(2) at all times during the period beginning with the date of the granting of the option and ending on the day 3 months before the date of such exercise, he is an employee of the corporation granting such option, a parent or subsidiary corporation of such corporation, or a corporation or a parent or subsidiary corporation of such corporation issuing or assuming a stock option in a transaction to which section 425(a) applies.

"(b) EMPLOYEE STOCK PURCHASE PLAN.—For purposes of this part, the term 'employee stock purchase plan' means a plan which meets the following requirements:

"(1) the plan provides that options are to be granted only to employees of the employer corporation or of its parent or subsidiary corporation to purchase stock in any such corporation;

"(2) such plan is approved by the stockholders of the granting corporation within 12 months before or after the date such plan is adopted;

"(3) under the terms of the plan, no employee can be granted an option if such employee, immediately after the option is granted, owns stock possessing 5 percent or more of the total combined voting power or value of all classes of stock of the employer corporation or of its parent or subsidiary corporation. For purposes of this paragraph, the rules of section 425(d) shall apply in determining the stock ownership of an individual, and

stock which the employee may purchase under outstanding options shall be treated as stock owned by the employee;

"(4) under the terms of the plan, options are to be granted to all employees of any corporation whose employees are granted any of such options by reason of their employment by such corporation, except that there may be excluded—

"(A) employees who have been employed less than 2 years,

"(B) employees whose customary employment is 20 hours or less per week,

"(C) employees whose customary employment is for not more than 5 months in any calendar year, and

"(D) officers, persons whose principal duties consist of supervising the work of other employees, or highly compensated employees;

"(5) under the terms of the plan, all employees granted such options shall have the same rights and privileges, except that the amount of stock which may be purchased by any employee under such option may bear a uniform relationship to the total compensation, or the basic or regular rate of compensation, of employees, and the plan may provide that no employee may purchase more than a maximum amount of stock fixed under the plan;

"(6) under the terms of the plan, the option price is not less than the lesser of—

"(A) an amount equal to 85 percent of the fair market value of the stock at the time such option is granted, or

"(B) an amount which under the terms of the option may not be less than 85 percent of the fair market value of the stock at the time such option is exercised;

"(7) under the terms of the plan, such option cannot be exercised after the expiration of—

"(A) 5 years from the date such option is granted if, under the terms of such plan, the option price is to be not less than 85 percent of the fair market value of such stock at the time of the exercise of the option, or

"(B) 27 months from the date such option is granted, if the option price is not determinable in the manner described in subparagraph (A);

"(8) under the terms of the plan, no employee may be granted an option which permits his rights to purchase stock under all such plans of his employer corporation and its parent and subsidiary corporations to accrue at a rate which exceeds $25,000 of fair market value of such stock (determined at the time such option is granted) for each calendar year in which such option is outstanding at any time. For purposes of this paragraph—

"(A) the right to purchase stock under an option accrues when the option (or any portion thereof) first becomes exercisable during the calendar year;

"(B) the right to purchase stock under an option accrues at the rate provided in the option, but in no case may such rate exceed $25,000 of fair market value of such stock (determined at the time such option is granted) for any one calendar year; and

"(C) a right to purchase stock which has accrued under one option granted pursuant to the plan may not be carried over to any other option; and

"(9) under the terms of the plan, such option is not transferable by such individual otherwise than by will or the laws of descent and distribution, and is exercisable, during his lifetime, only by him.

For purposes of paragraphs (3) to (9), inclusive, where additional terms are contained in an offering made under a plan, such additional terms shall, with respect to options exercised under such offering, be treated as a part of the terms of such plan.

"(c) SPECIAL RULE WHERE OPTION PRICE IS BETWEEN 85 PERCENT AND 100 PERCENT OF VALUE OF STOCK.—If the option price of a share of stock acquired by an individual pursuant to a transfer to which subsection (a) applies was less than 100 percent of the fair market value of such share at the time such option was granted, then, in the event of any disposition of such share by him which meets the holding period requirements of subsection (a), or in the event of his death (whenever occurring) while owning such share, there shall be included as compensation (and not as gain upon the sale or exchange of a capital asset) in his gross income, for the taxable year in which falls the date of such disposition or for the taxable year closing with his death, whichever applies, an amount equal to the lesser of—

"(1) the excess of the fair market value of the share at the time of such disposition or death over the amount paid for the share under the option, or

"(2) the excess of the fair market value of the share at the time the option was granted over the option price.

If the option price is not fixed or determinable at the time the option is granted, then for purposes of this subsection, the option price shall be determined as if the option were exercised at such time. In the case of the disposition of such share by the individual, the basis of the share in his hands at the time of such disposition shall be increased by an amount equal to the amount so includible in his gross income.

"SEC. 424. RESTRICTED STOCK OPTIONS.

"(a) IN GENERAL.—Section 421(a) shall apply with respect to the transfer of a share of stock to an individual pursuant to his exercise after 1949 of a restricted stock option, if—

Ante, p. 63.

"(1) no disposition of such share is made by him within 2 years from the date of the granting of the option nor within 6 months after the transfer of such share to him, and

"(2) at the time he exercises such option—

"(A) he is an employee of either the corporation granting such option, a parent or subsidiary corporation of such corporation, or a corporation or a parent or subsidiary corporation of such corporation issuing or assuming a stock option in a transaction to which section 425(a) applies, or

"(B) he ceased to be an employee of such corporations within the 3-month period preceding the time of exercise.

"(b) RESTRICTED STOCK OPTION.—For purposes of this part, the term 'restricted stock option' means an option granted after February 26, 1945, and before January 1, 1964 (or, if it meets the requirements of subsection (c)(3), an option granted after December 31, 1963), to an individual, for any reason connected with his employment by a corporation, if granted by the employer corporation or its parent or subsidiary corporation, to purchase stock of any of such corporations, but only if—

"(1) at the time such option is granted—

"(A) the option price is at least 85 percent of the fair market value at such time of the stock subject to the option, or

"(B) in the case of a variable price option, the option price (computed as if the option had been exercised when granted) is at least 85 percent of the fair market value of the stock at the time such option is granted;

"(2) such option by its terms is not transferable by such individual otherwise than by will or the laws of descent and distribution, and is exercisable, during his lifetime, only by him;

"(3) such individual, at the time the option is granted, does not own stock possessing more than 10 percent of the total combined voting power of all classes of stock of the employer corporation or of its parent or subsidiary corporation. This paragraph shall not apply if at the time such option is granted the option price is at least 110 percent of the fair market value of the stock subject to the option, and such option either by its terms is not exercisable after the expiration of 5 years from the date such option is granted or is exercised within one year after August 16, 1954. For purposes of this paragraph, the provisions of section 425(d) shall apply in determining the stock ownership of an individual; and

Post, p. 71.

"(4) such option by its terms is not exercisable after the expiration of 10 years from the date such option is granted, if such option has been granted on or after June 22, 1954.

"(c) SPECIAL RULES.—

"(1) OPTIONS UNDER WHICH OPTION PRICE IS BETWEEN 85 PERCENT AND 95 PERCENT OF VALUE OF STOCK.—If no disposition of a share of stock acquired by an individual on his exercise after 1949 of a restricted stock option is made by him within 2 years from the date of the granting of the option nor within 6 months after the transfer of such share to him, but, at the time the restricted stock option was granted, the option price (computed under subsection (b)(1)) was less than 95 percent of the fair market value at such time of such share, then, in the event of any disposition of such share by him, or in the event of his death (whenever occurring) while owning such share, there shall be included as compensation (and not as gain upon the sale or exchange of a capital asset) in his gross income, for the taxable year in which falls the date of such disposition or for the taxable year closing with his death, whichever applies—

"(A) in the case of a share of stock acquired under an option qualifying under subsection (b)(1)(A), an amount equal to the amount (if any) by which the option price is exceeded by the lesser of—

"(i) the fair market value of the share at the time of such disposition or death, or

"(ii) the fair market value of the share at the time the option was granted; or

"(B) in the case of stock acquired under an option qualifying under subsection (b)(1)(B), an amount equal to the lesser of—

"(i) the excess of the fair market value of the share at the time of such disposition or death over the price paid under the option, or

"(ii) the excess of the fair market value of the share at the time the option was granted over the option price (computed as if the option had been exercised at such time).

In the case of a disposition of such share by the individual, the basis of the share in his hands at the time of such disposition shall be increased by an amount equal to the amount so includible in his gross income.

"(2) VARIABLE PRICE OPTION.—For purposes of subsection (b)(1), the term 'variable price option' means an option under which the purchase price of the stock is fixed or determinable under a formula in which the only variable is the fair market value of the stock at any time during a period of 6 months which includes the time the option is exercised; except that in the case of options granted after September 30, 1958, such term does not

include any such option in which such formula provides for determining such price by reference to the fair market value of the stock at any time before the option is exercised if such value may be greater than the average fair market value of the stock during the calendar month in which the option is exercised.

"(3) CERTAIN OPTIONS GRANTED AFTER DECEMBER 31, 1963.—For purposes of subsection (b), an option granted after December 31, 1963, meets the requirements of this paragraph if granted pursuant to—

"(A) a binding written contract entered into before January 1, 1964, or

"(B) a written plan adopted and approved before January 1, 1964, which (as of January 1, 1964, and as of the date of the granting of the option)—

"(i) met the requirements of paragraphs (4) and (5) of section 423(b), or

Ante, p. 67.

"(ii) was being administered in a way which did not discriminate in favor of officers, persons whose principal duties consist of supervising the work of other employees, or highly compensated employees.

"SEC. 425. DEFINITIONS AND SPECIAL RULES.

"(a) CORPORATE REORGANIZATIONS, LIQUIDATIONS, ETC.—For purposes of this part, the term 'issuing or assuming a stock option in a transaction to which section 425(a) applies' means a substitution of a new option for the old option, or an assumption of the old option, by an employer corporation, or a parent or subsidiary of such corporation, by reason of a corporate merger, consolidation, acquisition of property or stock, separation, reorganization, or liquidation, if—

"(1) the excess of the aggregate fair market value of the shares subject to the option immediately after the substitution or assumption over the aggregate option price of such shares is not more than the excess of the aggregate fair market value of all shares subject to the option immediately before such substitution or assumption over the aggregate option price of such shares, and

"(2) the new option or the assumption of the old option does not give the employee additional benefits which he did not have under the old option.

For purposes of this subsection, the parent-subsidiary relationship shall be determined at the time of any such transaction under this subsection.

"(b) ACQUISITION OF NEW STOCK.—For purposes of this part, if stock is received by an individual in a distribution to which section 305, 354, 355, 356, or 1036 (or so much of section 1031 as relates to section 1036) applies, and such distribution was made with respect to stock transferred to him upon his exercise of the option, such stock shall be considered as having been transferred to him on his exercise of such option. A similar rule shall be applied in the case of a series of such distributions.

26 USC 305, 354, 355, 356, 1036, 1031.

"(c) DISPOSITION.—

"(1) IN GENERAL.—Except as provided in paragraph (2), for purposes of this part, the term 'disposition' includes a sale, exchange, gift, or a transfer of legal title, but does not include—

"(A) a transfer from a decedent to an estate or a transfer by bequest or inheritance;

"(B) an exchange to which section 354, 355, 356, or 1036 (or so much of section 1031 as relates to section 1036) applies; or

"(C) a mere pledge or hypothecation.

"(2) JOINT TENANCY.—The acquisition of a share of stock in the name of the employee and another jointly with the right of survivorship or a subsequent transfer of a share of stock into such joint ownership shall not be deemed a disposition, but a termination of such joint tenancy (except to the extent such employee acquires ownership of such stock) shall be treated as a disposition by him occurring at the time such joint tenancy is terminated.

"(d) ATTRIBUTION OF STOCK OWNERSHIP.—For purposes of this part, in applying the percentage limitations of sections 422(b)(7), 423(b)(3), and 424(b)(3)—

Ante, pp. 64, 67, 69.

"(1) the individual with respect to whom such limitation is being determined shall be considered as owning the stock owned, directly or indirectly, by or for his brothers and sisters (whether by the whole or half blood), spouse, ancestors, and lineal descendants; and

"(2) stock owned, directly or indirectly, by or for a corporation, partnership, estate, or trust, shall be considered as being owned proportionately by or for its shareholders, partners, or beneficiaries.

"(e) PARENT CORPORATION.—For purposes of this part, the term 'parent corporation' means any corporation (other than the employer corporation) in an unbroken chain of corporations ending with the employer corporation if, at the time of the granting of the option, each of the corporations other than the employer corporation owns stock possessing 50 percent or more of the total combined voting power of all classes of stock in one of the other corporations in such chain.

"(f) SUBSIDIARY CORPORATION.—For purposes of this part, the term 'subsidiary corporation' means any corporation (other than the employer corporation) in an unbroken chain of corporations beginning with the employer corporation if, at the time of the granting of the option, each of the corporations other than the last corporation in the unbroken chain owns stock possessing 50 percent or more of the total combined voting power of all classes of stock in one of the other corporations in such chain.

"(g) SPECIAL RULE FOR APPLYING SUBSECTIONS (e) AND (f).—In applying subsections (e) and (f) for purposes of section 422(a)(2), 423(a)(2), and 424(a)(2), there shall be substituted for the term 'employer corporation' wherever it appears in subsections (e) and (f) the term 'grantor corporation', or the term 'corporation issuing or assuming a stock option in a transaction to which section 425(a) applies', as the case may be.

Ante, p. 71.

"(h) MODIFICATION, EXTENSION, OR RENEWAL OF OPTION.—

"(1) IN GENERAL.—For purposes of this part, if the terms of any option to purchase stock are modified, extended, or renewed, such modification, extension, or renewal shall be considered as the granting of a new option.

"(2) SPECIAL RULES FOR SECTIONS 423 AND 424 OPTIONS.—

"(A) In the case of the transfer of stock pursuant to the exercise of an option to which section 423 or 424 applies and which has been so modified, extended, or renewed, then, except as provided in subparagraph (B), the fair market value of such stock at the time of the granting of such option shall be considered as whichever of the following is the highest:

"(i) the fair market value of such stock on the date of the original granting of the option,

"(ii) the fair market value of such stock on the date of the making of such modification, extension, or renewal, or

"(iii) the fair market value of such stock at the time of the making of any intervening modification, extension, or renewal.

"(B) Subparagraph (A) shall not apply with respect to a modification, extension, or renewal of a restricted stock option before January 1, 1964 (or after December 31, 1963, if made pursuant to a binding written contract entered into before January 1, 1964), if the aggregate of the monthly average fair market values of the stock subject to the option for the 12 consecutive calendar months before the date of the modification, extension, or renewal, divided by 12, is an amount less than 80 percent of the fair market value of such stock on the date of the original granting of the option or the date of the making of any intervening modification, extension, or renewal, whichever is the highest.

"(3) DEFINITION OF MODIFICATION.—The term 'modification' means any change in the terms of the option which gives the employee additional benefits under the option, but such term shall not include a change in the terms of the option—

"(A) attributable to the issuance or assumption of an option under subsection (a);

"(B) to permit the option to qualify under sections 422(b)(6), 423(b)(9), and 424(b)(2); or

"(C) in the case of an option not immediately exercisable in full, to accelerate the time at which the option may be exercised.

Ante, pp. 64, 67, 69.

If a restricted stock option is exercisable after the expiration of 10 years from the date such option is granted, subparagraph (B) shall not apply unless the terms of the option are also changed to make it not exercisable after the expiration of such period.

"(i) STOCKHOLDER APPROVAL.—For purposes of this part, if the grant of an option is subject to approval by stockholders, the date of grant of the option shall be determined as if the option had not been subject to such approval.

"(j) CROSS REFERENCES.—

"For provisions requiring the reporting of certain acts with respect to a qualified stock option, options granted under employer stock purchase plans, or a restricted stock option, see section 6039."

(b) ADMINISTRATIVE PROVISIONS.—

(1) REPORTING REQUIREMENT FOR CERTAIN OPTIONS.—Subpart A of part III of subchapter A of chapter 61 (relating to information returns) is amended by renumbering section 6039 as 6040, and by inserting after section 6038 the following new section:

26 USC 6031-6039.
26 USC 6038, 6039.

"SEC. 6039. INFORMATION REQUIRED IN CONNECTION WITH CERTAIN OPTIONS.

"(a) REQUIREMENT OF REPORTING.—Every corporation—

"(1) which in any calendar year transfers a share of stock to any person pursuant to such person's exercise of a qualified stock option or a restricted stock option, or

"(2) which in any calendar year records (or has by its agent recorded) a transfer of the legal title of a share of stock—

"(A) acquired by the transferor pursuant to his exercise of an option described in section 423(c) (relating to special rule where option price is between 85 percent and 100 percent of value of stock), or

Ante, p. 69.

"(B) acquired by the transferor pursuant to his exercise of a restricted stock option described in section 424(c)(1) (relating to options under which option price is between 85 percent and 95 percent of value of stock),

shall, for such calendar year, make a return at such time and in such manner, and setting forth such information, as the Secretary or his delegate may by regulations prescribe. For purposes of the preceding sentence, any option which a corporation treats as a qualified stock option, a restricted stock option, or an option granted under an employee stock purchase plan, shall be deemed to be such an option. A return is required by reason of a transfer described in paragraph (2) of a share only with respect to the first transfer of such share by the person who exercised the option.

"(b) Statements To Be Furnished to Persons With Respect to Whom Information Is Furnished.—Every corporation making a return under subsection (a) shall furnish to each person whose name is set forth in such return a written statement setting forth such information as the Secretary or his delegate may by regulations prescribe. The written statement required under the preceding sentence shall be furnished to the person on or before January 31 of the year following the calendar year for which the return under subsection (a) was made.

"(c) Identification of Stock.—Any corporation which transfers any share of stock pursuant to the exercise of an option described in subsection (a)(2) shall identify such stock in a manner adequate to carry out the purposes of this section.

"(d) Cross References.—

"For definition of—

"(1) The term 'qualified stock option', see section 422(b).

"(2) The term 'employee stock purchase plan', see section 423(b).

"(3) The term 'restricted stock option', see section 424(b)."

26 USC 6652.

(2) Penalties for failure to file information returns.—Section 6652(a) (relating to failure to file certain information returns) is amended to read as follows:

"(a) Returns Relating to Payments of Dividends, Etc., and Certain Transfers of Stock.—In the case of each failure—

26 USC 6042.
26 USC 6049.

"(1) to file a statement of the aggregate amount of payments to another person required by section 6042(a)(1) (relating to payments of dividends aggregating $10 or more), section 6044(a)(1) (relating to payments of patronage dividends aggregating $10 or more), or section 6049(a)(1) (relating to payments of interest aggregating $10 or more),

"(2) to make a return required by section 6039(a) (relating to reporting information in connection with certain options) with respect to a transfer of stock or a transfer of legal title to stock, or

Ante, p. 37.

"(3) to make a return required by section 6052(a) (relating to reporting payment of wages in the form of group-term life insurance) with respect to group-term life insurance on the life of an employee,

on the date prescribed therefor (determined with regard to any extension of time for filing), unless it is shown that such failure is due to reasonable cause and not to willful neglect, there shall be paid (upon notice and demand by the Secretary or his delegate and in the same manner as tax), by the person failing to file a statement referred to in paragraph (1) or failing to make a return referred to in paragraph (2) or (3), $10 for each such failure, but the total amount imposed on the delinquent person for all such failures during any calendar year shall not exceed $25,000."

(3) Penalties for failure to furnish statements to persons with respect to whom returns are filed.—Section 6678 (relating to failure to furnish certain statements) is amended— 26 USC 6678.

(A) by striking out "section 6042(c)," and inserting in lieu thereof "section 6039(b), 6042(c),"; and 26 USC 6042. Ante, p. 73.

(B) by striking out "section 6042(a)(1)." and inserting in lieu thereof "section 6039(a), 6042(a)(1),".

(c) Technical Amendments.—

(1) Section 402(a)(3)(B) (relating to taxability of beneficiary of employees' trust) is amended by striking out "section 421(d) (2) and (3)" and inserting in lieu thereof "subsections (e) and (f) of section 425". 26 USC 402. Ante, p. 71.

(2) The last sentence of subparagraph (B) of section 691(c) (2) (relating to allowance of deduction for estate tax in case of items constituting income in respect of a decedent) is amended to read as follows: "Such net value shall be determined with respect to the provisions of section 421(c)(2), relating to the deduction for estate tax with respect to stock options to which part II of subchapter D applies." Ante, p. 63.

(d) Clerical Amendments.—

(1) The table of parts for subchapter D of chapter 1 is amended by striking out

"Part II. Miscellaneous provisions."

and inserting in lieu thereof the following:

"Part II. Certain stock options."

(2) The table of sections for subpart A of part III of subchapter A of chapter 61 is amended by striking out

"Sec. 6039. Cross references."

and inserting in lieu thereof:

"Sec. 6039. Information required in connection with certain options.
"Sec. 6040. Cross references."

(e) Effective Dates and Transition Rules.—

(1) Except as provided in paragraphs (2) and (3), the amendments made by this section shall apply to taxable years ending after December 31, 1963.

(2) The amendments made by paragraphs (1) and (3) of subsection (b), and paragraph (2) of section 6652(a) of the Internal Revenue Code of 1954 (as amended by paragraph (2) of subsection (b)), shall apply to stock transferred pursuant to options exercised on or after January 1, 1964. 26 USC 6652.

(3) In the case of an option granted after December 31, 1963, and before January 1, 1965—

(A) paragraphs (1) and (2) of section 422(b) of the Internal Revenue Code of 1954 (as added by subsection (a)) shall not apply, and Ante, p. 64.

(B) paragraph (1) of section 425(h) of such Code (as added by subsection (a)) shall not apply to any change in the terms of such option made before January 1, 1965, to permit such option to qualify under paragraphs (3), (4), and (5) of such section 422(b).

SEC. 222. SALES AT RETAIL UNDER REVOLVING CREDIT PLANS.

(a) Treatment Under Installment Method.—Section 453 (relating to installment method of accounting) is amended by adding at the end thereof the following new subsection: Post, p. 105.

"(e) Revolving Credit Type Plans.—For purposes of subsection (a), the term 'installment plan' includes a revolving credit type plan which provides that the purchaser of personal property at retail may

pay for such property in a series of periodic payments of an agreed portion of the amounts due the seller under the plan, except that such term does not include any such plan with respect to a purchaser who uses his account primarily as an ordinary charge account."

(b) EFFECTIVE DATE.—The amendment made by subsection (a) shall apply in respect of sales made during taxable years beginning after December 31, 1963.

SEC. 223. TIMING OF DEDUCTIONS IN CERTAIN CASES WHERE ASSERTED LIABILITIES ARE CONTESTED.

(a) TAXABLE YEAR OF DEDUCTION.—

26 USC 461.

(1) Section 461 (relating to general rule for taxable year of deduction) is amended by adding at the end thereof the following new subsection:

"(f) CONTESTED LIABILITIES.—If—

"(1) the taxpayer contests an asserted liability,

"(2) the taxpayer transfers money or other property to provide for the satisfaction of the asserted liability,

"(3) the contest with respect to the asserted liability exists after the time of the transfer, and

"(4) but for the fact that the asserted liability is contested, a deduction would be allowed for the taxable year of the transfer (or for an earlier taxable year),

then the deduction shall be allowed for the taxable year of the transfer. This subsection shall not apply in respect of the deduction for income, war profits, and excess profits taxes imposed by the authority of any foreign country or possession of the United States."

53 Stat. 24.

(2) Section 43 of the Internal Revenue Code of 1939 (relating to period for which deductions and credits taken) is amended by adding at the end thereof the following new sentences: "If—

"(1) the taxpayer contests an asserted liability,

"(2) the taxpayer transfers money or other property to provide for the satisfaction of the asserted liability,

"(3) the contest with respect to the asserted liability exists after the time of the transfer, and

"(4) but for the fact that the asserted liability is contested, a deduction would be allowed for the taxable year of the transfer (or for an earlier taxable year),

then the deduction shall be allowed for the taxable year of the transfer. The preceding sentence shall not apply in respect of the deduction for income, war profits, and excess profits taxes imposed by the authority of any foreign country or possession of the United States."

(b) EFFECTIVE DATES.—Except as provided in subsections (c) and (d)—

(1) the amendment made by subsection (a)(1) shall apply to taxable years beginning after December 31, 1953, and ending after August 16, 1954, and

(2) the amendment made by subsection (a)(2) shall apply to taxable years to which the Internal Revenue Code of 1939 applies.

(c) ELECTION AS TO TRANSFERS IN TAXABLE YEARS BEGINNING BEFORE JANUARY 1, 1964.—

(1) The amendments made by subsection (a) shall not apply to any transfer of money or other property described in subsection (a) made in a taxable year beginning before January 1, 1964, if the taxpayer elects, in the manner provided by regulations prescribed by the Secretary of the Treasury or his delegate, to have this paragraph apply. Such an election—

(A) must be made within one year after the date of the enactment of this Act,

(B) may not be revoked after the expiration of such one-year period, and

(C) shall apply to all transfers described in the first sentence of this paragraph (other than transfers described in paragraph (2)).

In the case of any transfer to which this paragraph applies, the deduction shall be allowed only for the taxable year in which the contest with respect to such transfer is settled.

(2) Paragraph (1) shall not apply to any transfer if the assessment of any deficiency which would result from the application of the election in respect of such transfer is, on the date of the election under paragraph (1), prevented by the operation of any law or rule of law.

(3) If the taxpayer makes an election under paragraph (1), and if, on the date of such election, the assessment of any deficiency which results from the application of the election in respect of any transfer is not prevented by the operation of any law or rule of law, the period within which assessment of such deficiency may be made shall not expire earlier than 2 years after the date of the enactment of this Act.

(d) CERTAIN OTHER TRANSFERS IN TAXABLE YEARS BEGINNING BEFORE JANUARY 1, 1964.—The amendments made by subsection (a) shall not apply to any transfer of money or other property described in subsection (a) made in a taxable year beginning before January 1, 1964, if—

(1) no deduction has been allowed in respect of such transfer for any taxable year before the taxable year in which the contest with respect to such transfer is settled, and

(2) refund or credit of any overpayment which would result from the application of such amendments to such transfer is prevented by the operation of any law or rule of law.

In the case of any transfer to which this subsection applies, the deduction shall be allowed for the taxable year in which the contest with respect to such transfer is settled.

SEC. 224. INTEREST ON CERTAIN DEFERRED PAYMENTS.

(a) IN GENERAL.—Part III of subchapter E of chapter 1 (relating to accounting periods and methods of accounting) is amended by adding at the end thereof the following new section:

26 USC 481, 482.

"SEC. 483. INTEREST ON CERTAIN DEFERRED PAYMENTS.

"(a) AMOUNT CONSTITUTING INTEREST.—For purposes of this title, in the case of any contract for the sale or exchange of property there shall be treated as interest that part of a payment to which this section applies which bears the same ratio to the amount of such payment as the total unstated interest under such contract bears to the total of the payments to which this section applies which are due under such contract.

"(b) TOTAL UNSTATED INTEREST.—For purposes of this section, the term 'total unstated interest' means, with respect to a contract for the sale or exchange of property, an amount equal to the excess of—

"(1) the sum of the payments to which this section applies which are due under the contract, over

"(2) the sum of the present values of such payments and the present values of any interest payments due under the contract.

For purposes of paragraph (2), the present value of a payment shall be determined, as of the date of the sale or exchange, by discounting such payment at the rate, and in the manner, provided in regulations prescribed by the Secretary or his delegate. Such regulations shall provide for discounting on the basis of 6-month brackets and shall provide that the present value of any interest payment due not more

than 6 months after the date of the sale or exchange is an amount equal to 100 percent of such payment.

"(c) PAYMENTS TO WHICH SECTION APPLIES.—

"(1) IN GENERAL.—Except as provided in subsection (f), this section shall apply to any payment on account of the sale or exchange of property which constitutes part or all of the sales price and which is due more than 6 months after the date of such sale or exchange under a contract—

"(A) under which some or all of the payments are due more than one year after the date of such sale or exchange, and

"(B) under which, using a rate provided by regulations prescribed by the Secretary or his delegate for purposes of this subparagraph, there is total unstated interest.

Any rate prescribed for determining whether there is total unstated interest for purposes of subparagraph (B) shall be at least one percentage point lower than the rate prescribed for purposes of subsection (b)(2).

"(2) TREATMENT OF EVIDENCE OF INDEBTEDNESS.—For purposes of this section, an evidence of indebtedness of the purchaser given in consideration for the sale or exchange of property shall not be considered a payment, and any payment due under such evidence of indebtedness shall be treated as due under the contract for the sale or exchange.

"(d) PAYMENTS THAT ARE INDEFINITE AS TO TIME, LIABILITY, OR AMOUNT.—In the case of a contract for the sale or exchange of property under which the liability for, or the amount or due date of, any portion of a payment cannot be determined at the time of the sale or exchange, this section shall be separately applied to such portion as if it (and any amount of interest attributable to such portion) were the only payments due under the contract; and such determinations of liability, amount, and due date shall be made at the time payment of such portion is made.

"(e) CHANGE IN TERMS OF CONTRACT.—If the liability for, or the amount or due date of, any payment (including interest) under a contract for the sale or exchange of property is changed, the 'total unstated interest' under the contract shall be recomputed and allocated (with adjustment for prior interest (including unstated interest) payments) under regulations prescribed by the Secretary or his delegate.

"(f) EXCEPTIONS AND LIMITATIONS.—

"(1) SALES PRICE OF $3,000 OR LESS.—This section shall not apply to any payment on account of the sale or exchange of property if it can be determined at the time of such sale or exchange that the sales price cannot exceed $3,000.

"(2) CARRYING CHARGES.—In the case of the purchaser, the tax treatment of amounts paid on account of the sale or exchange of property shall be made without regard to this section if any such amounts are treated under section 163(b) as if they included interest.

26 USC 163.

"(3) TREATMENT OF SELLER.—In the case of the seller, the tax treatment of any amounts received on account of the sale or exchange of property shall be made without regard to this section if no part of any gain on such sale or exchange would be considered as gain from the sale or exchange of a capital asset or property described in section 1231.

26 USC 1231.

"(4) SALES OR EXCHANGES OF PATENTS.—This section shall not apply to any payments made pursuant to a transfer described in section 1235(a) (relating to sale or exchange of patents).

26 USC 1235.

"(5) ANNUITIES.—This section shall not apply to any amount the liability for which depends in whole or in part on the life expectancy of one or more individuals and which constitutes an amount received as an annuity to which section 72 applies." 26 USC 72.

(b) CLERICAL AMENDMENT.—The table of sections for such part is amended by adding at the end thereof the following new item:

"Sec. 483. Interest on certain deferred payments."

(c) CERTAIN CARRYING CHARGES.—Section 163(b)(1) (relating to installment purchases where interest charge is not separately stated) is amended— 26 USC 163.

(1) by striking out "personal property is purchased" and inserting in lieu thereof "personal property or educational services are purchased"; and

(2) by adding at the end thereof the following new sentence: "For purposes of this paragraph, the term 'educational services' means any service (including lodging) which is purchased from an educational institution (as defined in section 151(e)(4)) and which is provided for a student of such institution." 26 USC 151.

(d) EFFECTIVE DATE.—The amendments made by subsections (a) and (b) shall apply to payments made after December 31, 1963, on account of sales or exchanges of property occurring after June 30, 1963, other than any sale or exchange made pursuant to a binding written contract (including an irrevocable written option) entered into before July 1, 1963. The amendments made by subsection (c) shall apply to payments made during taxable years beginning after December 31, 1963.

SEC. 225. PERSONAL HOLDING COMPANIES.

(a) PERSONAL HOLDING COMPANY TAX RATE.—Section 541 (relating to imposition of personal holding company tax) is amended by striking out "tax equal to" and all that follows and inserting in lieu thereof: "tax equal to 70 percent of the undistributed personal holding company income." 26 USC 541.

(b) DEFINITION OF PERSONAL HOLDING COMPANY.—Paragraph (1) of section 542(a) (relating to the gross income requirement for personal holding company purposes) is amended to read as follows: 26 USC 542.

"(1) ADJUSTED ORDINARY GROSS INCOME REQUIREMENT.—At least 60 percent of its adjusted ordinary gross income (as defined in section 543(b)(2)) for the taxable year is personal holding company income (as defined in section 543(a)), and". 26 USC 543.

(c) EXCLUDED CORPORATIONS.—

(1) DOMESTIC BUILDING AND LOAN ASSOCIATIONS.—Paragraph (2) of section 542(c) (relating to corporations excepted from the definition of personal holding company) is amended to read as follows:

"(2) a bank as defined in section 581, or a domestic building and loan association within the meaning of section 7701(a)(19) without regard to subparagraphs (D) and (E) thereof;". 26 USC 7701.

(2) LENDING AND FINANCE COMPANIES.—Section 542(c) is amended by striking out paragraphs (6), (7), (8), and (9), by renumbering paragraphs (10) and (11) as paragraphs (7) and (8), and by inserting after paragraph (5) the following new paragraph:

"(6) a lending or finance company if—

"(A) 60 percent or more of its ordinary gross income (as defined in section 543(b)(1)) is derived directly from the active and regular conduct of a lending or finance business;

"(B) the personal holding company income for the tax-

able year (computed without regard to income described in subsection (d)(3) and income derived directly from the active and regular conduct of a lending or finance business, and computed by including as personal holding company income the entire amount of the gross income from rents, royalties, produced film rents, and compensation for use of corporate property by shareholders) is not more than 20 percent of the ordinary gross income;

"(C) the sum of the deductions which are directly allocable to the active and regular conduct of its lending or finance business equals or exceeds the sum of—

"(i) 15 percent of so much of the ordinary gross income derived therefrom as does not exceed $500,000, plus

"(ii) 5 percent of so much of the ordinary gross income derived therefrom as exceeds $500,000 but not $1,000,000; and

"(D) the loans to a person who is a shareholder in such company during the taxable year by or for whom 10 percent or more in value of its outstanding stock is owned directly or indirectly (including, in the case of an individual, stock owned by members of his family as defined in section 544 (a)(2)), outstanding at any time during such year do not exceed $5,000 in principal amount;".

Post, p. 93.

26 USC 542.

(3) Special rules for section 542(c)(6).—Section 542 is amended by adding at the end thereof the following new subsection:

"(d) Special Rules for Applying Subsection (c)(6).—

"(1) Lending or finance business defined.—

"(A) In general.—Except as provided in subparagraph (B), for purposes of subsection (c)(6), the term 'lending or finance business' means a business of—

"(i) making loans,

"(ii) purchasing or discounting accounts receivable, notes, or installment obligations,

"(iii) rendering services or making facilities available in connection with activities described in clauses (i) and (ii) carried on by the corporation rendering services or making facilities available, or

"(iv) rendering services or making facilities available to another corporation which is engaged in the lending or finance business (within the meaning of this paragraph), if such services or facilities are related to the lending or finance business (within such meaning) of such other corporation and such other corporation and the corporation rendering services or making facilities available are members of the same affiliated group (as defined in section 1504).

26 USC 1504.

"(B) Exceptions.—For purposes of subparagraph (A), the term 'lending or finance business' does not include the business of—

"(i) making loans, or purchasing or discounting accounts receivable, notes, or installment obligations, if (at the time of the loan, purchase, or discount) the remaining maturity exceeds 60 months, unless the loans, notes, or installment obligations are evidenced or secured by contracts of conditional sale, chattel mortgages, or chattel lease agreements arising out of the sale of goods or services in the course of the borrower's or transferor's trade or business, or

"(ii) making loans evidenced by, or purchasing, certificates of indebtedness issued in a series, under a trust indenture, and in registered form or with interest coupons attached.

For purposes of clause (i), the remaining maturity shall be treated as including any period for which there may be a renewal or extension under the terms of an option exercisable by the borrower.

"(2) BUSINESS DEDUCTIONS.—For purposes of subsection (c)(6)(C), the deductions which may be taken into account shall include only—

"(A) deductions which are allowable only by reason of section 162 or section 404, except there shall not be included any such deduction in respect of compensation for personal services rendered by shareholders (including members of the shareholder's family as described in section 544(a)(2)), and

Post, p. 93.

"(B) deductions allowable under section 167, and deductions allowable under section 164 for real property taxes, but in either case only to the extent that the property with respect to which such deductions are allowable is used directly in the active and regular conduct of the lending or finance business.

26 USC 167.
Ante, p. 40.

"(3) INCOME RECEIVED FROM CERTAIN AFFILIATED CORPORATIONS.—For purposes of subsection (c)(6)(B), in the case of a lending or finance company which meets the requirements of subsection (c)(6)(A), there shall not be treated as personal holding company income the lawful income received from a corporation which meets the requirements of subsection (c)(6) and which is a member of the same affiliated group (as defined in section 1504) of which such company is a member."

26 USC 1504.

(d) PERSONAL HOLDING COMPANY INCOME.—Subsections (a) and (b) of section 543 (relating to personal holding company income) are amended to read as follows:

26 USC 543.

"(a) GENERAL RULE.—For purposes of this subtitle, the term 'personal holding company income' means the portion of the adjusted ordinary gross income which consists of:

"(1) DIVIDENDS, ETC.—Dividends, interest, royalties (other than mineral, oil, or gas royalties or copyright royalties), and annuities. This paragraph shall not apply to—

"(A) interest constituting rent (as defined in subsection (b)(3)),

"(B) interest on amounts set aside in a reserve fund under section 511 or 607 of the Merchant Marine Act, 1936, and

54 Stat. 1106.
46 USC 1161.
49 Stat. 2005.
46 USC 1177.

"(C) a dividend distribution of divested stock (as defined in subsection (e) of section 1111), but only if the stock with respect to which the distribution is made was owned by the distributee on September 6, 1961, or was owned by the distributee for at least 2 years before the date on which the antitrust order (as defined in subsection (d) of section 1111) was entered.

26 USC 1111.

"(2) RENTS.—The adjusted income from rents; except that such adjusted income shall not be included if—

"(A) such adjusted income constitutes 50 percent or more of the adjusted ordinary gross income, and

"(B) the sum of—

"(i) the dividends paid during the taxable year (determined under section 562),

26 USC 562.

"(ii) the dividends considered as paid on the last day of the taxable year under section 563(c) (as limited by the second sentence of section 563(b)), and

26 USC 563.

"(iii) the consent dividends for the taxable year (determined under section 565),

26 USC 565.

equals or exceeds the amount, if any, by which the personal holding company income for the taxable year (computed without regard to this paragraph and paragraph (6), and computed by including as personal holding company income copyright royalties and the adjusted income from mineral, oil, and gas royalties) exceeds 10 percent of the ordinary gross income.

"(3) MINERAL, OIL, AND GAS ROYALTIES.—The adjusted income from mineral, oil, and gas royalties; except that such adjusted income shall not be included if—

"(A) such adjusted income constitutes 50 percent or more of the adjusted ordinary gross income,

"(B) the personal holding company income for the taxable year (computed without regard to this paragraph, and computed by including as personal holding company income copyright royalties and the adjusted income from rents) is not more than 10 percent of the ordinary gross income, and

"(C) the sum of the deductions which are allowable under section 162 (relating to trade or business expenses) other than—

"(i) deductions for compensation for personal services rendered by the shareholders, and

"(ii) deductions which are specifically allowable under sections other than section 162,

26 USC 162.

equals or exceeds 15 percent of the adjusted ordinary gross income.

"(4) COPYRIGHT ROYALTIES.—Copyright royalties; except that copyright royalties shall not be included if—

"(A) such royalties (exclusive of royalties received for the use of, or right to use, copyrights or interests in copyrights on works created in whole, or in part, by any shareholder) constitute 50 percent or more of the ordinary gross income,

"(B) the personal holding company income for the taxable year computed—

"(i) without regard to copyright royalties, other than royalties received for the use of, or right to use, copyrights or interests in copyrights in works created in whole, or in part, by any shareholder owning more than 10 percent of the total outstanding capital stock of the corporation,

"(ii) without regard to dividends from any corporation in which the taxpayer owns at least 50 percent of all classes of stock entitled to vote and at least 50 percent of the total value of all classes of stock and which corporation meets the requirements of this subparagraph and subparagraphs (A) and (C), and

"(iii) by including as personal holding company income the adjusted income from rents and the adjusted income from mineral, oil, and gas royalties,

is not more than 10 percent of the ordinary gross income, and

"(C) the sum of the deductions which are properly allocable to such royalties and which are allowable under section 162, other than—

"(i) deductions for compensation for personal services rendered by the shareholders,

"(ii) deductions for royalties paid or accrued, and

"(iii) deductions which are specifically allowable under sections other than section 162,

equals or exceeds 25 percent of the amount by which the ordinary gross income exceeds the sum of the royalties paid or accrued and the amounts allowable as deductions under section 167 (relating to depreciation) with respect to copyright royalties.

26 USC 167.

For purposes of this subsection, the term 'copyright royalties' means compensation, however designated, for the use of, or the right to use, copyrights in works protected by copyright issued under title 17 of the United States Code (other than by reason of section 2 or 6 thereof) and to which copyright protection is also extended by the laws of any country other than the United States of America by virtue of any international treaty, convention, or agreement, or interests in any such copyrighted works, and includes payments from any person for performing rights in any such copyrighted work and payments (other than produced film rents as defined in paragraph (5)(B)) received for the use of, or right to use, films. For purposes of this paragraph, the term 'shareholder' shall include any person who owns stock within the meaning of section 544.

Post, p. 93.

"(5) PRODUCED FILM RENTS.—

"(A) Produced film rents; except that such rents shall not be included if such rents constitute 50 percent or more of the ordinary gross income.

"(B) For purposes of this section, the term 'produced film rents' means payments received with respect to an interest in a film for the use of, or right to use, such film, but only to the extent that such interest was acquired before substantial completion of production of such film.

"(6) USE OF CORPORATION PROPERTY BY SHAREHOLDER.—Amounts received as compensation (however designated and from whomsoever received) for the use of, or right to use, property of the corporation in any case where, at any time during the taxable year, 25 percent or more in value of the outstanding stock of the corporation is owned, directly or indirectly, by or for an individual entitled to the use of the property; whether such right is obtained directly from the corporation or by means of a sublease or other arrangement. This paragraph shall apply only to a corporation which has personal holding company income for the taxable year (computed without regard to this paragraph and paragraph (2), and computed by including as personal holding company income copyright royalties and the adjusted income from mineral, oil, and gas royalties) in excess of 10 percent of its ordinary gross income.

"(7) PERSONAL SERVICE CONTRACTS.—

"(A) Amounts received under a contract under which the corporation is to furnish personal services; if some person other than the corporation has the right to designate (by name or by description) the individual who is to perform the services, or if the individual who is to perform the services is designated (by name or by description) in the contract; and

"(B) amounts received from the sale or other disposition of such a contract.

This paragraph shall apply with respect to amounts received for services under a particular contract only if at some time during the taxable year 25 percent or more in value of the outstanding stock of the corporation is owned, directly or indirectly, by or for the individual who has performed, is to perform, or may be

designated (by name or by description) as the one to perform, such services.

"(8) ESTATES AND TRUSTS.—Amounts includible in computing the taxable income of the corporation under part I of subchapter J (sec. 641 and following, relating to estates, trusts, and beneficiaries).

26 USC 641 et seq.

"(b) DEFINITIONS.—For purposes of this part—

"(1) ORDINARY GROSS INCOME.—The term 'ordinary gross income' means the gross income determined by excluding—

"(A) all gains from the sale or other disposition of capital assets, and

"(B) all gains (other than those referred to in subparagraph (A)) from the sale or other disposition of property described in section 1231(b).

26 USC 1231.

"(2) ADJUSTED ORDINARY GROSS INCOME.—The term 'adjusted ordinary gross income' means the ordinary gross income adjusted as follows:

"(A) RENTS.—From the gross income from rents (as defined in the second sentence of paragraph (3) of this subsection) subtract the amount allowable as deductions for—

"(i) exhaustion, wear and tear, obsolescence, and amortization of property other than tangible personal property which is not customarily retained by any one lessee for more than three years,

"(ii) property taxes,

"(iii) interest, and

"(iv) rent,

to the extent allocable, under regulations prescribed by the Secretary or his delegate, to such gross income from rents. The amount subtracted under this subparagraph shall not exceed such gross income from rents.

"(B) MINERAL ROYALTIES, ETC.—From the gross income from mineral, oil, and gas royalties described in paragraph (4), and from the gross income from working interests in an oil or gas well, subtract the amount allowable as deductions for—

"(i) exhaustion, wear and tear, obsolescence, amortization, and depletion,

"(ii) property and severance taxes,

"(iii) interest, and

"(iv) rent,

to the extent allocable, under regulations prescribed by the Secretary or his delegate, to such gross income from royalties or such gross income from working interests in oil or gas wells. The amount subtracted under this subparagraph with respect to royalties shall not exceed the gross income from such royalties, and the amount subtracted under this subparagraph with respect to working interests shall not exceed the gross income from such working interests.

"(C) INTEREST.—There shall be excluded—

"(i) interest received on a direct obligation of the United States held for sale to customers in the ordinary course of trade or business by a regular dealer who is making a primary market in such obligations, and

"(ii) interest on a condemnation award, a judgment, and a tax refund.

"(3) ADJUSTED INCOME FROM RENTS.—The term 'adjusted income from rents' means the gross income from rents, reduced by the amount subtracted under paragraph (2)(A) of this subsection.

For purposes of the preceding sentence, the term 'rents' means compensation, however designated, for the use of, or right to use, property, and the interest on debts owed to the corporation, to the extent such debts represent the price for which real property held primarily for sale to customers in the ordinary course of its trade or business was sold or exchanged by the corporation; but does not include amounts constituting personal holding company income under subsection (a)(6), nor copyright royalties (as defined in subsection (a)(4)), nor produced film rents (as defined in subsection (a)(5)(B)).

"(4) ADJUSTED INCOME FROM MINERAL, OIL, AND GAS ROYALTIES.—The term 'adjusted income from mineral, oil, and gas royalties' means the gross income from mineral, oil, and gas royalties (including production payments and overriding royalties), reduced by the amount subtracted under paragraph (2)(B) of this subsection in respect of such royalties."

(e) FOREIGN PERSONAL HOLDING COMPANY INCOME AND STOCK OWNERSHIP.—Section 553 (relating to foreign personal holding company income) and section 554 (relating to stock ownership) are amended to read as follows:

Post, p. 86.

"SEC. 553. FOREIGN PERSONAL HOLDING COMPANY INCOME.

"(a) FOREIGN PERSONAL HOLDING COMPANY INCOME.—For purposes of this subtitle, the term 'foreign personal holding company income' means that portion of the gross income, determined for purposes of section 552, which consists of:

26 USC 552.

"(1) DIVIDENDS, ETC.—Dividends, interest, royalties, and annuities. This paragraph shall not apply to a dividend distribution of divested stock (as defined in subsection (e) of section 1111) but only if the stock with respect to which the distribution is made was owned by the distributee on September 6, 1961, or was owned by the distributee for at least 2 years before the date on which the antitrust order (as defined in subsection (d) of section 1111) was entered.

26 USC 1111.

"(2) STOCK AND SECURITIES TRANSACTIONS.—Except in the case of regular dealers in stock or securities, gains from the sale or exchange of stock or securities.

"(3) COMMODITIES TRANSACTIONS.—Gains from futures transactions in any commodity on or subject to the rules of a board of trade or commodity exchange. This paragraph shall not apply to gains by a producer, processor, merchant, or handler of the commodity which arise out of bona fide hedging transactions reasonably necessary to the conduct of its business in the manner in which such business is customarily and usually conducted by others.

"(4) ESTATES AND TRUSTS.—Amounts includible in computing the taxable income of the corporation under part I of subchapter J (sec. 641 and following, relating to estates, trusts, and beneficiaries); and gains from the sale or other disposition of any interest in an estate or trust.

"(5) PERSONAL SERVICE CONTRACTS.—

"(A) Amounts received under a contract under which the corporation is to furnish personal services; if some person other than the corporation has the right to designate (by name or by description) the individual who is to perform the services, or if the individual who is to perform the services is designated (by name or by description) in the contract; and

"(B) amounts received from the sale or other disposition of such a contract.

This paragraph shall apply with respect to amounts received for services under a particular contract only if at some time during the taxable year 25 percent or more in value of the outstanding stock of the corporation is owned, directly or indirectly, by or for the individual who has performed, is to perform, or may be designated (by name or by description) as the one to perform, such services.

"(6) USE OF CORPORATION PROPERTY BY SHAREHOLDER.—Amounts received as compensation (however designated and from whomsoever received) for the use of, or right to use, property of the corporation in any case where, at any time during the taxable year, 25 percent or more in value of the outstanding stock of the corporation is owned, directly or indirectly, by or for an individual entitled to the use of the property; whether such right is obtained directly from the corporation or by means of a sublease or other arrangement. This paragraph shall apply only to a corporation which has foreign personal holding company income for the taxable year, computed without regard to this paragraph and paragraph (7), in excess of 10 percent of its gross income.

"(7) RENTS.—Rents, unless constituting 50 percent or more of the gross income. For purposes of this paragraph, the term 'rents' means compensation, however designated, for the use of, or right to use, property; but does not include amounts constituting foreign personal holding company income under paragraph (6).

"(b) LIMITATION ON GROSS INCOME IN CERTAIN TRANSACTIONS.—For purposes of this part—

"(1) gross income and foreign personal holding company income determined with respect to transactions described in subsection (a)(2) (relating to gains from stock and security transactions) shall include only the excess of gains over losses from such transactions, and

"(2) gross income and foreign personal holding company income determined with respect to transactions described in subsection (a)(3) (relating to gains from commodity transactions) shall include only the excess of gains over losses from such transactions.

"SEC. 554. STOCK OWNERSHIP.

"(a) CONSTRUCTIVE OWNERSHIP.—For purposes of determining whether a corporation is a foreign personal holding company, insofar as such determination is based on stock ownership under section 552(a)(2), section 553(a)(5), or section 553(a)(6)—

26 USC 552.
Ante, p. 85.

"(1) STOCK NOT OWNED BY INDIVIDUAL.—Stock owned, directly or indirectly, by or for a corporation, partnership, estate, or trust shall be considered as being owned proportionately by its shareholders, partners, or beneficiaries.

"(2) FAMILY AND PARTNERSHIP OWNERSHIP.—An individual shall be considered as owning the stock owned, directly or indirectly, by or for his family or by or for his partner. For purposes of this paragraph, the family of an individual includes only his brothers and sisters (whether by the whole or half blood), spouse, ancestors, and lineal descendants.

"(3) OPTIONS.—If any person has an option to acquire stock, such stock shall be considered as owned by such person. For purposes of this paragraph, an option to acquire such an option, and each one of a series of such options, shall be considered as an option to acquire such stock.

"(4) APPLICATION OF FAMILY-PARTNERSHIP AND OPTION RULES.—Paragraphs (2) and (3) shall be applied—

"(A) for purposes of the stock ownership requirement provided in section 552(a)(2), if, but only if, the effect is to make the corporation a foreign personal holding company; 26 USC 552.

"(B) for purposes of section 553(a)(5) (relating to personal service contracts) or of section 553(a)(6) (relating to the use of property by shareholders), if, but only if, the effect is to make the amounts therein referred to includible under such paragraph as foreign personal holding company income. Ante, p. 85.

"(5) CONSTRUCTIVE OWNERSHIP AS ACTUAL OWNERSHIP.—Stock constructively owned by a person by reason of the application of paragraph (1) or (3) shall, for purposes of applying paragraph (1) or (2), be treated as actually owned by such person; but stock constructively owned by an individual by reason of the application of paragraph (2) shall not be treated as owned by him for purposes of again applying such paragraph in order to make another the constructive owner of such stock.

"(6) OPTION RULE IN LIEU OF FAMILY AND PARTNERSHIP RULE.—If stock may be considered as owned by an individual under either paragraph (2) or (3) it shall be considered as owned by him under paragraph (3).

"(b) CONVERTIBLE SECURITIES.—Outstanding securities convertible into stock (whether or not convertible during the taxable year) shall be considered as outstanding stock—

"(1) for purposes of the stock ownership requirement provided in section 552(a)(2), but only if the effect of the inclusion of all such securities is to make the corporation a foreign personal holding company;

"(2) for purposes of section 553(a)(5) (relating to personal service contracts), but only if the effect of the inclusion of all such securities is to make the amounts therein referred to includible under such paragraph as foreign personal holding company income; and

"(3) for purposes of section 553(a)(6) (relating to the use of property by shareholders), but only if the effect of the inclusion of all such securities is to make the amounts therein referred to includible under such paragraph as foreign personal holding company income.

The requirement in paragraphs (1), (2), and (3) that all convertible securities must be included if any are to be included shall be subject to the exception that, where some of the outstanding securities are convertible only after a later date than in the case of others, the class having the earlier conversion date may be included although the others are not included, but no convertible securities shall be included unless all outstanding securities having a prior conversion date are also included."

(f) DIVIDENDS-PAID DEDUCTION.—

(1) Paragraph (2) of section 316(b) (relating to special rules for dividend defined) is amended to read as follows: 26 USC 316.

"(2) DISTRIBUTIONS BY PERSONAL HOLDING COMPANIES.—

"(A) In the case of a corporation which—

"(i) under the law applicable to the taxable year in which the distribution is made, is a personal holding company (as defined in section 542), or 26 USC 542.

"(ii) for the taxable year in respect of which the distribution is made under section 563(b) (relating to dividends paid after the close of the taxable year), or section 547 (relating to deficiency dividends), or the cor- 26 USC 563.

responding provisions of prior law, is a personal holding company under the law applicable to such taxable year, the term 'dividend' also means any distribution of property (whether or not a dividend as defined in subsection (a)) made by the corporation to its shareholders, to the extent of its undistributed personal holding company income (determined under section 545 without regard to distributions under this paragraph) for such year.

26 USC 545.

"(B) For purposes of subparagraph (A), the term 'distribution of property' includes a distribution in complete liquidation occurring within 24 months after the adoption of a plan of liquidation, but—

"(i) only to the extent of the amounts distributed to distributees other than corporate shareholders, and

"(ii) only to the extent that the corporation designates such amounts as a dividend distribution and duly notifies such distributees of such designation, under regulations prescribed by the Secretary or his delegate, but

"(iii) not in excess of the sum of such distributees' allocable share of the undistributed personal holding company income for such year, computed without regard to this subparagraph or section 562(b)."

26 USC 562.
26 USC 331.

(2) Section 331(b) (relating to nonapplication of section 301) is amended by inserting after "any distribution of property" the phrase "(other than a distribution referred to in paragraph (2)(B) of section 316(b))".

(3) Section 562(b) (relating to distributions in liquidation) is amended to read as follows:

"(b) DISTRIBUTIONS IN LIQUIDATION.—

"(1) Except in the case of a personal holding company described in section 542 or a foreign personal holding company described in section 552—

26 USC 542.
26 USC 552.

"(A) in the case of amounts distributed in liquidation, the part of such distribution which is properly chargeable to earnings and profits accumulated after February 28, 1913, shall be treated as a dividend for purposes of computing the dividends paid deduction, and

"(B) in the case of a complete liquidation occurring within 24 months after the adoption of a plan of liquidation, any distribution within such period pursuant to such plan shall, to the extent of the earnings and profits (computed without regard to capital losses) of the corporation for the taxable year in which such distribution is made, be treated as a dividend for purposes of computing the dividends paid deduction.

"(2) In the case of a complete liquidation of a personal holding company, occurring within 24 months after the adoption of a plan of liquidation, the amount of any distribution within such period pursuant to such plan shall be treated as a dividend for purposes of computing the dividends paid deduction, to the extent that such amount is distributed to corporate distributees and represents such corporate distributees' allocable share of the undistributed personal holding company income for the taxable year of such distribution computed without regard to this paragraph and without regard to subparagraph (B) of section 316(b)(2)."

26 USC 316.
26 USC 551.

(4) Section 551(b) (relating to amount included in gross income) is amended by striking out "received as a dividend" and inserting in lieu thereof "received as a dividend (determined as if

any distribution in liquidation actually made in such taxable year had not been made)".

(g) ONE-MONTH LIQUIDATIONS.—Section 333 (relating to election as to recognition of gain in certain liquidations) is amended by adding at the end thereof the following new subsection:

26 USC 333.

"(g) SPECIAL RULE.—

"(1) LIQUIDATIONS BEFORE JANUARY 1, 1967.—In the case of a liquidation occurring before January 1, 1967, of a corporation referred to in paragraph (3)—

"(A) the date 'December 31, 1953' referred to in subsections (e)(2) and (f)(1) shall be treated as if such date were 'December 31, 1962', and

"(B) in the case of stock in such corporation held for more than 6 months, the term 'a dividend' as used in subsection (e)(1) shall be treated as if such term were 'long-term capital gain'.

Subparagraph (B) shall not apply to any earnings and profits to which the corporation succeeds after December 31, 1963, pursuant to any corporate reorganization or pursuant to any liquidation to which section 332 applies, except earnings and profits which on December 31, 1963, constituted earnings and profits of a corporation referred to in paragraph (3), and except earnings and profits which were earned after such date by a corporation referred to in paragraph (3).

26 USC 332.

"(2) LIQUIDATIONS AFTER DECEMBER 31, 1966.—

"(A) IN GENERAL.—In the case of a liquidation occurring after December 31, 1966, of a corporation to which this subparagraph applies—

"(i) the date 'December 31, 1953' referred to in subsections (e)(2) and (f)(1) shall be treated as if such date were 'December 31, 1962', and

"(ii) so much of the gain recognized under subsection (e)(1) as is attributable to the earnings and profits accumulated after February 28, 1913, and before January 1, 1967, shall, in the case of stock in such corporation held for more than 6 months, be treated as long-term capital gain, and only the remainder of such gain shall be treated as a dividend.

Clause (ii) shall not apply to any earnings and profits to which the corporation succeeds after December 31, 1963, pursuant to any corporate reorganization or pursuant to any liquidation to which section 332 applies, except earnings and profits which on December 31, 1963, constituted earnings and profits of a corporation referred to in paragraph (3), and except earnings and profits which were earned after such date by a corporation referred to in paragraph (3).

"(B) CORPORATIONS TO WHICH APPLICABLE.—Subparagraph (A) shall apply only with respect to a corporation which is referred to in paragraph (3) and which—

"(i) on January 1, 1964, owes qualified indebtedness (as defined in section 545(c)),

26 USC 545.

"(ii) before January 1, 1968, notifies the Secretary or his delegate that it may wish to have subparagraph (A) apply to it and submits such information as may be required by regulations prescribed by the Secretary or his delegate, and

"(iii) liquidates before the close of the taxable year in which such corporation ceases to owe such qualified indebtedness or (if earlier) the taxable year referred to in subparagraph (C).

"(C) ADJUSTED POST-1963 EARNINGS AND PROFITS EXCEED QUALIFIED INDEBTEDNESS.—In the case of any corporation, the taxable year referred to in this subparagraph is the first taxable year at the close of which its adjusted post-1963 earnings and profits equal or exceed the amount of such corporation's qualified indebtedness on January 1, 1964. For purposes of the preceding sentence, the term 'adjusted post-1963 earnings and profits' means the sum of—

"(i) the earnings and profits of such corporation for taxable years beginning after December 31, 1963, without diminution by reason of any distributions made out of such earnings and profits, and

"(ii) the deductions allowed for taxable years beginning after December 31, 1963, for exhaustion, wear and tear, obsolescence, amortization, or depletion.

"(3) CORPORATIONS REFERRED TO.—For purposes of paragraphs (1) and (2), a corporation referred to in this paragraph is a corporation which for at least one of the two most recent taxable years ending before the date of the enactment of this subsection was not a personal holding company under section 542, but would have been a personal holding company under section 542 for such taxable year if the law applicable for the first taxable year beginning after December 31, 1963, had been applicable to such taxable year.

26 USC 542.

"(4) MISTAKE AS TO APPLICABILITY OF SUBSECTION.—An election made under this section by a qualified electing shareholder of a corporation in which such shareholder states that such election is made on the assumption that such corporation is a corporation referred to in paragraph (3) shall have no force or effect if it is determined that the corporation is not a corporation referred to in paragraph (3)."

(h) EXCEPTION FOR CERTAIN CORPORATIONS.—

(1) GENERAL RULE.—Except as provided in paragraph (2), in the case of a corporation referred to in section 333(g)(3) of the Internal Revenue Code of 1954 (as added by subsection (g) of this section), the amendments made by this section (other than subsections (f) and (g)) shall not apply if there is a complete liquidation of such corporation and if the distribution of all the property under such liquidation occurs before January 1, 1966.

26 USC 333.

(2) EXCEPTION.—Paragraph (1) shall not apply to any liquidation to which section 332 of the Internal Revenue Code of 1954 applies unless—

26 USC 332.

(A) the corporate distributee (referred to in subsection (b)(1) of such section 332) in such liquidation is liquidated in a complete liquidation to which such section 332 does not apply, and

(B) the distribution of all the property under such liquidation occurs before the 91st day after the last distribution referred to in paragraph (1) and before January 1, 1966.

(i) DEDUCTION FOR AMORTIZATION OF INDEBTEDNESS.—

26 USC 545.

(1) Section 545(a) (relating to definition of undistributed personal holding company income) is amended by striking out "subsection (b)" and inserting in lieu thereof "subsections (b) and (c)".

(2) Section 545 is amended by adding at the end thereof the following new subsection:

"(c) SPECIAL ADJUSTMENT TO TAXABLE INCOME.—

"(1) IN GENERAL.—Except as otherwise provided in this subsection, for purposes of subsection (a) there shall be allowed as

a deduction amounts used, or amounts irrevocably set aside (to the extent reasonable with reference to the size and terms of the indebtedness), to pay or retire qualified indebtedness.

"(2) CORPORATIONS TO WHICH APPLICABLE.—This subsection shall apply only with respect to a corporation—

"(A) which for at least one of the two most recent taxable years ending before the date of the enactment of this subsection was not a personal holding company under section 542, but would have been a personal holding company under section 542 for such taxable year if the law applicable for the first taxable year beginning after December 31, 1963, had been applicable to such taxable year, or

26 USC 542.

"(B) to the extent that it succeeds to the deduction referred to in paragraph (1) by reason of section 381(c)(15).

26 USC 381.

"(3) QUALIFIED INDEBTEDNESS.—

"(A) IN GENERAL.—Except as otherwise provided in this paragraph, for purposes of this subsection the term 'qualified indebtedness' means—

"(i) the outstanding indebtedness incurred by the taxpayer after December 31, 1933, and before January 1, 1964, and

"(ii) the outstanding indebtedness incurred after December 31, 1963, for the purpose of making a payment or set-aside referred to in paragraph (1) in the same taxable year, but, in the case of such a payment or set-aside which is made on or after the first day of the first taxable year beginning after December 31, 1963, only to the extent the deduction otherwise allowed in paragraph (1) with respect to such payment or set-aside is treated as nondeductible by reason of the election provided in paragraph (4).

"(B) EXCEPTION.—For purposes of subparagraph (A), qualified indebtedness does not include any amounts which were, at any time after December 31, 1963, and before the payment or set-aside, owed to a person who at such time owned (or was considered as owning within the meaning of section 318(a)) more than 10 percent in value of the taxpayer's outstanding stock.

"(C) REDUCTION FOR AMOUNTS IRREVOCABLY SET ASIDE.—For purposes of subparagraph (A), the qualified indebtedness with respect to a contract shall be reduced by amounts irrevocably set aside before the taxable year to pay or retire such indebtedness; and no deduction shall be allowed under paragraph (1) for payments out of amounts so set aside.

"(4) ELECTION NOT TO DEDUCT.—A taxpayer may elect, under regulations prescribed by the Secretary or his delegate, to treat as nondeductible an amount otherwise deductible under paragraph (1); but only if the taxpayer files such election on or before the 15th day of the third month following the close of the taxable year with respect to which such election applies, designating therein the amounts which are to be treated as nondeductible and specifying the indebtedness (referred to in paragraph (3)(A)(ii)) incurred for the purpose of making the payment or set-aside.

"(5) LIMITATIONS.—The deduction otherwise allowed by this subsection for the taxable year shall be reduced by the sum of—

"(A) the amount, if any, by which—
"(i) the deductions allowed for the taxable year and all preceding taxable years beginning after December 31, 1963, for exhaustion, wear and tear, obsolescence, amortization, or depletion (other than such deductions which are disallowed in computing undistributed personal holding company income under subsection (b)(8)), exceed
"(ii) any reduction, by reason of this subparagraph, of the deductions otherwise allowed by this subsection for such preceding taxable years, and
"(B) the amount, if any, by which—
"(i) the deductions allowed under subsection (b)(5) in computing undistributed personal holding company income for the taxable year and all preceding taxable years beginning after December 31, 1963, exceed
"(ii) any reduction, by reason of this subparagraph, of the deductions otherwise allowed by this subsection for such preceding taxable years.

"(6) Pro-rata reduction in certain cases.—For purposes of paragraph (3)(A), if property (of a character which is subject to an allowance for exhaustion, wear and tear, obsolescence, amortization, or depletion) is disposed of after December 31, 1963, the total amounts of qualified indebtedness of the taxpayer shall be reduced pro-rata in the taxable year of such disposition by the amount, if any, by which—
"(A) the adjusted basis of such property at the time of such disposition, exceeds
"(B) the amount of qualified indebtedness which ceased to be qualified indebtedness with respect to the taxpayer by reason of the assumption of the indebtedness by the transferee."

26 USC 381.

(3) Paragraph (15) of section 381(c) (relating to carryovers in certain corporate acquisitions) is amended to read as follows:
"(15) Indebtedness of certain personal holding companies.—The acquiring corporation shall be considered to be the distributor or transferor corporation for the purpose of determining the applicability of subsections (b)(7) and (c) of section 545, relating to deduction with respect to payment of certain indebtedness."

26 USC 545.

(j) Increase in Basis With Respect to Certain Foreign Personal Holding Company Stock or Securities.—
(1) In general.—Part II of subchapter O of chapter 1 (relating to basis rules of general application) is amended by redesignating section 1022 as section 1023 and by inserting after section 1021 the following new section:

26 USC 1021-1023.

"SEC. 1022. INCREASE IN BASIS WITH RESPECT TO CERTAIN FOREIGN PERSONAL HOLDING COMPANY STOCK OR SECURITIES.

"(a) General Rule.—The basis (determined under section 1014(b)(5), relating to basis of stock or securities in a foreign personal holding company) of a share of stock or a security, acquired from a decedent dying after December 31, 1963, of a corporation which was a foreign personal holding company for its most recent taxable year ending before the date of the decedent's death shall be increased by its proportionate share of any Federal estate tax attributable to the net appreciation in value of all of such shares and securities determined as provided in this section.

26 USC 1014.

"(b) Proportionate Share.—For purposes of subsection (a), the proportionate share of a share of stock or of a security is that amount which bears the same ratio to the aggregate increase determined under

subsection (c)(2) as the appreciation in value of such share or security bears to the aggregate appreciation in value of all such shares and securities having appreciation in value.

"(c) SPECIAL RULES AND DEFINITIONS.—For purposes of this section—

"(1) FEDERAL ESTATE TAX.—The term 'Federal estate tax' means only the tax imposed by section 2001 or 2101, reduced by any credit allowable with respect to a tax on prior transfers by section 2013 or 2102.

26 USC 2001, 2101.
26 USC 2013, 2102.

"(2) FEDERAL ESTATE TAX ATTRIBUTABLE TO NET APPRECIATION IN VALUE.—The Federal estate tax attributable to the net appreciation in value of all shares of stock and securities to which subsection (a) applies is that amount which bears the same ratio to the Federal estate tax as the net appreciation in value of all of such shares and securities bears to the value of the gross estate as determined under chapter 11 (including section 2032, relating to alternate valuation).

26 USC 2032.

"(3) NET APPRECIATION.—The net appreciation in value of all shares and securities to which subsection (a) applies is the amount by which the fair market value of all such shares and securities exceeds the adjusted basis of such property in the hands of the decedent.

"(4) FAIR MARKET VALUE.—For purposes of this section, the term 'fair market value' means fair market value determined under chapter 11 (including section 2032, relating to alternate valuation).

26 USC 2001-2209.

"(d) LIMITATIONS.—This section shall not apply to any foreign personal holding company referred to in section 342(a)(2)."

26 USC 342.

(2) AMENDMENT OF SECTION 1016(a).—Section 1016(a) (relating to adjustments to basis) is amended by striking out the period at the end thereof and by inserting in lieu thereof a semicolon and by adding at the end thereof the following new paragraph:

Ante, p. 34.

"(21) to the extent provided in section 1022, relating to increase in basis for certain foreign personal holding company stock or securities."

Ante, p. 92.

(3) CLERICAL AMENDMENT.—The table of sections for part II of subchapter O of chapter 1 is amended by striking out

"Sec. 1022. Cross references."

and inserting in lieu thereof the following:

"Sec. 1022. Increase in basis with respect to certain foreign personal holding company stock or securities.
"Sec. 1023. Cross references."

(k) TECHNICAL AMENDMENTS.—

(1) Section 542(b) (relating to corporations filing consolidated returns) is amended by striking out "gross income" each place it appears and inserting in lieu thereof "adjusted ordinary gross income".

26 USC 542.

(2) Section 543 (relating to personal holding company income) is amended by striking out subsection (d) (relating to special adjustment on disposition of antitrust stock received as a dividend).

26 USC 543.

(3) Section 544 (relating to rules for determining stock ownership) is amended—

Post, p. 93.

(A) by striking out "section 543(a)(5)" each place it appears and inserting in lieu thereof "section 543(a)(7)", and

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26 USC 543.

(B) by striking out "section 543(a)(9)" each place it appears and inserting in lieu thereof "section 543(a)(4)".

26 USC 856.

(4) REAL ESTATE INVESTMENT TRUSTS.—Paragraph (6) of section 856(a) (relating to definition of real estate investment trust) is amended by striking out "gross income" and inserting in lieu thereof "adjusted ordinary gross income (as defined in section 543(b)(2))".

26 USC 1361.

(5) UNINCORPORATED BUSINESS ENTERPRISES ELECTING TO BE TAXED AS DOMESTIC CORPORATIONS.—Section 1361(i) (relating to personal holding company income) is amended to read as follows:

"(i) PERSONAL HOLDING COMPANY INCOME.—

"(1) EXCLUDED FROM INCOME OF ENTERPRISE.—There shall be excluded from the gross income of the enterprise as to which an election has been made under subsection (a) any item of gross income (computed without regard to the adjustments provided in section 543(b) (3) or (4)) if, but for this paragraph, such item (adjusted, where applicable, as provided in section 543(b) (3) or (4)) would constitute personal holding company income (as defined in section 543(a)) of such enterprise.

"(2) INCOME AND DEDUCTIONS OF OWNERS.—Items excluded from the gross income of the enterprise under paragraph (1), and the expenses attributable thereto, shall be treated as the income and deductions of the proprietor or partners (in accordance with their distributive shares of partnership income) of such enterprise.

"(3) DISTRIBUTIONS.—If—

"(A) the amount excluded from gross income under paragraph (2) exceeds the expenses attributable thereto, and

"(B) any portion of such excess is distributed to the proprietor or partner during the year earned,

such portion shall not be taxed as a corporate distribution. The portion of such excess not distributed during such year shall be considered as paid-in surplus or as a contribution to capital as of the close of such year."

26 USC 6501.

(6) ASSESSMENT AND COLLECTION OF PERSONAL HOLDING COMPANY TAX.—Section 6501(f) (relating to personal holding company tax) is amended by striking out "gross income, described in section 543(a)," and inserting in lieu thereof "gross income and adjusted ordinary gross income, described in section 543,".

(l) EFFECTIVE DATES.—

(1) The amendments made by this section (other than by subsections (c)(1), (f), (g), and (j)) shall apply to taxable years beginning after December 31, 1963.

(2) The amendment made by subsection (c)(1) shall apply to taxable years beginning after October 16, 1962.

(3) The amendments made by subsections (f) and (g) shall apply to distributions made in any taxable year of the distributing corporation beginning after December 31, 1963.

(4) The amendments made by subsection (j) shall apply in respect of decedents dying after December 31, 1963.

(5) Subsection (h) shall apply to taxable years beginning after December 31, 1963.

SEC. 226. TREATMENT OF PROPERTY IN CASE OF OIL AND GAS WELLS.

26 USC 614.

(a) IN GENERAL.—Section 614(b) (relating to special rule as to operating mineral interests) is amended to read as follows:

"(b) SPECIAL RULES AS TO OPERATING MINERAL INTERESTS IN OIL AND GAS WELLS.—In the case of oil and gas wells—

"(1) IN GENERAL.—Except as otherwise provided in this subsection—

"(A) all of the taxpayer's operating mineral interests in a separate tract or parcel of land shall be combined and treated as one property, and

"(B) the taxpayer may not combine an operating mineral interest in one tract or parcel of land with an operating mineral interest in another tract or parcel of land.

"(2) ELECTION TO TREAT OPERATING MINERAL INTERESTS AS SEPARATE PROPERTIES.—If the taxpayer has more than one operating mineral interest in a single tract or parcel of land, he may elect to treat one or more of such operating mineral interests as separate properties. The taxpayer may not have more than one combination of operating mineral interests in a single tract or parcel of land. If the taxpayer makes the election provided in this paragraph with respect to any interest in a tract or parcel of land, each operating mineral interest which is discovered or acquired by the taxpayer in such tract or parcel of land after the taxable year for which the election is made shall be treated—

"(A) if there is no combination of interests in such tract or parcel, as a separate property unless the taxpayer elects to combine it with another interest, or

"(B) if there is a combination of interests in such tract or parcel, as part of such combination unless the taxpayer elects to treat it as a separate property.

"(3) CERTAIN UNITIZATION OR POOLING ARRANGEMENTS.—

"(A) IN GENERAL.—Under regulations prescribed by the Secretary or his delegate, if one or more of the taxpayer's operating mineral interests participate, under a voluntary or compulsory unitization or pooling agreement, in a single cooperative or unit plan of operation, then for the period of such participation—

"(i) they shall be treated for all purposes of this subtitle as one property, and

"(ii) the application of paragraphs (1), (2), and (4) in respect of such interests shall be suspended.

"(B) LIMITATION.—Subparagraph (A) shall apply to a voluntary agreement only if all the operating mineral interests covered by such agreement—

"(i) are in the same deposit, or are in 2 or more deposits the joint development or production of which is logical from the standpoint of geology, convenience, economy, or conservation, and

"(ii) are in tracts or parcels of land which are contiguous or in close proximity.

"(C) SPECIAL RULE IN THE CASE OF ARRANGEMENTS ENTERED INTO IN TAXABLE YEARS BEGINNING BEFORE JANUARY 1, 1964.—If—

"(i) two or more of the taxpayer's operating mineral interests participate under a voluntary or compulsory unitization or pooling agreement entered into in any taxable year beginning before January 1, 1964, in a single cooperative or unit plan of operation,

"(ii) the taxpayer, for the last taxable year beginning before January 1, 1964, treated such interests as two or more separate properties, and

"(iii) it is determined that such treatment was proper under the law applicable to such taxable year,

such taxpayer may continue to treat such interests in a consistent manner for the period of such participation.

"(4) MANNER, TIME, AND SCOPE OF ELECTION.—

"(A) MANNER AND TIME.—Any election provided in paragraph (2) shall be made for each operating mineral interest, in the manner prescribed by the Secretary or his delegate by regulations, not later than the time prescribed by law for filing the return (including extensions thereof) for whichever of the following taxable years is the later: The first taxable year beginning after December 31, 1963, or the first taxable year in which any expenditure for development or operation in respect of such operating mineral interest is made by the taxpayer after the acquisition of such interest.

"(B) SCOPE.—Any election under paragraph (2) shall be for all purposes of this subtitle and shall be binding on the taxpayer for all subsequent taxable years.

"(5) TREATMENT OF CERTAIN PROPERTIES.—If, on the day preceding the first day of the first taxable year beginning after December 31, 1963, the taxpayer has any operating mineral interests which he treats under subsection (d) of this section (as in effect before the amendments made by the Revenue Act of 1964), such treatment shall be continued and shall be deemed to have been adopted pursuant to paragraphs (1) and (2) of this subsection (as amended by such Act)."

(b) TECHNICAL AMENDMENTS.—

26 USC 614.

(1) The heading of section 614(c) is amended to read as follows:

"(c) SPECIAL RULES AS TO OPERATING MINERAL INTERESTS IN MINES.—"

Repeal.

(2) Paragraph (5) of section 614(c) is hereby repealed.

(3) Section 614(d) is amended to read as follows:

"(d) OPERATING MINERAL INTERESTS DEFINED.—For purposes of this section, the term 'operating mineral interest' includes only an interest in respect of which the costs of production of the mineral are required to be taken into account by the taxpayer for purposes of computing the 50 percent limitation provided for in section 613, or would be so required if the mine, well, or other natural deposit were in the production stage."

26 USC 613.

(4) Section 614(e)(2) is amended by striking out "within the meaning of subsection (b)(3)".

(c) ALLOCATION OF BASIS IN CERTAIN CASES.—For purposes of the Internal Revenue Code of 1954—

(1) FAIR MARKET VALUE RULE.—Except as provided in paragraph (2), if a taxpayer has a section 614(b) aggregation, then the adjusted basis (as of the first day of the first taxable year beginning after December 31, 1963) of each property included in such aggregation shall be determined by multiplying the adjusted basis of the aggregation by a fraction—

(A) the numerator of which is the fair market value of such property, and

(B) the denominator of which is the fair market value of such aggregation.

For purposes of this paragraph, the adjusted basis and the fair market value of the aggregation, and the fair market value of each property included therein, shall be determined as of the day preceding the first day of the first taxable year which begins after December 31, 1963.

(2) ALLOCATION OF ADJUSTMENTS, ETC.—If the taxpayer makes an election under this paragraph with respect to any section 614 (b) aggregation, then the adjusted basis (as of the first day of the

first taxable year beginning after December 31, 1963) of each property included in such aggregation shall be the adjusted basis of such property at the time it was first included in the aggregation by the taxpayer, adjusted for that portion of those adjustments to the basis of the aggregation which are reasonably attributable to such property. If, under the preceding sentence, the total of the adjusted bases of the interests included in the aggregation exceeds the adjusted basis of the aggregation (as of the day preceding the first day of the first taxable year which begins after December 31, 1963), the adjusted bases of the properties which include such interests shall be adjusted, under regulations prescribed by the Secretary of the Treasury or his delegate, so that the total of the adjusted bases of such interests equals the adjusted basis of the aggregation. An election under this paragraph shall be made at such time and in such manner as the Secretary of the Treasury or his delegate shall by regulations prescribe.

(3) DEFINITIONS.—For purposes of this subsection—

(A) SECTION 614(b) AGGREGATION.—The term "section 614(b) aggregation" means any aggregation to which section 614(b)(1)(A) of the Internal Revenue Code of 1954 (as in effect before the amendments made by subsection (a) of this section) applied for the day preceding the first day of the first taxable year beginning after December 31, 1963.

26 USC 614.

(B) PROPERTY.—The term "property" has the same meaning as is applicable, under section 614 of the Internal Revenue Code of 1954, to the taxpayer for the first taxable year beginning after December 31, 1963.

(d) EFFECTIVE DATE.—The amendments made by subsections (a) and (b) shall apply to taxable years beginning after December 31, 1963.

SEC. 227. TREATMENT OF CERTAIN IRON ORE ROYALTIES.

(a) IN GENERAL.—

(1) AMENDMENT OF SECTION 631(c).—Section 631(c) (relating to disposal of coal with a retained economic interest) is amended—

26 USC 631.

(A) by striking out the heading and inserting in lieu thereof the following:

"(c) DISPOSAL OF COAL OR DOMESTIC IRON ORE WITH A RETAINED ECONOMIC INTEREST.—";

(B) by inserting "or iron ore mined in the United States," after "coal (including lignite),";

(C) by inserting "or iron ore" after "coal" each other place it appears in section 631(c); and

(D) by adding at the end thereof the following new sentence:

"This subsection shall not apply to any disposal of iron ore—

"(1) to a person whose relationship to the person disposing of such iron ore would result in the disallowance of losses under section 267 or 707(b), or

26 USC 267, 707.

"(2) to a person owned or controlled directly or indirectly by the same interests which own or control the person disposing of such iron ore."

(2) AMENDMENT OF SECTION 1231(b).—Section 1231(b)(2) (defining property used in the trade or business) is amended to read as follows:

26 USC 1231.

"(2) TIMBER, COAL, OR DOMESTIC IRON ORE.—Such term includes timber, coal, and iron ore with respect to which section 631 applies."

78 STAT. 98.

68A Stat. 82.
26 USC 272.

(3) AMENDMENT OF SECTION 272.—The text of section 272 (relating to disposal of coal) is amended by inserting "or iron ore" after "coal" each place it appears.

(b) CLERICAL AMENDMENTS.—

Ante, p. 97.

(1) the heading of section 631 is amended to read as follows:

"SEC. 631. GAIN OR LOSS IN THE CASE OF TIMBER, COAL, OR DOMESTIC IRON ORE."

(2) The table of sections for part III of subchapter I of chapter 1 is amended by striking out

"Sec. 631. Gain or loss in the case of timber or coal."

and inserting in lieu thereof the following:

"Sec. 631. Gain or loss in the case of timber, coal, or domestic iron ore."

(3) The heading of section 272 is amended to read as follows:

"SEC. 272. DISPOSAL OF COAL OR DOMESTIC IRON ORE."

(4) The table of sections for part IX of subchapter B of chapter 1 is amended by striking out

"Sec. 272. Disposal of coal."

and inserting in lieu thereof the following:

"Sec. 272. Disposal of coal or domestic iron ore."

26 USC 1016.

(5) Section 1016(a)(15) is amended by inserting "or domestic iron ore" after "coal".

26 USC 1402.

(6) Section 1402(a)(3)(B) is amended to read as follows:

"(B) from the cutting of timber, or the disposal of timber, coal, or iron ore, if section 631 applies to such gain or loss, or"

68 Stat. 1055.
42 USC 411.

(7) Section 211(a)(3) of the Social Security Act is amended by striking out clause (B) and inserting in lieu thereof "(B) from the cutting of timber, or the disposal of timber, coal, or iron ore, if section 631 of the Internal Revenue Code of 1954 applies to such gain or loss,".

(c) EFFECTIVE DATE.—The amendments made by this section shall apply with respect to amounts received or accrued in taxable years beginning after December 31, 1963, attributable to iron ore mined in such taxable years.

SEC. 228. INSURANCE COMPANIES.

(a) CERTAIN MUTUALIZATION DISTRIBUTIONS MADE IN 1962.—

26 USC 809.

(1) DEDUCTION FOR CERTAIN MUTUALIZATION DISTRIBUTIONS.—Section 809(d)(11) (relating to deductions in computing gain from operations in the case of certain mutualization distributions) is amended by striking out "and 1961" and inserting in lieu thereof "1961, and 1962".

(2) APPLICATION OF SECTION 815.—Section 809(g)(3) (relating to application of section 815 to certain mutualization distributions) is amended by striking out "or 1961" and inserting in lieu thereof "1961, or 1962".

(b) ACCRUAL OF BOND DISCOUNT.—

26 USC 818.

(1) LIFE INSURANCE COMPANIES.—Section 818(b) (relating to amortization of premium and accrual of discount) is amended by adding at the end thereof the following new paragraph:

26 USC 171.

"(3) EXCEPTION.—For taxable years beginning after December 31, 1962, no accrual of discount shall be required under paragraph (1) on any bond (as defined in section 171(d)), except in the case of discount which is—

"(A) interest to which section 103 applies, or

26 USC 1232.

"(B) original issue discount (as defined in section 1232(b)).

For purposes of section 805(b)(3)(A), the current earnings rate for any taxable year beginning before January 1, 1963, shall be determined as if the preceding sentence applied to such taxable year."

(2) MUTUAL INSURANCE COMPANIES.—Section 822(d)(2) (relating to amortization of premium and accrual of discount) is amended by adding at the end thereof the following new sentence: "For taxable years beginning after December 31, 1962, no accrual of discount shall be required under this paragraph on any bond (as defined in section 171(d))."

26 USC 822.

(c) CONTRIBUTIONS TO QUALIFIED, ETC., PLANS.—Section 832(c)(10) (relating to deductions allowed in computing taxable income of certain insurance companies) is amended by inserting before the semicolon at the end thereof "and in part I of subchapter D (sec. 401 and following, relating to pension, profit-sharing, stock bonus plans, etc.)".

26 USC 832.

(d) EFFECTIVE DATES.—The amendment made by subsection (a) shall apply to taxable years beginning after December 31, 1961. The amendment made by subsection (c) shall apply to taxable years beginning after December 31, 1953, and ending after August 16, 1954.

SEC. 229. REGULATED INVESTMENT COMPANIES.

(a) TIME FOR MAILING CERTAIN NOTICES TO SHAREHOLDERS.—The following provisions (relating to notices to shareholders by regulated investment companies) are amended by striking out "30 days", wherever appearing therein, and inserting in lieu thereof "45 days":

(1) Section 852(b)(3)(C),
(2) Section 852(b)(3)(D)(i),
(3) Section 853(c),
(4) Section 854(b)(2), and
(5) Section 855(c).

26 USC 852-855.
Ante, p. 32.

(b) CERTAIN REDEMPTIONS BY UNIT INVESTMENT TRUSTS.—Section 852 (relating to taxation of regulated investment companies and their shareholders) is amended by adding at the end thereof the following new subsection:

"(d) DISTRIBUTIONS IN REDEMPTION OF INTERESTS IN UNIT INVESTMENT TRUSTS.—In the case of a unit investment trust—

"(1) which is registered under the Investment Company Act of 1940 and issues periodic payment plan certificates (as defined in such Act), and

54 Stat. 789.
15 USC 80a-51.

"(2) substantially all of the assets of which consist of securities issued by a management company (as defined in such Act),

section 562(c) (relating to preferential dividends) shall not apply to a distribution by such trust to a holder of an interest in such trust in redemption of part or all of such interest, with respect to the net capital gain of such trust attributable to such redemption."

(c) EFFECTIVE DATES.—The amendments made by subsection (a) shall apply to taxable years of regulated investment companies ending on or after the date of the enactment of this Act. The amendment made by subsection (b) shall apply to taxable years of regulated investment companies ending after December 31, 1963.

SEC. 230. CAPITAL LOSS CARRYOVERS FOR TAXPAYERS OTHER THAN CORPORATIONS.

(a) IN GENERAL.—Section 1212 (relating to capital loss carryover) is amended—

26 USC 1212.

(1) by striking out "If for any taxable year the taxpayer" and inserting in lieu thereof:

"(a) CORPORATIONS.—If for any taxable year a corporation"; and

(2) by adding at the end thereof the following new subsection:

"(b) OTHER TAXPAYERS.—

"(1) In general.—If a taxpayer other than a corporation has a net capital loss for any taxable year beginning after December 31, 1963—

"(A) the excess of the net short-term capital loss over the net long-term capital gain for such year shall be a short-term capital loss in the succeeding taxable year, and

"(B) the excess of the net long-term capital loss over the net short-term capital gain for such year shall be a long-term capital loss in the succeeding taxable year.

For purposes of this paragraph, in determining such excesses an amount equal to the excess of the sum allowed for the taxable year under section 1211(b) over the gains from sales or exchanges of capital assets (determined without regard to this sentence) shall be treated as a short-term capital gain in such year.

"(2) Transitional rule.—In the case of a taxpayer other than a corporation, there shall be treated as a short-term capital loss in the first taxable year beginning after December 31, 1963, any amount which is treated as a short-term capital loss in such year under this subchapter as in effect immediately before the enactment of the Revenue Act of 1964."

(b) Technical Amendments.—

26 USC 1222.

(1) Section 1222(9) (relating to net capital gain) is amended to read as follows:

"(9) Net capital gain.—In the case of a corporation, the term 'net capital gain' means the excess of the gains from sales or exchanges of capital assets over the losses from such sales or exchanges."

(2) The second sentence of section 1222(10) (relating to net capital loss) is amended by striking out "For the purpose" and inserting in lieu thereof "In the case of a corporation, for the purpose".

(c) Effective Date.—The amendments made by this section shall apply to taxable years beginning after December 31, 1963.

SEC. 231. GAIN FROM DISPOSITIONS OF CERTAIN DEPRECIABLE REALTY.

(a) Gain From Dispositions of Certain Depreciable Realty.—

26 USC 1231-1249.

Part IV of subchapter P of chapter 1 (relating to special rules for determining capital gains and losses) is amended by adding at the end thereof the following new section:

"SEC. 1250. GAIN FROM DISPOSITIONS OF CERTAIN DEPRECIABLE REALTY.

"(a) General Rule.—

"(1) Ordinary income.—Except as otherwise provided in this section, if section 1250 property is disposed of after December 31, 1963, the applicable percentage of the lower of—

"(A) the additional depreciation (as defined in subsection (b)(1)) in respect of the property, or

"(B) the excess of—

"(i) the amount realized (in the case of a sale, exchange, or involuntary conversion), or the fair market value of such property (in the case of any other disposition), over

"(ii) the adjusted basis of such property,

shall be treated as gain from the sale or exchange of property which is neither a capital asset nor property described in section 1231. Such gain shall be recognized notwithstanding any other provision of this subtitle.

"(2) Applicable percentage.—For purposes of paragraph (1), the term 'applicable percentage' means 100 percent minus

one percentage point for each full month the property was held after the date on which the property was held 20 full months.

"(b) ADDITIONAL DEPRECIATION DEFINED.—For purposes of this section—

"(1) IN GENERAL.—The term 'additional depreciation' means, in the case of any property, the depreciation adjustments in respect of such property; except that, in the case of property held more than one year, it means such adjustments only to the extent that they exceed the amount of the depreciation adjustments which would have resulted if such adjustments had been determined for each taxable year under the straight line method of adjustment. For purposes of the preceding sentence, if a useful life (or salvage value) was used in determining the amount allowed as a deduction for any taxable year, such life (or value) shall be used in determining the depreciation adjustments which would have resulted for such year under the straight line method.

"(2) PROPERTY HELD BY LESSEE.—In the case of a lessee, in determining the depreciation adjustments which would have resulted in respect of any building erected (or other improvement made) on the leased property, or in respect of any cost of acquiring the lease, the lease period shall be treated as including all renewal periods. For purposes of the preceding sentence—

"(A) the term 'renewal period' means any period for which the lease may be renewed, extended, or continued pursuant to an option exercisable by the lessee, but

"(B) the inclusion of renewal periods shall not extend the period taken into account by more than ⅔ of the period on the basis of which the depreciation adjustments were allowed.

"(3) DEPRECIATION ADJUSTMENTS.—The term 'depreciation adjustments' means, in respect of any property, all adjustments attributable to periods after December 31, 1963, reflected in the adjusted basis of such property on account of deductions (whether in respect of the same or other property) allowed or allowable to the taxpayer or to any other person for exhaustion, wear and tear, obsolescence, or amortization (other than amortization under section 168). For purposes of the preceding sentence, if the taxpayer can establish by adequate records or other sufficient evidence that the amount allowed as a deduction for any period was less than the amount allowable, the amount taken into account for such period shall be the amount allowed.

26 USC 168.

"(c) SECTION 1250 PROPERTY.—For purposes of this section, the term 'section 1250 property' means any real property (other than section 1245 property, as defined in section 1245(a)(3)) which is or has been property of a character subject to the allowance for depreciation provided in section 167.

26 USC 167.

"(d) EXCEPTIONS AND LIMITATIONS.—

"(1) GIFTS.—Subsection (a) shall not apply to a disposition by gift.

"(2) TRANSFERS AT DEATH.—Except as provided in section 691 (relating to income in respect of a decedent), subsection (a) shall not apply to a transfer at death.

"(3) CERTAIN TAX-FREE TRANSACTIONS.—If the basis of property in the hands of a transferee is determined by reference to its basis in the hands of the transferor by reason of the application of section 332, 351, 361, 371(a), 374(a), 721, or 731, then the amount of gain taken into account by the transferor under subsection (a)(1) shall not exceed the amount of gain recognized to the transferor on the transfer of such property (determined without regard to this section). This paragraph shall not apply to a disposition

26 USC 332, 351, 361, 371, 374, 721, 731.

to an organization (other than a cooperative described in section 521) which is exempt from the tax imposed by this chapter.

26 USC 521.

"(4) LIKE KIND EXCHANGES; INVOLUNTARY CONVERSIONS, ETC.—

"(A) RECOGNITION LIMIT.—If property is disposed of and gain (determined without regard to this section) is not recognized in whole or in part under section 1031 or 1033, then the amount of gain taken into account by the transferor under subsection (a)(1) shall not exceed the greater of the following:

26 USC 1031, 1033.

"(i) the amount of gain recognized on the disposition (determined without regard to this section), increased as provided in subparagraph (B), or

"(ii) the amount determined under subparagraph (C).

"(B) INCREASE FOR CERTAIN STOCK.—With respect to any transaction, the increase provided by this subparagraph is the amount equal to the fair market value of any stock purchased in a corporation which (but for this paragraph) would result in nonrecognition of gain under section 1033 (a)(3)(A).

"(C) ADJUSTMENT WHERE INSUFFICIENT SECTION 1250 PROPERTY IS ACQUIRED.—With respect to any transaction, the amount determined under this subparagraph shall be the excess of—

"(i) the amount of gain which would (but for this paragraph) be taken into account under subsection (a) (1), over

"(ii) the fair market value (or cost in the case of a transaction described in section 1033(a)(3)) of the section 1250 property acquired in the transaction.

"(D) BASIS OF PROPERTY ACQUIRED.—In the case of property purchased by the taxpayer in a transaction described in section 1033(a)(3), in applying the last sentence of section 1033(c), such sentence shall be applied—

"(i) first solely to section 1250 properties and to the amount of gain not taken into account under subsection (a)(1) by reason of this paragraph, and

"(ii) then to all purchased properties to which such sentence applies and to the remaining gain not recognized on the transaction as if the cost of the section 1250 properties were the basis of such properties computed under clause (i).

In the case of property acquired in any other transaction to which this paragraph applies, rules consistent with the preceding sentence shall be applied under regulations prescribed by the Secretary or his delegate.

"(E) ADDITIONAL DEPRECIATION WITH RESPECT TO PROPERTY DISPOSED OF.—In the case of any transaction described in section 1031 or 1033, the additional depreciation in respect of the section 1250 property acquired which is attributable to the section 1250 property disposed of shall be an amount equal to the amount of the gain which was not taken into account under subsection (a)(1) by reason of the application of this paragraph.

Ante, p. 101.

"(5) SECTION 1071 AND 1081 TRANSACTIONS.—Under regulations prescribed by the Secretary or his delegate, rules consistent with paragraphs (3) and (4) of this subsection and with subsections (e) and (f) shall apply in the case of transactions described in section 1071 (relating to gain from sale or exchange to effectuate

26 USC 1071, 1081.

policies of FCC) or section 1081 (relating to exchanges in obedience to SEC orders). 26 USC 1081.

"(6) PROPERTY DISTRIBUTED BY A PARTNERSHIP TO A PARTNER.—

"(A) IN GENERAL.—For purposes of this section, the basis of section 1250 property distributed by a partnership to a partner shall be deemed to be determined by reference to the adjusted basis of such property to the partnership.

"(B) ADDITIONAL DEPRECIATION.—In respect of any property described in subparagraph (A), the additional depreciation attributable to periods before the distribution by the partnership shall be—

"(i) the amount of the gain to which subsection (a) would have applied if such property had been sold by the partnership immediately before the distribution at its fair market value at such time and the applicable percentage for the property had been 100 percent, reduced by

"(ii) if section 751(b) applied to any part of such gain, the amount of such gain to which section 751(b) would have applied if the applicable percentage for the property had been 100 percent. 26 USC 751.

"(7) DISPOSITION OF PRINCIPAL RESIDENCE.—Subsection (a) shall not apply to a disposition of—

"(A) property to the extent used by the taxpayer as his principal residence (within the meaning of section 1034, relating to sale or exchange of residence), and 26 USC 1034.

"(B) property in respect of which the taxpayer meets the age and ownership requirements of section 121 (relating to gains from sale or exchange of residence of individual who has attained the age of 65) but only to the extent that he meets the use requirements of such section in respect of such property. Ante, p. 38.

"(e) HOLDING PERIOD.—For purposes of determining the applicable percentage under this section, the provisions of section 1223 shall not apply, and the holding period of section 1250 property shall be determined under the following rules: 26 USC 1223.

"(1) BEGINNING OF HOLDING PERIOD.—The holding period of section 1250 property shall be deemed to begin—

"(A) in the case of property acquired by the taxpayer, on the day after the date of acquisition, or

"(B) in the case of property constructed, reconstructed, or erected by the taxpayer, on the first day of the month during which the property is placed in service.

"(2) PROPERTY WITH TRANSFERRED BASIS.—If the basis of property acquired in a transaction described in paragraph (1), (2), (3), or (5) of subsection (d) is determined by reference to its basis in the hands of the transferor, then the holding period of the property in the hands of the transferee shall include the holding period of the property in the hands of the transferor.

"(3) PRINCIPAL RESIDENCE.—If the basis of property acquired in a transaction described in paragraph (7) of subsection (d) is determined by reference to the basis in the hands of the taxpayer of other property, then the holding period of the property acquired shall include the holding period of such other property.

"(f) SPECIAL RULES FOR PROPERTY WHICH IS SUBSTANTIALLY IMPROVED.—

"(1) AMOUNT TREATED AS ORDINARY INCOME.—If, in the case of a disposition of section 1250 property, the property is treated as consisting of more than one element by reason of paragraph

(3), then the amount taken into account under subsection (a)(1) in respect of such section 1250 property as gain from the sale or exchange of property which is neither a capital asset nor property described in section 1231 shall be the sum of the amounts determined under paragraph (2).

26 USC 1231.

"(2) ORDINARY INCOME ATTRIBUTABLE TO AN ELEMENT.—For purposes of paragraph (1), the amount taken into account for any element shall be the amount determined by multiplying—

"(A) the amount which bears the same ratio to the lower of the amounts specified in subparagraph (A) or (B) of subsection (a)(1) for the section 1250 property as the additional depreciation for such element bears to the sum of the additional depreciation for all elements, by

"(B) the applicable percentage for such element.

For purposes of this paragraph, determinations with respect to any element shall be made as if it were a separate property.

"(3) PROPERTY CONSISTING OF MORE THAN ONE ELEMENT.—In applying this subsection in the case of any section 1250 property, there shall be treated as a separate element—

Ante, p. 101.

"(A) each separate improvement,

"(B) if, before completion of section 1250 property, units thereof (as distinguished from improvements) were placed in service, each such unit of section 1250 property, and

"(C) the remaining property which is not taken into account under subparagraphs (A) and (B).

"(4) PROPERTY WHICH IS SUBSTANTIALLY IMPROVED.—For purposes of this subsection—

"(A) IN GENERAL.—The term 'separate improvement' means each improvement added during the 36-month period ending on the last day of any taxable year to the capital account for the property, but only if the sum of the amounts added to such account during such period exceeds the greatest of—

"(i) 25 percent of the adjusted basis of the property,

"(ii) 10 percent of the adjusted basis of the property, determined without regard to the adjustments provided in paragraphs (2) and (3) of section 1016(a), or

26 USC 1016.

"(iii) $5,000.

For purposes of clauses (i) and (ii), the adjusted basis of the property shall be determined as of the beginning of the first day of such 36-month period, or of the holding period of the property (within the meaning of subsection (e)), whichever is the later.

"(B) EXCEPTION.—Improvements in any taxable year shall be taken into account for purposes of subparagraph (A) only if the sum of the amounts added to the capital account for the property for such taxable year exceeds the greater of—

"(i) $2,000, or

"(ii) one percent of the adjusted basis referred to in subparagraph (A)(ii), determined, however, as of the beginning of such taxable year.

For purposes of this section, if the amount added to the capital account for any separate improvement does not exceed the greater of clause (i) or (ii), such improvement shall be treated as placed in service on the first day, of a calendar month, which is closest to the middle of the taxable year.

"(C) IMPROVEMENT.—The term 'improvement' means, in the case of any section 1250 property, any addition to capital

account for such property after the initial acquisition or after completion of the property.

"(g) ADJUSTMENTS TO BASIS.—The Secretary or his delegate shall prescribe such regulations as he may deem necessary to provide for adjustments to the basis of property to reflect gain recognized under subsection (a).

"(h) APPLICATION OF SECTION.—This section shall apply notwithstanding any other provision of this subtitle."

(b) TECHNICAL AMENDMENTS.—

(1) SPECIAL RULE FOR CHARITABLE CONTRIBUTIONS.—

(A) The heading of section 170(e) (relating to special rule for charitable contributions of section 1245 property) is amended by striking out "SECTION 1245 PROPERTY" and inserting in lieu thereof "CERTAIN PROPERTY". 26 USC 170.

(B) The text of such section 170(e) is amended by striking out "section 1245(a)" and inserting in lieu thereof "section 1245(a) or 1250(a)".

(2) CORPORATE DISTRIBUTIONS OF PROPERTY.—Subsections (b) and (d) of section 301 (relating to amount distributed) are each amended by striking out "under section 1245(a)" and inserting in lieu thereof "under section 1245(a) or 1250(a)". 26 USC 301.

(3) EFFECT ON EARNINGS AND PROFITS.—Paragraph (3) of section 312(c) (relating to adjustments of earnings and profits) is amended by striking out "or under section 1245(a)" and inserting in lieu thereof "or under section 1245(a) or 1250(a)". 26 USC 312.

(4) COLLAPSIBLE CORPORATIONS.—Paragraph (12) of section 341(e) (relating to collapsible corporations) is amended by striking out "section 1245(a)" and inserting in lieu thereof "sections 1245(a) and 1250(a)". 26 USC 341.

(5) INSTALLMENT OBLIGATIONS IN CERTAIN LIQUIDATIONS.—Subparagraphs (A) and (B) of section 453(d)(4) (relating to distribution of installment obligations in certain corporate liquidations) are each amended by striking out "section 1245(a)" and inserting in lieu thereof "section 1245(a) or 1250(a)". 26 USC 453.

(6) SPECIAL RULE FOR PARTNERSHIPS.—Section 751(c) (relating to definition of "unrealized receivables" for purposes of subchapter K) is amended by striking out "(as defined in section 1245(a)(3))" and inserting in lieu thereof "(as defined in section 1245 (a)(3)) and section 1250 property (as defined in section 1250(c))" and by striking out "to which section 1245(a)" and inserting in lieu thereof "to which section 1245(a) or 1250(a)". 26 USC 751.

(7) The table of sections for part IV of subchapter P of chapter 1 is amended by adding at the end thereof the following:

"Sec. 1250. Gain from dispositions of certain depreciable realty."

(c) EFFECTIVE DATE.—The amendments made by this section shall apply to dispositions after December 31, 1963, in taxable years ending after such date.

SEC. 232. AVERAGING.

(a) GENERAL RULE.—Part I of subchapter Q of chapter 1 is amended to read as follows:

"PART I—INCOME AVERAGING

"Sec. 1301. Limitation on tax.
"Sec. 1302. Definition of averagable income; related definitions.
"Sec. 1303. Eligible individuals.
"Sec. 1304. Special rules.
"Sec. 1305. Regulations.

"SEC. 1301. LIMITATION ON TAX.

"If an eligible individual has averagable income for the computation year, and if the amount of such income exceeds $3,000, then the tax imposed by section 1 for the computation year which is attributable to averagable income shall be 5 times the increase in tax under such section which would result from adding 20 percent of such income to the sum of—

"(1) 133⅓ percent of average base period income, and

"(2) the amount (if any) of the average base period capital gain net income.

"SEC. 1302. DEFINITION OF AVERAGABLE INCOME; RELATED DEFINITIONS.

"(a) AVERAGABLE INCOME.—For purposes of this part—

"(1) IN GENERAL.—The term 'averagable income' means the amount (if any) by which adjusted taxable income exceeds 133⅓ percent of average base period income.

"(2) ADJUSTMENT IN CERTAIN CASES FOR CAPITAL GAINS.—If—

"(A) the average base period capital gain net income, exceeds

"(B) the capital gain net income for the computation year,

then the term 'averagable income' means the amount determined under paragraph (1), reduced by an amount equal to such excess.

"(b) ADJUSTED TAXABLE INCOME.—For purposes of this part, the term 'adjusted taxable income' means the taxable income for the computation year, decreased by the sum of the following amounts:

"(1) CAPITAL GAIN NET INCOME FOR THE COMPUTATION YEAR.—The amount (if any) of the capital gain net income for the computation year.

"(2) INCOME ATTRIBUTABLE TO GIFTS, BEQUESTS, ETC.—

"(A) IN GENERAL.—The amount of net income attributable to an interest in property where such interest was received by the taxpayer as a gift, bequest, devise, or inheritance during the computation year or any base period year. This paragraph shall not apply to gifts, bequests, devises, or inheritances between husband and wife if they make a joint return, or if one of them makes a return as a surviving spouse (as defined in section 2(b)), for the computation year.

26 USC 2.

"(B) AMOUNT OF NET INCOME.—Unless the taxpayer otherwise establishes to the satisfaction of the Secretary or his delegate, the amount of net income for any taxable year attributable to an interest described in subparagraph (A) shall be deemed to be 6 percent of the fair market value of such interest (as determined in accordance with the provisions of chapter 11 or chapter 12, as the case may be).

26 USC 2001, 2501.

"(C) LIMITATION.—This paragraph shall apply only if the sum of the net incomes attributable to interests described in subparagraph (A) exceeds $3,000.

"(D) NET INCOME.—For purposes of this paragraph, the term 'net income' means, with respect to any interest, the excess of—

"(i) items of gross income attributable to such interest, over

"(ii) the deductions properly allocable to or chargeable against such items.

For purposes of computing such net income, capital gains and losses shall not be taken into account.

"(3) WAGERING INCOME.—The amount (if any) by which the gains from wagering transactions for the computation year exceed the losses from such transactions.

"(4) CERTAIN AMOUNTS RECEIVED BY OWNER-EMPLOYEES.—The amount (if any) to which section 72(m)(5) (relating to penalties applicable to certain amounts received by owner-employees) applies.

26 USC 72.

"(c) AVERAGE BASE PERIOD INCOME.—For purposes of this part—

"(1) IN GENERAL.—The term 'average base period income' means one-fourth of the sum of the base period incomes for the base period.

"(2) BASE PERIOD INCOME.—The base period income for any taxable year is the taxable income for such year first increased and then decreased (but not below zero) in the following order:

"(A) Taxable income shall be increased by an amount equal to the excess of—

"(i) the amount excluded from gross income under section 911 (relating to earned income from sources without the United States) and subpart D of part III of subchapter N (sec. 931 and following, relating to income from sources within possessions of the United States), over

26 USC 911.
26 USC 931.

"(ii) the deductions which would have been properly allocable to or chargeable against such amount but for the exclusion of such amount from gross income.

"(B) Taxable income shall be decreased by the capital gain net income.

"(C) If the decrease provided by paragraph (2) of subsection (b) applies to the computation year, the taxable income shall be decreased under the rules of such paragraph (2) (other than the limitation contained in subparagraph (C) thereof).

"(d) CAPITAL GAIN NET INCOME, ETC.—For purposes of this part—

"(1) CAPITAL GAIN NET INCOME.—The term 'capital gain net income' means the amount equal to 50 percent of the excess of the net long-term capital gain over the net short-term capital loss.

"(2) AVERAGE BASE PERIOD CAPITAL GAIN NET INCOME.—The term 'average base period capital gain net income' means one-fourth of the sum of the capital gain net incomes for the base period. For purposes of the preceding sentence, the capital gain net income for any base period year shall not exceed the base period income for such year computed without regard to subsection (c)(2)(B).

"(e) OTHER RELATED DEFINITIONS.—For purposes of this part—

"(1) COMPUTATION YEAR.—The term 'computation year' means the taxable year for which the taxpayer chooses the benefits of this part.

"(2) BASE PERIOD.—The term 'base period' means the 4 taxable years immediately preceding the computation year.

"(3) BASE PERIOD YEAR.—The term 'base period year' means any of the 4 taxable years immediately preceding the computation year.

"(4) JOINT RETURN.—The term 'joint return' means the return of a husband and wife made under section 6013.

26 USC 6013.

"SEC. 1303. ELIGIBLE INDIVIDUALS.

"(a) GENERAL RULE.—Except as otherwise provided in this section, for purposes of this part the term 'eligible individual' means any individual who is a citizen or resident of the United States throughout the computation year.

"(b) NONRESIDENT ALIEN INDIVIDUALS.—For purposes of this part, an individual shall not be an eligible individual for the computation

year if, at any time during such year or the base period, such individual was a nonresident alien.

"(c) INDIVIDUALS RECEIVING SUPPORT FROM OTHERS.—

"(1) IN GENERAL.—For purposes of this part, an individual shall not be an eligible individual for the computation year if, for any base period year, such individual (and his spouse) furnished less than one-half of his support.

"(2) EXCEPTIONS.—Paragraph (1) shall not apply to any computation year if—

"(A) such year ends after the individual attained age 25 and, during at least 4 of his taxable years beginning after he attained age 21 and ending with his computation year, he was not a full-time student,

"(B) more than one-half of the individual's adjusted taxable income for the computation year is attributable to work performed by him in substantial part during 2 or more of the base period years, or

"(C) the individual makes a joint return for the computation year and not more than 25 percent of the aggregate adjusted gross income of such individual and his spouse for the computation year is attributable to such individual.

In applying subparagraph (C), amounts which constitute earned income (within the meaning of section 911(b)) and are community income under community property laws applicable to such income shall be taken into account as if such amounts did not constitute community income.

26 USC 911.

"(d) STUDENT DEFINED.—For purposes of this section, the term 'student' means, with respect to a taxable year, an individual who during each of 5 calendar months during such taxable year—

"(1) was a full-time student at an educational institution (as defined in section 151(e)(4)); or

26 USC 151.

"(2) was pursuing a full-time course of institutional on-farm training under the supervision of an accredited agent of an educational institution (as defined in section 151(e)(4)) or of a State or political subdivision of a State.

"SEC. 1304. SPECIAL RULES.

"(a) TAXPAYER MUST CHOOSE BENEFITS.—This part shall apply to the taxable year only if the taxpayer chooses to have the benefits of this part for such taxable year. Such choice may be made or changed at any time before the expiration of the period prescribed for making a claim for credit or refund of the tax imposed by this chapter for the taxable year.

"(b) CERTAIN PROVISIONS INAPPLICABLE.—If the taxpayer chooses the benefits of this part for the taxable year, the following provisions shall not apply to him for such year:

Post, p. 129.

"(1) section 3 (relating to optional tax if adjusted gross income is less than $5,000),

26 USC 72.

"(2) section 72(n)(2) (relating to limitation of tax in case of certain distributions with respect to contributions by self-employed individuals),

"(3) section 911 (relating to earned income from sources without the United States), and

26 USC 931.

"(4) subpart D of part III of subchapter N (sec. 931 and following, relating to income from sources within possessions of the United States).

"(c) FAILURE OF CERTAIN MARRIED INDIVIDUALS TO MAKE JOINT RETURN, ETC.—

"(1) APPLICATION OF SUBSECTION.—Paragraphs (2), (3), and (4) of this subsection shall apply in the case of any individual

who was married for any base period year or the computation year; except that—

"(A) such paragraphs shall not apply in respect of a base period year if—

"(i) such individual and his spouse make a joint return, or such individual makes a return as a surviving spouse (as defined in section 2(b)), for the computation year, and

26 USC 2.

"(ii) such individual was not married to any other spouse for such base period year, and

"(B) paragraph (4) shall not apply in respect of the computation year if the individual and his spouse make a joint return for such year.

"(2) MINIMUM BASE PERIOD INCOME.—For purposes of this part, the base period income of an individual for any base period year shall not be less than 50 percent of the base period income which would result from combining his income and deductions for such year—

"(A) with the income and deductions for such year of the individual who is his spouse for the computation year, or

"(B) if greater, with the income and deductions for such year of the individual who was his spouse for such base period year.

"(3) MINIMUM BASE PERIOD CAPITAL GAIN NET INCOME.—For purposes of this part, the capital gain net income of any individual for any base period year shall not be less than 50 percent of the capital gain net income which would result from combining his capital gain net income for such year (determined without regard to this paragraph) with the capital gain net income for such year (similarly determined) of the individual with whom he is required by paragraph (2) to combine his income and deductions for such year.

"(4) COMMUNITY INCOME ATTRIBUTABLE TO SERVICES.—In the case of amounts which constitute earned income (within the meaning of section 911(b)) and are community income under community property laws applicable to such income—

26 USC 911.

"(A) the amount taken into account for any base period year for purposes of determining base period income shall not be less than the amount which would be taken into account if such amounts did not constitute community income, and

"(B) the amount taken into account for purposes of determining adjusted taxable income for the computation year shall not exceed the amount which would be taken into account if such amounts did not constitute community income.

"(5) MARITAL STATUS.—For purposes of this subsection, section 143 shall apply in determining whether an individual is married for any taxable year.

"(d) DOLLAR LIMITATIONS IN CASE OF JOINT RETURNS.—In the case of a joint return, the $3,000 figure contained in section 1301 shall be applied to the aggregate averagable income, and the $3,000 figure contained in section 1302(b)(2)(C) shall be applied to the aggregate net incomes.

Ante, p. 106.

"(e) SPECIAL RULES WHERE THERE ARE CAPITAL GAINS.—

"(1) TREATMENT OF CAPITAL GAINS IN COMPUTATION YEAR.—In the case of any taxpayer who has capital gain net income for the computation year, the tax imposed by section 1 for the computation year which is attributable to the amount of such net income shall be computed—

"(A) by adding so much of the amount thereof as does not exceed average base period capital gain net income above 133⅓ percent of average base period income, and

"(B) by adding the remainder (if any) of such net income above the 20 percent of the averagable income as taken into account for purposes of computing the tax imposed by section 1 (and above the amounts (if any) referred to in subsection (f)(1)).

"(2) COMPUTATION OF ALTERNATIVE TAX.—In the case of any taxpayer who has capital gain net income for the computation year, section 1201(b) shall be treated as imposing a tax equal to the tax imposed by section 1, reduced by the amount (if any) by which—

26 USC 1201.

"(A) the tax imposed by section 1 and attributable to the capital gain net income for the computation year (determined under paragraph (1)), exceeds

"(B) an amount equal to 25 percent of the excess of the net long-term capital gain over the net short-term capital loss.

"(f) TREATMENT OF CERTAIN OTHER ITEMS.—

"(1) GIFT OR WAGERING INCOME.—The tax imposed by section 1 for the computation year which is attributable to the amounts subtracted from taxable income under paragraphs (2) and (3) of section 1302(b) shall equal the increase in tax under section 1 which results from adding such amounts above the 20 percent of the averagable income as taken into account for purposes of computing the tax imposed thereon by section 1.

Ante, p. 106.

"(2) SECTION 72(m)(5).—Section 72(m)(5) (relating to penalties applicable to certain amounts received by owner-employees) shall be applied as if this part had not been enacted.

26 USC 72.

"(3) OTHER ITEMS.—Except as otherwise provided in this part, the order and manner in which items of income shall be taken into account in computing the tax imposed by this chapter on the income of any eligible individual to whom section 1301 applies for any computation year shall be determined under regulations prescribed by the Secretary or his delegate.

"(g) SHORT TAXABLE YEARS.—In the case of any computation year or base period year which is a short taxable year, this part shall be applied in the manner provided in regulations prescribed by the Secretary or his delegate.

"SEC. 1305. REGULATIONS.

"The Secretary or his delegate shall prescribe such regulations as may be necessary to carry out the purposes of this part."

Repeal.
26 USC 72.
Ante, p. 24.

(b) REPEAL OF SECTION 72(e)(3).—Section 72(e)(3) (relating to limit on tax attributable to receipt of lump sum) is hereby repealed.

(c) AMENDMENT OF SECTION 144.—Section 144 (relating to election of standard deduction) is amended by adding after subsection (c) (as added by 112(c)(2) of this Act) the following new subsection:

"(d) INDIVIDUALS ELECTING INCOME AVERAGING.—In the case of a taxpayer who chooses to have the benefits of part I of subchapter Q (relating to income averaging) for the taxable year—

"(1) subsection (a) shall not apply for such taxable year, and

"(2) the standard deduction shall be allowed if the taxpayer so elects in his return for such taxable year.

The Secretary or his delegate shall by regulations prescribe the manner of signifying such election in the return. If the taxpayer on making his return fails to signify, in the manner so prescribed, his election to take the standard deduction, such failure shall be considered his election not to take the standard deduction."

(d) Statute of Limitations.—Section 6511(d)(2)(B) (relating to special period of limitation with respect to net operating loss carrybacks) is amended to read as follows: 26 USC 6511.

"(B) Applicable rules.—

"(i) If the allowance of a credit or refund of an overpayment of tax attributable to a net operating loss carryback is otherwise prevented by the operation of any law or rule of law other than section 7122, relating to compromises, such credit or refund may be allowed or made, if claim therefor is filed within the period provided in subparagraph (A) of this paragraph. If the allowance of an application, credit, or refund of a decrease in tax determined under section 6411(b) is otherwise prevented by the operation of any law or rule of law other than section 7122, such application, credit, or refund may be allowed or made if application for a tentative carryback adjustment is made within the period provided in section 6411(a). In the case of any such claim for credit or refund or any such application for a tentative carryback adjustment, the determination by any court, including the Tax Court, in any proceeding in which the decision of the court has become final, shall be conclusive except with respect to the net operating loss deduction, and the effect of such deduction, to the extent that such deduction is affected by a carryback which was not in issue in such proceeding. 26 USC 7122. 26 USC 6411.

"(ii) A claim for credit or refund for a computation year (as defined in section 1302(c)(1)) shall be determined to relate to an overpayment attributable to a net operating loss carryback when such carryback relates to any base period year (as defined in section 1302(e)(3))." Ante, p. 107.

(e) Technical Amendments.—The following provisions are amended by striking out "except that section 72(e)(3) shall not apply":

(1) The first sentence of section 402(a)(1) (relating to general rule for taxability of beneficiary of exempt trust). 26 USC 402.

(2) The second sentence of section 402(b) (relating to taxability of beneficiary of non-exempt trust).

(3) The second sentence of section 402(d) (relating to certain employees' annuities).

(4) Section 403(a)(1) (relating to the general rule for taxability of a beneficiary under a qualified annuity plan). 26 USC 403.

(5) The second sentence of section 403(b)(1) (relating to general rule for taxability of beneficiary, etc.).

(6) The second sentence of section 403(c) (relating to taxability of beneficiary under a nonqualified annuity).

(f) Clerical Amendments.—

(1) Subsection (f) of section 4 (relating to cross references to rules for optional tax) is amended by adding at the end thereof the following new paragraph: 26 USC 4.

"(3) For rule that optional tax is not to apply if individual chooses the benefits of income averaging, see section 1304(b)."

(2) Subsection (b) of section 5 (relating to cross references to special limitations on tax) is amended to read as follows: 26 USC 5.

"(b) SPECIAL LIMITATIONS ON TAX.—

"(1) For limitation on surtax attributable to sales of oil or gas properties, see section 632.
"(2) For limitation on tax in case of income of members of Armed Forces on death, see section 692.
"(3) For limitation on tax where an individual chooses the benefits of income averaging, see section 1301.
"(4) For computation of tax where taxpayer restores substantial amount held under claim of right, see section 1341.
"(5) For limitation on surtax attributable to claims against the United States involving acquisitions of property, see section 1347."

(3) The table of parts for subchapter Q of chapter 1 is amended by striking out

"Part I. Income attributable to several taxable years."

and inserting in lieu thereof

"Part I. Income averaging."

(g) EFFECTIVE DATE.—

(1) GENERAL RULE.—Except as provided in paragraph (2), the amendments made by this section shall apply with respect to taxable years beginning after December 31, 1963.

(2) INCOME FROM AN EMPLOYMENT.—If, in a taxable year beginning after December 31, 1963, an individual or partnership receives or accrues compensation from an employment (as defined by section 1301(b) of the Internal Revenue Code of 1954 as in effect immediately before the enactment of this Act) and the employment began before February 6, 1963, the tax attributable to such compensation may, at the election of the taxpayer, be computed under the provisions of sections 1301 and 1307 of such Code as in effect immediately before the enactment of this Act. If a taxpayer so elects (at such time and in such manner as the Secretary of the Treasury or his delegate by regulations prescribes), he may not choose for such taxable year the benefits provided by part I of subchapter Q of chapter 1 of such Code (relating to income averaging) as amended by this Act and (if he elects to have subsection (e) of such section 1307 apply) section 170(b)(5) of such Code as amended by this Act shall not apply to charitable contributions paid in such taxable year.

68A Stat. 334.

Ante, p. 105.

Ante, p. 45.

SEC. 233. SMALL BUSINESS CORPORATIONS.

26 USC 1371.

(a) OWNERSHIP OF CERTAIN STOCK DISREGARDED.—Section 1371 (relating to definition of small business corporation) is amended by adding at the end thereof the following new subsection:

"(d) OWNERSHIP OF CERTAIN STOCK.—For purposes of subsection (a), a corporation shall not be considered a member of an affiliated group at any time during any taxable year by reason of the ownership of stock in another corporation if such other corporation—

"(1) has not begun business at any time on or after the date of its incorporation and before the close of such taxable year, and

"(2) does not have taxable income for the period included within such taxable year."

26 USC 1375.

(b) CERTAIN DISTRIBUTIONS OF MONEY AFTER CLOSE OF TAXABLE YEAR.—Section 1375 (relating to special rules applicable to distributions of electing small business corporations) is amended by adding at the end thereof the following new subsection:

"(e) CERTAIN DISTRIBUTIONS AFTER CLOSE OF TAXABLE YEAR.—

"(1) IN GENERAL.—For purposes of this chapter, if—

"(A) a corporation makes a distribution of money to its shareholders on or before the 15th day of the third month

following the close of a taxable year with respect to which it was an electing small business corporation, and

"(B) such distribution is made pursuant to a resolution of the board of directors of the corporation, adopted before the close of such taxable year, to distribute to its shareholders all or a part of the proceeds of one or more sales of capital assets, or of property described in section 1231(b), made during such taxable year,

26 USC 1231.

such distribution shall, at the election of the corporation, be treated as a distribution of money made on the last day of such taxable year.

"(2) SHAREHOLDERS.—An election under paragraph (1) with respect to any distribution may be made by a corporation only if each person who is a shareholder on the day the distribution is received—

"(A) owns the same proportion of the stock of the corporation on such day as he owned on the last day of the taxable year of the corporation preceding the distribution, and

"(B) consents to such election at such time and in such manner as the Secretary or his delegate shall prescribe by regulations.

"(3) MANNER AND TIME OF ELECTION.—An election under paragraph (1) shall be made in such manner as the Secretary or his delegate shall prescribe by regulations. Such election shall be made not later than the time prescribed by law for filing the return for the taxable year during which the sale was made (including extensions thereof) except that, with respect to any taxable year ending on or before the date of the enactment of the Revenue Act of 1964, such election shall be made within 120 days after such date."

(c) EFFECTIVE DATES.—The amendment made by subsection (a) shall apply with respect to taxable years of corporations beginning after December 31, 1962. The amendment made by subsection (b) shall apply with respect to taxable years of corporations beginning after December 31, 1957.

SEC. 234. REPEAL OF ADDITIONAL 2-PERCENT TAX FOR CORPORATIONS FILING CONSOLIDATED RETURNS.

(a) REPEAL OF TAX.—Subsection (a) of section 1503 (relating to computation and payment of tax in case of consolidated returns) is amended to read as follows:

26 USC 1503.

"(a) GENERAL RULE.—In any case in which a consolidated return is made or is required to be made, the tax shall be determined, computed, assessed, collected, and adjusted in accordance with the regulations under section 1502 prescribed before the last day prescribed by law for the filing of such return."

26 USC 1502.

(b) TECHNICAL AND CONFORMING AMENDMENTS.—

(1) Section 1503 is amended by striking out subsections (b) and (c) and by relettering subsection (d) as subsection (b).

(2) Paragraph (3) of section 1503(b) (as relettered by paragraph (1)) is amended to read as follows:

"(3) SPECIAL RULES.—

"(A) For purposes of paragraph (2), a corporation is a regulated public utility only if it is a regulated public utility within the meaning of subparagraph (A) (other than clauses (ii) and (iii) thereof) or (D) of section 7701(a)(33). For purposes of the preceding sentence, the limitation contained in the last two sentences of section 7701(a)(33) shall be applied as if subparagraphs (A) through (F), inclusive, of section 7701(a)(33) were limited to subparagraphs (A)(i) and (D) thereof.

Post, p. 114.

"(B) For purposes of paragraph (2), the foreign countries referred to in this subparagraph include only any country from which any public utility referred to in the first sentence of paragraph (2) derives the principal part of its income.

"(C) For purposes of this subsection, the term 'consolidated taxable income' means the consolidated taxable income computed without regard to the deduction provided by section 242 for partially tax-exempt interest."

Ante, p. 30.
26 USC 7701.

(3) Section 7701(a) (relating to definitions) is amended by adding at the end thereof the following new paragraph:

"(33) REGULATED PUBLIC UTILITY.—The term 'regulated public utility' means—

"(A) A corporation engaged in the furnishing or sale of—

"(i) electric energy, gas, water, or sewerage disposal services, or

"(ii) transportation (not included in subparagraph (C)) on an intrastate, suburban, municipal, or interurban electric railroad, on an intrastate, municipal, or suburban trackless trolley system, or on a municipal or suburban bus system, or

"(iii) transportation (not included in clause (ii)) by motor vehicle—

if the rates for such furnishing or sale, as the case may be, have been established or approved by a State or political subdivision thereof, by an agency or instrumentality of the United States, by a public service or public utility commission or other similar body of the District of Columbia or of any State or political subdivision thereof, or by a foreign country or an agency or instrumentality or political subdivision thereof.

"(B) A corporation engaged as a common carrier in the furnishing or sale of transportation of gas by pipe line, if subject to the jurisdiction of the Federal Power Commission.

"(C) A corporation engaged as a common carrier (i) in the furnishing or sale of transportation by railroad, if subject to the jurisdiction of the Interstate Commerce Commission, or (ii) in the furnishing or sale of transportation of oil or other petroleum products (including shale oil) by pipe line, if subject to the jurisdiction of the Interstate Commerce Commission or if the rates for such furnishing or sale are subject to the jurisdiction of a public service or public utility commission or other similar body of the District of Columbia or of any State.

"(D) A corporation engaged in the furnishing or sale of telephone or telegraph service, if the rates for such furnishing or sale meet the requirements of subparagraph (A).

"(E) A corporation engaged in the furnishing or sale of transportation as a common carrier by air, subject to the jurisdiction of the Civil Aeronautics Board.

"(F) A corporation engaged in the furnishing or sale of transportation by common carrier by water, subject to the jurisdiction of the Interstate Commerce Commission under part III of the Interstate Commerce Act, or subject to the jurisdiction of the Federal Maritime Board under the Intercoastal Shipping Act, 1933.

54 Stat. 929.
49 USC 901.
47 Stat. 1425.
46 USC 848.

"(G) A railroad corporation subject to part I of the Interstate Commerce Act, if (i) substantially all of its railroad

properties have been leased to another such railroad corporation or corporations by an agreement or agreements entered into before January 1, 1954, (ii) each lease is for a term of more than 20 years, and (iii) at least 80 percent or more of its gross income (computed without regard to dividends and capital gains and losses) for the taxable year is derived from such leases and from sources described in subparagraphs (A) through (F), inclusive. For purposes of the preceding sentence, an agreement for lease of railroad properties entered into before January 1, 1954, shall be considered to be a lease including such term as the total number of years of such agreement may, unless sooner terminated, be renewed or continued under the terms of the agreement, and any such renewal or continuance under such agreement shall be considered part of the lease entered into before January 1, 1954.

"(H) A common parent corporation which is a common carrier by railroad subject to part I of the Interstate Commerce Act if at least 80 percent of its gross income (computed without regard to capital gains or losses) is derived directly or indirectly from sources described in subparagraphs (A) through (F), inclusive. For purposes of the preceding sentence, dividends and interest, and income from leases described in subparagraph (G), received from a regulated public utility shall be considered as derived from sources described in subparagraphs (A) through (F), inclusive, if the regulated public utility is a member of an affiliated group (as defined in section 1504) which includes the common parent corporation.

24 Stat. 379.
49 USC 1 et seq.

The term 'regulated public utility' does not (except as provided in subparagraphs (G) and (H)) include a corporation described in subparagraphs (A) through (F), inclusive, unless 80 percent or more of its gross income (computed without regard to dividends and capital gains and losses) for the taxable year is derived from sources described in subparagraphs (A) through (F), inclusive. If the taxpayer establishes to the satisfaction of the Secretary or his delegate that (i) its revenue from regulated rates described in subparagraph (A) or (D) and its revenue derived from unregulated rates are derived from the operation of a single interconnected and coordinated system or from the operation of more than one such system, and (ii) the unregulated rates have been and are substantially as favorable to users and consumers as are the regulated rates, then such revenue from such unregulated rates shall be considered, for purposes of the preceding sentence, as income derived from sources described in subparagraph (A) or (D)."

(4) Section 12(8) (relating to cross reference to additional tax for corporations filing consolidated returns) is hereby repealed.

Repeal.
26 USC 12.

(5) Paragraphs (1) and (2) of section 172(j) (relating to carryover of net operating loss for certain regulated transportation corporations) are amended to read as follows:

26 USC 172.

"(1) Definition.—For purposes of subsection (b)(1)(C), the term 'regulated transportation corporation' means a corporation—

"(A) 80 percent or more of the gross income of which (computed without regard to dividends and capital gains and losses) for the taxable year is derived from the furnishing or sale of transportation described in subparagraph (A), (C)(i), (E), or (F) of section 7701(a)(33) and taken into account for purposes of the limitation contained in the last two sentences of section 7701(a)(33),

Ante, p. 114.

Ante, p. 114.

"(B) which is described in subparagraph (G) or (H) of section 7701(a)(33), or

"(C) which is a member of a regulated transportation system.

"(2) REGULATED TRANSPORTATION SYSTEM.—For purposes of this subsection, a corporation shall be treated as a member of a regulated transportation system for a taxable year if—

"(A) it is a member of an affiliated group of corporations making a consolidated return for such taxable year, and

"(B) 80 percent or more of the aggregate gross income of the members of such affiliated group (computed without regard to dividends and capital gains and losses) for such taxable year is derived from sources described in paragraph (1)(A).

For purposes of subparagraph (B), income derived by a corporation described in subparagraph (G) or (H) of section 7701(a)(33) from leases described in subparagraph (G) thereof shall be considered as derived from sources described in paragraph (1)(A)."

26 USC 904.

(6) Section 904(g)(2) (relating to cross references for purposes of the limitation on the foreign tax credit) is amended by striking out "**section 1503(d)**" and inserting in lieu thereof "**section 1503(b)**".

26 USC 1341.

(7) Section 1341(b)(2) (relating to special rules for the computation of tax where taxpayer restores substantial amount held under claim of right) is amended by striking out "(as defined in section 1503(c) without regard to paragraph (2) thereof)" and inserting in lieu thereof "(as defined in section 7701(a)(33) without regard to the limitation contained in the last two sentences thereof)".

26 USC 1552.

(8) Section 1552(a)(3) (relating to the allocation of tax liability among members of an affiliated group of corporations filing consolidated returns) is amended by striking out "(determined without regard to the 2 percent increase provided by section 1503(a))".

(c) EFFECTIVE DATE.—The amendments made by subsections (a) and (b) shall apply with respect to taxable years beginning after December 31, 1963.

SEC. 235. REDUCTION OF SURTAX EXEMPTION IN CASE OF CERTAIN CONTROLLED CORPORATIONS, ETC.

(a) IN GENERAL.—Subchapter B of chapter 6 (related rules for consolidated returns) is amended by adding at the end thereof the following new part:

"PART II—CERTAIN CONTROLLED CORPORATIONS

"Sec. 1561. Surtax exemptions in case of certain controlled corporations.
"Sec. 1562. Privilege of groups to elect multiple surtax exemptions.
"Sec. 1563. Definitions and special rules.

"SEC. 1561. SURTAX EXEMPTIONS IN CASE OF CERTAIN CONTROLLED CORPORATIONS.

"(a) GENERAL RULE.—If a corporation is a component member of a controlled group of corporations on a December 31, then for purposes of this subtitle the surtax exemption of such corporation for the taxable year which includes such December 31 shall be an amount equal to—

"(1) $25,000 divided by the number of corporations which are component members of such group on such December 31, or

"(2) if all such component members consent (at such time and

in such manner as the Secretary or his delegate shall by regulations prescribe) to an apportionment plan, such portion of $25,000 as is apportioned to such member in accordance with such plan.
The sum of the amounts apportioned under paragraph (2) among the component members of any controlled group shall not exceed $25,000.

"(b) CERTAIN SHORT TAXABLE YEARS.—If a corporation—

"(1) has a short taxable year which does not include a December 31, and

"(2) is a component member of a controlled group of corporations with respect to such taxable year,

then for purposes of this subtitle the surtax exemption of such corporation for such taxable year shall be an amount equal to $25,000 divided by the number of corporations which are component members of such group on the last day of such taxable year. For purposes of the preceding sentence, section 1563(b) shall be applied as if such last day were substituted for December 31.

Post, p. 120.

"SEC. 1562. PRIVILEGE OF GROUPS TO ELECT MULTIPLE SURTAX EXEMPTIONS.

"(a) ELECTION OF MULTIPLE SURTAX EXEMPTIONS.—

"(1) IN GENERAL.—A controlled group of corporations shall (subject to the provisions of this section) have the privilege of electing to have each of its component members make its returns without regard to section 1561. Such election shall be made with respect to a specified December 31 and shall be valid only if—

Ante, p. 116.

"(A) each corporation which is a component member of such group on such December 31, and

"(B) each other corporation which is a component member of such group on any succeeding December 31 before the day on which the election is filed,

consents to such election.

"(2) YEARS FOR WHICH EFFECTIVE.—An election by a controlled group of corporations under paragraph (1) shall be effective with respect to the taxable year of each component member of such group which includes the specified December 31, and each taxable year of each corporation which is a component member of such group (or a successor group) on a succeeding December 31 included within such taxable year, unless the election is terminated under subsection (c).

"(3) EFFECT OF ELECTION.—If an election by a controlled group of corporations under paragraph (1) is effective with respect to any taxable year of a corporation—

"(A) section 1561 shall not apply to such corporation for such taxable year, but

"(B) the additional tax imposed by subsection (b) shall apply to such corporation for such taxable year.

"(b) ADDITIONAL TAX IMPOSED.—

"(1) GENERAL RULE.—If an election under subsection (a)(1) by a controlled group of corporations is effective with respect to the taxable year of a corporation, there is hereby imposed for such taxable year on the taxable income of such corporation a tax equal to 6 percent of so much of such corporation's taxable income for such taxable year as does not exceed $25,000. This paragraph shall not apply to the taxable year of a corporation if—

"(A) such corporation is the only component member of such controlled group on the December 31 included in such corporation's taxable year which has taxable income for a taxable year including such December 31, or

"(B) such corporation's surtax exemption is disallowed for such taxable year under any provision of this subtitle.

Ante, p. 25.

"(2) TAX TREATED AS IMPOSED BY SECTION 11, ETC.—If for the taxable year of a corporation a tax is imposed by section 11 on the taxable income of such corporation, the additional tax imposed by this subsection shall be treated for purposes of this title as a tax imposed by section 11. If for the taxable year of a corporation a tax is imposed on the taxable income of such corporation which is computed under any other section by reference to section 11, the additional tax imposed by this subsection shall be treated for purposes of this title as imposed by such other section.

"(3) TAXABLE INCOME DEFINED.—For purposes of this subsection, the term 'taxable income' means—

26 USC 511, 512.

"(A) in the case of a corporation subject to tax under section 511, its unrelated business taxable income (within the meaning of section 512);

26 USC 802.

"(B) in the case of a life insurance company, its life insurance company taxable income (within the meaning of section 802(b));

26 USC 852, 857.

"(C) in the case of a regulated investment company, its investment company taxable income (within the meaning of section 852(b)(2)); and

"(D) in the case of a real estate investment trust, its real estate investment trust taxable income (within the meaning of section 857(b)(2)).

26 USC 244, 247.
26 USC 804, 922.

"(4) SPECIAL RULES.—If for the taxable year an additional tax is imposed on the taxable income of a corporation by this subsection, then sections 244 (relating to dividends received on certain preferred stock), 247 (relating to dividends paid on certain preferred stock of public utilities), 804(a)(3) (relating to deduction for partially tax-exempt interest in the case of a life insurance company), and 922 (relating to special deduction for Western Hemisphere trade corporations) shall be applied without regard to the additional tax imposed by this subsection.

"(c) TERMINATION OF ELECTION.—An election by a controlled group of corporations under subsection (a) shall terminate with respect to such group—

"(1) CONSENT OF THE MEMBERS.—If such group files a termination of such election with respect to a specified December 31, and—

"(A) each corporation which is a component member of such group on such December 31, and

"(B) each other corporation which is a component member of such group on any succeeding December 31 before the day on which the termination is filed,

consents to such termination.

"(2) REFUSAL BY NEW MEMBER TO CONSENT.—If on December 31 of any year such group includes a component member which—

"(A) on the immediately preceding January 1 was not a member of such group, and

"(B) within the time and in the manner provided by regulations prescribed by the Secretary or his delegate, files a statement that it does not consent to the election.

"(3) CONSOLIDATED RETURNS.—If—

Post, pp. 120, 121.

"(A) a corporation is a component member (determined without regard to section 1563(b)(3)) of such group on a December 31 included within a taxable year ending on or after January 1, 1964, and

"(B) such corporation is a member of an affiliated group of corporations which makes a consolidated return under this chapter (sec. 1501 and following) for such taxable year. 26 USC 1501.

"(4) CONTROLLED GROUP NO LONGER IN EXISTENCE.—If such group is considered as no longer in existence with respect to any December 31.

Such termination shall be effective with respect to the December 31 referred to in paragraph (1)(A), (2), (3), or (4), as the case may be.

"(d) ELECTION AFTER TERMINATION.—If an election by a controlled group of corporations is terminated under subsection (c), such group (and any successor group) shall not be eligible to make an election under subsection (a) with respect to any December 31 before the sixth December 31 after the December 31 with respect to which such termination was effective.

"(e) MANNER AND TIME OF GIVING CONSENT AND MAKING ELECTION, ETC.—An election under subsection (a)(1) or a termination under subsection (c)(1) (and the consent of each member of a controlled group of corporations which is required with respect to such election or termination) shall be made in such manner as the Secretary or his delegate shall by regulations prescribe, and shall be made at any time before the expiration of 3 years after—

"(1) in the case of such an election, the date when the income tax return for the taxable year of the component member of the controlled group which has the taxable year ending first on or after the specified December 31 is required to be filed (without regard to any extensions of time), and

"(2) in the case of such a termination, the specified December 31 with respect to which such termination was made.

Any consent to such an election or termination, and a failure by a component member to file a statement that it does not consent to an election under this section, shall be deemed to be a consent to the application of subsection (g)(1) (relating to tolling of statute of limitations on assessment of deficiencies).

"(f) SPECIAL RULES.—For purposes of this section—

"(1) CONTINUING AND SUCCESSOR CONTROLLED GROUPS.—The determination of whether a controlled group of corporations—

"(A) is considered as no longer in existence with respect to any December 31, or

"(B) is a successor to another controlled group of corporations (and the effect of such determination with respect to any election or termination),

shall be made under regulations prescribed by the Secretary or his delegate. For purposes of subparagraph (B), such regulations shall be based on the continuation (or termination) of predominant equitable ownership.

"(2) CERTAIN SHORT TAXABLE YEARS.—If one or more corporations have short taxable years which do not include a December 31 and are component members of a controlled group of corporations with respect to such taxable years (determined by applying section 1563(b) as if the last day of each such taxable year were substituted for December 31), then an election by such group under this section shall apply with respect to such corporations with respect to such taxable years if— Post, pp. 120, 121.

"(A) such election is in effect with respect to both the December 31 immediately preceding such taxable years and the December 31 immediately succeeding such taxable years, or

"(B) such election is in effect with respect to the December 31 immediately preceding or succeeding such taxable

years and each such corporation files a consent to the application of such election to its short taxable year at such time and in such manner as the Secretary or his delegate shall prescribe by regulations.

"(g) TOLLING OF STATUTE OF LIMITATIONS.—In any case in which a controlled group of corporations makes an election or termination under this section, the statutory period—

"(1) for assessment of any deficiency against a corporation which is a component member of such group for any taxable year, to the extent such deficiency is attributable to the application of this part, shall not expire before the expiration of one year after the date such election or termination is made; and

"(2) for allowing or making credit or refund of any overpayment of tax by a corporation which is a component member of such group for any taxable year, to the extent such credit or refund is attributable to the application of this part, shall not expire before the expiration of one year after the date such election or termination is made.

"SEC. 1563. DEFINITIONS AND SPECIAL RULES.

"(a) CONTROLLED GROUP OF CORPORATIONS.—For purposes of this part, the term 'controlled group of corporations' means any group of—

"(1) PARENT-SUBSIDIARY CONTROLLED GROUP.—One or more chains of corporations connected through stock ownership with a common parent corporation if—

"(A) stock possessing at least 80 percent of the total combined voting power of all classes of stock entitled to vote or at least 80 percent of the total value of shares of all classes of stock of each of the corporations, except the common parent corporation, is owned (within the meaning of subsection (d)(1)) by one or more of the other corporations; and

"(B) the common parent corporation owns (within the meaning of subsection (d)(1)) stock possessing at least 80 percent of the total combined voting power of all classes of stock entitled to vote or at least 80 percent of the total value of shares of all classes of stock of at least one of the other corporations, excluding, in computing such voting power or value, stock owned directly by such other corporations.

"(2) BROTHER-SISTER CONTROLLED GROUP.—Two or more corporations if stock possessing at least 80 percent of the total combined voting power of all classes of stock entitled to vote or at least 80 percent of the total value of shares of all classes of stock of each of the corporations is owned (within the meaning of subsection (d)(2)) by one person who is an individual, estate, or trust.

"(3) COMBINED GROUP.—Three or more corporations each of which is a member of a group of corporations described in paragraph (1) or (2), and one of which—

"(A) is a common parent corporation included in a group of corporations described in paragraph (1), and also

"(B) is included in a group of corporations described in paragraph (2).

26 USC 802.

"(4) CERTAIN INSURANCE COMPANIES.—Two or more insurance companies subject to taxation under section 802 which are members of a controlled group of corporations described in paragraph (1), (2), or (3). Such insurance companies shall be treated as a controlled group of corporations separate from any other corporations which are members of the controlled group of corporations described in paragraph (1), (2), or (3).

"(b) COMPONENT MEMBER.—

"(1) GENERAL RULE.—For purposes of this part, a corporation is a component member of a controlled group of corporations on a December 31 of any taxable year (and with respect to the taxable year which includes such December 31) if such corporation—

"(A) is a member of such controlled group of corporations on the December 31 included in such year and is not treated as an excluded member under paragraph (2), or

"(B) is not a member of such controlled group of corporations on the December 31 included in such year but is treated as an additional member under paragraph (3).

"(2) EXCLUDED MEMBERS.—A corporation which is a member of a controlled group of corporations on December 31 of any taxable year shall be treated as an excluded member of such group for the taxable year including such December 31 if such corporation—

"(A) is a member of such group for less than one-half the number of days in such taxable year which precede such December 31,

"(B) is exempt from taxation under section 501(a) (except a corporation which is subject to tax on its unrelated business taxable income under section 511) for such taxable year,

26 USC 501, 511.

"(C) is a foreign corporation subject to tax under section 881 for such taxable year,

"(D) is an insurance company subject to taxation under section 802 or section 821 (other than an insurance company which is a member of a controlled group described in subsection (a)(4)), or

26 USC 802, 821.

"(E) is a franchised corporation, as defined in subsection (f)(4).

"(3) ADDITIONAL MEMBERS.—A corporation which—

"(A) was a member of a controlled group of corporations at any time during a calendar year,

"(B) is not a member of such group on December 31 of such calendar year, and

"(C) is not described, with respect to such group, in subparagraph (B), (C), (D), or (E) of paragraph (2),

shall be treated as an additional member of such group on December 31 for its taxable year including such December 31 if it was a member of such group for one-half (or more) of the number of days in such taxable year which precede such December 31.

"(4) OVERLAPPING GROUPS.—If a corporation is a component member of more than one controlled group of corporations with respect to any taxable year, such corporation shall be treated as a component member of only one controlled group. The determination as to the group of which such corporation is a component member shall be made under regulations prescribed by the Secretary or his delegate which are consistent with the purposes of this part.

"(c) CERTAIN STOCK EXCLUDED.—

"(1) GENERAL RULE.—For purposes of this part, the term 'stock' does not include—

"(A) nonvoting stock which is limited and preferred as to dividends,

"(B) treasury stock, and

"(C) stock which is treated as 'excluded stock' under paragraph (2).

"(2) STOCK TREATED AS 'EXCLUDED STOCK'.—

"(A) PARENT-SUBSIDIARY CONTROLLED GROUP.—For purposes of subsection (a) (1), if a corporation (referred to in this paragraph as 'parent corporation') owns (within the meaning of subsections (d) (1) and (e) (4)), 50 percent or more of the total combined voting power of all classes of stock entitled to vote or 50 percent or more of the total value of shares of all classes of stock in another corporation (referred to in this paragraph as 'subsidiary corporation'), the following stock of the subsidiary corporation shall be treated as excluded stock—

"(i) stock in the subsidiary corporation held by a trust which is part of a plan of deferred compensation for the benefit of the employees of the parent corporation or the subsidiary corporation,

"(ii) stock in the subsidiary corporation owned by an individual (within the meaning of subsection (d) (2)) who is a principal stockholder or officer of the parent corporation. For purposes of this clause, the term 'principal stockholder' of a corporation means an individual who owns (within the meaning of subsection (d) (2)) 5 percent or more of the total combined voting power of all classes of stock entitled to vote or 5 percent or more of the total value of shares of all classes of stock in such corporation, or

"(iii) stock in the subsidiary corporation owned (within the meaning of subsection (d) (2)) by an employee of the subsidiary corporation if such stock is subject to conditions which run in favor of such parent (or subsidiary) corporation and which substantially restrict or limit the employee's right (or if the employee constructively owns such stock, the direct owner's right) to dispose of such stock.

"(B) BROTHER-SISTER CONTROLLED GROUP.—For purposes of subsection (a) (2), if a person who is an individual, estate, or trust (referred to in this paragraph as 'common owner') owns (within the meaning of subsection (d) (2)), 50 percent or more of the total combined voting power of all classes of stock entitled to vote or 50 percent or more of the total value of shares of all classes of stock in a corporation, the following stock of such corporation shall be treated as excluded stock—

26 USC 401, 501.

"(i) stock in such corporation held by an employees' trust described in section 401(a) which is exempt from tax under section 501(a), if such trust is for the benefit of the employees of such corporation, or

"(ii) stock in such corporation owned (within the meaning of subsection (d) (2)) by an employee of the corporation if such stock is subject to conditions which run in favor of such common owner (or such corporation) and which substantially restrict or limit the employee's right (or if the employee constructively owns such stock, the direct owner's right) to dispose of such stock. If a condition which limits or restricts the employee's right (or the direct owner's right) to dispose of such stock also applies to the stock held by the common owner pursuant to a bona fide reciprocal stock purchase arrangement, such condition shall not be treated as one which restricts or limits the employee's right to dispose of such stock.

"(d) Rules for Determining Stock Ownership.—

"(1) Parent-subsidiary controlled group.—For purposes of determining whether a corporation is a member of a parent-subsidiary controlled group of corporations (within the meaning of subsection (a)(1)), stock owned by a corporation means—

"(A) stock owned directly by such corporation, and

"(B) stock owned with the application of subsection (e)(1).

"(2) Brother-sister controlled group.—For purposes of determining whether a corporation is a member of a brother-sister controlled group of corporations (within the meaning of subsection (a)(2)), stock owned by a person who is an individual, estate, or trust means—

"(A) stock owned directly by such person, and

"(B) stock owned with the application of subsection (e).

"(e) Constructive Ownership.—

"(1) Options.—If any person has an option to acquire stock, such stock shall be considered as owned by such person. For purposes of this paragraph, an option to acquire such an option, and each one of a series of such options, shall be considered as an option to acquire such stock.

"(2) Attribution from partnerships.—Stock owned, directly or indirectly, by or for a partnership shall be considered as owned by any partner having an interest of 5 percent or more in either the capital or profits of the partnership in proportion to his interest in capital or profits, whichever such proportion is the greater.

"(3) Attribution from estates or trusts.—

"(A) Stock owned, directly or indirectly, by or for an estate or trust shall be considered as owned by any beneficiary who has an actuarial interest of 5 percent or more in such stock, to the extent of such actuarial interest. For purposes of this subparagraph, the actuarial interest of each beneficiary shall be determined by assuming the maximum exercise of discretion by the fiduciary in favor of such beneficiary and the maximum use of such stock to satisfy his rights as a beneficiary.

"(B) Stock owned, directly or indirectly, by or for any portion of a trust of which a person is considered the owner under subpart E of part I of subchapter J (relating to grantors and others treated as substantial owners) shall be considered as owned by such person.

26 USC 671-678.

"(C) This paragraph shall not apply to stock owned by any employees' trust described in section 401(a) which is exempt from tax under section 501(a).

"(4) Attribution from corporations.—Stock owned, directly or indirectly, by or for a corporation shall be considered as owned by any person who owns (within the meaning of subsection (d)) 5 percent or more in value of its stock in that proportion which the value of the stock which such person so owns bears to the value of all the stock in such corporation.

"(5) Spouse.—An individual shall be considered as owning stock in a corporation owned, directly or indirectly, by or for his spouse (other than a spouse who is legally separated from the individual under a decree of divorce whether interlocutory or final, or a decree of separate maintenance), except in the case of a corporation with respect to which each of the following conditions is satisfied for its taxable year—

"(A) The individual does not, at any time during such taxable year, own directly any stock in such corporation;

"(B) The individual is not a director or employee and does not participate in the management of such corporation at any time during such taxable year;

"(C) Not more than 50 percent of such corporation's gross income for such taxable year was derived from royalties, rents, dividends, interest, and annuities; and

"(D) Such stock in such corporation is not, at any time during such taxable year, subject to conditions which substantially restrict or limit the spouse's right to dispose of such stock and which run in favor of the individual or his children who have not attained the age of 21 years.

"(6) CHILDREN, GRANDCHILDREN, PARENTS, AND GRANDPARENTS.—

"(A) MINOR CHILDREN.—An individual shall be considered as owning stock owned, directly or indirectly, by or for his children who have not attained the age of 21 years, and, if the individual has not attained the age of 21 years, the stock owned, directly or indirectly, by or for his parents.

"(B) ADULT CHILDREN AND GRANDCHILDREN.—An individual who owns (within the meaning of subsection (d)(2), but without regard to this subparagraph) more than 50 percent of the total combined voting power of all classes of stock entitled to vote or more than 50 percent of the total value of shares of all classes of stock in a corporation shall be considered as owning the stock in such corporation owned, directly or indirectly, by or for his parents, grandparents, grandchildren, and children who have attained the age of 21 years.

"(C) ADOPTED CHILD.—For purposes of this section, a legally adopted child of an individual shall be treated as a child of such individual by blood.

"(f) OTHER DEFINITIONS AND RULES.—

"(1) EMPLOYEE DEFINED.—For purposes of this section the term 'employee' has the same meaning such term is given in section 3306(i).

26 USC 3306.

"(2) OPERATING RULES.—

"(A) IN GENERAL.—Except as provided in subparagraph (B), stock constructively owned by a person by reason of the application of paragraph (1), (2), (3), (4), (5), or (6) of subsection (e) shall, for purposes of applying such paragraphs, be treated as actually owned by such person.

"(B) MEMBERS OF FAMILY.—Stock constructively owned by an individual by reason of the application of paragraph (5) or (6) of subsection (e) shall not be treated as owned by him for purposes of again applying such paragraphs in order to make another the constructive owner of such stock.

"(3) SPECIAL RULES.—For purposes of this section—

"(A) If stock may be considered as owned by a person under subsection (e)(1) and under any other paragraph of subsection (e), it shall be considered as owned by him under subsection (e)(1).

"(B) If stock is owned (within the meaning of subsection (d)) by two or more persons, such stock shall be considered as owned by the person whose ownership of such stock results in the corporation being a component member of a controlled group. If by reason of the preceding sentence, a corporation would (but for this sentence) become a component member of two controlled groups, it shall be treated as a component member of one controlled group. The determination as to

the group of which such corporation is a component member shall be made under regulations prescribed by the Secretary or his delegate which are consistent with the purposes of this part.

"(C) If stock is owned by a person within the meaning of subsection (d) and such ownership results in the corporation being a component member of a controlled group, such stock shall not be treated as excluded stock under subsection (c) (2), if by reason of treating such stock as excluded stock the result is that such corporation is not a component member of a controlled group of corporations.

"(4) FRANCHISED CORPORATION.—If—

"(A) a parent corporation (as defined in subsection (c) (2)(A)), or a common owner (as defined in subsection (c) (2)(B)), of a corporation which is a member of a controlled group of corporations is under a duty (arising out of a written agreement) to sell stock of such corporation (referred to in this paragraph as 'franchised corporation') which is franchised to sell the products of another member, or the common owner, of such controlled group;

"(B) such stock is to be sold to an employee (or employees) of such franchised corporation pursuant to a bona fide plan designed to eliminate the stock ownership of the parent corporation or of the common owner in the franchised corporation;

"(C) such plan—

"(i) provides a reasonable selling price for such stock, and

"(ii) requires that a portion of the employee's share of the profits of such corporation (whether received as compensation or as a dividend) be applied to the purchase of such stock (or the purchase of notes, bonds, debentures or other similar evidence of indebtedness of such franchised corporation held by such parent corporation or common owner);

"(D) such employee (or employees) owns directly more than 20 percent of the total value of shares of all classes of stock in such franchised corporation;

"(E) more than 50 percent of the inventory of such franchised corporation is acquired from members of the controlled group, the common owner, or both; and

"(F) all of the conditions contained in subparagraphs (A), (B), (C), (D), and (E) have been met for one-half (or more) of the number of days preceding the December 31 included within the taxable year (or if the taxable year does not include December 31, the last day of such year) of the franchised corporation,

then such franchised corporation shall be treated as an excluded member of such group, under subsection (b)(2), for such taxable year."

(b) DISALLOWANCE OF SURTAX EXEMPTION AND ACCUMULATED EARNINGS CREDIT.—Section 1551 (relating to disallowance of surtax exemption and accumulated earnings credit) is amended to read as follows:

26 USC 1551.

"SEC. 1551. DISALLOWANCE OF SURTAX EXEMPTION AND ACCUMULATED EARNINGS CREDIT.

"(a) IN GENERAL.—If—

"(1) any corporation transfers, on or after January 1, 1951, and on or before June 12, 1963, all or part of its property (other than money) to a transferee corporation,

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"(2) any corporation transfers, directly or indirectly, after June 12, 1963, all or part of its property (other than money) to a transferee corporation, or

"(3) five or fewer individuals who are in control of a corporation transfer, directly or indirectly, after June 12, 1963, property (other than money) to a transferee corporation,

and the transferee corporation was created for the purpose of acquiring such property or was not actively engaged in business at the time of such acquisition, and if after such transfer the transferor or transferors are in control of such transferee corporation during any part of the taxable year of such transferee corporation, then for such taxable year of such transferee corporation the Secretary or his delegate may (except as may be otherwise determined under subsection (d)) disallow the surtax exemption (as defined in section 11(d)), or the $100,000 accumulated earnings credit provided in paragraph (2) or (3) of section 535(c), unless such transferee corporation shall establish by the clear preponderance of the evidence that the securing of such exemption or credit was not a major purpose of such transfer.

26 USC 535.

"(b) Control.—For purposes of subsection (a), the term 'control' means—

"(1) With respect to a transferee corporation described in subsection (a) (1) or (2), the ownership by the transferor corporation, its shareholders, or both, of stock possessing at least 80 percent of the total combined voting power of all classes of stock entitled to vote or at least 80 percent of the total value of shares of all classes of the stock; or

"(2) With respect to each corporation described in subsection (a)(3), the ownership by the five or fewer individuals described in such subsection of stock possessing—

"(A) at least 80 percent of the total combined voting power of all classes of stock entitled to vote or at least 80 percent of the total value of shares of all classes of the stock of each corporation, and

"(B) more than 50 percent of the total combined voting power of all classes of stock entitled to vote or more than 50 percent of the total value of shares of all classes of stock of each corporation, taking into account the stock ownership of each such individual only to the extent such stock ownership is identical with respect to each such corporation.

For purposes of this subsection, section 1563(e) shall apply in determining the ownership of stock.

Ante, pp. 120, 123.

"(c) Authority of the Secretary Under This Section.—The provisions of section 269(b), and the authority of the Secretary under such section, shall, to the extent not inconsistent with the provisions of this section, be applicable to this section."

26 USC 269.

(c) Technical Amendments.—

(1) Amendment of section 802.—The second sentence of section 802(a)(1) (relating to tax on life insurance companies) is amended to read as follows: "Such tax shall consist of a normal tax and surtax computed as provided in section 11 as though the life insurance company taxable income were the taxable income referred to in section 11."

26 USC 802.

(2) Amendment of section 269.—Section 269(a) (relating to acquisitions made to evade or avoid income tax) is amended by striking out "then such deduction, credit, or other allowance shall not be allowed" at the end of the first sentence and inserting in lieu thereof "then the Secretary or his delegate may disallow such deduction, credit, or other allowance".

(3) SPECIAL RULE FOR 52-53-WEEK YEAR.—Section 441(f)(2)(A) (relating to effective date with respect to special rules for 52–53-week year) is amended by striking out "In any case in which the effective date or the applicability of any provision of this title is expressed in terms of taxable years beginning or ending with reference to a specified date" and inserting in lieu thereof "In any case in which the effective date or the applicability of any provision of this title is expressed in terms of taxable years beginning, including, or ending with reference to a specified date". 26 USC 441.

(4) Subchapter B of chapter 6 is amended by inserting after the heading and before the table of sections the following:

"Part I. In general.
"Part II. Certain controlled corporations.

"PART I—IN GENERAL"

(d) EFFECTIVE DATE.—The amendments made by subsections (a) and (c) shall apply with respect to taxable years ending after December 31, 1963. The amendment made by subsection (b) shall apply with respect to transfers made after June 12, 1963.

SEC. 236. VALIDITY OF TAX LIENS AGAINST PURCHASERS OF MOTOR VEHICLES.

(a) PURCHASERS WITHOUT ACTUAL NOTICE OR KNOWLEDGE OF LIEN.—Section 6323 (relating to validity of liens for Federal taxes) is amended by redesignating subsection (d) as subsection (e) and by inserting after subsection (c) the following new subsection: 26 USC 6323.

"(d) EXCEPTION IN CASE OF MOTOR VEHICLES.—

"(1) EXCEPTION.—Even though notice of a lien provided in section 6321 has been filed in the manner prescribed in subsection (a) of this section, the lien shall not be valid with respect to a motor vehicle, as defined in paragraph (2) of this subsection, as against any purchaser of such motor vehicle for an adequate and full consideration in money or money's worth if—

"(A) at the time of the purchase the purchaser is without notice or knowledge of the existence of such lien, and

"(B) before the purchaser obtains such notice or knowledge, he has acquired possession of such motor vehicle and has not thereafter relinquished possession of such motor vehicle to the seller or his agent.

"(2) DEFINITION OF MOTOR VEHICLE.—As used in this subsection, the term 'motor vehicle' means a self-propelled vehicle which is registered for highway use under the laws of any State or foreign country."

(b) LIENS FOR ESTATE AND GIFT TAXES.—Section 6324 (relating to special lien for estate and gift taxes) is amended by adding at the end thereof the following new subsection: 26 USC 6324.

"(d) EXCEPTION IN CASE OF MOTOR VEHICLES.—The lien imposed by subsection (a) or (b) shall not be valid with respect to a motor vehicle, as defined in section 6323(d)(2), as against any purchaser of

such motor vehicle for an adequate and full consideration in money or money's worth if—

"(1) at the time of the purchase the purchaser is without notice or knowledge of the existence of such lien, and

"(2) before the purchaser obtains such notice or knowledge, he has acquired possession of such motor vehicle and has not thereafter relinquished possession of such motor vehicle to the seller or his agent."

(c) CLERICAL AMENDMENTS.—

26 USC 6323.

(1) Section 6323(a) is amended by striking out "subsection (c)" and inserting in lieu thereof "subsections (c) and (d)".

26 USC 6324.

(2) Section 6324 is amended by inserting after "subsection (c) (relating to transfers of securities)" in subsections (a) and (b) the following: "and subsection (d) (relating to purchases of motor vehicles)".

(d) EFFECTIVE DATES.—The amendments made by this section shall apply only with respect to purchases made after the date of the enactment of this Act.

SEC. 237. EXCLUSION OF EARNED INCOME OF CERTAIN UNITED STATES CITIZENS WHO ARE RESIDENTS OF FOREIGN COUNTRIES.

26 USC 911.

(a) REDUCTION OF LIMITATION.—Subparagraph (B) of section 911(c)(1) (relating to limitations on amount of exclusion) is amended by striking out "$35,000" and inserting in lieu thereof "$25,000".

(b) EFFECTIVE DATE.—The amendment made by subsection (a) shall apply to taxable years beginning after December 31, 1964.

SEC. 238. LOSSES ARISING FROM CONFISCATION OF PROPERTY BY CUBA.

26 USC 165.

Section 165 (relating to losses) is amended by redesignating subsection (i) as subsection (j) and by inserting after subsection (h) the following new subsection:

"(i) CERTAIN PROPERTY CONFISCATED BY CUBA.—For purposes of this chapter, any loss of tangible property, if such loss arises from expropriation, intervention, seizure, or similar taking by the government of Cuba, any political subdivision thereof, or any agency or instrumentality of the foregoing, shall be treated as a loss from a casualty within the meaning of subsection (c)(3)."

SEC. 239. CREDIT OR REFUND OF SELF-EMPLOYMENT TAX.

Ante, p. 111.

Section 6511 (relating to limitations on credit or refund) is amended by adding at the end of subsection (d) the following new paragraph:

"(5) SPECIAL PERIOD OF LIMITATION WITH RESPECT TO SELF-EMPLOYMENT TAX IN CERTAIN CASES.—If the claim for credit or refund relates to an overpayment of the tax imposed by chapter 2 (relating to the tax on self-employment income) attributable to an agreement, or modification of an agreement, made pursuant to section 218 of the Social Security Act (relating to coverage of State and local employees), and if the allowance of a credit or refund of such overpayment is otherwise prevented by the operation of any law or rule of law other than section 7122 (relating to compromises), such credit or refund may be allowed or made if claim therefor is filed on or before the later of the following dates: (A) the last day of the second year after the calendar year in which such agreement (or modification) is agreed to by the State and the Secretary of Health, Education, and Welfare, or (B) December 31, 1965."

SEC. 240. EXTENSION OF TIME FOR PAYMENT OF ESTATE TAX ON VALUE OF REVERSIONARY OR REMAINDER INTEREST IN PROPERTY.

(a) EXTENSION UNDER 1954 CODE.—Section 6163(b) (relating to extension of time for paying estate tax on value of reversionary or remainder interest in property to prevent undue hardship) is amended by striking out "not in excess of 2" and inserting in lieu thereof "or periods not in excess of 3".

26 USC 6163.

(b) EXTENSION UNDER 1939 CODE.—Section 925 of the Internal Revenue Code of 1939 (relating to periods of extension of time for paying estate tax attributable to future interests) is amended by striking out "not in excess of 2" and inserting in lieu thereof "or periods not in excess of 3".

53 Stat. 140.

(c) EFFECTIVE DATE.—

(1) The amendment made by subsection (a) shall apply in the case of any reversionary or remainder interest only if the time for payment of the tax under chapter 11 of the Internal Revenue Code of 1954 attributable to such interest, including any extensions thereof, has not expired on the date of the enactment of this Act.

(2) The amendment made by subsection (b) shall apply in the case of any reversionary or remainder interest only if the time for payment of the tax under chapter 3 of the Internal Revenue Code of 1939 attributable to such interest, including any extensions thereof, has not expired on the date of the enactment of this Act.

Title III—Optional Tax On Individuals; Collection Of Income Tax At Source On Wages

SEC. 301. OPTIONAL TAX IF ADJUSTED GROSS INCOME IS LESS THAN $5,000.

(a) OPTIONAL TAX.—Section 3 (relating to optional tax if adjusted gross income is less than $5,000) is amended to read as follows:

26 USC 3.

"SEC. 3. OPTIONAL TAX IF ADJUSTED GROSS INCOME IS LESS THAN $5,000.

"(a) TAXABLE YEARS BEGINNING IN 1964.—In lieu of the tax imposed by section 1, there is hereby imposed for each taxable year beginning on or after January 1, 1964, and before January 1, 1965, on the taxable income of every individual whose adjusted gross income

for such year is less than $5,000 and who has elected for such year to pay the tax imposed by this section, a tax as follows:

"Table I—Single Person—NOT Head of Household

"Taxable Years Beginning in 1964

If adjusted gross income is—		And the number of exemptions is—				If adjusted gross income is—		And the number of exemptions is—						
At least	But less than	1	2	3	4 or more	At least	But less than	1	2	3	4	5	6	7 or more
		The tax is—						The tax is—						
$0	$900	$0	$0	$0	$0	$2,450	$2,475	$261	$140	$26	$0	$0	$0	$0
900	925	2	0	0	0	2,475	2,500	266	144	30	0	0	0	0
925	950	6	0	0	0	2,500	2,525	270	148	34	0	0	0	0
950	975	10	0	0	0	2,525	2,550	275	152	38	0	0	0	0
975	1,000	14	0	0	0	2,550	2,575	279	156	42	0	0	0	0
1,000	1,025	18	0	0	0	2,575	2,600	284	160	46	0	0	0	0
1,025	1,050	22	0	0	0	2,600	2,625	288	165	50	0	0	0	0
1,050	1,075	26	0	0	0	2,625	2,650	293	169	54	0	0	0	0
1,075	1,100	30	0	0	0	2,650	2,675	297	173	58	0	0	0	0
1,100	1,125	34	0	0	0	2,675	2,700	302	178	62	0	0	0	0
1,125	1,150	38	0	0	0	2,700	2,725	306	182	66	0	0	0	0
1,150	1,175	42	0	0	0	2,725	2,750	311	187	70	0	0	0	0
1,175	1,200	46	0	0	0	2,750	2,775	315	191	74	0	0	0	0
1,200	1,225	50	0	0	0	2,775	2,800	320	195	78	0	0	0	0
1,225	1,250	54	0	0	0	2,800	2,825	324	200	82	0	0	0	0
1,250	1,275	58	0	0	0	2,825	2,850	329	204	86	0	0	0	0
1,275	1,300	62	0	0	0	2,850	2,875	333	208	90	0	0	0	0
1,300	1,325	66	0	0	0	2,875	2,900	338	213	94	0	0	0	0
1,325	1,350	70	0	0	0	2,900	2,925	343	217	99	0	0	0	0
1,350	1,375	74	0	0	0	2,925	2,950	348	222	103	0	0	0	0
1,375	1,400	78	0	0	0	2,950	2,975	353	226	107	0	0	0	0
1,400	1,425	82	0	0	0	2,975	3,000	358	230	111	0	0	0	0
1,425	1.450	86	0	0	0	3,000	3,050	365	237	117	4	0	0	0
1,450	1,475	90	0	0	0	3,050	3,100	374	246	125	12	0	0	0
1,475	1,500	94	0	0	0	3,100	3,150	383	255	134	20	0	0	0
1,500	1,525	99	0	0	0	3,150	3,200	392	264	142	28	0	0	0
1,525	1,550	103	0	0	0	3,200	3,250	401	273	150	36	0	0	0
1,550	1,575	107	0	0	0	3,250	3,300	410	282	158	44	0	0	0
1,575	1,600	111	0	0	0	3,300	3,350	419	291	167	52	0	0	0
1,600	1,625	115	2	0	0	3,350	3,400	428	300	176	60	0	0	0
1,625	1,650	119	6	0	0	3,400	3,450	437	309	184	68	0	0	0
1,650	1,675	123	10	0	0	3,450	3,500	446	318	193	76	0	0	0
1,675	1.700	127	14	0	0	3.500	3,550	455	327	202	84	0	0	0
1,700	1,725	132	18	0	0	3,550	3,600	464	336	211	92	0	0	0
1,725	1,750	136	22	0	0	3,600	3,650	473	345	219	101	0	0	0
1,750	1.775	140	26	0	0	3,650	3,700	482	355	228	109	0	0	0
1,775	1,800	144	30	0	0	3.700	3,750	491	365	237	117	4	0	0
1,800	1,825	148	34	0	0	3,750	3,800	500	375	246	125	12	0	0
1,825	1,850	152	38	0	0	3.800	3,850	509	385	255	134	20	0	0
1,850	1,875	156	42	0	0	3,850	3,900	518	395	264	142	28	0	0
1.875	1,900	160	46	0	0	3,900	3,950	527	405	273	150	36	0	0
1,900	1.925	165	50	0	0	3,950	4,000	536	415	282	158	44	0	0
1,925	1,950	169	54	0	0	4,000	4,050	545	425	291	167	52	0	0
1,950	1.975	173	58	0	0	4,050	4,100	554	434	300	176	60	0	0
1,975	2,000	178	62	0	0	4,100	4.150	563	443	309	184	68	0	0
2,000	2,025	182	66	0	0	4,150	4.200	572	452	318	193	76	0	0
2,025	2,050	187	70	0	0	4,200	4.250	581	461	327	202	84	0	0
2,050	2,075	191	74	0	0	4.250	4,300	590	470	336	211	92	0	0
2,075	2.100	195	78	0	0	4,300	4,350	599	479	345	219	101	0	0
2,100	2,125	200	82	0	0	4,350	4,400	608	488	355	228	109	0	0
2,125	2,150	204	86	0	0	4,400	4,450	617	497	365	237	117	4	0
2,150	2.175	208	90	0	0	4,450	4,500	626	506	375	246	125	12	0
2,175	2,200	213	94	0	0	4,500	4.550	635	515	385	255	134	20	0
2,200	2,225	217	99	0	0	4,550	4,600	644	524	395	264	142	28	0
2,225	2,250	222	103	0	0	4,600	4,650	653	533	405	273	150	36	0
2,250	2,275	226	107	0	0	4,650	4,700	662	542	415	282	158	44	0
2,275	2,300	230	111	0	0	4,700	4,750	671	551	425	291	167	52	0
2,300	2,325	235	115	2	0	4,750	4,800	680	560	435	300	176	60	0
2,325	2,350	239	119	6	0	4,800	4,850	689	569	445	309	184	68	0
2,350	2,375	243	123	10	0	4,850	4,900	698	578	455	318	193	76	0
2,375	2.400	248	127	14	0	4,900	4,950	707	587	465	327	202	84	0
2.400	2,425	252	132	18	0	4.950	5,000	716	596	475	336	211	92	0
2,425	2,450	257	136	22	0									

"Table II—Head of Household

"Taxable Years Beginning in 1964

If adjusted gross income is—		And the number of exemptions is—			
At least	But less than	1	2	3	4 or more
		The tax is—			
$0	$900	$0	$0	$0	$0
900	925	2	0	0	0
925	950	6	0	0	0
950	975	10	0	0	0
975	1,000	14	0	0	0
1,000	1,025	18	0	0	0
1,025	1,050	22	0	0	0
1,050	1,075	26	0	0	0
1,075	1,100	30	0	0	0
1,100	1,125	34	0	0	0
1,125	1,150	38	0	0	0
1,150	1,175	42	0	0	0
1,175	1,200	46	0	0	0
1,200	1,225	50	0	0	0
1,225	1,250	54	0	0	0
1,250	1,275	58	0	0	0
1,275	1,300	62	0	0	0
1,300	1,325	66	0	0	0
1,325	1,350	70	0	0	0
1,350	1,375	74	0	0	0
1,375	1,400	78	0	0	0
1,400	1,425	82	0	0	0
1,425	1,450	86	0	0	0
1,450	1,475	90	0	0	0
1,475	1,500	94	0	0	0
1,500	1,525	98	0	0	0
1,525	1,550	102	0	0	0
1,550	1,575	106	0	0	0
1,575	1,600	110	0	0	0
1,600	1,625	114	2	0	0
1,625	1,650	118	6	0	0
1,650	1,675	122	10	0	0
1,675	1,700	126	14	0	0
1,700	1,725	130	18	0	0
1,725	1,750	134	22	0	0
1,750	1,775	138	26	0	0
1,775	1,800	142	30	0	0
1,800	1,825	146	34	0	0
1,825	1,850	150	38	0	0
1,850	1,875	154	42	0	0
1,875	1,900	158	46	0	0
1,900	1,925	162	50	0	0
1,925	1.950	167	54	0	0
1,950	1,975	171	58	0	0
1,975	2,000	175	62	0	0
2,000	2,025	180	66	0	0
2.025	2,050	184	70	0	0
2,050	2,075	188	74	0	0
2,075	2,100	193	78	0	0
2.100	2,125	197	82	0	0
2,125	2.150	202	86	0	0
2,150	2.175	206	90	0	0
2,175	2,200	210	94	0	0
2,200	2,225	215	98	0	0
2,225	2,250	219	102	0	0
2,250	2.275	223	106	0	0
2,275	2,300	228	110	0	0
2,300	2,325	232	114	2	0
2,325	2,350	237	118	6	0
2,350	2,375	241	122	10	0
2,375	2,400	245	126	14	0
2,400	2,425	250	130	18	0
2,425	2,450	254	134	22	0

If adjusted gross income is—		And the number of exemptions is—						
At least	But less than	1	2	3	4	5	6	7 or more
		The tax is—						
$2,450	$2,475	$258	$138	$26	$0	$0	$0	$0
2,475	2,500	263	142	30	0	0	0	0
2,500	2,525	267	146	34	0	0	0	0
2,525	2,550	272	150	38	0	0	0	0
2,550	2,575	276	154	42	0	0	0	0
2,575	2,600	280	158	46	0	0	0	0
2,600	2,625	285	162	50	0	0	0	0
2,625	2,650	289	167	54	0	0	0	0
2,650	2,675	293	171	58	0	0	0	0
2,675	2,700	298	175	62	0	0	0	0
2.700	2,725	302	180	66	0	0	0	0
2,725	2,750	307	184	70	0	0	0	0
2,750	2,775	311	188	74	0	0	0	0
2,775	2,800	315	193	78	0	0	0	0
2,800	2,825	320	197	82	0	0	0	0
2,825	2,850	324	202	86	0	0	0	0
2,850	2,875	328	206	90	0	0	0	0
2,875	2,900	333	210	94	0	0	0	0
2,900	2,925	337	215	98	0	0	0	0
2,925	2,950	342	219	102	0	0	0	0
2.950	2,975	347	223	106	0	0	0	0
2,975	3,000	352	228	110	0	0	0	0
3,000	3,050	358	234	116	4	0	0	0
3,050	3,100	367	243	124	12	0	0	0
3,100	3,150	375	252	132	20	0	0	0
3,150	3,200	384	261	140	28	0	0	0
3,200	3,250	392	269	148	36	0	0	0
3,250	3,300	401	278	156	44	0	0	0
3,300	3,350	410	287	164	52	0	0	0
3,350	3,400	418	296	173	60	0	0	0
3,400	3,450	427	304	182	68	0	0	0
3,450	3,500	435	313	191	76	0	0	0
3,500	3,550	444	322	199	84	0	0	0
3,550	3,600	452	331	208	92	0	0	0
3.600	3,650	461	340	217	100	0	0	0
3,650	3.700	469	349	226	108	0	0	0
3,700	3,750	478	359	234	116	4	0	0
3,750	3,800	487	368	243	124	12	0	0
3.800	3,850	495	378	252	132	20	0	0
3.850	3,900	504	387	261	140	28	0	0
3,900	3.950	512	397	269	148	36	0	0
3,950	4,000	521	406	278	156	44	0	0
4,000	4,050	529	415	287	164	52	0	0
4,050	4,100	538	424	296	173	60	0	0
4,100	4,150	546	432	304	182	68	0	0
4,150	4.200	555	441	313	191	76	0	0
4,200	4,250	563	449	322	199	84	0	0
4,250	4,300	572	458	331	208	92	0	0
4,300	4,350	581	467	340	217	100	0	0
4,350	4,400	589	475	349	226	108	0	0
4,400	4,450	598	484	359	234	116	4	0
4,450	4,500	606	492	368	243	124	12	0
4,500	4,550	615	501	378	252	132	20	0
4,550	4.600	623	509	387	261	140	28	0
4,600	4,650	632	518	397	269	148	36	0
4,650	4,700	640	526	406	278	156	44	0
4,700	4,750	649	535	416	287	164	52	0
4,750	4,800	658	544	425	296	173	60	0
4,800	4,850	666	552	435	304	182	68	0
4,850	4,900	675	561	444	313	191	76	0
4,900	4,950	683	569	454	322	199	84	0
4,950	5,000	692	578	463	331	208	92	0

"Table III—Married Persons Filing JOINT Returns

"Taxable Years Beginning in 1964

If adjusted gross income is—		And the number of exemptions is—		
At least	But less than	2	3	4 or more
		The tax is—		
$0	$1,600	$0	$0	$0
1,600	1,625	2	0	0
1,625	1,650	6	0	0
1,650	1,675	10	0	0
1,675	1,700	14	0	0
1,700	1,725	18	0	0
1,725	1,750	22	0	0
1,750	1,775	26	0	0
1,775	1,800	30	0	0
1,800	1,825	34	0	0
1,825	1,850	38	0	0
1,850	1,875	42	0	0
1,875	1,900	46	0	0
1,900	1,925	50	0	0
1,925	1,950	54	0	0
1,950	1,975	58	0	0
1,975	2,000	62	0	0
2,000	2,025	66	0	0
2,025	2,050	70	0	0
2,050	2,075	74	0	0
2,075	2,100	78	0	0
2,100	2,125	82	0	0
2,125	2,150	86	0	0
2,150	2,175	90	0	0
2,175	2,200	94	0	0
2,200	2,225	98	0	0
2,225	2,250	102	0	0
2,250	2,275	106	0	0
2,275	2,300	110	0	0
2,300	2,325	114	2	0
2,325	2,350	118	6	0
2,350	2,375	122	10	0
2,375	2,400	126	14	0
2,400	2,425	130	18	0
2,425	2,450	134	22	0
2,450	2,475	138	26	0
2,475	2,500	142	30	0
2,500	2,525	146	34	0
2,525	2,550	150	38	0
2,550	2,575	154	42	0
2,575	2,600	158	46	0
2,600	2,625	162	50	0
2,625	2,650	166	54	0
2,650	2,675	170	58	0
2,675	2,700	174	62	0
2,700	2,725	179	66	0
2,725	2,750	183	70	0
2,750	2,775	187	74	0
2,775	2,800	191	78	0

If adjusted gross income is—		And the number of exemptions is—					
At least	But less than	2	3	4	5	6	7 or more
		The tax is—					
$2,800	$2,825	$195	$82	$0	$0	$0	$0
2,825	2,850	199	86	0	0	0	0
2,850	2,875	203	90	0	0	0	0
2,875	2,900	207	94	0	0	0	0
2,900	2,925	212	98	0	0	0	0
2,925	2,950	216	102	0	0	0	0
2,950	2,975	220	106	0	0	0	0
2,975	3,000	224	110	0	0	0	0
3,000	3,050	230	116	4	0	0	0
3,050	3,100	238	124	12	0	0	0
3,100	3,150	247	132	20	0	0	0
3,150	3,200	255	140	28	0	0	0
3,200	3,250	263	148	36	0	0	0
3,250	3,300	271	156	44	0	0	0
3,300	3,350	280	164	52	0	0	0
3,350	3,400	283	172	60	0	0	0
3,400	3,450	296	181	68	0	0	0
3,450	3,500	304	189	76	0	0	0
3,500	3,550	313	197	84	0	0	0
3,550	3,600	321	205	92	0	0	0
3,600	3,650	329	214	100	0	0	0
3,650	3,700	338	222	108	0	0	0
3,700	3,750	347	230	116	4	0	0
3,750	3,800	356	238	124	12	0	0
3,800	3,850	364	247	132	20	0	0
3,850	3,900	373	255	140	28	0	0
3,900	3,950	382	263	148	36	0	0
3,950	4,000	391	271	156	44	0	0
4,000	4,050	399	280	164	52	0	0
4,050	4,100	407	288	172	60	0	0
4,100	4,150	415	296	181	68	0	0
4,150	4,200	423	304	189	76	0	0
4,200	4,250	430	313	197	84	0	0
4,250	4,300	438	321	205	92	0	0
4,300	4,350	446	329	214	100	0	0
4,350	4,400	454	338	222	108	0	0
4,400	4,450	462	347	230	116	4	0
4,450	4,500	470	356	238	124	12	0
4,500	4,550	478	364	247	132	20	0
4,550	4,600	486	373	255	140	28	0
4,600	4,650	493	382	263	148	36	0
4,650	4,700	501	391	271	156	44	0
4,700	4,750	509	399	280	164	52	0
4,750	4,800	518	408	288	172	60	0
4,800	4,850	526	417	296	181	68	0
4,850	4,900	534	426	304	189	76	0
4,900	4,950	542	434	313	197	84	0
4,950	5,000	550	443	321	205	92	0

"Table IV—Married Persons Filing SEPARATE Returns

"10 PERCENT STANDARD DEDUCTION

"Taxable Years Beginning in 1964

If adjusted gross income is—		And the number of exemptions is—				If adjusted gross income is—		And the number of exemptions is—							
At least	But less than	1	2	3	4 or more	At least	But less than	1	2	3	4	5	6	7	8 or more
		The tax is—						The tax is—							
$0	$675	$0	$0	$0	$0	$2,325	$2,350	$251	$147	$49	$0	$0	$0	$0	$0
675	700	3	0	0	0	2,350	2,375	255	150	52	0	0	0	0	0
700	725	7	0	0	0	2,375	2,400	259	154	56	0	0	0	0	0
725	750	10	0	0	0	2,400	2,425	263	158	59	0	0	0	0	0
750	775	14	0	0	0	2,425	2,450	267	161	63	0	0	0	0	0
775	800	17	0	0	0	2,450	2,475	271	165	67	0	0	0	0	0
800	825	21	0	0	0	2,475	2,500	275	169	70	0	0	0	0	0
825	850	25	0	0	0	2,500	2,525	279	173	74	0	0	0	0	0
850	875	28	0	0	0	2,525	2,550	283	177	77	0	0	0	0	0
875	900	32	0	0	0	2,550	2,575	287	181	81	0	0	0	0	0
900	925	35	0	0	0	2,575	2,600	291	185	85	0	0	0	0	0
925	950	39	0	0	0	2,600	2,625	295	189	88	0	0	0	0	0
950	975	43	0	0	0	2,625	2,650	299	193	92	0	0	0	0	0
975	1,000	46	0	0	0	2,650	2,675	303	197	96	0	0	0	0	0
1,000	1,025	50	0	0	0	2,675	2,700	307	201	100	3	0	0	0	0
1,025	1,050	53	0	0	0	2,700	2,725	311	205	103	7	0	0	0	0
1,050	1,075	57	0	0	0	2,725	2,750	315	209	107	10	0	0	0	0
1,075	1,100	61	0	0	0	2,750	2,775	320	213	111	14	0	0	0	0
1,100	1,125	64	0	0	0	2,775	2,800	324	217	114	17	0	0	0	0
1,125	1,150	68	0	0	0	2,800	2,825	328	220	118	21	0	0	0	0
1,150	1,175	71	0	0	0	2,825	2,850	332	224	122	25	0	0	0	0
1,175	1,200	75	0	0	0	2,850	2,875	336	228	126	28	0	0	0	0
1,200	1,225	79	0	0	0	2,875	2,900	340	232	129	32	0	0	0	0
1,225	1,250	82	0	0	0	2,900	2,925	344	236	133	35	0	0	0	0
1,250	1,275	86	0	0	0	2,925	2,950	349	240	137	39	0	0	0	0
1,275	1,300	90	0	0	0	2,950	2,975	353	244	140	43	0	0	0	0
1,300	1,325	93	0	0	0	2,975	3,000	358	248	144	46	0	0	0	0
1,325	1,350	97	1	0	0	3,000	3,050	365	254	150	52	0	0	0	0
1,350	1,375	101	4	0	0	3,050	3,100	374	262	157	59	0	0	0	0
1,375	1,400	105	8	0	0	3,100	3,150	383	270	165	66	0	0	0	0
1,400	1,425	108	11	0	0	3,150	3,200	392	278	173	73	0	0	0	0
1,425	1,450	112	15	0	0	3,200	3,250	401	286	180	80	0	0	0	0
1,450	1,475	116	19	0	0	3,250	3,300	410	295	188	88	0	0	0	0
1,475	1,500	119	22	0	0	3,300	3,350	419	303	196	95	0	0	0	0
1,500	1,525	123	26	0	0	3,350	3,400	428	311	204	103	6	0	0	0
1,525	1,550	127	29	0	0	3,400	3,450	437	319	212	110	13	0	0	0
1,550	1,575	131	33	0	0	3,450	3,500	446	327	220	118	20	0	0	0
1,575	1,600	134	37	0	0	3,500	3,550	455	335	228	125	28	0	0	0
1,600	1,625	138	40	0	0	3,550	3,600	464	344	236	132	35	0	0	0
1,625	1,650	142	44	0	0	3,600	3,650	473	353	243	140	42	0	0	0
1,650	1,675	145	47	0	0	3,650	3,700	482	362	251	147	49	0	0	0
1,675	1,700	149	51	0	0	3,700	3,750	491	371	259	155	56	0	0	0
1,700	1,725	153	55	0	0	3,750	3,800	500	380	268	162	64	0	0	0
1,725	1,750	157	58	0	0	3,800	3,850	509	389	276	170	71	0	0	0
1,750	1,775	160	62	0	0	3,850	3,900	518	398	284	178	78	0	0	0
1,775	1,800	164	65	0	0	3,900	3,950	527	407	292	186	85	0	0	0
1,800	1,825	168	69	0	0	3,950	4,000	536	416	300	194	93	0	0	0
1,825	1,850	172	73	0	0	4,000	4,050	545	425	308	201	100	4	0	0
1,850	1,875	176	76	0	0	4,050	4,100	554	434	316	209	108	11	0	0
1,875	1,900	180	80	0	0	4,100	4,150	563	443	324	217	115	18	0	0
1,900	1,925	184	84	0	0	4,150	4,200	572	452	332	225	122	25	0	0
1,925	1,950	188	87	0	0	4,200	4,250	581	461	341	233	130	32	0	0
1,950	1,975	192	91	0	0	4,250	4,300	590	470	350	241	137	40	0	0
1,975	2,000	196	95	0	0	4,300	4,350	599	479	359	249	145	47	0	0
2,000	2,025	199	98	2	0	4,350	4,400	608	488	368	257	152	54	0	0
2,025	2,050	203	102	5	0	4,400	4,450	617	497	377	265	160	61	0	0
2,050	2,075	207	106	9	0	4,450	4,500	626	506	386	273	167	68	0	0
2,075	2,100	211	109	13	0	4,500	4,550	635	515	395	281	175	76	0	0
2,100	2,125	215	113	16	0	4,550	4,600	644	524	404	289	183	83	0	0
2,125	2,150	219	117	20	0	4,600	4,650	653	533	413	297	191	90	0	0
2,150	2,175	223	121	23	0	4,650	4,700	662	542	422	305	199	98	1	0
2,175	2,200	227	124	27	0	4,700	4,750	671	551	431	313	207	105	8	0
2,200	2,225	231	128	31	0	4,750	4,800	680	560	440	322	215	113	16	0
2,225	2,250	235	132	34	0	4,800	4,850	689	569	449	330	222	120	23	0
2,250	2,275	239	135	38	0	4,850	4,900	698	578	458	338	230	127	30	0
2,275	2,300	243	139	41	0	4,900	4,950	707	587	467	347	238	135	37	0
2,300	2,325	247	143	45	0	4,950	5,000	716	596	476	356	246	142	44	0

"Table V—Married Persons Filing SEPARATE Returns

"MINIMUM STANDARD DEDUCTION

"Taxable Years Beginning in 1964

If adjusted gross income is—		And the number of exemptions is—			
At least	But less than	1	2	3	4 or more
		The tax is—			
$0	$800	$0	$0	$0	$0
800	825	2	0	0	0
825	850	6	0	0	0
850	875	10	0	0	0
875	900	14	0	0	0
900	925	18	0	0	0
925	950	22	0	0	0
950	975	26	0	0	0
975	1,000	30	0	0	0
1,000	1,025	34	0	0	0
1,025	1,050	38	0	0	0
1,050	1,075	42	0	0	0
1,075	1,100	46	0	0	0
1,100	1,125	50	0	0	0
1,125	1,150	54	0	0	0
1,150	1,175	58	0	0	0
1,175	1,200	62	0	0	0
1,200	1,225	66	0	0	0
1,225	1,250	70	0	0	0
1,250	1,275	74	0	0	0
1,275	1,300	78	0	0	0
1,300	1,325	82	0	0	0
1,325	1,350	86	0	0	0
1,350	1,375	90	0	0	0
1,375	1,400	94	0	0	0
1,400	1,425	99	0	0	0
1,425	1,450	103	0	0	0
1,450	1,475	107	0	0	0
1,475	1,500	111	0	0	0
1,500	1,525	115	2	0	0
1,525	1,550	119	6	0	0
1,550	1,575	123	10	0	0
1,575	1,600	127	14	0	0
1,600	1,625	132	18	0	0
1,625	1,650	136	22	0	0
1,650	1,675	140	26	0	0
1,675	1,700	144	30	0	0
1,700	1,725	148	34	0	0
1,725	1,750	152	38	0	0
1,750	1,775	156	42	0	0
1,775	1.800	160	46	0	0
1,800	1,825	165	50	0	0
1,825	1,850	169	54	0	0
1,850	1,875	173	58	0	0
1,875	1,900	178	62	0	0
1,900	1,925	182	66	0	0
1,925	1,950	187	70	0	0
1,950	1,975	191	74	0	0
1,975	2,000	195	78	0	0
2,000	2,025	200	82	0	0
2,025	2,050	204	86	0	0
2,050	2,075	208	90	0	0
2,075	2.100	213	94	0	0
2,100	2,125	217	99	0	0
2,125	2,150	222	103	0	0
2,150	2,175	226	107	0	0
2,175	2,200	230	111	0	0
2,200	2,225	235	115	2	0
2,225	2,250	239	119	6	0
2,250	2,275	243	123	10	0
2,275	2.300	248	127	14	0
2,300	2,325	252	132	18	0
2,325	2,350	257	136	22	0
2,350	2,375	261	140	26	0
2,375	2,400	266	144	30	0

If adjusted gross income is—		And the number of exemptions is—							
At least	But less than	1	2	3	4	5	6	7	8 or more
		The tax is—							
$2,400	$2,425	$270	$148	$34	$0	$0	$0	$0	$0
2,425	2,450	275	152	38	0	0	0	0	0
2,450	2,475	279	156	42	0	0	0	0	0
2,475	2,500	284	160	46	0	0	0	0	0
2,500	2,525	288	165	50	0	0	0	0	0
2,525	2,550	293	169	54	0	0	0	0	0
2,550	2,575	297	173	58	0	0	0	0	0
2,575	2.600	302	178	62	0	0	0	0	0
2,600	2,625	306	182	66	0	0	0	0	0
2,625	2,650	311	187	70	0	0	0	0	0
2,650	2,675	315	191	74	0	0	0	0	0
2,675	2,700	320	195	78	0	.0	0	0	0
2,700	2,725	324	200	82	0	0	0	0	0
2,725	2,750	329	204	86	0	0	0	0	0
2,750	2,775	333	208	90	0	0	0	0	0
2,775	2,800	338	213	94	0	0	0	0	0
2,800	2,825	343	217	99	0	0	0	0	0
2,825	2,850	348	222	103	0	0	0	0	0
2,850	2,875	353	226	107	0	0	0	0	0
2,875	2,900	358	230	111	0	0	0	0	0
2,900	2,925	363	235	115	2	0	0	0	0
2,925	2,950	368	239	119	6	0	0	0	0
2,950	2,975	373	243	123	10	0	0	0	0
2,975	3,000	378	248	127	14	0	0	0	0
3,000	3,050	385	255	134	20	0	0	0	0
3,050	3,100	395	264	142	28	0	0	0	0
3,100	3,150	405	273	150	36	0	0	0	0
3,150	3,200	415	282	158	44	0	0	0	0
3,200	3,250	425	291	167	52	0	0	0	0
3,250	3,300	435	300	176	60	0	0	0	0
3,300	3,350	445	309	184	68	0	0	0	0
3,350	3,400	455	318	193	76	0	0	0	0
3,400	3.450	465	327	202	84	0	0	0	0
3,450	3.500	475	336	211	92	0	0	0	0
3.500	3,550	485	345	219	101	4	0	0	0
3,550	3,600	495	355	228	109	12	0	0	0
3,600	3.650	505	365	237	117	20	0	0	0
3.650	3,700	515	375	246	125	28	0	0	0
3,700	3,750	525	385	255	134	36	0	0	0
3.750	3,800	535	395	264	142	44	0	0	0
3.800	3,850	545	405	273	150	52	0	0	0
3,850	3.900	555	415	282	158	60	0	0	0
3.900	3,950	565	425	291	167	68	0	0	0
3,950	4,000	575	435	300	176	76	0	0	0
4,000	4,050	585	445	309	184	84	0	0	0
4,050	4,100	595	455	318	193	92	0	0	0
4.100	4,150	605	465	327	202	101	4	0	0
4.150	4,200	615	475	336	211	109	12	0	0
4.200	4,250	625	485	345	219	117	20	0	0
4,250	4,300	635	495	355	228	125	28	0	0
4.300	4.350	645	505	365	237	134	36	0	0
4,350	4.400	655	515	375	246	142	44	0	0
4,400	4,450	665	525	385	255	150	52	0	0
4,450	4,500	675	535	395	264	158	60	0	0
4,500	4.550	685	545	405	273	167	68	0	0
4,550	4.600	695	555	415	282	176	76	0	0
4,600	4,650	705	565	425	291	184	84	0	0
4,650	4,700	715	575	435	300	193	92	0	0
4.700	4,750	725	585	445	309	202	101	4	0
4.750	4,800	735	595	455	318	211	109	12	0
4,800	4,850	746	605	465	327	219	117	20	0
4,850	4.900	758	615	475	336	228	125	28	0
4,900	4,950	769	625	485	345	237	134	36	0
4.950	5.000	781	635	495	355	246	142	44	0

"(b) Taxable Years Beginning After December 31, 1964.—In lieu of the tax imposed by section 1, there is hereby imposed for each taxable year beginning after December 31, 1964, on the taxable income of every individual whose adjusted gross income for such year is less than $5,000 and who has elected for such year to pay the tax imposed by this section a tax as follows:

"Table I—Single Person—NOT Head of Household

"Taxable Years Beginning After December 31, 1964

If adjusted gross income is—		And the number of exemptions is—				If adjusted gross income is—		And the number of exemptions is—						
At least	But less than	1	2	3	4 or more	At least	But less than	1	2	3	4	5	6	7 or more
		The tax is—						The tax is—						
$0	$900	$0	$0	$0	$0	$2,450	$2,475	$236	$124	$23	$0	$0	$0	$0
900	925	2	0	0	0	2,475	2,500	240	128	26	0	0	0	0
925	950	5	0	0	0	2,500	2,525	244	132	30	0	0	0	0
950	975	9	0	0	0	2,525	2,550	248	136	33	0	0	0	0
975	1,000	12	0	0	0	2,550	2,575	253	139	37	0	0	0	0
1,000	1,025	16	0	0	0	2,575	2,600	257	143	40	0	0	0	0
1,025	1,050	19	0	0	0	2,600	2,625	261	147	44	0	0	0	0
1,050	1,075	23	0	0	0	2,625	2,650	265	151	47	0	0	0	0
1,075	1,100	26	0	0	0	2,650	2,675	270	155	51	0	0	0	0
1,100	1,125	30	0	0	0	2,675	2,700	274	159	54	0	0	0	0
1,125	1,150	33	0	0	0	2,700	2,725	278	163	58	0	0	0	0
1,150	1,175	37	0	0	0	2,725	2,750	282	167	61	0	0	0	0
1,175	1,200	40	0	0	0	2,750	2,775	287	171	65	0	0	0	0
1,200	1,225	44	0	0	0	2,775	2,800	291	175	68	0	0	0	0
1,225	1,250	47	0	0	0	2,800	2,825	295	179	72	0	0	0	0
1,250	1,275	51	0	0	0	2,825	2,850	299	183	76	0	0	0	0
1,275	1,300	54	0	0	0	2,850	2,875	304	187	79	0	0	0	0
1,300	1,325	58	0	0	0	2,875	2,900	308	191	83	0	0	0	0
1,325	1,350	61	0	0	0	2,900	2,925	312	195	87	0	0	0	0
1,350	1,375	65	0	0	0	2,925	2,950	317	199	91	0	0	0	0
1,375	1,400	68	0	0	0	2,950	2,975	322	203	94	0	0	0	0
1,400	1,425	72	0	0	0	2,975	3,000	327	207	98	0	0	0	0
1,425	1,450	76	0	0	0	3,000	3,050	333	213	104	4	0	0	0
1,450	1,475	79	0	0	0	3,050	3,100	342	221	111	11	0	0	0
1,475	1,500	83	0	0	0	3,100	3,150	350	229	119	18	0	0	0
1,500	1,525	87	0	0	0	3,150	3,200	359	238	126	25	0	0	0
1,525	1,550	91	0	0	0	3,200	3,250	367	246	134	32	0	0	0
1,550	1,575	94	0	0	0	3,250	3,300	376	255	141	39	0	0	0
1,575	1,600	98	0	0	0	3,300	3,350	385	263	149	46	0	0	0
1,600	1,625	102	2	0	0	3,350	3,400	393	272	157	53	0	0	0
1,625	1,650	106	5	0	0	3,400	3,450	402	280	165	60	0	0	0
1,650	1,675	109	9	0	0	3,450	3,500	410	289	173	67	0	0	0
1,675	1,700	113	12	0	0	3,500	3,550	419	297	181	74	0	0	0
1,700	1,725	117	16	0	0	3,550	3,600	427	306	189	81	0	0	0
1,725	1,750	121	19	0	0	3,600	3,650	436	315	197	89	0	0	0
1,750	1,775	124	23	0	0	3,650	3,700	444	324	205	96	0	0	0
1,775	1,800	128	26	0	0	3,700	3,750	453	334	213	104	4	0	0
1,800	1,825	132	30	0	0	3,750	3,800	462	343	221	111	11	0	0
1,825	1,850	136	33	0	0	3,800	3,850	470	353	229	119	18	0	0
1,850	1,875	139	37	0	0	3,850	3,900	479	362	238	126	25	0	0
1,875	1,900	143	40	0	0	3,900	3,950	487	372	246	134	32	0	0
1,900	1,925	147	44	0	0	3,950	4,000	496	381	255	141	39	0	0
1,925	1,950	151	47	0	0	4,000	4,050	504	390	263	149	46	0	0
1,950	1,975	155	51	0	0	4,050	4,100	513	399	272	157	53	0	0
1,975	2,000	159	54	0	0	4,100	4,150	521	407	280	165	60	0	0
2,000	2,025	163	58	0	0	4,150	4,200	530	416	289	173	67	0	0
2,025	2,050	167	61	0	0	4,200	4,250	538	424	297	181	74	0	0
2,050	2,075	171	65	0	0	4,250	4,300	547	433	306	189	81	0	0
2,075	2,100	175	68	0	0	4,300	4,350	556	442	315	197	89	0	0
2,100	2,125	179	72	0	0	4,350	4,400	564	450	324	205	96	0	0
2,125	2,150	183	76	0	0	4,400	4,450	573	459	334	213	104	4	0
2,150	2,175	187	79	0	0	4,450	4,500	581	467	343	221	111	11	0
2,175	2,200	191	83	0	0	4,500	4,550	590	476	353	229	119	18	0
2,200	2,225	195	87	0	0	4,550	4,600	598	484	362	238	126	25	0
2,225	2,250	199	91	0	0	4,600	4,650	607	493	372	246	134	32	0
2,250	2,275	203	94	0	0	4,650	4,700	615	501	381	255	141	39	0
2,275	2,300	207	98	0	0	4,700	4,750	624	510	391	263	149	46	0
2,300	2,325	211	102	2	0	4,750	4,800	633	519	400	272	157	53	0
2,325	2,350	215	106	5	0	4,800	4,850	641	527	410	280	165	60	0
2,350	2,375	219	109	9	0	4,850	4,900	650	536	419	289	173	67	0
2,375	2,400	223	113	12	0	4,900	4,950	658	544	429	297	181	74	0
2,400	2,425	227	117	16	0	4,950	5,000	667	553	438	306	189	81	0
2,425	2,450	231	121	19	0									

"Table II—Head of Household

"Taxable Years Beginning After December 31, 1964

If adjusted gross income is—		And the number of exemptions is—			
At least	But less than	1	2	3	4 or more
		The tax is—			
$0	$900	$0	$0	$0	$0
900	925	2	0	0	0
925	950	5	0	0	0
950	975	9	0	0	0
975	1,000	12	0	0	0
1,000	1,025	16	0	0	0
1,025	1,050	19	0	0	0
1,050	1,075	23	0	0	0
1,075	1,100	26	0	0	0
1,100	1,125	30	0	0	0
1,125	1,150	33	0	0	0
1,150	1,175	37	0	0	0
1,175	1,200	40	0	0	0
1,200	1,225	44	0	0	0
1,225	1,250	47	0	0	0
1,250	1,275	51	0	0	0
1,275	1,300	54	0	0	0
1,300	1,325	58	0	0	0
1,325	1,350	61	0	0	0
1,350	1,375	65	0	0	0
1,375	1,400	68	0	0	0
1,400	1,425	72	0	0	0
1,425	1,450	75	0	0	0
1,450	1,475	79	0	0	0
1,475	1,500	82	0	0	0
1,500	1,525	86	0	0	0
1,525	1,550	89	0	0	0
1,550	1,575	93	0	0	0
1,575	1,600	96	0	0	0
1,600	1,625	100	2	0	0
1,625	1,650	103	5	0	0
1,650	1,675	107	9	0	0
1,675	1,700	110	12	0	0
1,700	1,725	114	16	0	0
1,725	1,750	117	19	0	0
1,750	1,775	121	23	0	0
1,775	1,800	124	26	0	0
1,800	1,825	128	30	0	0
1,825	1,850	131	33	0	0
1,850	1,875	135	37	0	0
1,875	1,900	138	40	0	0
1,900	1,925	142	44	0	0
1,925	1,950	146	47	0	0
1,950	1,975	150	51	0	0
1,975	2,000	154	54	0	0
2,000	2,025	158	58	0	0
2,025	2,050	162	61	0	0
2,050	2,075	166	65	0	0
2,075	2,100	170	68	0	0
2,100	2,125	174	72	0	0
2,125	2,150	178	75	0	0
2,150	2,175	182	79	0	0
2,175	2,200	186	82	0	0
2,200	2,225	190	86	0	0
2,225	2,250	194	89	0	0
2,250	2,275	198	93	0	0
2,275	2,300	202	96	0	0
2,300	2,325	206	100	2	0
2,325	2,350	210	103	5	0
2,350	2,375	214	107	9	0
2,375	2,400	218	110	12	0
2,400	2,425	222	114	16	0
2,425	2,450	226	117	19	0

If adjusted gross income is—		And the number of exemptions is—						
At least	But less than	1	2	3	4	5	6	7 or more
		The tax is—						
$2,450	$2,475	$230	$121	$23	$0	$0	$0	$0
2,475	2,500	234	124	26	0	0	0	0
2,500	2,525	238	128	30	0	0	0	0
2,525	2,550	242	131	33	0	0	0	0
2,550	2,575	246	135	37	0	0	0	0
2,575	2,600	250	138	40	0	0	0	0
2,600	2,625	254	142	44	0	0	0	0
2,625	2,650	258	146	47	0	0	0	0
2,650	2,675	262	150	51	0	0	0	0
2,675	2,700	266	154	54	0	0	0	0
2,700	2,725	270	158	58	0	0	0	0
2,725	2,750	274	162	61	0	0	0	0
2,750	2,775	278	166	65	0	0	0	0
2,775	2,800	282	170	68	0	0	0	0
2,800	2,825	286	174	72	0	0	0	0
2,825	2,850	290	178	75	0	0	0	0
2,850	2,875	294	182	79	0	0	0	0
2,875	2,900	298	186	82	0	0	0	0
2,900	2,925	302	190	86	0	0	0	0
2,925	2,950	307	194	89	0	0	0	0
2,950	2,975	311	198	93	0	0	0	0
2,975	3,000	316	202	96	0	0	0	0
3,000	3,050	322	208	102	4	0	0	0
3,050	3,100	330	216	109	11	0	0	0
3,100	3,150	338	224	116	18	0	0	0
3,150	3,200	346	232	123	25	0	0	0
3,200	3,250	354	240	130	32	0	0	0
3,250	3,300	363	248	137	39	0	0	0
3,300	3,350	371	256	144	46	0	0	0
3,350	3,400	379	264	152	53	0	0	0
3,400	3,450	387	272	160	60	0	0	0
3,450	3,500	395	280	168	67	0	0	0
3,500	3,550	403	288	176	74	0	0	0
3,550	3,600	411	296	184	81	0	0	0
3,600	3,650	419	305	192	88	0	0	0
3,650	3,700	427	314	200	95	0	0	0
3,700	3,750	435	323	208	102	4	0	0
3,750	3,800	444	332	216	109	11	0	0
3,800	3,850	452	341	224	116	18	0	0
3,850	3,900	460	350	232	123	25	0	0
3,900	3,950	468	359	240	130	32	0	0
3,950	4,000	476	368	248	137	39	0	0
4,000	4,050	484	376	256	144	46	0	0
4,050	4,100	492	384	264	152	53	0	0
4,100	4,150	500	392	272	160	60	0	0
4,150	4,200	508	400	280	168	67	0	0
4,200	4,250	516	408	288	176	74	0	0
4,250	4,300	525	417	296	184	81	0	0
4,300	4,350	533	425	305	192	88	0	0
4,350	4,400	541	433	314	200	95	0	0
4,400	4,450	549	441	323	208	102	4	0
4,450	4,500	557	449	332	216	109	11	0
4,500	4,550	565	457	341	224	116	18	0
4,550	4,600	573	465	350	232	123	25	0
4,600	4,650	581	473	359	240	130	32	0
4,650	4,700	589	481	368	248	137	39	0
4,700	4,750	597	489	377	256	144	46	0
4,750	4,800	606	498	386	264	152	53	0
4,800	4,850	614	506	395	272	160	60	0
4,850	4,900	622	514	404	280	168	67	0
4,900	4,950	630	522	413	288	176	74	0
4,950	5,000	638	530	422	296	184	81	0

"Table III—Married Persons Filing JOINT Returns

"Taxable Years Beginning After December 31, 1964

If adjusted gross income is—		And the number of exemptions is—			If adjusted gross income is—		And the number of exemptions is—					
At least	But less than	2	3	4 or more	At least	But less than	2	3	4	5	6	7 or more
		The tax is—					The tax is—					
$0	$1,600	$0	$0	$0	$2,800	$2,825	$172	$72	$0	$0	$0	$0
1,600	1,625	2	0	0	2,825	2,850	176	75	0	0	0	0
1,625	1,650	5	0	0	2,850	2,875	179	79	0	0	0	0
1,650	1,675	9	0	0	2,875	2,900	183	82	0	0	0	0
1,675	1,700	12	0	0	2,900	2,925	187	86	0	0	0	0
1,700	1,725	16	0	0	2,925	2,950	191	89	0	0	0	0
1,725	1,750	19	0	0	2,950	2,975	194	93	0	0	0	0
1,750	1,775	23	0	0	2,975	3,000	198	96	0	0	0	0
1,775	1,800	26	0	0	3,000	3,050	204	102	4	0	0	0
1,800	1,825	30	0	0	3,050	3,100	211	109	11	0	0	0
1,825	1,850	33	0	0	3,100	3,150	219	116	18	0	0	0
1,850	1,875	37	0	0	3,150	3,200	226	123	25	0	0	0
1,875	1,900	40	0	0	3,200	3,250	234	130	32	0	0	0
1,900	1,925	44	0	0	3,250	3,300	241	137	39	0	0	0
1,925	1,950	47	0	0	3,300	3,350	249	144	46	0	0	0
1,950	1,975	51	0	0	3,350	3,400	256	151	53	0	0	0
1,975	2,000	54	0	0	3,400	3,450	264	159	60	0	0	0
2,000	2,025	58	0	0	3,450	3,500	271	166	67	0	0	0
2,025	2,050	61	0	0	3,500	3,550	279	174	74	0	0	0
2,050	2,075	65	0	0	3,550	3,600	286	181	81	0	0	0
2,075	2,100	68	0	0	3,600	3,650	294	189	88	0	0	0
2,100	2,125	72	0	0	3,650	3,700	302	196	95	0	0	0
2,125	2,150	75	0	0	3,700	3,750	310	204	102	4	0	0
2,150	2,175	79	0	0	3,750	3,800	318	211	109	11	0	0
2,175	2,200	82	0	0	3,800	3,850	326	219	116	18	0	0
2,200	2,225	86	0	0	3,850	3,900	334	226	123	25	0	0
2,225	2,250	89	0	0	3,900	3,950	342	234	130	32	0	0
2,250	2,275	93	0	0	3,950	4,000	350	241	137	39	0	0
2,275	2,300	96	0	0	4,000	4,050	358	249	144	46	0	0
2,300	2,325	100	2	0	4,050	4,100	365	256	151	53	0	0
2,325	2,350	103	5	0	4,100	4,150	372	264	159	60	0	0
2,350	2,375	107	9	0	4,150	4,200	379	271	166	67	0	0
2,375	2,400	110	12	0	4,200	4,250	386	279	174	74	0	0
2,400	2,425	114	16	0	4,250	4,300	394	286	181	81	0	0
2,425	2,450	117	19	0	4,300	4,350	401	294	189	88	0	0
2,450	2,475	121	23	0	4,350	4,400	408	302	196	95	0	0
2,475	2,500	124	26	0	4,400	4,450	415	310	204	102	4	0
2,500	2,525	128	30	0	4,450	4,500	422	318	211	109	11	0
2,525	2,550	131	33	0	4,500	4,550	430	326	219	116	18	0
2,550	2,575	135	37	0	4,550	4,600	437	334	226	123	25	0
2,575	2,600	138	40	0	4,600	4,650	444	342	234	130	32	0
2,600	2,625	142	44	0	4,650	4,700	451	350	241	137	39	0
2,625	2,650	146	47	0	4,700	4,750	459	358	249	144	46	0
2,650	2,675	149	51	0	4,750	4,800	467	366	256	151	53	0
2,675	2,700	153	54	0	4,800	4,850	474	374	264	159	60	0
2,700	2,725	157	58	0	4,850	4,900	482	382	271	166	67	0
2,725	2,750	161	61	0	4,900	4,950	490	390	279	174	74	0
2,750	2,775	164	65	0	4,950	5,000	497	398	286	181	81	0
2,775	2,800	168	68	0								

"Table IV—Married Persons Filing SEPARATE Returns

"10 PERCENT STANDARD DEDUCTION

"Taxable Years Beginning After December 31, 1964

If adjusted gross income is—		And the number of exemptions is— The tax is—				If adjusted gross income is—		And the number of exemptions is— The tax is—							
At least	But less than	1	2	3	4 or more	At least	But less than	1	2	3	4	5	6	7	8 or more
$0	$675	$0	$0	$0	$0	$2,325	$2,350	$226	$131	$43	$0	$0	$0	$0	$0
675	700	3	0	0	0	2,350	2,375	229	134	46	0	0	0	0	0
700	725	6	0	0	0	2,375	2,400	233	137	49	0	0	0	0	0
725	750	9	0	0	0	2,400	2,425	237	141	52	0	0	0	0	0
750	775	12	0	0	0	2,425	2,450	241	144	55	0	0	0	0	0
775	800	15	0	0	0	2,450	2,475	245	148	58	0	0	0	0	0
800	825	18	0	0	0	2,475	2,500	249	151	61	0	0	0	0	0
825	850	22	0	0	0	2,500	2,525	252	155	65	0	0	0	0	0
850	875	25	0	0	0	2,525	2,550	256	158	68	0	0	0	0	0
875	900	28	0	0	0	2,550	2,575	260	162	71	0	0	0	0	0
900	925	31	0	0	0	2,575	2,600	264	166	74	0	0	0	0	0
925	950	34	0	0	0	2,600	2,625	268	169	78	0	0	0	0	0
950	975	37	0	0	0	2,625	2,650	272	173	81	0	0	0	0	0
975	1,000	40	0	0	0	2,650	2,675	275	176	84	0	0	0	0	0
1,000	1,025	44	0	0	0	2,675	2,700	279	180	88	3	0	0	0	0
1,025	1,050	47	0	0	0	2,700	2,725	283	184	91	6	0	0	0	0
1,050	1,075	50	0	0	0	2,725	2,750	287	187	95	9	0	0	0	0
1,075	1,100	53	0	0	0	2,750	2,775	291	191	98	12	0	0	0	0
1,100	1,125	56	0	0	0	2,775	2,800	294	194	101	15	0	0	0	0
1,125	1,150	59	0	0	0	2,800	2,825	298	198	105	18	0	0	0	0
1,150	1,175	62	0	0	0	2,825	2,850	302	202	108	22	0	0	0	0
1,175	1,200	66	0	0	0	2,850	2,875	306	205	111	25	0	0	0	0
1,200	1,225	69	0	0	0	2,875	2,900	310	209	115	28	0	0	0	0
1,225	1,250	72	0	0	0	2,900	2,925	314	212	118	31	0	0	0	0
1,250	1,275	75	0	0	0	2,925	2,950	318	216	122	34	0	0	0	0
1,275	1,300	79	0	0	0	2,950	2,975	323	220	125	37	0	0	0	0
1,300	1,325	82	0	0	0	2,975	3,000	327	223	128	40	0	0	0	0
1,325	1,350	86	1	0	0	3,000	3,050	333	229	133	45	0	0	0	0
1,350	1,375	89	4	0	0	3,050	3,100	342	236	140	51	0	0	0	0
1,375	1,400	92	7	0	0	3,100	3,150	350	244	147	58	0	0	0	0
1,400	1,425	96	10	0	0	3,150	3,200	359	252	154	64	0	0	0	0
1,425	1,450	99	13	0	0	3,200	3,250	367	259	161	70	0	0	0	0
1,450	1,475	102	16	0	0	3,250	3,300	376	267	169	77	0	0	0	0
1,475	1,500	106	19	0	0	3,300	3,350	385	275	176	84	0	0	0	0
1,500	1,525	109	23	0	0	3,350	3,400	393	282	183	91	5	0	0	0
1,525	1,550	113	26	0	0	3,400	3,450	402	290	190	97	12	0	0	0
1,550	1,575	116	29	0	0	3,450	3,500	410	298	197	104	18	0	0	0
1,575	1,600	119	32	0	0	3,500	3,550	419	305	205	111	24	0	0	0
1,600	1,625	123	35	0	0	3,550	3,600	427	313	212	118	30	0	0	0
1,625	1,650	126	38	0	0	3,600	3,650	436	322	219	124	37	0	0	0
1,650	1,675	129	41	0	0	3,650	3,700	444	330	226	131	43	0	0	0
1,675	1,700	133	45	0	0	3,700	3,750	453	339	234	138	49	0	0	0
1,700	1,725	136	48	0	0	3,750	3,800	462	348	242	145	56	0	0	0
1,725	1,750	140	51	0	0	3,800	3,850	470	356	249	152	62	0	0	0
1,750	1,775	143	54	0	0	3,850	3,900	479	365	257	159	68	0	0	0
1,775	1,800	146	57	0	0	3,900	3,950	487	373	265	166	75	0	0	0
1,800	1,825	150	60	0	0	3,950	4,000	496	382	272	173	82	0	0	0
1,825	1,850	154	64	0	0	4,000	4,050	504	390	280	181	88	3	0	0
1,850	1,875	157	67	0	0	4,050	4,100	513	399	287	188	95	9	0	0
1,875	1,900	161	70	0	0	4,100	4,150	521	407	295	195	102	16	0	0
1,900	1,925	164	73	0	0	4,150	4,200	530	416	303	202	109	22	0	0
1,925	1,950	168	77	0	0	4,200	4,250	538	424	310	209	115	28	0	0
1,950	1,975	172	80	0	0	4,250	4,300	547	433	319	217	122	35	0	0
1,975	2,000	175	83	0	0	4,300	4,350	556	442	328	224	129	41	0	0
2,000	2,025	179	87	2	0	4,350	4,400	564	450	336	231	136	47	0	0
2,025	2,050	182	90	5	0	4,400	4,450	573	459	345	239	142	54	0	0
2,050	2,075	186	93	8	0	4,450	4,500	581	467	353	247	149	60	0	0
2,075	2,100	190	97	11	0	4,500	4,550	590	476	362	254	157	66	0	0
2,100	2,125	193	100	14	0	4,550	4,600	598	484	370	262	164	73	0	0
2,125	2,150	197	104	17	0	4,600	4,650	607	493	379	270	171	79	0	0
2,150	2,175	200	107	20	0	4,650	4,700	615	501	387	277	178	86	1	0
2,175	2,200	204	110	24	0	4,700	4,750	624	510	396	285	185	93	7	0
2,200	2,225	208	114	27	0	4,750	4,800	633	519	405	293	193	100	14	0
2,225	2,250	211	117	30	0	4,800	4,850	641	527	413	300	200	106	20	0
2,250	2,275	215	120	33	0	4,850	4,900	650	536	422	308	207	113	26	0
2,275	2,300	218	124	36	0	4,900	4,950	658	544	430	316	214	120	33	0
2,300	2,325	222	127	39	0	4,950	5,000	667	553	439	325	221	127	39	0

"Table V—Married Persons Filing SEPARATE Returns

"MINIMUM STANDARD DEDUCTION

"Taxable Years Beginning After December 31, 1964

If adjusted gross income is—		And the number of exemptions is—			
At least	But less than	1	2	3	4 or more
		The tax is—			
$0	$800	$0	$0	$0	$0
800	825	2	0	0	0
825	850	5	0	0	0
850	875	9	0	0	0
875	900	12	0	0	0
900	925	16	0	0	0
925	950	19	0	0	0
950	975	23	0	0	0
975	1,000	26	0	0	0
1,000	1,025	30	0	0	0
1,025	1,050	33	0	0	0
1,050	1,075	37	0	0	0
1,075	1,100	40	0	0	0
1,100	1,125	44	0	0	0
1,125	1,150	47	0	0	0
1,150	1,175	51	0	0	0
1,175	1,200	54	0	0	0
1,200	1,225	58	0	0	0
1,225	1,250	61	0	0	0
1,250	1,275	65	0	0	0
1,275	1,300	68	0	0	0
1,300	1,325	72	0	0	0
1,325	1,350	76	0	0	0
1,350	1,375	79	0	0	0
1,375	1,400	83	0	0	0
1,400	1,425	87	0	0	0
1,425	1,450	91	0	0	0
1,450	1,475	94	0	0	0
1,475	1,500	98	0	0	0
1,500	1,525	102	2	0	0
1,525	1,550	106	5	0	0
1,550	1,575	109	9	0	0
1,575	1,600	113	12	0	0
1,600	1,625	117	16	0	0
1,625	1,650	121	19	0	0
1,650	1,675	124	23	0	0
1,675	1,700	128	26	0	0
1,700	1,725	132	30	0	0
1,725	1,750	136	33	0	0
1,750	1,775	139	37	0	0
1,775	1,800	143	40	0	0
1,800	1,825	147	44	0	0
1,825	1,850	151	47	0	0
1,850	1,875	155	51	0	0
1,875	1,900	159	54	0	0
1,900	1,925	163	58	0	0
1,925	1,950	167	61	0	0
1,950	1,975	171	65	0	0
1,975	2,000	175	68	0	0
2,000	2,025	179	72	0	0
2,025	2,050	183	76	0	0
2,050	2,075	187	79	0	0
2,075	2,100	191	83	0	0
2,100	2,125	195	87	0	0
2,125	2,150	199	91	0	0
2,150	2,175	203	94	0	0
2,175	2,200	207	98	0	0
2,200	2,225	211	102	2	0
2,225	2,250	215	106	5	0
2,250	2,275	219	109	9	0
2,275	2,300	223	113	12	0
2,300	2,325	227	117	16	0
2,325	2,350	231	121	19	0
2,350	2,375	236	124	23	0
2,375	2,400	240	128	26	0

If adjusted gross income is—		And the number of exemptions is—							
At least	But less than	1	2	3	4	5	6	7	8 or more
		The tax is—							
$2,400	$2,425	$244	$132	$30	$0	$0	$0	$0	$0
2,425	2,450	248	136	33	0	0	0	0	0
2,450	2,475	253	139	37	0	0	0	0	0
2,475	2,500	257	143	40	0	0	0	0	0
2,500	2,525	261	147	44	0	0	0	0	0
2,525	2,550	265	151	47	0	0	0	0	0
2,550	2,575	270	155	51	0	0	0	0	0
2,575	2,600	274	159	54	0	0	0	0	0
2,600	2,625	278	163	58	0	0	0	0	0
2,625	2,650	282	167	61	0	0	0	0	0
2,650	2,675	287	171	65	0	0	0	0	0
2,675	2,700	291	175	68	0	0	0	0	0
2,700	2,725	295	179	72	0	0	0	0	0
2,725	2,750	299	183	76	0	0	0	0	0
2,750	2,775	304	187	79	0	0	0	0	0
2,775	2,800	308	191	83	0	0	0	0	0
2,800	2,825	312	195	87	0	0	0	0	0
2,825	2,850	317	199	91	0	0	0	0	0
2,850	2,875	322	203	94	0	0	0	0	0
2,875	2,900	327	207	98	0	0	0	0	0
2,900	2,925	331	211	102	2	0	0	0	0
2,925	2,950	336	215	106	5	0	0	0	0
2,950	2,975	341	219	109	9	0	0	0	0
2,975	3,000	346	223	113	12	0	0	0	0
3,000	3,050	353	229	119	18	0	0	0	0
3,050	3,100	362	238	126	25	0	0	0	0
3,100	3,150	372	246	134	32	0	0	0	0
3,150	3,200	381	255	141	39	0	0	0	0
3,200	3,250	391	263	149	46	0	0	0	0
3,250	3,300	400	272	157	53	0	0	0	0
3,300	3,350	410	280	165	60	0	0	0	0
3,350	3,400	419	289	173	67	0	0	0	0
3,400	3,450	429	297	181	74	0	0	0	0
3,450	3,500	438	306	189	81	0	0	0	0
3,500	3,550	448	315	197	89	4	0	0	0
3,550	3,600	457	324	205	96	11	0	0	0
3,600	3,650	467	334	213	104	18	0	0	0
3,650	3,700	476	343	221	111	25	0	0	0
3,700	3,750	486	353	229	119	32	0	0	0
3,750	3,800	495	362	238	126	39	0	0	0
3,800	3,850	505	372	246	134	46	0	0	0
3,850	3,900	514	381	255	141	53	0	0	0
3,900	3,950	524	391	263	149	60	0	0	0
3,950	4,000	533	400	272	157	67	0	0	0
4,000	4,050	543	410	280	165	74	0	0	0
4,050	4,100	552	419	289	173	81	0	0	0
4,100	4,150	562	429	297	181	89	4	0	0
4,150	4,200	571	438	306	189	96	11	0	0
4,200	4,250	581	448	315	197	104	18	0	0
4,250	4,300	590	457	324	205	111	25	0	0
4,300	4,350	600	467	334	213	119	32	0	0
4,350	4,400	609	476	343	221	126	39	0	0
4,400	4,450	619	486	353	229	134	46	0	0
4,450	4,500	628	495	362	238	141	53	0	0
4,500	4,550	638	505	372	246	149	60	0	0
4,550	4,600	647	514	381	255	157	67	0	0
4,600	4,650	657	524	391	263	165	74	0	0
4,650	4,700	666	533	400	272	173	81	0	0
4,700	4,750	676	543	410	280	181	89	4	0
4,750	4,800	685	552	419	289	189	96	11	0
4,800	4,850	696	562	429	297	197	104	18	0
4,850	4,900	707	571	438	306	205	111	25	0
4,900	4,950	718	581	448	315	213	119	32	0
4,950	5,000	729	590	457	324	221	126	39	0"

(b) RULES FOR OPTIONAL TAX.—

(1) HUSBAND OR WIFE FILING SEPARATE RETURNS.—Subsection (c) of section 4 (relating to rules for optional tax) is amended to read as follows:

26 USC 4.

"(c) HUSBAND OR WIFE FILING SEPARATE RETURN.—

"(1) A husband or wife may not elect to pay the optional tax imposed by section 3 if the tax of the other spouse is determined under section 1 on the basis of taxable income computed without regard to the standard deduction.

Ante, p. 129.

"(2) Except as otherwise provided in this subsection, in the case of a husband or wife filing a separate return the tax imposed by section 3 shall be—

"(A) for taxable years beginning in 1964, the lesser of the tax shown in Table IV or Table V of section 3(a), and

"(B) for taxable years beginning after December 31, 1964, the lesser of the tax shown in Table IV or Table V of section 3(b).

"(3) Neither Table V of section 3(a) nor Table V of section 3(b) shall apply in the case of a husband or wife filing a separate return if the tax of the other spouse is determined with regard to the 10-percent standard deduction; except that an individual described in section 141(d)(2) may elect (under regulations prescribed by the Secretary or his delegate)—

Ante, p. 23.

"(A) to pay the tax shown in Table V of section 3(a) in lieu of the tax shown in Table IV of section 3(a), and

"(B) to pay the tax shown in Table V of section 3(b) in lieu of the tax shown in Table IV of section 3(b).

For purposes of this title, an election under the preceding sentence shall be treated as an election made under section 141(d)(2).

"(4) For purposes of this subsection, determination of marital status shall be made under section 143."

26 USC 143.

26 USC 6014.

(2) AMENDMENT OF SECTION 6014.—Section 6014(a) (relating to income tax return—tax not computed by taxpayer) is amended by adding at the end thereof the following new sentence: "In the case of a married individual filing a separate return and electing the benefits of this subsection, neither Table V in section 3(a) nor Table V in section 3(b) shall apply."

(3) TECHNICAL AMENDMENTS.—

(A) Subsection (a) of section 4 (relating to rules for optional tax) is amended by striking out "table" and inserting in lieu thereof "tables".

(B) Section 4(f) (relating to cross references) is amended by adding at the end thereof the following new paragraph:

"(4) For nonapplicability of Table V in section 3(a) and Table V in section 3(b) in case where tax is not computed by taxpayer, see section 6014(a)."

26 USC 21.

(c) EFFECTIVE DATE.—Except for purposes of section 21 of the Internal Revenue Code of 1954 (relating to effect of changes in rates during a taxable year), the amendments made by this section shall apply to taxable years beginning after December 31, 1963.

SEC. 302. INCOME TAX COLLECTED AT SOURCE.

(a) PERCENTAGE METHOD OF WITHHOLDING.—Subsection (a) of section 3402 (relating to requirement of withholding) is amended by striking out "18 percent" and inserting in lieu thereof "14 percent".

26 USC 3402.

(b) WAGE BRACKET WITHHOLDING.—Paragraph (1) of section 3402(c) (relating to wage bracket withholding) is amended to read as follows:

"(1) At the election of the employer with respect to any employee, the employer shall deduct and withhold upon the wages paid to such employee a tax determined in accordance with the

following tables, which shall be in lieu of the tax required to be deducted and withheld under subsection (a):

"If the payroll period with respect to an employee is weekly—

And the wages are—		And the number of withholding exemptions claimed is—										
At least—	But less than—	0	1	2	3	4	5	6	7	8	9	10 or more
		The amount of income tax to be withheld shall be—										
$0	$13	14% of wages	$0	$0	$0	$0	$0	$0	$0	$0	$0	$0
$13	$14	$1.90	.10	0	0	0	0	0	0	0	0	0
$14	$15	2.00	.20	0	0	0	0	0	0	0	0	0
$15	$16	2.20	.40	0	0	0	0	0	0	0	0	0
$16	$17	2.30	.50	0	0	0	0	0	0	0	0	0
$17	$18	2.50	.70	0	0	0	0	0	0	0	0	0
$18	$19	2.60	.80	0	0	0	0	0	0	0	0	0
$19	$20	2.70	.90	0	0	0	0	0	0	0	0	0
$20	$21	2.90	1.10	0	0	0	0	0	0	0	0	0
$21	$22	3.00	1.20	0	0	0	0	0	0	0	0	0
$22	$23	3.20	1.40	0	0	0	0	0	0	0	0	0
$23	$24	3.30	1.50	0	0	0	0	0	0	0	0	0
$24	$25	3.40	1.60	0	0	0	0	0	0	0	0	0
$25	$26	3.60	1.80	0	0	0	0	0	0	0	0	0
$26	$27	3.70	1.90	.10	0	0	0	0	0	0	0	0
$27	$28	3.90	2.10	.30	0	0	0	0	0	0	0	0
$28	$29	4.00	2.20	.40	0	0	0	0	0	0	0	0
$29	$30	4.10	2.30	.50	0	0	0	0	0	0	0	0
$30	$31	4.30	2.50	.70	0	0	0	0	0	0	0	0
$31	$32	4.40	2.60	.80	0	0	0	0	0	0	0	0
$32	$33	4.60	2.80	1.00	0	0	0	0	0	0	0	0
$33	$34	4.70	2.90	1.10	0	0	0	0	0	0	0	0
$34	$35	4.80	3.00	1.20	0	0	0	0	0	0	0	0
$35	$36	5.00	3.20	1.40	0	0	0	0	0	0	0	0
$36	$37	5.10	3.30	1.50	0	0	0	0	0	0	0	0
$37	$38	5.30	3.50	1.70	0	0	0	0	0	0	0	0
$38	$39	5.40	3.60	1.80	0	0	0	0	0	0	0	0
$39	$40	5.50	3.70	1.90	.10	0	0	0	0	0	0	0
$40	$41	5.70	3.90	2.10	.30	0	0	0	0	0	0	0
$41	$42	5.80	4.00	2.20	.40	0	0	0	0	0	0	0
$42	$43	6.00	4.20	2.40	.60	0	0	0	0	0	0	0
$43	$44	6.10	4.30	2.50	.70	0	0	0	0	0	0	0
$44	$45	6.20	4.40	2.60	.80	0	0	0	0	0	0	0
$45	$46	6.40	4.60	2.80	1.00	0	0	0	0	0	0	0
$46	$47	6.50	4.70	2.90	1.10	0	0	0	0	0	0	0
$47	$48	6.70	4.90	3.10	1.30	0	0	0	0	0	0	0
$48	$49	6.80	5.00	3.20	1.40	0	0	0	0	0	0	0
$49	$50	6.90	5.10	3.30	1.50	0	0	0	0	0	0	0
$50	$51	7.10	5.30	3.50	1.70	0	0	0	0	0	0	0
$51	$52	7.20	5.40	3.60	1.80	0	0	0	0	0	0	0
$52	$53	7.40	5.60	3.80	2.00	.20	0	0	0	0	0	0
$53	$54	7.50	5.70	3.90	2.10	.30	0	0	0	0	0	0
$54	$55	7.60	5.80	4.00	2.20	.50	0	0	0	0	0	0
$55	$56	7.80	6.00	4.20	2.40	.60	0	0	0	0	0	0
$56	$57	7.90	6.10	4.30	2.50	.70	0	0	0	0	0	0
$57	$58	8.10	6.30	4.50	2.70	.90	0	0	0	0	0	0
$58	$59	8.20	6.40	4.60	2.80	1.00	0	0	0	0	0	0
$59	$60	8.30	6.50	4.70	2.90	1.20	0	0	0	0	0	0
$60	$62	8.50	6.70	5.00	3.20	1.40	0	0	0	0	0	0
$62	$64	8.80	7.00	5.20	3.40	1.60	0	0	0	0	0	0
$64	$66	9.10	7.30	5.50	3.70	1.90	.10	0	0	0	0	0
$66	$68	9.40	7.60	5.80	4.00	2.20	.40	0	0	0	0	0
$68	$70	9.70	7.90	6.10	4.30	2.50	.70	0	0	0	0	0
$70	$72	9.90	8.10	6.40	4.60	2.80	1.00	0	0	0	0	0
$72	$74	10.20	8.40	6.60	4.80	3.00	1.20	0	0	0	0	0
$74	$76	10.50	8.70	6.90	5.10	3.30	1.50	0	0	0	0	0
$76	$78	10.80	9.00	7.20	5.40	3.60	1.80	0	0	0	0	0
$78	$80	11.10	9.30	7.50	5.70	3.90	2.10	.30	0	0	0	0
$80	$82	11.30	9.50	7.80	6.00	4.20	2.40	.60	0	0	0	0
$82	$84	11.60	9.80	8.00	6.20	4.40	2.60	.90	0	0	0	0
$84	$86	11.90	10.10	8.30	6.50	4.70	2.90	1.10	0	0	0	0
$86	$88	12.20	10.40	8.60	6.80	5.00	3.20	1.40	0	0	0	0
$88	$90	12.50	10.70	8.90	7.10	5.30	3.50	1.70	0	0	0	0
$90	$92	12.70	10.90	9.20	7.40	5.60	3.80	2.00	.20	0	0	0
$92	$94	13.00	11.20	9.40	7.60	5.80	4.00	2.30	.50	0	0	0
$94	$96	13.30	11.50	9.70	7.90	6.10	4.30	2.50	.70	0	0	0
$96	$98	13.60	11.80	10.00	8.20	6.40	4.60	2.80	1.00	0	0	0
$98	$100	13.90	12.10	10.30	8.50	6.70	4.90	3.10	1.30	0	0	0
$100	$105	14.40	12.60	10.80	9.00	7.20	5.40	3.60	1.80	0	0	0
$105	$110	15.10	13.30	11.50	9.70	7.90	6.10	4.30	2.50	.70	0	0
$110	$115	15.80	14.00	12.20	10.40	8.60	6.80	5.00	3.20	1.40	0	0
$115	$120	16.50	14.70	12.90	11.10	9.30	7.50	5.70	3.90	2.10	.30	0
$120	$125	17.20	15.40	13.60	11.80	10.00	8.20	6.40	4.60	2.80	1.00	0
$125	$130	17.90	16.10	14.30	12.50	10.70	8.90	7.10	5.30	3.50	1.70	0
$130	$135	18.60	16.80	15.00	13.20	11.40	9.60	7.80	6.00	4.20	2.40	.60
$135	$140	19.30	17.50	15.70	13.90	12.10	10.30	8.50	6.70	4.90	3.10	1.30
$140	$145	20.00	18.20	16.40	14.60	12.80	11.00	9.20	7.40	5.60	3.80	2.00
$145	$150	20.70	18.90	17.10	15.30	13.50	11.70	9.90	8.10	6.30	4.50	2.70
$150	$160	21.70	19.90	18.10	16.30	14.50	12.70	10.90	9.10	7.30	5.50	3.80
$160	$170	23.10	21.30	19.50	17.70	15.90	14.10	12.30	10.50	8.70	6.90	5.20
$170	$180	24.50	22.70	20.90	19.10	17.30	15.50	13.70	11.90	10.10	8.30	6.60
$180	$190	25.90	24.10	22.30	20.50	18.70	16.90	15.10	13.30	11.50	9.70	8.00
$190	$200	27.30	25.50	23.70	21.90	20.10	18.30	16.50	14.70	12.90	11.10	9.40
		14 percent of the excess over $200 plus—										
$200 and over		28.00	26.20	24.40	22.60	20.80	19.00	17.20	15.40	13.60	11.80	10.10

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"If the payroll period with respect to an employee is biweekly—

And the wages are—		And the number of withholding exemptions claimed is—										
At least—	But less than—	0	1	2	3	4	5	6	7	8	9	10 or more
		The amount of income tax to be withheld shall be—										
$0	$26	14% of wages	$0	$0	$0	$0	$0	$0	$0	$0	$0	$0
$26	$28	$3.80	.20	0	0	0	0	0	0	0	0	0
$28	$30	4.10	.50	0	0	0	0	0	0	0	0	0
$30	$32	4.30	.80	0	0	0	0	0	0	0	0	0
$32	$34	4.60	1.00	0	0	0	0	0	0	0	0	0
$34	$36	4.90	1.30	0	0	0	0	0	0	0	0	0
$36	$38	5.20	1.60	0	0	0	0	0	0	0	0	0
$38	$40	5.50	1.90	0	0	0	0	0	0	0	0	0
$40	$42	5.70	2.20	0	0	0	0	0	0	0	0	0
$42	$44	6.00	2.40	0	0	0	0	0	0	0	0	0
$44	$46	6.30	2.70	0	0	0	0	0	0	0	0	0
$46	$48	6.60	3.00	0	0	0	0	0	0	0	0	0
$48	$50	6.90	3.30	0	0	0	0	0	0	0	0	0
$50	$52	7.10	3.60	0	0	0	0	0	0	0	0	0
$52	$54	7.40	3.80	.20	0	0	0	0	0	0	0	0
$54	$56	7.70	4.10	.50	0	0	0	0	0	0	0	0
$56	$58	8.00	4.40	.80	0	0	0	0	0	0	0	0
$58	$60	8.30	4.70	1.10	0	0	0	0	0	0	0	0
$60	$62	8.50	5.00	1.40	0	0	0	0	0	0	0	0
$62	$64	8.80	5.20	1.60	0	0	0	0	0	0	0	0
$64	$66	9.10	5.50	1.90	0	0	0	0	0	0	0	0
$66	$68	9.40	5.80	2.20	0	0	0	0	0	0	0	0
$68	$70	9.70	6.10	2.50	0	0	0	0	0	0	0	0
$70	$72	9.90	6.40	2.80	0	0	0	0	0	0	0	0
$72	$74	10.20	6.60	3.00	0	0	0	0	0	0	0	0
$74	$76	10.50	6.90	3.30	0	0	0	0	0	0	0	0
$76	$78	10.80	7.20	3.60	0	0	0	0	0	0	0	0
$78	$80	11.10	7.50	3.90	.30	0	0	0	0	0	0	0
$80	$82	11.30	7.80	4.20	.60	0	0	0	0	0	0	0
$82	$84	11.60	8.00	4.40	.90	0	0	0	0	0	0	0
$84	$86	11.90	8.30	4.70	1.10	0	0	0	0	0	0	0
$86	$88	12.20	8.60	5.00	1.40	0	0	0	0	0	0	0
$88	$90	12.50	8.90	5.30	1.70	0	0	0	0	0	0	0
$90	$92	12.70	9.20	5.60	2.00	0	0	0	0	0	0	0
$92	$94	13.00	9.40	5.80	2.30	0	0	0	0	0	0	0
$94	$96	13.30	9.70	6.10	2.50	0	0	0	0	0	0	0
$96	$98	13.60	10.00	6.40	2.80	0	0	0	0	0	0	0
$98	$100	13.90	10.30	6.70	3.10	0	0	0	0	0	0	0
$100	$102	14.10	10.60	7.00	3.40	0	0	0	0	0	0	0
$102	$104	14.40	10.80	7.20	3.70	.10	0	0	0	0	0	0
$104	$106	14.70	11.10	7.50	3.90	.30	0	0	0	0	0	0
$106	$108	15.00	11.40	7.80	4.20	.60	0	0	0	0	0	0
$108	$110	15.30	11.70	8.10	4.50	.90	0	0	0	0	0	0
$110	$112	15.50	12.00	8.40	4.80	1.20	0	0	0	0	0	0
$112	$114	15.80	12.20	8.60	5.10	1.50	0	0	0	0	0	0
$114	$116	16.10	12.50	8.90	5.30	1.70	0	0	0	0	0	0
$116	$118	16.40	12.80	9.20	5.60	2.00	0	0	0	0	0	0
$118	$120	16.70	13.10	9.50	5.90	2.30	0	0	0	0	0	0
$120	$124	17.10	13.50	9.90	6.30	2.70	0	0	0	0	0	0
$124	$128	17.60	14.10	10.50	6.90	3.30	0	0	0	0	0	0
$128	$132	18.20	14.60	11.00	7.40	3.80	.30	0	0	0	0	0
$132	$136	18.80	15.20	11.60	8.00	4.40	.80	0	0	0	0	0
$136	$140	19.30	15.70	12.10	8.60	5.00	1.40	0	0	0	0	0
$140	$144	19.90	16.30	12.70	9.10	5.50	1.90	0	0	0	0	0
$144	$148	20.40	16.90	13.30	9.70	6.10	2.50	0	0	0	0	0
$148	$152	21.00	17.40	13.80	10.20	6.60	3.10	0	0	0	0	0
$152	$156	21.60	18.00	14.40	10.80	7.20	3.60	0	0	0	0	0
$156	$160	22.10	18.50	14.90	11.40	7.80	4.20	.60	0	0	0	0
$160	$164	22.70	19.10	15.50	11.90	8.30	4.70	1.10	0	0	0	0
$164	$168	23.20	19.70	16.10	12.50	8.90	5.30	1.70	0	0	0	0
$168	$172	23.80	20.20	16.60	13.00	9.40	5.90	2.30	0	0	0	0
$172	$176	24.40	20.80	17.20	13.60	10.00	6.40	2.80	0	0	0	0
$176	$180	24.90	21.30	17.70	14.20	10.60	7.00	3.40	0	0	0	0
$180	$184	25.50	21.90	18.30	14.70	11.10	7.50	3.90	.40	0	0	0
$184	$188	26.00	22.50	18.90	15.30	11.70	8.10	4.50	.90	0	0	0
$188	$192	26.60	23.00	19.40	15.80	12.20	8.70	5.10	1.50	0	0	0
$192	$196	27.20	23.60	20.00	16.40	12.80	9.20	5.60	2.00	0	0	0
$196	$200	27.70	24.10	20.50	17.00	13.40	9.80	6.20	2.60	0	0	0
$200	$210	28.70	25.10	21.50	17.90	14.30	10.80	7.20	3.60	0	0	0
$210	$220	30.10	26.50	22.90	19.30	15.70	12.20	8.60	5.00	1.40	0	0
$220	$230	31.50	27.90	24.30	20.70	17.10	13.60	10.00	6.40	2.80	0	0
$230	$240	32.90	29.30	25.70	22.10	18.50	15.00	11.40	7.80	4.20	.60	0
$240	$250	34.30	30.70	27.10	23.50	19.90	16.40	12.80	9.20	5.60	2.00	0
$250	$260	35.70	32.10	28.50	24.90	21.30	17.80	14.20	10.60	7.00	3.40	0
$260	$270	37.10	33.50	29.90	26.30	22.70	19.20	15.60	12.00	8.40	4.80	1.20
$270	$280	38.50	34.90	31.30	27.70	24.10	20.60	17.00	13.40	9.80	6.20	2.60
$280	$290	39.90	36.30	32.70	29.10	25.50	22.00	18.40	14.80	11.20	7.60	4.00
$290	$300	41.30	37.70	34.10	30.50	26.90	23.40	19.80	16.20	12.60	9.00	5.40
$300	$320	43.40	39.80	36.20	32.60	29.00	25.50	21.90	18.30	14.70	11.10	7.50
$320	$340	46.20	42.60	39.00	35.40	31.80	28.30	24.70	21.10	17.50	13.90	10.30
$340	$360	49.00	45.40	41.80	38.20	34.60	31.10	27.50	23.90	20.30	16.70	13.10
$360	$380	51.80	48.20	44.60	41.00	37.40	33.90	30.30	26.70	23.10	19.50	15.90
$380	$400	54.60	51.00	47.40	43.80	40.20	36.70	33.10	29.50	25.90	22.30	18.70
		14 percent of the excess over $400 plus—										
$400 and over		56.00	52.40	48.80	45.20	41.60	38.10	34.50	30.90	27.30	23.70	20.10

"If the payroll period with respect to an employee is semimonthly—

And the wages are—		And the number of withholding exemptions claimed is—										
At least—	But less than—	0	1	2	3	4	5	6	7	8	9	10 or more
		The amount of income tax to be withheld shall be—										
$0	$28	14% of wages	$0	$0	$0	$0	$0	$0	$0	$0	$0	$0
$28	$30	$4.10	.20	0	0	0	0	0	0	0	0	0
$30	$32	4.30	.50	0	0	0	0	0	0	0	0	0
$32	$34	4.60	.70	0	0	0	0	0	0	0	0	0
$34	$36	4.90	1.00	0	0	0	0	0	0	0	0	0
$36	$38	5.20	1.30	0	0	0	0	0	0	0	0	0
$38	$40	5.50	1.60	0	0	0	0	0	0	0	0	0
$40	$42	5.70	1.90	0	0	0	0	0	0	0	0	0
$42	$44	6.00	2.10	0	0	0	0	0	0	0	0	0
$44	$46	6.30	2.40	0	0	0	0	0	0	0	0	0
$46	$48	6.60	2.70	0	0	0	0	0	0	0	0	0
$48	$50	6.90	3.00	0	0	0	0	0	0	0	0	0
$50	$52	7.10	3.30	0	0	0	0	0	0	0	0	0
$52	$54	7.40	3.50	0	0	0	0	0	0	0	0	0
$54	$56	7.70	3.80	0	0	0	0	0	0	0	0	0
$56	$58	8.00	4.10	.20	0	0	0	0	0	0	0	0
$58	$60	8.30	4.40	..50	0	0	0	0	0	0	0	0
$60	$62	8.50	4.70	.80	0	0	0	0	0	0	0	0
$62	$64	8.80	4.90	1.00	0	0	0	0	0	0	0	0
$64	$66	9.10	5.20	1.30	0	0	0	0	0	0	0	0
$66	$68	9.40	5.50	1.60	0	0	0	0	0	0	0	0
$68	$70	9.70	5.80	1.90	0	0	0	0	0	0	0	0
$70	$72	9.90	6.10	2.20	0	0	0	0	0	0	0	0
$72	$74	10.20	6.30	2.40	0	0	0	0	0	0	0	0
$74	$76	10.50	6.60	2.70	0	0	0	0	0	0	0	0
$76	$78	10.80	6.90	3.00	0	0	0	0	0	0	0	0
$78	$80	11.10	7.20	3.30	0	0	0	0	0	0	0	0
$80	$82	11.30	7.50	3.60	0	0	0	0	0	0	0	0
$82	$84	11.60	7.70	3.80	0	0	0	0	0	0	0	0
$84	$86	11.90	8.00	4.10	.20	0	0	0	0	0	0	0
$86	$88	12.20	8.30	4.40	.50	0	0	0	0	0	0	0
$88	$90	12.50	8.60	4.70	.80	0	0	0	0	0	0	0
$90	$92	12.70	8.90	5.00	1.10	0	0	0	0	0	0	0
$92	$94	13.00	9.10	5.20	1.40	0	0	0	0	0	0	0
$94	$96	13.30	9.40	5.50	1.60	0	0	0	0	0	0	0
$96	$98	13.60	9.70	5.80	1.90	0	0	0	0	0	0	0
$98	$100	13.90	10.00	6.10	2.20	0	0	0	0	0	0	0
$100	$102	14.10	10.30	6.40	2.50	0	0	0	0	0	0	0
$102	$104	14.40	10.50	6.60	2.80	0	0	0	0	0	0	0
$104	$106	14.70	10.80	6.90	3.00	0	0	0	0	0	0	0
$106	$108	15.00	11.10	7.20	3.30	0	0	0	0	0	0	0
$108	$110	15.30	11.40	7.50	3.60	0	0	0	0	0	0	0
$110	$112	15.50	11.70	7.80	3.90	0	0	0	0	0	0	0
$112	$114	15.80	11.90	8.00	4.20	.30	0	0	0	0	0	0
$114	$116	16.10	12.20	8.30	4.40	.50	0	0	0	0	0	0
$116	$118	16.40	12.50	8.60	4.70	.80	0	0	0	0	0	0
$118	$120	16.70	12.80	8.90	5.00	1.10	0	0	0	0	0	0
$120	$124	17.10	13.20	9.30	5.40	1.50	0	0	0	0	0	0
$124	$128	17.60	13.80	9.90	6.00	2.10	0	0	0	0	0	0
$128	$132	18.20	14.30	10.40	6.50	2.60	0	0	0	0	0	0
$132	$136	18.80	14.90	11.00	7.10	3.20	0	0	0	0	0	0
$136	$140	19.30	15.40	11.50	7.70	3.80	0	0	0	0	0	0
$140	$144	19.90	16.00	12.10	8.20	4.30	.40	0	0	0	0	0
$144	$148	20.40	16.60	12.70	8.80	4.90	1.00	0	0	0	0	0
$148	$152	21.00	17.10	13.20	9.30	5.40	1.60	0	0	0	0	0
$152	$156	21.60	17.70	13.80	9.90	6.00	2.10	0	0	0	0	0
$156	$160	22.10	18.20	14.30	10.50	6.60	2.70	0	0	0	0	0
$160	$164	22.70	18.80	14.90	11.00	7.10	3.20	0	0	0	0	0
$164	$168	23.20	19.40	15.50	11.60	7.70	3.80	0	0	0	0	0
$168	$172	23.80	19.90	16.00	12.10	8.20	4.40	.50	0	0	0	0
$172	$176	24.40	20.50	16.60	12.70	8.80	4.90	1.00	0	0	0	0
$176	$180	24.90	21.00	17.10	13.30	9.40	5.50	1.60	0	0	0	0
$180	$184	25.50	21.60	17.70	13.80	9.90	6.00	2.10	0	0	0	0
$184	$188	26.00	22.20	18.30	14.40	10.50	6.60	2.70	0	0	0	0
$188	$192	26.60	22.70	18.80	14.90	11.00	7.20	3.30	0	0	0	0
$192	$196	27.20	23.30	19.40	15.50	11.60	7.70	3.80	0	0	0	0
$196	$200	27.70	23.80	19.90	16.10	12.20	8.30	4.40	.50	0	0	0
$200	$210	28.70	24.80	20.90	17.00	13.10	9.30	5.40	1.50	0	0	0
$210	$220	30.10	26.20	22.30	18.40	14.50	10.70	6.80	2.90	0	0	0
$220	$230	31.50	27.60	23.70	19.80	15.90	12.10	8.20	4.30	.40	0	0
$230	$240	32.90	29.00	25.10	21.20	17.30	13.50	9.60	5.70	1.80	0	0
$240	$250	34.30	30.40	26.50	22.60	18.70	14.90	11.00	7.10	3.20	0	0
$250	$260	35.70	31.80	27.90	24.00	20.10	16.30	12.40	8.50	4.60	.70	0
$260	$270	37.10	33.20	29.30	25.40	21.50	17.70	13.80	9.90	6.00	2.10	0
$270	$280	38.50	34.60	30.70	26.80	22.90	19.10	15.20	11.30	7.40	3.50	0
$280	$290	39.90	36.00	32.10	28.20	24.30	20.50	16.60	12.70	8.80	4.90	1.00
$290	$300	41.30	37.40	33.50	29.60	25.70	21.90	18.00	14.10	10.20	6.30	2.40
$300	$320	43.40	39.50	35.60	31.70	27.80	24.00	20.10	16.20	12.30	8.40	4.50
$320	$340	46.20	42.30	38.40	34.50	30.60	26.80	22.90	19.00	15.10	11.20	7.30
$340	$360	49.00	45.10	41.20	37.30	33.40	29.60	25.70	21.80	17.90	14.00	10.10
$360	$380	51.80	47.90	44.00	40.10	36.20	32.40	28.50	24.60	20.70	16.80	12.90
$380	$400	54.60	50.70	46.80	42.90	39.00	35.20	31.30	27.40	23.50	19.60	15.70
$400	$420	57.40	53.50	49.60	45.70	41.80	38.00	34.10	30.20	26.30	22.40	18.50
$420	$440	60.20	56.30	52.40	48.50	44.60	40.80	36.90	33.00	29.10	25.20	21.30
$440	$460	63.00	59.10	55.20	51.30	47.40	43.60	39.70	35.80	31.90	28.00	24.10
$460	$480	65.80	61.90	58.00	54.10	50.20	46.40	42.50	38.60	34.70	30.80	26.90
$480	$500	68.60	64.70	60.80	56.90	53.00	49.20	45.30	41.40	37.50	33.60	29.70
		14 percent of the excess over $500 plus—										
$500 and over		70.00	66.10	62.20	58.30	54.40	50.60	46.70	42.80	38.90	35.00	31.10

"If the payroll period with respect to an employee is monthly—

And the wages are—		And the number of withholding exemptions claimed is—										
At least—	But less than—	0	1	2	3	4	5	6	7	8	9	10 or more
		The amount of income tax to be withheld shall be—										
$0	$56	14% of wages	$0	$0	$0	$0	$0	$0	$0	$0	$0	$0
$56	$60	$8.10	.30	0	0	0	0	0	0	0	0	0
$60	$64	8.70	.90	0	0	0	0	0	0	0	0	0
$64	$68	9.20	1.50	0	0	0	0	0	0	0	0	0
$68	$72	9.80	2.00	0	0	0	0	0	0	0	0	0
$72	$76	10.40	2.60	0	0	0	0	0	0	0	0	0
$76	$80	10.90	3.10	0	0	0	0	0	0	0	0	0
$80	$84	11.50	3.70	0	0	0	0	0	0	0	0	0
$84	$88	12.00	4.30	0	0	0	0	0	0	0	0	0
$88	$92	12.60	4.80	0	0	0	0	0	0	0	0	0
$92	$96	13.20	5.40	0	0	0	0	0	0	0	0	0
$96	$100	13.70	5.90	0	0	0	0	0	0	0	0	0
$100	$104	14.30	6.50	0	0	0	0	0	0	0	0	0
$104	$108	14.80	7.10	0	0	0	0	0	0	0	0	0
$108	$112	15.40	7.60	0	0	0	0	0	0	0	0	0
$112	$116	16.00	8.20	.40	0	0	0	0	0	0	0	0
$116	$120	16.50	8.70	1.00	0	0	0	0	0	0	0	0
$120	$124	17.10	9.30	1.50	0	0	0	0	0	0	0	0
$124	$128	17.60	9.90	2.10	0	0	0	0	0	0	0	0
$128	$132	18.20	10.40	2.60	0	0	0	0	0	0	0	0
$132	$136	18.80	11.00	3.20	0	0	0	0	0	0	0	0
$136	$140	19.30	11.50	3.80	0	0	0	0	0	0	0	0
$140	$144	19.90	12.10	4.30	0	0	0	0	0	0	0	0
$144	$148	20.40	12.70	4.90	0	0	0	0	0	0	0	0
$148	$152	21.00	13.20	5.40	0	0	0	0	0	0	0	0
$152	$156	21.60	13.80	6.00	0	0	0	0	0	0	0	0
$156	$160	22.10	14.30	6.60	0	0	0	0	0	0	0	0
$160	$164	22.70	14.90	7.10	0	0	0	0	0	0	0	0
$164	$168	23.20	15.50	7.70	0	0	0	0	0	0	0	0
$168	$172	23.80	16.00	8.20	.50	0	0	0	0	0	0	0
$172	$176	24.40	16.60	8.80	1.00	0	0	0	0	0	0	0
$176	$180	24.90	17.10	9.40	1.60	0	0	0	0	0	0	0
$180	$184	25.50	17.70	9.90	2.10	0	0	0	0	0	0	0
$184	$188	26.00	18.30	10.50	2.70	0	0	0	0	0	0	0
$188	$192	26.60	18.80	11.00	3.30	0	0	0	0	0	0	0
$192	$196	27.20	19.40	11.60	3.80	0	0	0	0	0	0	0
$196	$200	27.70	19.90	12.20	4.40	0	0	0	0	0	0	0
$200	$204	28.30	20.50	12.70	4.90	0	0	0	0	0	0	0
$204	$208	28.80	21.10	13.30	5.50	0	0	0	0	0	0	0
$208	$212	29.40	21.60	13.80	6.10	0	0	0	0	0	0	0
$212	$216	30.00	22.20	14.40	6.60	0	0	0	0	0	0	0
$216	$220	30.50	22.70	15.00	7.20	0	0	0	0	0	0	0
$220	$224	31.10	23.30	15.50	7.70	0	0	0	0	0	0	0
$224	$228	31.60	23.90	16.10	8.30	.50	0	0	0	0	0	0
$228	$232	32.20	24.40	16.60	8.90	1.10	0	0	0	0	0	0
$232	$236	32.80	25.00	17.20	9.40	1.60	0	0	0	0	0	0
$236	$240	33.30	25.50	17.80	10.00	2.20	0	0	0	0	0	0
$240	$248	34.20	26.40	18.60	10.80	3.00	0	0	0	0	0	0
$248	$256	35.30	27.50	19.70	11.90	4.20	0	0	0	0	0	0
$256	$264	36.40	28.60	20.80	13.10	5.30	0	0	0	0	0	0
$264	$272	37.50	29.70	22.00	14.20	6.40	0	0	0	0	0	0
$272	$280	38.60	30.90	23.10	15.30	7.50	0	0	0	0	0	0
$280	$288	39.80	32.00	24.20	16.40	8.60	.90	0	0	0	0	0
$288	$296	40.90	33.10	25.30	17.50	9.80	2.00	0	0	0	0	0
$296	$304	42.00	34.20	26.40	18.70	10.90	3.10	0	0	0	0	0
$304	$312	43.10	35.30	27.60	19.80	12.00	4.20	0	0	0	0	0
$312	$320	44.20	36.50	28.70	20.90	13.10	5.40	0	0	0	0	0
$320	$328	45.40	37.60	29.80	22.00	14.20	6.50	0	0	0	0	0
$328	$336	46.50	38.70	30.90	23.10	15.40	7.60	0	0	0	0	0
$336	$344	47.60	39.80	32.00	24.30	16.50	8.70	.90	0	0	0	0
$344	$352	48.70	40.90	33.20	25.40	17.60	9.80	2.10	0	0	0	0
$352	$360	49.80	42.10	34.30	26.50	18.70	11.00	3.20	0	0	0	0
$360	$368	51.00	43.20	35.40	27.60	19.80	12.10	4.30	0	0	0	0
$368	$376	52.10	44.30	36.50	28.70	21.00	13.20	5.40	0	0	0	0
$376	$384	53.20	45.40	37.60	29.90	22.10	14.30	6.50	0	0	0	0
$384	$392	54.30	46.50	38.80	31.00	23.20	15.40	7.70	0	0	0	0
$392	$400	55.40	47.70	39.90	32.10	24.30	16.60	8.80	1.00	0	0	0
$400	$420	57.40	49.60	41.80	34.10	26.30	18.50	10.70	3.00	0	0	0
$420	$440	60.20	52.40	44.60	36.90	29.10	21.30	13.50	5.80	0	0	0
$440	$460	63.00	55.20	47.40	39.70	31.90	24.10	16.30	8.60	.80	0	0
$460	$480	65.80	58.00	50.20	42.50	34.70	26.90	19.10	11.40	3.60	0	0
$480	$500	68.60	60.80	53.00	45.30	37.50	29.70	21.90	14.20	6.40	0	0
$500	$520	71.40	63.60	55.80	48.10	40.30	32.50	24.70	17.00	9.20	1.40	0
$520	$540	74.20	66.40	58.60	50.90	43.10	35.30	27.50	19.80	12.00	4.20	0
$540	$560	77.00	69.20	61.40	53.70	45.90	38.10	30.30	22.60	14.80	7.00	0
$560	$580	79.80	72.00	64.20	56.50	48.70	40.90	33.10	25.40	17.60	9.80	2.00
$580	$600	82.60	74.80	67.00	59.30	51.50	43.70	35.90	28.20	20.40	12.60	4.80
$600	$640	86.80	79.00	71.20	63.50	55.70	47.90	40.10	32.40	24.60	16.80	9.00
$640	$680	92.40	84.60	76.80	69.10	61.30	53.50	45.70	38.00	30.20	22.40	14.60
$680	$720	98.00	90.20	82.40	74.70	66.90	59.10	51.30	43.60	35.80	28.00	20.20
$720	$760	103.60	95.80	88.00	80.30	72.50	64.70	56.90	49.20	41.40	33.60	25.80
$760	$800	109.20	101.40	93.60	85.90	78.10	70.30	62.50	54.80	47.00	39.20	31.40
$800	$840	114.80	107.00	99.20	91.50	83.70	75.90	68.10	60.40	52.60	44.80	37.00
$840	$880	120.40	112.60	104.80	97.10	89.30	81.50	73.70	66.00	58.20	50.40	42.60
$880	$920	126.00	118.20	110.40	102.70	94.90	87.10	79.30	71.60	63.80	56.00	48.20
$920	$960	131.60	123.80	116.00	108.30	100.50	92.70	84.90	77.20	69.40	61.60	53.80
$960	$1,000	137.20	129.40	121.60	113.90	106.10	98.30	90.50	82.80	75.00	67.20	59.40
		14 percent of the excess over $1,000 plus—										
$1,000 and over		140.00	132.20	124.40	116.70	108.90	101.10	93.30	85.60	77.80	70.00	62.20

"If the payroll period with respect to an employee is a daily payroll period or a miscellaneous payroll period—

And the wages divided by the number of days in such period are—		And the number of withholding exemptions claimed is—										
		0	1	2	3	4	5	6	7	8	9	10 or more
At least—	But less than—	The amount of tax to be withheld shall be the following amount multiplied by the number of days in such period—										
$0	$2.00	14% of wages	$0	$0	$0	$0	$0	$0	$0	$0	$0	$0
$2.00	$2.25	$.30	.05	0	0	0	0	0	0	0	0	0
$2.25	$2.50	.35	.10	0	0	0	0	0	0	0	0	0
$2.50	$2.75	.35	.10	0	0	0	0	0	0	0	0	0
$2.75	$3.00	.40	.15	0	0	0	0	0	0	0	0	0
$3.00	$3.25	.45	.20	0	0	0	0	0	0	0	0	0
$3.25	$3.50	.45	.20	0	0	0	0	0	0	0	0	0
$3.50	$3.75	.50	.25	0	0	0	0	0	0	0	0	0
$3.75	$4.00	.55	.30	.05	0	0	0	0	0	0	0	0
$4.00	$4.25	.60	.30	.05	0	0	0	0	0	0	0	0
$4.25	$4.50	.60	.35	.10	0	0	0	0	0	0	0	0
$4.50	$4.75	.65	.40	.15	0	0	0	0	0	0	0	0
$4.75	$5.00	.70	.45	.15	0	0	0	0	0	0	0	0
$5.00	$5.25	.70	.45	.20	0	0	0	0	0	0	0	0
$5.25	$5.50	.75	.50	.25	0	0	0	0	0	0	0	0
$5.50	$5.75	.80	.55	.30	0	0	0	0	0	0	0	0
$5.75	$6.00	.80	.55	.30	.05	0	0	0	0	0	0	0
$6.00	$6.25	.85	.60	.35	.10	0	0	0	0	0	0	0
$6.25	$6.50	.90	.65	.40	.15	0	0	0	0	0	0	0
$6.50	$6.75	.95	.65	.40	.15	0	0	0	0	0	0	0
$6.75	$7.00	.95	.70	.45	.20	0	0	0	0	0	0	0
$7.00	$7.25	1.00	.75	.50	.25	0	0	0	0	0	0	0
$7.25	$7.50	1.05	.80	.50	.25	0	0	0	0	0	0	0
$7.50	$7.75	1.05	.80	.55	.30	.05	0	0	0	0	0	0
$7.75	$8.00	1.10	.85	.60	.35	.10	0	0	0	0	0	0
$8.00	$8.25	1.15	.90	.65	.35	.10	0	0	0	0	0	0
$8.25	$8.50	1.15	.90	.65	.40	.15	0	0	0	0	0	0
$8.50	$8.75	1.20	.95	.70	.45	.20	0	0	0	0	0	0
$8.75	$9.00	1.25	1.00	.75	.50	.20	0	0	0	0	0	0
$9.00	$9.25	1.30	1.00	.75	.50	.25	0	0	0	0	0	0
$9.25	$9.50	1.30	1.05	.80	.55	.30	.05	0	0	0	0	0
$9.50	$9.75	1.35	1.10	.85	.60	.30	.05	0	0	0	0	0
$9.75	$10.00	1.40	1.15	.85	.60	.35	.10	0	0	0	0	0
$10.00	$10.50	1.45	1.20	.90	.65	.40	.15	0	0	0	0	0
$10.50	$11.00	1.50	1.25	1.00	.75	.50	.25	0	0	0	0	0
$11.00	$11.50	1.60	1.30	1.05	.80	.55	.30	.05	0	0	0	0
$11.50	$12.00	1.65	1.40	1.15	.90	.60	.35	.10	0	0	0	0
$12.00	$12.50	1.70	1.45	1.20	.95	.70	.45	.20	0	0	0	0
$12.50	$13.00	1.80	1.55	1.25	1.00	.75	.50	.25	0	0	0	0
$13.00	$13.50	1.85	1.60	1.35	1.10	.85	.60	.30	.05	0	0	0
$13.50	$14.00	1.95	1.65	1.40	1.15	.90	.65	.40	.15	0	0	0
$14.00	$14.50	2.00	1.75	1.50	1.25	.95	.70	.45	.20	0	0	0
$14.50	$15.00	2.05	1.80	1.55	1.30	1.05	.80	.55	.30	0	0	0
$15.00	$15.50	2.15	1.90	1.60	1.35	1.10	.85	.60	.35	.10	0	0
$15.50	$16.00	2.20	1.95	1.70	1.45	1.20	.95	.65	.40	.15	0	0
$16.00	$16.50	2.30	2.00	1.75	1.50	1.25	1.00	.75	.50	.25	0	0
$16.50	$17.00	2.35	2.10	1.85	1.60	1.30	1.05	.80	.55	.30	.05	0
$17.00	$17.50	2.40	2.15	1.90	1.65	1.40	1.15	.90	.65	.35	.10	0
$17.50	$18.00	2.50	2.25	1.95	1.70	1.45	1.20	.95	.70	.45	.20	0
$18.00	$18.50	2.55	2.30	2.05	1.80	1.55	1.30	1.00	.75	.50	.25	0
$18.50	$19.00	2.65	2.35	2.10	1.85	1.60	1.35	1.10	.85	.60	.30	.05
$19.00	$19.50	2.70	2.45	2.20	1.95	1.65	1.40	1.15	.90	.65	.40	.15
$19.50	$20.00	2.75	2.50	2.25	2.00	1.75	1.50	1.25	1.00	.70	.45	.20
$20.00	$21.00	2.85	2.60	2.35	2.10	1.85	1.60	1.35	1.10	.80	.55	.30
$21.00	$22.00	3.00	2.75	2.50	2.25	2.00	1.75	1.50	1.20	.95	.70	.45
$22.00	$23.00	3.15	2.90	2.65	2.40	2.15	1.85	1.60	1.35	1.10	.85	.60
$23.00	$24.00	3.30	3.05	2.80	2.50	2.25	2.00	1.75	1.50	1.25	1.00	.75
$24.00	$25.00	3.45	3.15	2.90	2.65	2.40	2.15	1.90	1.65	1.40	1.15	.85
$25.00	$26.00	3.55	3.30	3.05	2.80	2.55	2.30	2.05	1.80	1.50	1.25	1.00
$26.00	$27.00	3.70	3.45	3.20	2.95	2.70	2.45	2.20	1.90	1.65	1.40	1.15
$27.00	$28.00	3.85	3.60	3.35	3.10	2.85	2.55	2.30	2.05	1.80	1.55	1.30
$28.00	$29.00	4.00	3.75	3.50	3.20	2.95	2.70	2.45	2.20	1.95	1.70	1.45
$29.00	$30.00	4.15	3.85	3.60	3.35	3.10	2.85	2.60	2.35	2.10	1.85	1.55
		14 percent of the excess over $30 plus—										
$30 and over		4.20	3.95	3.70	3.45	3.20	2.90	2.65	2.40	2.15	1.90	1.65"

(c) WITHHOLDING OF TAX ON CERTAIN NONRESIDENT ALIENS.—Subsections (a) and (b) of section 1441 (relating to withholding of tax on nonresident aliens) are amended by striking out "18 percent" and inserting in lieu thereof "14 percent".

26 USC 1441.

(d) EFFECTIVE DATES.—The amendments made by subsections (a) and (b) of this section shall apply with respect to remuneration paid after the seventh day following the date of the enactment of this Act. The amendment made by subsection (c) of this section shall apply with respect to payments made after the seventh day following the date of the enactment of this Act.

Effective date.

Approved February 26, 1964.

LEGISLATIVE HISTORY:

HOUSE REPORTS: No. 749 (Comm. on Ways and Means) and No. 1149 (Comm. of Conference).
SENATE REPORTS: No. 830, No. 830 pt. 2 (Comm. on Finance).
CONGRESSIONAL RECORD:
Vol. 109 (1963): Sept. 24, 25, considered in House.
Sept. 25, passed House.
Vol. 110 (1964): Jan. 30, 31, Feb. 3-7, considered in Senate.
Feb. 7, passed Senate, amended.
Feb. 25, House agreed to conference report.
Feb. 26, Senate agreed to conference report.

SECTION 2

PRESIDENT'S STATE OF THE UNION MESSAGE

88th Congress, 1st Session } HOUSE OF REPRESENTATIVES { Document No. 1

THE STATE OF THE UNION

ADDRESS

OF

THE PRESIDENT OF THE UNITED STATES

DELIVERED

BEFORE A JOINT SESSION OF THE SENATE AND THE HOUSE OF REPRESENTATIVES RELATIVE TO THE STATE OF THE UNION

January 14, 1963.—Referred to the Committee of the Whole House on the State of the Union and ordered to be printed

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Mr. Vice President, Mr. Speaker, Members of the 88th Congress:

I congratulate you all—not merely on your electoral victory but on your selected role in history. For you and I are privileged to serve the great Republic in what could be the most decisive decade of its life. The choices we make, for good or ill, will affect the wellfare of generations yet unborn.

Little more than a hundred weeks ago I assumed the office of President of the United States. In seeking the help of the Congress and my countrymen, I pledged no easy answers. I pledged—and asked—only toil and dedication. These the Congress and the people have given in good measure. And today, having witnessed in recent months a heightened respect for our national purpose and power, having seen the courageous calm of a united people in a perilous hour, and having observed a steady improvement in the opportunities and well-being of our citizens, I can report to you that the state of this old but youthful Union is good.

In the world beyond our borders, steady progress has been made in building a world of order. The people of West Berlin remain free and secure. A settlement, though still precarious, has been reached in Laos. The spearpoint of aggression has been blunted in South

Vietnam. The end of agony may be in sight in the Congo. The doctrine of troika is dead. And, while danger continues, a deadly threat has been removed from Cuba.

At home, the recession is behind us. Well over a million more men and women are working today than were working 2 years ago. The average factory workweek is once again more than 40 hours; our industries are turning out more goods than ever before; and more than half of the manufacturing capacity that lay silent and wasted 100 weeks ago is humming with activity.

In short, both at home and abroad, there may now be a temptation to relax. For the road has been long, the burden heavy, and the pace consistently urgent.

But we cannot be satisfied to rest here. This is the side of the hill, not the top. The mere absence of war is not peace. The mere absence of recession is not growth. We have made a beginning—but we have only begun.

Now the time has come to make the most of our gains—to translate the renewal of our national strength into the achievement of our national purpose.

II

America has enjoyed 22 months of uninterrupted economic recovery. But recovery is not enough. If we are to prevail in the long run, we must expand the longrun strength of our economy. We must move along the path to a higher rate of growth and full employment.

For this would mean tens of billions of dollars more each year in production, profits, wages, and public revenues. It would mean an end to the persistent slack which has kept unemployment at or above 5 percent for 61 out of 62 months—and an end to the growing pressures for such restrictive measures as the 35-hour week, which alone could increase hourly labor costs by as much as 14 percent, start a new wage-price spiral of inflation, and undercut our efforts to compete with other nations.

To achieve these greater gains, one step, above all, is essential—the enactment this year of a substantial reduction and revision in Federal income taxes.

For it is increasingly clear—to those in Government, business, and labor who are responsible for our economy's success—that our obsolete tax system exerts too heavy a drag on private purchasing power, profits, and employment. Designed to check inflation in earlier years, it now checks growth instead. It discourages extra effort and risk. It distorts the use of resources. It invites recurrent recessions, depresses our Federal revenues, and causes chronic budget deficits.

Now, when the inflationary pressures of the war and postwar years no longer threaten, and the dollar commands new respect—now, when no military crisis strains our resources—now is the time to act. We cannot afford to be timid or slow. For this is the most urgent task confronting the Congress in 1963.

In an early message, I shall propose a permanent reduction in tax rates which will lower liabilities by $13.5 billion. Of this, $11 billion results from reducing individual tax rates, which now range between 20 and 91 percent to a more sensible range of 14 to 65 percent, with a split in the present first bracket. Two and one-half billion dollars results from reducing corporate tax rates, from 52 percent—which

gives the Government today a majority interest in profits—to the permanent pre-Korean level of 47 percent. This is in addition to the more than $2 billion cut in corporate tax liabilities resulting from last year's investment credit and depreciation reform.

To achieve this reduction within the limits of a manageable budgetary deficit, I urge: First, that these cuts be phased over 3 calendar years, beginning in 1963 with a cut of some $6 billion at annual rates; second, that these reductions be coupled with selected structural changes, beginning in 1964, which will broaden the tax base, and unfair or unnecessary preferences, remove or lighten certain hardships, and in the net offset some $3.5 billion of the revenue loss; and third, that budgetary receipts at the outset be increased by $1.5 billion a year, without any change in tax liabilities, by gradually shifting the tax payments of large corporations to a more current time schedule. This combined program, by increasing the amount of our national income, will in time result in still higher Federal revenues. It is a fiscally responsible program—the surest and soundest way of achieving in time a balanced budget in a balanced full employment economy.

This net reduction in tax liabilities of $10 billion will increase the purchasing power of American families and business enterprises in every tax bracket, with the greatest increase going to our low-income consumers. It will, in addition, encourage the initiative and risk taking on which our free enterprise system depends: induce more investment, production, and capacity use; help provide the 2 million new jobs we need every year; and reinforce the American principle of additional reward for additional effort.

I do not say that a measure for tax reduction and reform is the only way to achieve these goals.

No doubt a massive increase in Federal spending could also create jobs and growth—but, in today's setting, private consumers, employers, and investors should be given a full opportunity first.

No doubt a temporary tax cut could provide a spur to our economy—but a longrun problem compels a longrun solution.

No doubt a reduction in either individual or corporation taxes alone would be of great help—but corporations need customers and jobseekers need jobs.

No doubt tax reduction without reform would sound simpler and more attractive to many—but our growth is also hampered by a host of tax inequities and special preferences which have distorted the flow of investment.

And, finally, there are no doubt some who would prefer to put off a tax cut in the hope that ultimately an end to the cold war would make possible an equivalent reduction in Government expenditures—but that end is not in view and to wait for it would be costly and self-defeating.

In submitting a tax program which will, of course, temporarily increase the deficit but can, I believe, ultimately end it, and in recognition of the need to control expenditures, I will shortly submit a fiscal 1964 administrative budget which, while allowing for needed rises in defense, space and fixed interest charges, holds total expenditures for all other purposes below this year's level.

This requires the reduction or postponement of many desirable programs, the absorption of a large part of last year's Federal pay

raise through personnel and other economies, the termination of certain installations and projects, and the substitution in several programs of private for public credit. But I am convinced that the enactment this year of tax reduction and tax reform overshadows all other domestic problems in this Congress. For we cannot lead for long the cause of peace and freedom, if we ever cease to set the pace at home.

III

Tax reduction alone, however, is not enough to strengthen our society, to provide opportunities for the 4 million new Americans who are born every year, to improve the lives of the 32 million Americans who still live on the outskirts of poverty.

The quality of American life must keep pace with the quantity of American goods.

This country cannot afford to be materially rich and spiritually desperately poor.

Therefore, by holding down the budgetary cost of existing programs to keep within the limitations I have set, it is both possible and imperative to adopt other new measures that we cannot afford to postpone.

These measures are based on a series of fundamental premises, grouped under four related headings:

First, we need to strengthen our Nation by investing in our youth:

The future of any country which is dependent on the will and wisdom of its citizens is damaged, and irreparably damaged, whenever any of its children are not educated to the fullest extent of his capacity, from grade school through graduate school. Today, an estimated 4 out of every 10 students in the fifth grade will never finish high school—and that is a waste we cannot afford.

In addition, there is no reason why 1 million young Americans, out of school and out of work, should all remain unwanted and often untrained on our city streets when their energies can be put to good use.

Finally, the oversea success of our Peace Corps volunteers, most of them young men and women carrying skills and ideals to needy people, suggests the merit of a similar corps serving our own community needs: in mental hospitals, on Indian reservations, in centers for the aged or for young delinquents, in schools for the illiterate or the handicapped. As the idealism of our youth has served world peace, so can it serve the domestic tranquillity.

Second, we need to strengthen our Nation by safeguarding its health:

Our working men and women—instead of being forced to ask for help from public charity once they are old and ill—should start contributing now to their own retirement health program through the social security system.

Moreover, all our miracles of medical research will count for little if we cannot reverse the growing nationwide shortage of doctors, dentists, and nurses, and the widespread shortages of nursing homes and modern urban hospital facilities. Merely to keep the present ratio of doctors and dentists from declining any further, this country must over the next 10 years increase the

capacity of our medical schools by 50 percent and our dental schools by 100 percent.

Finally, and of deep concern, I believe that the abandonment of the mentally ill and the mentally retarded to the grim mercy of custodial institutions too often inflicts on them and their families a needless cruelty which this Nation should not endure. The incidence of mental retardation in the United States of America is three times as high as that of Sweden, for example—and that figure can and must be reduced.

Third, we need to strengthen our Nation by protecting the basic rights of its citizens:

The right to competent counsel must be assured to every man accused of crime in Federal court, regardless of his means.

And the most precious and powerful right in the world, the right to vote in a free American election, must not be denied to any citizen on grounds of his race or his color.

I wish that all qualified Americans permitted to vote were willing to vote; but surely, in this centennial year of the Emancipation, all those who are willing to vote should always be permitted.

Fourth, we need to strengthen our Nation by making the best and the most economical use of its resources and facilities:

Our economic health depends on having healthy transportation arteries; and I believe the way to a more modern, economical choice of national transportation service is through increased competition and decreased regulation. Local mass transit, faring even worse, is as essential a community service as highways. Nearly three-fourths of our citizens live in urban areas, which occupy only 2 percent of our land, and if local transit is to survive and relieve the congestion of these cities, it needs Federal stimulation and assistance.

Next, this Government is in the storage and stockpile business to the melancholy tune of $16 billion. We must continue to support farm income, but we should not pile more farm surpluses on top of the $7.5 billion worth we already own. We must maintain a stockpile of strategic materials, but the $8.5 billion worth we have acquired—for reasons both good and bad—is much more than we need; and we should be empowered to dispose of the excess in ways which will not cause market disruption.

Finally, our already overcrowded national parks and recreation areas will have twice as many visitors 10 years from now. If we do not plan today for the future growth of these and other great natural assets—not only parks and forests but wildlife and wilderness preserves, and water projects of all kinds—our children and their children will be poorer in every sense of the word. Proposals will be made to the Congress in the coming days to meet these challenges.

These are not domestic concerns alone. For upon our achievement of greater vitality and strength at home hang our fate and future in the world: our ability to sustain and supply the security of free men and nations; our ability to command their respect for our leadership; our ability to expand our trade without threat to our balance of payments; and our ability to adjust to the changing demands of cold war competition and challenge.

We shall be judged more by what we do at home than what we preach abroad. Nothing we could do to help the developing countries would help them half as much as a booming American economy, which consumes their raw materials. And nothing our opponents could do to encourage their own ambitions would encourage them half so much as a lagging U.S. economy. These domestic tasks do not divert our energy from our security—they provide the very foundation for freedom's survival and success.

IV

Turning to the world outside, it was only a few years ago—in southeast Asia, Africa, Eastern Europe, Latin America, even in outer space—that communism sought to convey the image of a unified, confident, and expanding empire, closing in on a sluggish America and a free world in disarray. But few people would hold to that picture today.

In these past months, we have reaffirmed the scientific and military superiority of freedom. We have doubled our efforts in space, to assure us of being first in the future. We have undertaken the most far-reaching defense improvements in the peacetime history of this country. And we have maintained the frontiers of freedom from Vietnam to West Berlin.

But complacency or self-congratulation can imperil our security as much as the weapons of our adversary. A moment of pause is not a promise of peace. Dangerous problems remain from Cuba to the South China Sea. The world's prognosis prescribes not a year's vacation, but a year of obligation and opportunity.

Four special avenues of opportunity stand out: The Atlantic alliance, the developing nations, the new Sino-Soviet difficulties, and the search for worldwide peace.

V

First, how fares the grand alliance? Free Europe is entering into a new phase of its long and brilliant history. The era of colonial expansion has passed; the era of national rivalries is fading; and a new era of interdependence and unity is taking shape. Defying the old prophecies of Marx, consenting to what no conqueror could ever compel, the free nations of Europe are moving toward a unity of purpose and power and policy in every sphere of activity.

For 17 years this movement has had our consistent support, both political and economic. Far from resenting the new Europe, we regard her as a welcome partner, not a rival. For the road to world peace and freedom is still very long, and there are burdens which only full partners can share—in supporting the common defense, in expanding world trade, in alining our balance of payments, in aiding the emergent nations, in concerting political and economic policies, and in welcoming to our common effort other industrialized nations, notably Japan, whose remarkable economic and political development of the 1950's permits it now to play on the world scene a major constructive role.

No doubt differences of opinion will continue to get more attention than agreements on action, as Europe moves from independence to more formal interdependence. But these are honest differences

among honorable associates—more real and frequent, in fact, among our West European Allies than between them and the United States. For the unity of freedom has never relied on uniformity of opinion, fortunately. But the basic agreement of this alliance on fundamental issues continues.

The first task of the alliance remains the common defense. Last month Prime Minister Macmillan and I laid plans for a new stage in our long cooperative effort, one which aims to assist in the wider task of framing a common nuclear defense for the whole alliance.

The Nassau agreement recognizes that the security of the West is indivisible, and so must be our defense. But it also recognizes that this is an alliance of proud and sovereign nations, and works best when we do not forget it. It recognizes further that the nuclear defense of the West is not a matter for the present nuclear powers alone, that France will be such a power in the future, and that ways must be found without increasing the hazards of nuclear diffusion, to increase the role of our other partners in planning, manning, and directing a truly multilateral nuclear force within an increasingly intimate NATO alliance. Finally, the Nassau agreement recognizes that nuclear defense is not enough, that the agreed NATO levels of conventional strength must be met, and that the NATO alliance cannot afford to be in a position of having to answer every threat with nuclear weapons or nothing.

We remain too near the Nassau decisions, and too far from their final realization, to know their final place in history. But I believe that, for the first time, the door is open for the nuclear defense of the alliance to become a source of confidence, instead of a cause of contention.

The next most pressing concern of the alliance is our common economic goals of trade and growth. This Nation continues to be concerned about its balance-of-payments deficit, which, despite its decline, remains a stubborn and troublesome problem. We believe, moreover, that closer economic ties among all free nations are essential to prosperity and peace. And neither we nor the members of the Common Market are so affluent that we can long afford to shelter high cost farms or factories from the winds of foreign competition, or to restrict the channels of trade with other nations of the free world. If the Common Market should now move toward protectionism and restrictionism, it would undermine its own basic principles. This Government means to use the authority conferred on it last year by the Congress to encourage trade expansion on both sides of the Atlantic and around the world.

VI

Second, what of the developing and nonalined nations? They were shocked by the Soviets' sudden and secret attempt to transform Cuba into a nuclear striking base, and by Communist China's arrogant invasion of India. They have been reassured by our prompt assistance to India, by our support through the United Nations of the Congo's unification, by our patient search for disarmament, and by the improvement in our treatment of citizen and visitors whose skins do not happen to be white. And as the older colonialism recedes, and the neocolonialism of the Communist Powers stands out more starkly

than ever, they realize more clearly that the issue in the world struggle is not communism versus capitalism, but coercion versus free choice.

They realize that the longing for independence is the same the world over, whether it is the independence of West Berlin or Vietnam. They realize that such independence runs athwart all Communist ambitions but is in keeping with our own—and that our approach to their needs is resilient and resourceful, while the Communists rely on ancient doctrines and old dogmas.

Nevertheless it is hard for any nation to focus on an external or subversive threat to its independence when its energies are drained in daily combat with the forces of poverty and despair. It makes little sense for us to assail, in speeches and resolutions, the horrors of communism, to spend $50 billion a year to prevent its military advance, and then to begrudge spending, largely on American products, less than one-tenth of that amount to help other nations strengthen their independence and cure the social chaos in which communism always has thrived.

I am proud—and I think most Americans are proud—of a mutual defense and assistance program, evolved with bipartisan support in three administrations, which has, with all of its recognized problems, contributed to the fact that not a single one of the nearly 50 U.N. members to gain independence since the Second World War has succumbed to Communist control.

I am proud of a program and of a country that has helped to arm and feed and clothe millions of people on the frontlines of freedom.

I am especially proud that this country has put forward for the 1960's a vast cooperative effort to achieve economic growth and social progress throughout the Americas—the Alliance for Progress.

I do not underestimate the difficulties that we face in this mutual effort among our close neighbors, but the free states of this hemisphere, working in close collaboration, have begun to make this Alliance a reality. Today it is feeding one out of every four school-age children in Latin America an extra food ration from our farm surplus. It has distributed 1.5 million schoolbooks and is building 17,000 classrooms. It has helped resettle tens of thousands of farm families on land they can call their own. It is stimulating our good neighbors to more self-help and reform—fiscal, social, institutional, and land reforms. It is bringing housing and hope and health to millions who were previously forgotten. The men and women of this hemisphere know that the Alliance would not succeed if it were only another name for U.S. handouts—that it can succeed only as the Latin American nations themselves devote their best effort to fulfilling its goals.

The story is the same in Africa, in the Middle East, in Asia. Wherever nations are willing to help themselves, we stand ready to help them build new bulwarks of freedom. We are not purchasing votes for the cold war; we have gone to the aid of imperiled nations, neutrals and allies alike. What we do ask—and all that we ask—is that our help be used to the best advantage, and that their own efforts not be diverted by needless quarrels with other independent nations.

Despite all its past achievements, the continued progress of the mutual assistance program requires a persistent discontent with present progress. We have been reorganizing this program to make

it a more effective and efficient instrument, and that process will continue this year.

But free world development will still be an uphill struggle. Governmental aid can only supplement the role of private investment, trade expansion, and commodity stabilization, and, above all, internal self-improvement. The processes of growth are gradual—bearing fruit in a decade, not in a day. Our successes will neither be quick nor dramatic. But if these programs were ever to be ended, our failures in a dozen countries would be sudden and would be certain.

Neither money nor technical assistance, however, can be our only weapon against poverty. In the end, the crucial effort is one of purpose, requiring not only the fuel of finance but the torch of idealism. And nothing carries the spirit of American idealism and expresses our hopes better and more effectively to the far corners of the earth than the Peace Corps.

A year ago, less than 900 Peace Corps volunteers were on the job. A year from now they will number more than 9,000—men and women, aged 18 to 79, willing to give 2 years of their lives to helping people in other lands.

There are, in fact, nearly 1 million Americans serving their country and the cause of freedom in oversea posts, a record no other people can match. Surely those of us who stay at home should be glad to help indirectly—by supporting our aid programs; by opening our doors to foreign visitors and diplomats and students; and by proving, day by day, by deed as well as by word, that we are a just and generous people.

VII

Third, what comfort can we take from the increasing strains and tensions within the Communist bloc? Here hope must be tempered with caution. For the Soviet-Chinese disagreement is over means, not ends. A dispute over how to bury the West is no grounds for Western rejoicing.

Nevertheless, while a strain is not a fracture, it is clear that the forces of diversity are at work inside the Communist camp, despite all the iron disciplines of regimentation and all the iron dogmatisms of ideology. Marx is proven wrong once again: for it is the closed Communist societies, not the free and open societies, which carry within themselves the seeds of internal disintegration.

This disarray of the Communist empire has been heightened by two other formidable forces. One is the historic force of nationalism and the yearning of all men to be free. The other is the gross inefficiency of their economies. For a closed society is not open to ideas of progress, and a police state finds it cannot command the grain to grow.

New nations asked to choose between two competing systems need only compare conditions in East and West Germany, Eastern and Western Europe, North and South Vietnam. They need only compare the disillusionment of Communist Cuba with the promise of a hemisphere Alliance for Progress. And all the world knows that no successful system builds a wall to keep its people in and freedom out, and that the wall of shame dividing Berlin is a symbol of Communist failure.

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VIII

Finally, what can we do to move from the present pause toward enduring peace? Again I would counsel caution. I foresee no spectacular reversal in Communist methods or goals. But if all these trends and developments can persuade the Soviet Union to walk the path of peace, then let her know that all free nations will join with her. But until that choice is made, and until the world can develop a reliable system of international security, the free peoples have no choice but to keep their arms near.

This country, therefore, continues to require the best defense in the world—a defense which is suited to the sixties. This means, unfortunately, a rising defense budget—for there is no substitute for adequate defense, and no "bargain basement" way of achieving it. It means the expenditure of more than $15 billion this year on nuclear weapons systems alone, a sum which is about equal to the combined defense budgets of our European allies.

But it also means improved air and missile defenses, improved civil defense, a strengthened antiguerrilla capacity and, of prime importance, more powerful and flexible nonnuclear forces. For threats of massive retaliation may not deter piecemeal aggression—and a line of destroyers in a quarantine, or a division of well-equipped men on a border, may be more useful to our real security than the multiplication of awesome weapons beyond all rational need.

But our commitment to national safety is not a commitment to expand our Military Establishment indefinitely. We do not dismiss disarmament as an idle dream. For we believe that, in the end, it is the only way of assuring the security of all without impairing the interests of any. Nor do we mistake honorable negotiation for appeasement. While we shall never weary in the defense of freedom, neither shall we abandon the pursuit of peace.

In this quest the United Nations requires our full and continued support. Its value in serving the cause of peace has been shown anew in its role in the West New Guinea settlement, in its use as a forum for the Cuban crisis, and in its task of unification in the Congo. Today the United Nations is primarily the protector of the small and the weak, and a safety valve for the strong. Tomorrow it can form the framework for a world of law—a world in which no nation dictates the destiny of another, and in which the vast resources now devoted to destructive means will serve constructive ends.

In short, let our adversaries choose. If they choose peaceful competition, they shall have it. If they come to realize that their ambitions cannot succeed—if they see that their "wars of liberation" and subversion will ultimately fail; if they recognize that there is more security in accepting inspection than in permitting new nations to master the black arts of nuclear weapons and war; and if they are willing to turn their energies, as we are, to the great unfinished tasks of our own peoples—then, surely, the areas of agreement can be very wide indeed: a clear understanding about Berlin, stability in southeast Asia, an end to nuclear testing, new checks on surprise or accidental attack, and, ultimately, general and complete disarmament.

IX

For we seek not the worldwide victory of one nation or system but a worldwide victory of men. The modern globe is too small, its weapons too destructive—they multiply too fast—and its disorders too contagious to permit any other kind of victory.

To achieve this end the United States will continue to spend a greater portion of its national production than any other people in the free world. For 15 years no other free nation has demanded so much of itself. Through hot wars and cold, through recession and prosperity, through the ages of the atom and outer space, the American people have neither faltered nor has their faith flagged. If at times our actions seem to make life difficult for others, it is only because history has made life difficult for us all.

But difficult days need not be dark. I think these are proud and memorable days in the cause of peace and freedom. We are proud, for example, of Maj. Rudolf Anderson who gave his life over the island of Cuba. We salute Sp. James Allen Johnson who died on the border of South Korea. We pay honor to Sgt. Gerald Pendell who was killed in Vietnam. They are among the many who in this century, far from home, have died for our country. Our task now, and the task of all Americans, is to live up to their commitments.

My friends, I close on a note of hope. We are not lulled by the momentary calm of the sea or the somewhat clearer skies above. We know the turbulence that lies below, and the storms beyond the horizon this year. Now the winds of change appear to be blowing more strongly than ever, in the world of communism as well as our own. For 175 years we have sailed with those winds at our back, and with the tides of human freedom in our favor. We steer our ship with hope, as Thomas Jefferson said, "leaving fear astern."

Today we still welcome those winds of change—and we have every reason to believe that our tide is running strong. With thanks to Almighty God for seeing us through a perilous passage, we ask His help anew in guiding the good ship Union.

SECTION 3

PRESIDENT'S 1963 TAX MESSAGE

88th Congress 1st Session } HOUSE OF REPRESENTATIVES { Document No. 43

REVISION OF OUR TAX STRUCTURE

MESSAGE

FROM

THE PRESIDENT OF THE UNITED STATES

TRANSMITTING

RECOMMENDATIONS RELATIVE TO A REVISION OF OUR TAX STRUCTURE

January 24, 1963.—Referred to the Committee on Ways and Means and ordered to be printed

To the Congress of the United States:

The most urgent task facing our Nation at home today is to end the tragic waste of unemployment and unused resources—to step up the growth and vigor of our national economy—to increase job and investment opportunities—to improve our productivity—and thereby to strengthen our Nation's ability to meet its worldwide commitments for the defense and growth of freedom. The revision of our Federal tax system on an equitable basis is crucial to the achievement of these goals.

Originally designed to hold back war and postwar inflation, our present income tax rate structure now holds back consumer demand, initiative, and investment. After the war and during the Korean conflict, the outburst of civilian demand and inflation justified the retention of this level and structure of rates. But it has become increasingly clear—particularly in the last 5 years—that the largest single barrier to full employment of our manpower and resources and to a higher rate of economic growth is the unrealistically heavy drag of Federal income taxes on private purchasing power, initiative, and incentive. Our economy is checkreined today by a war-born tax system at a time when it is far more in need of the spur than the bit.

My recommendation for early revision of our tax structure is not motivated by any threat of imminent recession—nor should it be rejected by any fear of inflation or of weakening the dollar as a world currency. The chief problem confronting our economy in 1963 is its unrealized potential—slow growth, underinvestment, unused capacity, and persistent unemployment. The result is lagging wage, salary and profit income, smaller take-home pay, insufficient productivity gains, inadequate Federal revenues, and persistent budget deficits. One recession has followed another, with each period of recovery and expansion fading out earlier than the last. Our gains fall far short of what we could do and need to do, measured both in terms of our past record and the accomplishments of our oversea competitors.

Despite the improvements resulting from last year's depreciation reform and investment credit—which I pledged 2 years ago would be only a first step—our tax system still siphons out of the private economy too large a share of personal and business purchasing power and reduces the incentive for risk, investment, and effort—thereby aborting our recoveries and stifling our national growth rate.

In addition, the present tax code contains special preferences and provisions, all of which narrow the tax base (thus requiring higher rates), artificially distort the use of resources, inhibit the mobility and formation of capital, add complexities and inequities which undermine the morale of the taxpayer, and make tax avoidance rather than market factors a prime consideration in too many economic decisions.

I am therefore proposing the following:

(1) Reduction in individual income tax rates from their present levels of 20 to 91 percent, to a range of 14 to 65 percent—the 14-percent rate to apply to the first $2,000 of taxable income for married taxpayers filing joint returns, and to the first $1,000 of the taxable income of single taxpayers;

(2) Reduction in the rate of the corporate income tax from 52 to 47 percent;

(3) Reversal of the corporate normal and surtax rates, so that the tax rate applicable to the first $25,000 of corporate income would drop from 30 to 22 percent, so as to give particular encouragement to small business;

(4) Acceleration of taxpayments by corporations with anticipated annual liabilities of more than $100,000, to bring the corporate payment schedule to a current basis over a 5-year transition period;

(5) Revision of the tax treatment of capital gains, designed to provide a freer and fuller flow of capital funds and to achieve a greater equity;

(6) Removal of certain inequities and hardships in our present tax structure; and

(7) Broadening of the base of the individual and corporate income taxes, to remove unwarranted special privileges, correct defects in the tax law, and provide more equal treatment of taxpayers—thereby permitting a larger reduction in tax rates than would otherwise be possible and making possible my proposals to alleviate hardships and inequities.

The tax program I am recommending for enactment in 1963 would become fully effective by January 1, 1965. The rate reductions provide a cut in tax liabilities of $13.6 billion—$11 billion for individuals and $2.6 billion for corporations. Other adjustments, some of which

lose and some of which gain revenue, would, on balance, produce a revenue gain of $3.4 billion, leaving a net reduction of $10.2 billion. Accelerating tax payments of large corporations to a current basis over a 5-year transition period would reduce the effect on tax receipts to $8.7 billion. These figures do not include offsetting revenue gains which would result from the stimulating effects of the program on the economy as a whole and on the level of taxable income, profits, and sales—gains which may be expected to increase as the economy recaptures its vigor, and to lead to higher total tax receipts than would otherwise be realized.

I. Benefits to the Economy

Enactment of this program will help strengthen every segment of the American economy and bring us closer to every basic objective of American economic policy.

Total output and economic growth will be stepped up by an amount several times as great as the tax cut itself. Total incomes will rise—billions of dollars more will be earned each year in profits and wages. Investment and productivity improvement will be spurred by more intensive use of our present productive potential; and the added incentives to risk taking will speed the modernization of American industry. Additional dollars spent by consumers or invested by producers will lead to more jobs, more plant capacity, more markets, and thus still more dollars for consumption and investment. Idle manpower and plant capacity make this possible without inflation; and strong and healthy economic activity is the best insurance against future recessions.

Unemployment will be reduced, as firms throughout the country hire new workers to meet the new demands released by tax reduction. The economic prospects of our depressed areas will improve as investors obtain new incentives to create additional productive facilities in areas of labor surplus. Pressure for the 35-hour week, for new import barriers, or for other shortsighted and restrictive measures will be lessened. Companies and workers will find it easier to adjust to import competition. Low-income farmers will be drawn to new jobs which offer a better livelihood. The retraining of workers with obsolete skills will proceed more quickly and efficiently in a full employment climate. Those presently employed will have greater job security and increased assurance of a full workweek.

Price stability can be maintained. Inflationary forces need not be revived by strengthening the economy at a time of a substantial unemployment and unused capacity with a properly constructed program of tax reduction. With the gains in disposable income of wage earners there should be less pressure for wage increases in excess of gains in productivity—and with increased profits after tax there should be less pressure to raise prices. Inflationary expectations have ended; monetary tools are working well; and the increasing productivity and modernization resulting from new levels of investment will facilitate a reduction of costs and the maintenance of price stability. This Nation is growing—its needs are growing—and tax revision now will steadily increase our capacity to meet those needs at a time when there are no major bottlenecks in manpower, plant, or resources, no emergencies straining our reserves of productive power, and no lack of vigorous competition from other nations. Nor need anyone fear that

the deficit will be financed in an inflationary manner. The balanced approach that the Treasury has followed in its management of the public debt can be relied upon to prevent any inflationary push.

Our balance of payments should be improved by the fiscal policies reflected in this program. Its enactment—which will make investment in America more profitable, and which will increase the efficiency of American plants, thus cutting costs and improving our competitive position in world trade—will provide the strongest possible economic backing for the dollar. Lagging growth contributes to a lack of confidence in the dollar, and the movement of capital abroad. Accelerated growth will attract capital to these shores and bolster our free world leadership in terms of both our strength and our example. Moreover, a nation operating closer to capacity will be freer to use monetary tools to protect its international accounts, should events so require.

Consumers will convert a major percentage of their personal income tax savings into a higher standard of living, benefiting their own families while generating stronger markets for producers. Even modest increases in take-home pay enable consumers to undertake larger periodic payments on major purchases, as well as to increase purchases of smaller items—and either type of purchase leads to further income and employment.

Investment will be expanded, as the rate of return on capital formation is increased, and as growing consumer markets create a need for new capacity. It is no contradiction to say that the best means of increasing investment today is to increase consumption and market demand—and reductions in individual tax rates will do this. In addition, reducing the corporate tax from 52 percent to 47 percent will mean not only greater incentives to invest but more internal funds available for investment. Reducing the maximum individual income tax rate from 91 percent to 65 percent makes more meaningful the concept of additional reward and incentive for additional initiative, effort, and risk taking. A rising level of consumer demand will enable the more than $2 billion worth of investment incentives provided by last year's tax actions (the depreciation reform and investment credit) to achieve their full effect. In addition, tax reform will reduce those distortions of effort which interfere with a more efficient allocation of investment funds. The cumulative effect of this additional investment is once again more income, therefore more consumer demand, and therefore still more investment.

State and local governments, hard pressed by a considerably faster rise in expenditures and indebtedness than that experienced at the Federal level, will also gain additional revenues without increasing their own tax rates as national income and production expand.

II. Benefits to the Taxpayer

The increased purchasing power and strengthened incentives which will move us toward our national goals will reach to all corners of our population and to all segments of our business community.

Wage earners and low-income families will gain an immediate increase in take-home pay as soon as the tax program is enacted and new withholding rates go into effect. While tax rates are to be reduced for every bracket, the largest proportionate tax reduction properly goes to those at the bottom of the economic ladder. Ac-

cordingly, in addition to lowering rates in the lower brackets, I urge that the first bracket be split into two groups, so that married couples with "adjusted gross incomes" of $2,000 or less (or single persons with $1,000 or less) receive a 30-percent reduction in their tax rate. Some one-third of all taxpayers are in this group—including many of the very old and very young whose earning powers are below average. Many of the structural revisions proposed below are also designed to meet hardships which rate reduction alone will not alleviate—hardships to low-income families and individuals, to older workers and to working mothers. This program is far preferable to an increase in exemptions, because, with a far smaller loss of revenue, it focuses the gains far more sharply on those who need it most and will spend it quickly, with benefits to the entire economy.

Middle and higher income families are both consumers and investors—and the present rates ranging up to 91 percent not only check consumption but discourage investment, and encourage the diversion of funds and effort into activities aimed more at the avoidance of taxes than the efficient production of goods. The oppressive impact of those high rates gave rise to many of the undue preferences in the present law—and both the high rates and the preferences should be ended in the new law. Under present conditions, the highest rate should not exceed 65 percent, a reduction of 29 percent from the present rate—accompanied by appropriate reductions in the middle income ranges. This will restore an idea that has helped make our country great—that a person who devotes his efforts to increasing his income, thereby adding to the Nation's income and wealth, should be be able to retain a reasonable share of the results.

Businessmen and farmers—everyone whose income depends directly upon selling his products or services to the public—will benefit from the increased income and purchasing power of consumers and the substantial reduction in taxes on profits. The attainment of full employment and full capacity is even more important to profits than the reduction in corporate taxes; for, even in the absence of such reduction, profits after taxes would be at least 15 percent higher today if we were operating at full employment. Enactment of a program aimed at helping reach full employment and capacity use which also reduces the Government's interest in corporate profits to 47 percent instead of 52 percent, thus lowering corporate tax liabilities by a further $2.6 billion a year—while increasing consumer demand by some $8 billion a year—will surely give American industry new incentive to expand production and capacity.

Small businessmen with net income of less than $25,000, who constitute over 450,000 of the Nation's 585,000 corporations, will, under this program, receive greater reductions in their corporation taxes than their larger competitors. Under my program, beginning this year, the first $25,000 of corporate taxable income will be subject to a tax rate of 22 percent rather than 30 percent, a reduction of almost 27 percent. This change is important to those small corporations which have less ready access to the capital markets, must depend more heavily for capital on internally generated funds, and are generally at a financial and competitive disadvantage. Unincorporated businesses, of course, will benefit from the reduction in individual income taxes.

III. The Tax Program and the Federal Budget

A balanced Federal budget in a growing full-employment economy will be most rapidly and certainly achieved by a substantial expansion in national income carrying with it the needed Federal revenues—the kind of expansion the proposed tax revision is designed to bring about. Within a few years of the enactment of this program, Federal revenues will be larger than if present tax rates continue to prevail. Full employment, moreover, will make possible the reduction of certain Government expenditures caused by unemployment. As the economy climbs toward full employment, a substantial part of the increased tax revenue thereby generated will be applied toward a reduction in the Federal deficit.

As I have repeatedly emphasized, our choice today is not between a tax cut and a balanced budget. Our choice is between chronic deficits resulting from chronic slack, on the one hand, and transitional deficits temporarily enlarged by tax revision designed to promote full employment and thus make possible an ultimately balanced budget. Because this chronic slack produces inadequate revenues, the projected administrative deficit for fiscal 1964—without any tax reduction, leaving the present system intact—would be $9.2 billion. The inclusion of the tax program—after the "feed back" in revenues from its economic stimulus and the acceleration of corporate tax payments—will add only an additional $2.7 billion loss in receipts, bringing the projected deficit in the administrative budget to $11.9 billion. The issue now is whether the strengthening of our economy which will result from the tax program is worth an addition of $2.7 billion to the 1964 deficit.

If the tax break on our economy is not released, the slack will remain, Federal revenues will lag, and budget deficits will persist. In fact, another recession would produce a record peacetime deficit that would far exceed $11.9 billion, and without the positive effects of tax reduction. But once this tax brake is released, the base of taxable income, wages, and profits will grow—and a temporary increase in the deficit will turn into a permanent increase in Federal revenues. The purpose of cutting taxes, I repeat, is not to create a deficit but to increase investment, employment, and the prospects for a balanced budget.

It would be a grave mistake to require that any tax reduction today be offset by a corresponding cut in expenditures. In my judgment, I have proposed the minimum level of Federal expenditures needed for the security of the Nation, for meeting the challenge facing us in space, and for the well-being of our people. Moreover, the gains in demand from tax reduction would then be offset—or more than offset—by the loss of demand due to the reduction in Government spending. The incentive effects of tax reduction would remain, but total jobs and output would shrink as Government contracts were cut back, workers were laid off, and projects were ended.

On the other hand, I do not favor raising demand by a massive increase in Government expenditures. In today's circumstances, it is desirable to seek expansion through our free market processes—to place increased spending power in the hands of private consumers and investors and offer more encouragement to private initiative. The most effective policy, therefore, is to expand demand and unleash

incentives through a program of tax reduction and reform, coupled with the most prudent possible policy of public expenditures.

To carry out such a policy, the fiscal 1964 budget reduces total outlays other than defense, space, and interest charges below their present levels—despite the fact that such expenditures have risen at an average rate of 7.5 percent during the last 9 years. Federal civilian employment under this budget provides for the same number of people to serve every 100 persons in our population as was true when this administration took office, a smaller ratio than prevailed 10 years ago. The public debt as a proportion of our gross national product will fall to 53 percent, compared to 57 percent when this administration took office. Last year the total increase in the Federal debt was only 2 percent—compared to an 8-percent increase in the gross debt of State and local governments. Taking a longer view, the Federal debt today is only 13 percent higher than it was in 1946—while State and local debt increased over 360 percent and private debt by 300 percent. In fact, if it were not for Federal financial assistance to State and local governments, the Federal cash budget would actually show a surplus. Federal civilian employment, for example, is actually lower today than it was in 1952, while State and local government employment over the same period has increased 67 percent. This administration is pledged to enforce economy and efficiency in a strict control of expenditures.

In short, this tax program will increase our wealth far more than it increases our public debt. The actual burden of that debt—as measured in relation to our total output—will decline. To continue to increase our debt as the result of inadequate earnings is a sign of weakness. But to borrow prudently in order to invest in a tax revision that will greatly increase our earning power can be a source of strength.

IV. Requirements for Effective Action and Fiscal Responsibility

Fully recognizing that it is both desirable and necessary for the Congress to exercise its own discretion in the actual drafting of a tax bill, I recommend the application of the following basic principles in this vital task:

A. *The entire tax revision program should be promptly enacted as a single comprehensive bill.*—The sooner the program is enacted, the sooner it will make its impact upon the economy, providing additional benefits and further insurance against recession. While the full rate reduction program must take effect gradually for the reasons stated below, I am proposing that the individual tax rates for 1963 income be reduced to a range from 18.5 percent to 84.5 percent, with a cut in the withholding rate from the present 18 percent to 15.5 percent becoming effective upon enactment of the law. This will increase the disposable income of consumers at an annual rate of nearly $6 billion a year in the second half of 1963. Also the rate of corporate tax on the first $25,000 of net income would be reduced from 30 percent to 22 percent for the year 1963. Equally important is action in 1963 on the additional individual and corporate rate reductions proposed for 1964 and 1965. The prompt enactment of a bill assuring this combination of realized and prospective tax reductions will improve the business climate and public psychology, induce forward business planning,

and increase individual incentives. It will enable investors and producers to act this year on the basis of solid expectations of increased market demand and a higher rate of return. To delay decisive action beyond 1963 risks the loss of opportunity and initiative which this year uniquely offers.

B. *The net amount of tax reduction enacted should keep within the limits of economic sufficiency and fiscal responsibility.* Too small a tax cut would be a waste, gaining us little but further deficits. It could not cope with the task of closing a $30 to $40 billion gap in our economic performance. But the net tax cut of over $10 billion envisioned by this program can lead the way to strong economic expansion and a larger revenue yield.

On the other hand, responsible fiscal policy requires that we avoid an overly sharp drop in budgetary receipts for fiscal 1964–65, and that we hold the temporary increase in the deficit below the level which in the past has proved both manageable and compatible with price stability. Therefore, to make these reductions possible, I propose a program: (a) to phase the tax reductions over a 3-year period, with the final step effective January 1, 1965; (b) to couple these reductions, amounting to $13.6 billion, with selected structural changes and reforms gaining $3.4 billion net in revenues; and (c) to offset the revenue loss still further, during the next 5 years by gradually moving the tax payments of larger corporations to a more current time schedule, without any change in their tax liabilities.

C. *Tax reduction and structural reform should be considered and enacted as a single integrated program.*—My recommendations for rate reductions of $13.6 billion are made in the expectation that selected structural changes and reforms will be adopted, adding on balance $3.4 billion in revenue and resulting in a net reduction in tax liabilities of no more than $10.2 billion. Larger cuts would create a larger budget deficit and the possibility of renewed inflationary pressures. Therefore, should the Congress make any significant reductions in the revenues to be raised by structural changes, these reductions would have to be offset by substantially equivalent increases in revenue, and this could only be achieved by sacrificing either some of the important rate reductions I have proposed or some of the measures I am recommending to relieve hardship and promote growth.

On the other hand, an attempt to solve all tax problems at once by the inclusion of even more sweeping reforms might impair the effect of rate reduction. This program is designed to achieve broad acceptance and prompt enactment.

Some reforms will improve the tax structure by reducing certain liabilities. Others will broaden the tax base by raising liabilities and will meet with resistance from those who benefit from existing preferences. But if this program of tax reduction is aimed at making the most of our economic potential, it should be remembered that these preferences and special provisions also restrict our rate of growth and distort the flow of investment. They discourage taxpayer cooperation and compliance by adding inequities and complexities that affect similarly situated taxpayers in wholly different ways. They divert energies from productive activities to tax avoidance—and from more valuable or efficient undertakings to less valuable undertakings with lower tax consequences.

Some departures from uniform tax treatment are required to promote overriding national objectives. But taxpayers with equal

incomes who are burdened with unequal tax liabilities are certain to seek still further preferences and exceptions—and to use their resources where they yield the greatest returns after tax even though producing less before taxes, thus lowering our national output and efficiency.

Tax reduction is urgently needed to spur the growth of our economy—but both the fruits of growth and the burdens of the resulting new tax structure should be fairly shared by all. For the present patchwork of special provisions lightens the load on some by placing a heavier burden on others. Because they reduce the tax base, they compel a higher tax rate—and the reduction in the top rate from 91 percent to 65 percent, which in itself is a major reform, cannot be justified if these other forms of preferential tax treatment remain.

The resistance to tax reform should be less when it is coupled with more-than-offsetting tax reductions benefiting all brackets—and the support for tax reform should be greater when it is a necessary condition for greater tax reduction. Reform, as mentioned earlier, includes top-to-bottom rate reduction as well as structural change—and the two are inseparable prerequisites to the achievement of our economic and equity objectives. The new rates should be both lower and more widely applicable—for the excessively high rates and various tax concessions have in the past been associated with each other, and they should be eliminated together.

In short, these changes in our tax structure are as essential to maximizing our growth and use of resources as rate reduction, and make a greater rate reduction possible. The broader the Congress can extend the tax base, the lower it can reduce the tax rates. But to the extent that the erosion of our tax base by special preferences is not reversed to gain some $3.4 billion net, Congress will have to forgo—for reasons of both equity and fiscal responsibility—either corporate or personal rate reductions now contained in the program.

V. Proposals for Rate Reduction

The central thrust of this proposed tax program is contained in the most thorough overhaul in tax rates in more than 20 years, substantially reducing rates at all levels, for both individuals and corporations, by a total of $13.6 billion. While the principal components of my proposals for rate reduction have been alluded to in the foregoing discussion, it might be well to specify them in detail here.

1. Reduction in individual income tax rates. Personal tax liabilities will be decreased by $11 billion through a reduction in rates from their present levels of 20, 91 percent to a range of 14, 65 percent, with appropriate reductions generally averaging more than 20 percent and covering every bracket. The lowest 14-percent rate would apply to the first $2,000 of taxable income for married taxpayers filing joint returns, and to the first $1,000 of the taxable income of single taxpayers—a reduction of 30 percent in the taxes levied on this new bracket, in which falls the entire taxable income of one-third of all taxpayers. The new maximum rate of 65 percent would enable those individuals who now keep only 9 cents out of each additional dollar earned to retain 35 cents in the future. I am attaching tables showing the proposed rate schedules for married and single taxpayers.

2. These reductions would take place over a 3-year period:

For calendar year 1963, I propose a rate schedule ranging from 18.5 to 84.5 percent, reducing the appropriate withholding rate

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immediately upon enactment from its present level of 18 percent to a new level of 15.5 percent. For purposes of taxpayer computations, the new tax rates would apply to the entire calendar year, thus requiring the lower withholding rate to minimize overwithholding.

For calendar year 1964, I propose a rate schedule ranging from 15.5 to 71.5 percent, effective for the entire year and accompanied by a withholding rate of 13.5 percent beginning July 1 of that year.

For calendar year 1965 and thereafter, I propose a permanent rate schedule ranging from 14 to 65 percent, maintaining the withholding rate at 13.5 percent.

3. Reductions in the corporate income tax rate will cut corporate tax liabilities by $2.6 billion per year (in addition to the reduction of $2 billion per year provided by the 1962 investment tax credit and depreciation reform), and take effect in three stages:

For calendar year 1963, the present normal tax of 30 percent, applicable to the first $25,000 of taxable corporate income (the entire earnings of almost half a million small corporations) would drop to 22 percent, a reduction of almost 27 percent, while the rate applicable to income in excess of $25,000 would remain at 52 percent, thus reversing the present normal tax of 30 percent and the surtax of 22 percent. The normal tax would remain permanently at 22 percent.

For calendar year 1964, the corporate surtax would be reduced to 28 percent, thereby lowering the combined corporate rate to 50 percent.

For calendar year 1965 and thereafter, the corporate surtax would be reduced to 25 percent, thereby lowering the combined corporate rate to 47 percent and ending the role of the Government as a senior partner in business profits.

4. Since the $25,000 surtax exemption and the new 22-percent normal rate are designed to stimulate small business, this reduction should be accompanied by action designed to eliminate the advantage of the multiple surtax exemptions now available to large enterprises operating through a chain of separately incorporated units. I, therefore, recommend that legislation be enacted which, over a transitional period of 5 years, will limit to one the number of surtax exemptions allowed an affiliated corporate group subject to 80-percent common control. This proposal would apply both to affiliated groups having a common corporate parent and to enterprises sharing common individual ownership. It will add $120 million annually to tax receipts.

5. On the other hand, if affiliated corporations are treated as an entity for the surtax exemption and other purposes, they should be permitted to obtain the advantages of filing consolidated returns without incurring the present tax of 2 percent on the net income of all corporations filing such returns. The 2-percent tax was removed in 1954 from consolidated returns of regulated public utility enterprises; and I recommend that it be repealed for all corporate enterprises beginning in 1964. This proposal will contribute to a more realistic corporate tax-rate structure and reduce the adverse effect of high marginal tax rates on growth—at an annual cost to the Treasury of only $50 million.

6. To offset revenue losses by an estimated $1.5 billion per year over the next 5 years, without increasing the actual net burden of tax

liability of corporations, I recommend that corporations with an annual tax liability in excess of $100,000—which are now on a partially current payment basis—be placed on a more current taxpayment schedule beginning in 1964. Under this plan, such corporations would make a first declaration and payment of estimated tax on April 15, with subsequent payments due on June 15, September 15, and December 15, reaching a fully current basis similar to that required of individual income taxpayers after a 5-year transition period. More current payment of corporate taxes will strengthen the Government's budgetary position, but will not—even during the 5-year transition period—offset the benefits of rate reduction for these corporations.

VI. Proposals for Structural Revision and Reform

The changes listed below are an integral part of a single tax package which should be enacted this year. All of them should be effective January 1, 1964. Some remove inequities and hardships and thus further reduce revenues; others recoup revenue by revising preferential tax treatment now accorded particular types of transactions, enterprises, or taxpayers. Their combined revenue effect makes possible $3.4 billion of the $13.6 billion reduction in tax rates, for a net reduction of $10.2 billion. But their combined economic effect is even more important—to provide greater equity in a broader tax base, to encourage the full and efficient flow of capital, to remove unwarranted special privileges and hardships, to simplify tax administration and compliance and to release for more productive endeavors the energies now devoted to avoiding taxes. While rate reductions are also a major reform, they are in large part justified and made possible by structural reform—and the case for structural reform, in turn, would be weakened by the absence of substantial rate reduction.

These reforms may be divided into three categories:

(A) Relief of hardship and encouragement of growth;
(B) Base broadening and equity; and
(C) Revision of capital gains taxation for growth and equity.

(A) RELIEF OF HARDSHIP AND ENCOURAGEMENT OF GROWTH

1. A minimum standard deduction

I do not believe that the individual income tax should apply at levels of income as low as $667 for single persons and $1,333 for married couples as it does now. One way to provide relief to low-income taxpayers—in addition to the splitting of the first bracket as already recommended—would be to raise the personal exemption above its present level of $600. This is an extremely costly approach, however, and one which would not fulfill our objective of giving relief where it is needed most.

As a more effective and less costly means of securing the same objective, I recommend the adoption of a minimum-standard deduction of $300 ($150 for each spouse filing a separate return) plus $100 per dependent up to the present maximum of $1,000. Under present law the standard deduction cannot exceed 10 percent of a person's income. The establishment of a minimum standard deduction will provide about $220 million of tax relief, primarily to those with income below $5,000.

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If this proposal is adopted, single individuals would remain free of income tax liability until their incomes exceeded $900 rather than the present $667, thus giving them the equivalent of an increase in the personal exemption of $233. A married couple, without dependents, now subject to tax on income in excess of $1,333, would be taxed only on income in excess of $1,500. A couple with two dependents would be taxed only on income in excess of $2,900, as compared with $2,667 under present law.

2. A more liberal child care deduction

Employed women, widowers, and divorced men are now allowed a deduction of up to $600 per year for expenses incurred for the care of children and other dependents who are unable to care for themselves. In its present form this provision falls far short of fulfilling its objective of providing tax relief to those who must—in order to work—meet extra expenses for the care of dependents.

I recommend increasing the maximum amount that may be deducted from the present $600 to $1,000 where three or more children must be cared for. I also recommend three further steps: raising from $4,500 to $7,000 the amount of income that families with working wives can have and still remain fully eligible; increasing the age limit of children who qualify from 11 to 12; and extending the deduction to certain taxpayers who now do not qualify—such as a married man whose wife is confined to an institution.

The revenue cost of these changes in the child care deduction would be $20 million per year, most of which would benefit taxpayers with incomes of less than $7,000.

3. The tax treatment of older people

The special problems encountered by older people are recognized in a variety of not always consistent provisions under the present individual income tax law, resulting in widely different tax burdens for similarly situated older people whose incomes are derived from different sources. The relief is not only unevenly distributed, but, to the extent that its benefits accrue to those with high income, is unnecessary, wasting revenue which could be used to provide more adequately for those who need it.

For example: a single taxpayer aged 65, whose income of $5,000 is entirely in the form of wages, now pays an income tax of $686. If he were retired and his income were in the form of dividends, his tax liability would be less than half as much—$329. Moreover, the extra $600 exemption helps most those with substantial incomes. I am convinced, therefore, that a more uniform and equitable approach, one which will reduce and tend to equalize the tax burdens of all lower and modest income older people, is required.

To this end, I recommend that all people aged 65 or over, regardless of the source of their income, be allowed a credit of $300 against taxes otherwise owing. This credit would replace both the extra exemption allowed to older people and the retirement income credit, and would be of far greater value to the vast majority of older taxpayers. Under present law the amount of retirement income utilized in computing the retirement income credit is reduced, dollar for dollar, by social security and railroad retirement benefits received. The proposed $300 credit would also be reduced but only by a limited amount. (This amount would be equal to the taxpayer's bracket

rate times one-half of the benefits—that portion attributable to the employer's contribution.)

This treatment of social security and railroad retirement benefits is more favorable than present law in its effect on lower and middle income taxpayers; and, indeed, the overall result of this proposal for a $300 credit would be to liberalize substantially the tax treatment of aged lower and middle income taxpayers. Although this provision would moderately reduce the benefits of aged upper income taxpayers, they stand to gain substantially from the general rate reduction and will still pay lower taxes. Those whose incomes are wholly or primarily in the form of social security or railroad retirement benefits, of course, will still not be subject to income tax and these benefits will remain excludable from income.

The enactment of this recommendation will insure that single older people will not be subject to individual income tax liability unless their incomes exceed $2,900 (for married couples $5,800). These figures contrast with as little as $1,333 for single older individuals and $2,667 for older married couples under present law. It will also remove the existing excessively high tax cost imposed upon those older people who, out of preference or necessity, continue in gainful employment. The vital skills and energies of these older workers should not be discouraged from contributing materially to our economic strength.

A further major advantage of this recommendation is that it will greatly simplify the filing of tax returns for our older people. As much as two-thirds of a page of the individual income tax return now required for computation of the retirement income credit will be eliminated. In addition, a large number of older people who presently file tax returns will no longer find it necessary to do so because the filing requirement will be raised from $1,200 to $1,800.

The revenue reduction associated with these gains in equity and simplicity in the tax treatment of older people will be $320 million per year.

4. Income averaging

Many taxpayers are heavily penalized if they receive income in widely fluctuating amounts from year to year. I have instructed the Secretary of the Treasury to present to the Congress as part of this program an income averaging provision. It will provide fairer tax treatment for those who receive in a single taxable year unusually large amounts of income as compared to their average income for preceding years.

This proposal will go beyond the narrowly confined and complex averaging provisions of present law and will permit their elimination from the Internal Revenue Code. It will provide one formula of general application to those with wide fluctuations in income. This means fairer tax treatment for authors, professional artists, actors, and athletes, as well as farmers, ranchers, fishermen, attorneys, architects, and others. The estimated annual revenue cost of this proposal is $30 million.

5. Employees' moving expenses

Under present law employees are allowed to exclude from their taxable income any reimbursement received from their employer for moving expenses when changing their place of residence and job location while continuing to work for the same employer. In order

to facilitate labor mobility and provide more equal treatment of similarly situated taxpayers, I recommend appropriate extension of this tax benefit to new employees. This recommendation will entail a revenue loss of $20 million per year.

6. Charitable contributions

Under present law an extra 10-percent deduction over and above the basic 20-percent limitation on deductions for charitable contributions is allowable for contributions to churches, educational institutions, and medical facilities and research. I recommend that this limit on the deduction for charitable contributions be liberalized and made more uniform. To this end the 30-percent limit should extend to all organizations eligible for the charitable contributions deduction which are publicly supported and controlled. This recommendation can be implemented at a revenue cost which is minor. But it will prove advantageous to the advancement of highly desirable activities in our communities, such as symphony orchestras and the work of community chests and cultural centers.

7. Research and development.

Current business expenses for research and experimental purposes may now be deducted as incurred. But under present law the cost of machinery and equipment, now so vital to modern research and development activities, must be capitalized and the cost deducted only over the useful life of the machinery or equipment.

As a spur to private research and development, so essential to the growth of our economy, I recommend that expenditures for machinery and equipment used directly in research or development activities be allowed as a current expense deduction.

I am confident that this measure, which will involve a revenue cost of some $50 million, will provide future benefits in the form of better products, lower costs, and larger markets. These benefits, in turn, will bear fruit in larger tax bases and budgetary receipts.

(B) BASE BROADENING AND EQUITY

1. A floor under itemized deductions of individuals

Most taxpayers use the "standard deduction," generally equal to 10 percent of income up to a maximum of $1,000. But ever since this standard deduction was introduced during World War II, the proportion of taxpayers using it has declined steadily. At present, more than 40 percent of all individual income tax returns are filed by people who itemize deductions for a variety of deductible personal expenses, such as State and local taxes, interest, charitable contributions, medical expenses, and casualty losses. The amount of itemized deductions claimed on tax returns has gone up sharply—from less than $6 billion in 1942 to $25.7 in 1957 and $40 billion in 1962.

The present practice of allowing taxpayers to deduct certain expenses in full—the only exception being medical expenses which are subject to a 3-percent floor plus a 1-percent floor for drugs—raises difficult problems of equity, taxpayer compliance, and tax administration and enforcement. One purpose of itemized deductions is to relieve those taxpayers who are burdened by certain expenses or hardships in unusually large amounts, such as those involved in heavy casualty losses or serious illness. Another purpose is to stimu-

late certain desirable activities, such as charitable contributions or homeownership. Where such outlays are minimal relative to annual income, no serious hardship occurs and no special incentive is needed.

I, therefore, recommend that itemized deductions, which now average about 20 percent of adjusted gross incomes, be limited to those in excess of 5 percent of the taxpayer's adjusted gross income. This 5-percent floor will make $2.3 billion of revenue available for reduction in individual tax rates. At the same time incentives to homeownership or charitable contributions will remain. In fact, this tax program as a whole, providing as it does substantial reductions in Federal tax liabilities for virtually all families and individuals, will make it easier for people to meet their personal and civic obligations.

This broadening of the tax base which permits a greater reduction in individual income tax rates has an accompanying advantage of real simplification. An additional 6.5 million taxpayers will no longer itemize their deductions but still benefit overall from the reduced rates and other relief measures.

2. Simplification and liberalization of the medical expense deduction

The medical expense deduction allowed to taxpayers who are under 65 years of age is limited to medical expenses in excess of 3 percent of their income. A separate floor of 1 percent of income is applicable to expenditures for drugs. In the interests of simplification, these two floors should be combined. Under this recommendation, only those medical and drug expenses which together exceed 4 percent of income would be deductible. The qualifying expenses would, of course, along with other itemized deductions, be subject to the general 5 percent floor.

To lighten the burdens of our older citizens, all taxpayers who have reached the age of 65 should be relieved from the present 1 percent floor on drug expenses. They are already exempt from the 3 percent floor on medical expenses.

Under present law there is also a maximum limit on medical deductions of $5,000 for a single person and up to $20,000 for a married couple. This maximum limit represents an anomaly in the law in that it prohibits the deduction of the truly catastrophic expenses for medical care and drugs that are sometimes incurred. I recommend, therefore, that the maximum limit be removed.

Other amendments in the definition of certain medical and drug expenses, designed to prevent abuses, will be required in connection with these changes.

The net revenue change as a result of these recommendations for simplification would involve an increase of $30 million—an insignificant part of the $6 billion of medical expense deductions which are taken today.

3. Minor casualty losses

Casualty losses on property are today fully deductible, without any floor comparable to that applicable to medical expenses to separate the extraordinary casualty from the average run of minor accidents. There is no reason why truly minor casualties—the inevitable dented fender, for example—should receive special treatment under the tax law.

I, therefore, recommend that casualty losses enter into the calculation of itemized deductions only to the extent that they exceed 4

percent of the taxpayer's income. The qualifying expenses would, of course, along with other itemized deductions, be subject to the general 5-percent floor. This recommendation will increase annual tax receipts by $90 million.

4. Unlimited charitable deduction

Present law permits a handful of high income taxpayers to take an unlimited deduction for charitable contributions, instead of the 20 to 30 percent of income normally allowable. These taxpayers for a number of years have made charitable contributions in an amount which, when added to their income tax liability, exceeds 90 percent of their taxable income—thus making the contribution fully deductible. Usually these contributions are made in substantially appreciated stock or other property. In this way the appreciation in value, without ever being subject to tax, constitutes a major part of the unlimited deduction. While naturally these generous contributions are beneficial, these taxpayers—given their otherwise high taxable income (up to several million dollars annually in some cases)—should not be escaping all Federal income tax as is the case today. They should be limited to the same 30 percent deduction for charitable contributions as everyone else.

Repeal of the unlimited charitable deduction would mean an annual revenue increase of $10 million.

5. Repeal of the sick pay exclusion

Employees who are absent from work because of illness or injury may exclude from income subject to tax up to $100 a week received under employer-financed wage or salary continuation plans. This "sick pay" exclusion is clearly unjustifiable. The taxpayer escapes tax on the salary he continues to receive, although his substantial medical expenses are deductible; and the employee who stays on the job, even though ill or injured, is in effect penalized for working. The sick pay exclusion—which is of greatest benefit to those with large salary incomes and of far less value to most wage earners—should be repealed. This action would provide $110 million per year in additional revenue.

6. Exclusion of premiums on group term insurance

Neither the current value of group term life insurance protection nor the benefits received thereunder are now subject to tax if purchased for an employee by his employer. This is, in effect, a valuable form of compensation, meeting the widespread desire to provide protection for one's family, which other taxpayers must pay for with after-tax dollars. I recommend that the current annual value to the employee of employer-financed group term life insurance protection be included in income, with an exception for the first $5,000 of coverage to correspond to the present exclusion for uninsured death benefits.

Revenues would be increased by $60 million per year.

7. Repeal of the dividend credit and exclusion

There is now allowed as an exclusion from income the first $50 of dividends received from domestic corporations, and, in addition, a credit against tax equal to 4 percent of such dividend income in excess of $50. I repeat the recommendation made in my 1961 tax message that these provisions be repealed.

Proponents of the dividend credit and exclusion argued, in 1954, when these provisions were enacted, that they would encourage equity investment and provide a partial relief to the so-called double taxation of dividend income. Although these provisions involve an annual revenue loss at current levels of $460 million, they have failed to accomplish their objectives. The proportion of corporate funds secured from new equity financing has not increased; and the "relief" gives the largest benefits to those with the highest incomes.

A far more equitable and effective means of accomplishing the objectives of the dividend credit and exclusion is to be found in my recommendation for reduction in the corporate income tax rate. The five-point reduction in that rate will reduce the tax differential against distributed corporate earnings by approximately 10 percent for all taxpayers. The dividend credit, on the other hand, provides much less relief for taxpayers with taxable incomes of less than $180,000 ($90,000 for single individuals) and greater relief only for the very highest income recipients.

Moreover, since the benefits of the dividend credit and exclusion go largely to those in the middle and upper brackets, their repeal is necessary to justify the rate schedules I am recommending. Should no action be taken on this recommendation, a higher rate schedule designed to yield an additional $460 million from the middle and upper brackets would be appropriate. This would involve a rate structure scaled to a top rate of 70 percent rather than 65 percent, with appropriate changes in other brackets.

8. Natural resources

We must continue to foster the efficient development of our mineral industries which have contributed so heavily to the economic progress of this Nation. At the same time, however, in the interest of both equity and the efficient allocation of capital, no one industry should be permitted to obtain an undue tax advantage over all others. Unintended defects have arisen in the application of the special tax privileges that Congress has granted to mineral industries, and correction of these defects is required if the existing tax provisions are to operate in a consistent and equitable fashion. The changes recommended below will alleviate this situation and yield an additional $300 million per year in revenue.

The following areas in particular suggest the need for revision:

(*a*) *Carryover of excess deductions.*—Under present tax law, mineral industries are permitted to deduct from taxable income a depletion allowance based on a percentage of gross mineral income but subject to a limit of 50 percent of net income from each producing property. The intent of this net income limit is not always realized, however, because substantial amounts of development costs and other expenses incurred while the property is being developed are not brought into the net income limit for the purpose of computing the depletion allowance, but are instead charged off against income from other sources. The result is that in many cases percentage depletion far exceeds 50 percent of net income earned over the life of the property, when net income is properly defined to include development costs.

One method of removing this defect in present law would be to provide that amounts in excess of gross income from the mineral property, which are deducted against other income of the taxpayer, should be used to reduce the net income from the property (for purposes of

computing percentage depletion) in later producing years. These carryover amounts could either be applied fully as the taxpayer obtains income from the property or be spread over several years. The deduction of drilling and development expenditures when made would not be affected; but, regardless of when they were made, they would be taken into account in computing the 50 percent of net income limitation on percentage depletion. This proposal would apply only to expenditures made in taxable years beginning after December 31, 1963.

(*b*) *Grouping of properties.*—This same 50-percent limitation imposed by the Congress has also been minimized by the effect of legislation enacted in 1954, which permitted large oil and gas producers to pick and choose properties to be combined into an "operating unit" for the purpose of computing depletion and reducing taxes. Percentage depletion historically has been computed separately for each mineral property. This grouping procedure has little or no business significance; and it benefits almost entirely companies with a large number of widely scattered mineral properties. The original strength and purpose of the 50-percent limitation should be restored by returning to the rule that different oil and gas leases or acquisitions may not be combined for tax purposes, and that separate interests may be combined only if they are all on a single lease or acquisition. Such a change would bring tax rules regarding the grouping of properties into accord with business procedures.

(*c*) *Capital gains on sale of mineral interests.*—The Congress, in section 13 of the Revenue Act of 1962, recognized that the owners of depreciable business assets were obtaining an unfair advantage by taking depreciation deductions against ordinary income greater than the actual loss in value, and then, upon the sale of an asset, paying only a capital gains tax on the recovery of these deductions. The Congress, therefore, decided that any gains realized on the sale of such property should be taxed as ordinary income to the extent that the cost of the property has been deducted in the past—still permitting the excess of the sales price over the original cost to be treated as a capital gain. This same rule, which under my capital gains proposals discussed below would be extended to real estate and a variety of other situations, should also apply to mineral property subject to depletion, and would increase revenues by $50 million.

(*d*) *Foreign operations.*—Inasmuch as American firms engaged in oil, gas, and mineral operations abroad are permitted the same depletion allowances and expensing of development costs as domestic producers, their U.S. tax on income from those operations is frequently smaller than the foreign tax they are entitled to credit. The law should be amended to prevent an unused or excess foreign tax credit from being used to offset U.S. taxes on other forms or sources of foreign income. In addition, the deduction of foreign development costs should apply only to the income from those operations, and should not be permitted to reduce the U.S. tax on their domestic income.

Action by the Congress in these four areas will adopt the most clearly justified steps needed to place the present system of depletion allowances in a more appropriate framework. In addition, both the administration and the appropriate committees of the Congress should study more closely the impact of the present percentage depletion rates and their applicability regardless of size or income on the devel-

opment of our natural resources and the number of investors and producers attracted to the extractive industries. While these are complex as well as controversial problems, we cannot shrink from a frank appraisal of governmental policies and tax subsidies in this area.

9. Personal holding companies

The present restrictions upon the use of personal holding companies have been inadequate to prevent many high-bracket taxpayers from sheltering large amounts of passive investment income in corporations they own and control. By generating a relatively small amount of operating income, or through the use of rentals and royalties as a shield for dividend income, they have been able to avoid personal income taxes upon portfolio investments. I recommend that these provisions be tightened to end these escape routes which permit such passive investment income to be accumulated in closely held corporations at low rates of tax. Such action will increase annual tax revenue by $10 million.

(C) REVISION OF CAPITAL GAINS TAXATION

The present tax treatment of capital gains and losses is both inequitable and a barrier to economic growth. With the exception of changes that have added various ordinary income items to the definition of statutory capital gains, there have been no significant changes in this area of the income tax since 1942. The tax on capital gains directly affects investment decisions, the mobility and flow of risk capital from static to more dynamic situations, the ease or difficulty experienced by new ventures in obtaining capital, and thereby the strength and potential for growth of the economy. The provisions for taxation of capital gains are in need of essential changes designed to facilitate the attainment of our economic objectives.

I, therefore, recommend the following changes, the nature of which requires their consideration as a unified package, coupling liberalization of treatment with more sensible and equitable limitations:

1. Percentage inclusion

Reduce the percentage of long-term capital gains included in individual income subject to tax from the present 50 percent of the gain to 30 percent. Combined with the proposed individual income tax rate schedule ranging from 14 to 65 percent, this will produce capital gains tax rates that will start at 4.2 percent (instead of the present 10 percent) and progress to a maximum of 19.5 percent (instead of the present 25 percent).

With the enactment of this recommendation, the same ratio will exist for all income groups between the tax rate payable on ordinary income and the tax rate payable on capital gains—which is not the case at the present time.

The present 25-percent alternative tax on the capital gains of corporations should be reduced to 22 percent as a part of the reduction of the corporate normal tax rate to 22 percent. This will greatly simplify tax accounting for the more than half a million small corporations subject only to the normal tax.

2. Holding period

Extend the minimum holding period for qualifying for long-term capital gains treatment from the present 6 months to 1 year.

Preferential capital gains treatment with respect to gains on assets held less than 1 year cannot be justified either in terms of longrun economic objectives or equity. Moreover, the present 6 months' test makes it relatively easy to convert various types of what is actually ordinary income into capital gains. This proposal will provide far greater assurance that capital gains treatment is confined to bona fide investors rather than to short-term speculators. The new lower rates of ordinary income tax, which will apply to gains realized on holdings of less than 6 months as well as 6 months to 1 year, will mitigate the reduced rate of turnover of securities and other assets that might otherwise result.

3. Carryover of capital losses

Permit an indefinite carryover of capital losses incurred by an individual in any one year.

Under present law capital losses may be carried over for only 5 years. They may be charged against ordinary income in an amount of up to $1,000 in each of the 5 years and against capital gains. The 5-year limitation frequently works serious hardship on investors, particularly small investors, who incur substantial capital losses and do not within 5 years have the opportunity to realize gains sufficiently large to absorb them. More adequate capital loss offsets will improve the investment odds, encourage risk taking on the part of investors, and stimulate economic growth.

4. Tax treatment of gains accrued on capital assets at the time of gift or death

Impose a tax at capital gains rates on all net gains accrued on capital assets at the time of transfer at death or by gift.

Adoption of this proposal is an essential element of my program for the taxation of capital gains; certainly in its absence there would be no justification for any reduction of present capital gain rate schedules.

A number of exceptions would limit the applicability of this proposal to fewer than 3 percent of those who die each year. These exceptions would provide special rules for the transfer of household and personal effects, assets transferred to a surviving wife or husband, and a certain minimum amount of property in every case. Appreciation on property subject to the charitable contribution deduction would continue to be exempt both on gift and at death.

For those who would have a substantial amount of appreciation taxed upon transfer at death, a special averaging provision would prevent the application of higher rates than would have applied upon disposition over a period of years. In addition, it should be clearly understood that the tax upon transfer at death would reduce the size of the taxable estate, and thereby reduce the estate tax. The present provisions for extended payment of estate taxes would apply to the new taxes upon appreciated property transferred at death and would be liberalized.

My proposal, if enacted, would apply to gifts made after this date, but would be phased to apply fully to transfers at death only after 3 years. The Secretary of the Treasury will present a technical elaboration of this proposal and its relationship to the existing rules for the taxation of various kinds of assets transferred at death.

5. Definitional changes

The wartime increase in the income tax rate structure led to repeated efforts to obtain extension of capital gains treatment to a variety of sources of ordinary income. In some cases this treatment was related to the very high rates of tax on ordinary income. In such cases capital gains treatment is no longer appropriate. In some other cases the justification given for the special treatment was the desire to give a special subsidy to the industry concerned. In other situations, as mentioned earlier with respect to mineral properties, many taxpayers have been able to profit through claiming deductions against ordinary income for expenses, interest, depreciation, or depletion, which are later recovered on disposition of property at much lower capital gain rates.

The existing sprawling scope of this preferential treatment has led to serious economic distortions and has encouraged tax avoidance maneuvers sometimes characterized as the "capital gains route." This trend should now be reversed, particularly because of the benefits of the lower capital gains rates as well as lower personal tax rates which I am recommending. Wherever the case for a special subsidy is not compelling, the definitions should be changed to limit capital gains to those transactions which clearly merit such treatment. The details regarding specific proposals in this area will be presented by the Secretary of the Treasury. They will include, but not be limited to, the following:

(*a*) Real estate tax shelters, which are giving rise to increasingly uneconomic investment practices and are threatening legitimate real estate developments; and

(*b*) The tax treatment of restricted stock options: The difference between the price paid for optioned stock at the time of exercise of such an option and the option price represents compensation for services quite as much as do wages and salaries. Under present law, however, such gains are taxed under capital gains rules at very favorable rates and the tax liability may be postponed for many years.

Under present war-inspired high tax rates, compensation arrangements of this kind clearly have their attractions. But under the new, more reasonable rates I am recommending, the favored tax treatment of stock options can no longer be said to be either desirable or necessary; and larger salary payments will be more effective than at present as a means of attracting and holding corporate executives.

I, therefore, recommend that, with respect to stock options granted after this date, the spread between the option price and the value of the stock at the date the option is exercised be taxed at ordinary income tax rates at the time the option is exercised. The averaging provision referred to above, which the Secretary of the Treasury will present, will prevent a tax penalty due to bunching of income in 1 year. In addition, payment of tax attributable to exercise of the stock option would be permitted in installments over several years.

This change will remove a gross inequality in the application of the income tax, but it is not expected to yield appreciable amounts of revenue; for the gains to be taxed as compensation to the employee will, as in the case of compensation in other forms, be deductible from the income of the employer.

The overall effect of all these changes in the capital gain provisions affecting individuals and corporations will stimulate a freer flow of investment funds and facilitate economic growth as well as provide

more evenhanded treatment of taxpayers across the board. They have a direct positive revenue impact of about $100 million per year. The reduction in the tax rate on capital gains will be somewhat more than offset by the increased revenue from the change in holding period, the taxation of capital gains at death and the changes in definitions—including those affecting real estate shelters and sales of mineral properties.

However, the "lock-in" effect of the present law, due to the ability to avoid all capital gains taxes on assets held until death, will be eliminated. This will result in a sharp increase in transfers of capital assets as individuals feel free to shift to the most desirable investment. The increased volume of transactions under these new rules should, in an average year, yield approximately $700 million in additional revenue. Indeed, this figure will be substantially higher during the first few years after enactment as those who are presently "locked-in" respond to the new situation.

VII. Summary and Conclusion

The foregoing program of rate reduction and reform provides for a fair and comprehensive net reduction in tax liabilities at all levels of income. As shown in the attached table 3, the overall savings are proportionately highest at the lower end of the income scale, where for taxpayers with adjusted gross incomes of less than $3,000 the reduction is nearly 40 percent. As we move up the income scale, the percentage reduction in tax liabilities declines to slightly less than 10 percent for taxpayers with incomes in excess of $50,000. For all groups of taxpayers combined, the reduction is approximately 18 percent, but five out of six taxpayers—most of whom have income below $10,000—will enjoy a reduction of more than 20 percent.

In addition, the proposed reforms will go a long way toward simplifying the problem of filling out tax returns for the more than 60 million filers each year. Under these proposals more than 6 million people will no longer find necessary the recordkeeping and detailed accounting required by itemized deductions. Hundreds of thousands of older people and individuals and families with very low incomes will no longer be required to file any tax returns at all.

Special tax problems of small business, the aged, working mothers, and low-income groups are effectively met. Special preferences—for capital gains, natural resources, excessive deductions and other areas outside the tax base—are curbed. Both the mobility and the formation of capital are encouraged. The lower corporate tax rates will encourage and stimulate business enterprise. The reduction of the top 91-percent rate will assist investment and risk taking. Above all, by expanding both consumer demand and investment, this program will raise production and income, provide jobs for the unemployed, and take up the slack in our economy.

Members of the Congress: There is general agreement among those in business and labor most concerned that this Nation requires major tax revision, involving both net tax reduction and base-broadening reform. There is also general agreement that this should be enacted as promptly as is consistent with orderly legislative process. Differences which may arise will be largely those of degree and emphasis. I hope that, having examined these differences, the Congress will enact this year a modification of our tax laws along the general lines I have proposed.

To repeat what I said in my message on the state of the Union—"Now is the time to act. We cannot afford to be timid or slow. For this is the most urgent task confronting the Congress in 1963."

JOHN F. KENNEDY.

THE WHITE HOUSE, *January 24, 1963.*

TABLE 1.—*Comparison of tax rates under proposed program and present law for married persons filing jointly*

Taxable income bracket	Under present law	Under proposed program		
		Calendar year 1963	Calendar year 1964	Calendar year 1965
	Percent	*Percent*	*Percent*	*Percent*
0 to $2,000	20.0	18.5	15.5	14.0
$2,000 to $4,000	20.0	19.0	17.0	16.0
$4,000 to $8,000	22.0	21.0	19.0	18.0
$8,000 to $12,000	26.0	25.0	22.0	21.0
$12,000 to $16,000	30.0	28.5	25.5	24.0
$16,000 to $20,000	34.0	32.0	29.0	27.0
$20,000 to $24,000	38.0	36.0	32.0	30.0
$24,000 to $28,000	43.0	41.0	36.0	34.0
$28,000 to $32,000	47.0	44.5	39.5	37.0
$32,000 to $36,000	50.0	47.5	42.5	40.0
$36,000 to $40,000	53.0	50.0	45.0	42.0
$40,000 to $44,000	56.0	53.0	48.0	45.0
$44,000 to $52,000	59.0	56.0	50.0	47.0
$52,000 to $64,000	62.0	59.0	53.0	50.0
$64,000 to $76,000	65.0	62.0	55.0	52.0
$76,000 to $88,000	69.0	65.5	58.5	55.0
$88,000 to $100,000	72.0	68.0	61.0	57.0
$100,000 to $120,000	75.0	71.0	62.0	58.0
$120,000 to $140,000	78.0	73.0	64.0	59.0
$140,000 to $160,000	81.0	76.0	65.0	60.0
$160,000 to $180,000	84.0	78.0	67.0	61.0
$180,000 to $200,000	87.0	81.0	68.0	62.0
$200,000 to $300,000	89.0	82.5	69.5	63.0
$300,000 to $400,000	90.0	83.5	70.5	64.0
$400,000 and over	91.0	84.5	71.5	65.0

Source: Office of the Secretary of the Treasury, Office of Tax Analysis, Jan. 22, 1963.

TABLE 2.—*Comparison of tax rates under proposed program and present law for single persons*

Taxable income bracket	Under present law	Under proposed program		
		Calendar year 1963	Calendar year 1964	Calendar year 1965
	Percent	*Percent*	*Percent*	*Percent*
$0 to $1,000	20.0	18.5	15.5	14.0
$1,000 to $2,000	20.0	19.0	17.0	16.0
$2,000 to $4,000	22.0	21.0	19.0	18.0
$4,000 to $6,000	26.0	25.0	22.0	21.0
$6,000 to $8,000	30.0	28.5	25.5	24.0
$8,000 to $10,000	34.0	32.0	29.0	27.0
$10,000 to $12,000	38.0	36.0	32.0	30.0
$12,000 to $14,000	43.0	41.0	36.0	34.0
$14,000 to $16,000	47.0	44.5	39.5	37.0
$16,000 to $18,000	50.0	47.5	42.5	40.0
$18,000 to $20,000	53.0	50.0	45.0	42.0
$20,000 to $22,000	56.0	53.0	48.0	45.0
$22,000 to $26,000	59.0	56.0	50.0	47.0
$26,000 to $32,000	62.0	59.0	53.0	50.0
$32,000 to $38,000	65.0	62.0	55.0	52.0
$38,000 to $44,000	69.0	65.5	58.5	55.0
$44,000 to $50,000	72.0	68.0	61.0	57.0
$50,000 to $60,000	75.0	71.0	62.0	58.0
$60,000 to $70,000	78.0	73.0	64.0	59.0
$70,000 to $80,000	81.0	76.0	65.0	60.0
$80,000 to $90,000	84.0	78.0	67.0	61.0
$90,000 to $100,000	87.0	81.0	68.0	62.0
$100,000 to $150,000	89.0	82.5	69.5	63.0
$150,000 to $200,000	90.0	83.5	70.5	64.0
$200,000 and over	91.0	84.5	71.5	65.0

Source: Office of the Secretary of the Treasury, Office of Tax Analysis, Jan. 22, 1963.

TABLE 3.—*Tax Program for Individuals—Distribution by adjusted gross income class of the full year effect of all tax changes directly affecting individuals* [1]

Adjusted gross income class	Number of taxable returns (millions)	Tax liability under present law [2]	Proposed rate change	Estimated revisions	Estimated total
	Amounts in millions of dollars				
0 to $3,000	9.7	1,450	−410	−150	−560
$3,000 to $5,000	10.5	4,030	−1,090	−40	−1,130
$5,000 to $10,000	22.9	18,300	−4,520	+730	−3,790
$10,000 to $20,000	6.7	12,710	−2,690	+770	−1,920
$20,000 to $50,000	1.0	6,760	−1,410	+590	−820
$50,000 and over	.2	4,170	−920	+540	−380
Total	51.0	47,420	−11,040	+2,440	−8,600
	Percent distribution by income class				
0 to $3,000	19.0	3.1	3.7	−6.1	7
$3,000 to $5,000	20.6	8.5	9.9	−1.6	13
$5,000 to $10,000	44.9	38.6	40.9	29.9	44
$10,000 to $20,000	13.1	26.8	24.4	31.6	22
$20,000 to $50,000	2.0	14.3	12.8	24.2	10
$50,000 and over	.4	8.8	8.3	22.1	4
Total	100.0	100.0	100.0	100.0	100
	Percent of tax liability under present law				
0 to $3,000		100.0	−28.3	−10.3	−39
$3,000 to $5,000		100.0	−27.0	−1.0	−28
$5,000 to $10,000		100.0	−24.7	+4.0	−21
$10,000 to $20,000		100.0	−21.2	+6.1	−15
$20,000 to $50,000		100.0	−20.9	+8.7	−12
$50,000 and over		100.0	−22.1	+12.9	−9
Total		100.0	−23.3	+5.1	−18

[1] Excludes capital gains revisions. The net direct change is of minor revenue significance. The greater volume of transactions that can be expected will produce a revenue gain of $725,000,000.
[2] Excluding tax on capital gains at 25 percent alternative rate.

NOTE.—Figures are rounded and will not necessarily add to totals.

Source: Office of the Secretary of the Treasury, Office of Tax Analysis, Jan. 22, 1963.

SECTION 4

SUMMARY OF THE PRESIDENT'S 1963 TAX MESSAGE

SUMMARY OF
THE PRESIDENT'S 1963 TAX MESSAGE

AS PRESENTED TO THE

COMMITTEE ON WAYS AND MEANS
U.S. HOUSE OF REPRESENTATIVES

PREPARED BY THE

STAFF OF THE JOINT COMMITTEE ON
INTERNAL REVENUE TAXATION

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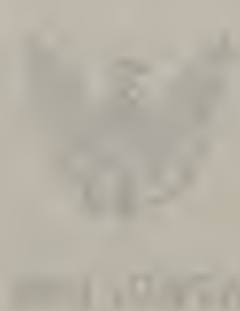

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SUMMARY OF TAX MESSAGE

A. THUMBNAIL SKETCH OF ADMINISTRATION PROPOSALS

(Page references are to Secretary Dillon's general statement, technical explanation, and special exhibits in this order, as they appear in pt. I of Ways and Means Committee "Hearings on the President's 1963 Tax Message")

I. Individual Ordinary Income Taxes

A. TAX RATES AND RELATED MATTERS

1. Tax rate reductions (pp. 40, 75, 506)

Over 3-year period reduces bottom rate from 20 percent to 14 percent (also splits this bracket) and top rate from 91 percent to 65 percent. Makes corresponding changes in other tax brackets.

2. Five-percent floor on itemized deductions (pp. 47, 104, 226)

Limits total itemized deductions to amounts in excess of 5 percent of taxpayer's adjusted gross income.

3. Minimum standard deduction (pp. 42, 84, 193)

Provides minimum standard deduction of $300 for taxpayer plus $100 for each dependent, including a spouse (maximum of $1,000).

B. TAX TREATMENT OF OLDER PERSONS (PP. 44, 87, 209)

Substitutes $300 tax credit for those over age 65 for present $600 additional exemption from income and present retirement income credit.

C. DIVIDEND CREDIT AND EXCLUSION (PP. 51, 113, 246)

Repeals 4-percent dividend credit and $50 dividend exclusion.

D. ITEMIZED DEDUCTIONS

1. Borrowing to buy life insurance and split-dollar insurance (pp. 51, 110, 112)

Denies a deduction for interest payments where there is a systematic plan to borrow to pay any substantial number of the premiums on a life insurance policy and treats as income of the employee the interest on any funds put up by the employer (cash surrender value of a policy) to buy life insurance for the employee.

1

2. Four-percent floor for casualty losses (pp. 49, 105)

Limits deductible casulty losses to those in excess of 4 percent of taxpayer's adjusted gross income.

3. Charitable contributions limitation (pp. 46, 99)

Increases maximum charitable contributions deduction from 20 percent to 30 percent for all contributions except those to private foundations.

4. Unlimited charitable contribution (pp. 49, 106, 242)

Removes from existing law the provision that permits the deduction of charitable contributions without limitation in those cases where contributions plus taxes equalled 90 percent or more of income in last 8 out of 10 years.

5. Medical expense deduction (pp. 46, 100)

Substitutes a 4-percent floor on medical expenses generally for the separate 3-percent floor on such expenses and the 1-percent floor on drugs, removes the ceilings on medical expenses, and revises the definitions of certain deductible medical expenses.

6. Child-care deduction (pp. 43, 86, 202)

Liberalizes child-care deduction by raising the maximum deduction from $600 to $1,000, by raising from $4,500 to $7,000 the maximum earnings a working wife and her husband may have and still claim the full child-care deduction, by increasing from 11 to 12 the maximum age of children which may qualify a taxpayer for this deduction, and by making certain other modifications in the provisions.

7. Moving expenses (pp. 45, 96)

Permits the deduction of moving expenses of new as well as old employees, of nonreimbursed expenses as well as those reimbursed and defines moving expenses.

8. Travel expenses (p. 98)

Provides specific rules for deduction of transportation expenses when outside "duty area" on business, and for deduction of meals and lodging while away from duty area more than 16 hours and makes certain other modifications.

E. EXCLUSIONS

1. Group term insurance (pp. 50, 108)

Limits employee's exclusion for premiums on group term insurance furnished by employer to premiums paid for first $5,000 of coverage.

2. Sick-pay exclusion (pp. 50, 107)

Eliminates wage continuation exclusion of up to $100 a week for those who have been hospitalized or are sick more than 1 week.

F. AVERAGING (PP. 45, 89)

Provides equivalent of averaging of income over a 5-year period where income in current year exceeds average of 4 prior years by more than one-third and this excess equals at least $3,000.

II. Corporation Ordinary Income Taxes

A. TAX RATES AND RELATED MATTERS

1. Overall rate reduction (pp. 35, 75, 501)

Reduces general corporate rate from 52 percent to 50 percent in 1964 and to 47 percent in 1965.

2. Reversal of normal tax and surtax rates (pp. 35, 75, 501)

In 1963 reduces rate on first $25,000 of corporate income from 30 percent to 22 percent.

3. Current payment of corporate taxes (pp. 39, 82, 184)

Gradually, over a 5-year period starting in 1964, advances the timing of corporate income tax payments over $100,000 so that all four quarterly payments are made during year of liability rather than two such payments being made during that year and two being made following the year of liability as at present.

4. Limiting surtax exemptions of related corporations (pp. 36, 76, 158)

For corporations where there is common control to the extent of 80 percent or more, the corporations involved are generally to be limited to one $25,000 surtax exemption for the group.

5. Consolidated returns (pp. 36, 81)

Eliminates 2 percent tax on consolidated returns and provides a 100 percent, rather than 85 percent, deduction for dividends received from corporations with which the taxpayer could file a consolidated return.

B. RESEARCH AND DEVELOPMENT DEDUCTION (PP. 37, 102)

Provides that, subject to limitations, expenditures made for machinery and equipment used solely in research and development may be deducted as incurred instead of being capitalized and deducted gradually by depreciation.

C. TAXATION OF NATURAL RESOURCES

1. Carryover of deductions for intangible drilling and development costs (pp. 37, 114, 278, 290)

Percentage depletion is limited to 50 percent of the net income from the property. Solely for the purpose of applying this limitation, deductions not offset against income from the property in the year incurred are to be carried forward and reduce the net income in subsequent years, but only to the extent that depletion in those years is not reduced below one-half of what it otherwise would be.

2. Aggregation of oil and gas properties (pp. 38, 116, 278, 290)

Restricts the aggregation of oil and gas properties to those under a single lease (or unitization agreement) instead of permitting the aggregation of some or all of properties in an "operating unit."

3. Limitation on capital gains on sale of mineral interests (see No. III–E–1, p. 5)

4. Foreign operations (pp. 38, 118, 278, 290)

Prohibits the deduction against domestic income of intangible drilling, development and exploration expenditures incurred in foreign operations. Prohibits the averaging of relatively highly taxed foreign natural resource income and foreign taxes with other foreign income and foreign taxes in determining the allowable foreign tax credit.

D. PERSONAL HOLDING COMPANY TAX (PP. 52, 121, 351)

Decreases from 80 percent to 60 percent the portion of a company's gross income which will result in its being classified as a personal holding company, provides for the deduction of certain expenses from rental income, income from oil and gas interests and mineral royalty income in determining how such income is to be taken into account in applying personal holding company income tests, excludes capital gains (other than those on stock, securities, or commodities) in applying the personal holding company income tests and provides that liquidating distributions are not to avoid personal holding company tax unless taxed as dividends to the recipients.

III. Taxation of Capital Gains

A. GENERAL PROVISIONS

1. Individuals (pp. 52, 126, 365)

Decreases from 50 percent to 30 percent the portion of long-term capital gains included in taxable income, extends from 6 months to 1 year the holding period for assets resulting in long-term capital gains, and provides for an indefinite (instead of a 5-year) capital loss carryover.

2. Corporations (pp. 53, 127, 365)

Reduces the tax on long-term capital gains from 25 percent to 22 percent and extends from 6 months to 1 year the holding period for assets resulting in long-term capital gains.

B. GAINS ACCRUED ON CAPITAL ASSETS AT TIME OF GIFT OR DEATH (PP. 54, 128)

Provides for capital gains tax on appreciation in value of assets transferred by gift or at death. Exclusions are provided for ordinary personal and household effects, for the first $15,000 of gain, for up to half of the gain to the extent that up to half of the value of the property is transferred to the spouse, and at least to the extent of any gain on the personal residence of the decedent.

C. STOCK OPTIONS (PP. 56, 147, 459)

Repeals the restricted stock option provision effective for options granted after January 24, 1963. As a result, the spread between the option price and fair market value would be taxed to the employee at the time he exercises the option, but the payment of the tax attributable to this spread could be paid in installments over a 5-year period.

D. SALE OR EXCHANGE OF REAL ESTATE (PP. 57, 140, 420)

Limits depreciation on buildings to straightline method. Provides that gain on the sale of real estate (other than land) is to be ordinary, instead of capital gain, to the extent of depreciation deductions in 1963 and subsequent years, if property is sold within 6 years of purchase. If the property is sold in the period from 6 years to 14⅓ years of purchase, a decreasing proportion of the gain (attributed to the depreciation deductions) is treated as ordinary income. If the property is held longer than 14⅓ years no portion of any gain is treated as ordinary income.

E. OTHER RECAPTURE AND DEFINITIONAL PROBLEMS

1. Sale of mineral properties (pp. 57, 142)

Treats as ordinary income the gain on the sale of mineral properties to the extent of the deduction, after 1963, for percentage (or cost) depletion representing capital costs and for intangible drilling, development and exploration expenditures written off.

2. Lump-sum pension, profit-sharing, and stock-bonus payments (pp. 58, 148, 499)

Provides that any gain on lump-sum pension, profit-sharing, and stock-bonus payments is to give rise to ordinary income instead of capital gain, to the extent attributable to amounts added (by employer) to the employee's accounts in the future or attributable to the employee's future earnings and service. A special 5-year averaging device is made available for the amounts to be treated as ordinary income, which omits from the base on which the tax is computed any wage or salary income received currently.

3. Timber (pp. 57, 151, 388)

Provides that the sale, or cutting, of timber is to result in ordinary income, rather than capital gain, except that in the case of individuals the first $5,000 of income from timber in any year will remain capital gains. Also provides for the expensing of reforestation costs.

4. Coal leases (p. 151)

Coal royalty payments are to be taxed as ordinary income, rather than as capital gains, for leases entered into in the future.

5. Capital gains from farming (pp. 58, 144, 451)

Net losses on farming operations, for those who also have at least $15,000 of nonfarm income, are to be used, to the extent of these losses, to characterize as ordinary income any gains from farming operations in subsequent years which under present law would be capital gains.

6. Patents (pp. 59, 150)

Income of inventors from the sale of patents is to be treated as ordinary income rather than capital gains.

7. Disposition of assets for deferred payments (pp. 59, 152)

Where assets are sold on an installment basis and either no, or inadequate, interest is provided, a portion of the gain (generally equal to 5 percent on the unpaid balance) is to be treated as interest income to the seller (and deductible to the buyer) rather than as a capital gain. In addition, where assets are sold with the price dependent on future income and with the installments spread over more than 5 years, the gain after 5 years is to be treated as ordinary income.

8. Life estates (pp. 59, 156)

Where a person holding a life estate acquired by gift, bequest, or inheritance sells this estate, the amount received is to be treated as anticipated income and is to be taxed as ordinary income without decrease for any basis he may have in the property.

B. TREASURY ESTIMATE OF THE REVENUE EFFECT OF ADMINISTRATION PROPOSALS

TABLE 1.—*Estimated revenue effect before feedback* [1]

[In millions of dollars]

	Calendar year liabilities		
	1963	1964	1965
I. Individuals:			
A. Rate reduction	−2,760	−8,280	−11,040
B. Structural reforms:			
(a) Relief of hardship and encouragement of growth:			
1. Allow minimum standard deduction		−310	−310
2. Liberalize child care deduction		−20	−20
3. Revise tax treatment of older people		−320	−320
4. Liberalize exclusion of moving expenses		−50	−50
5. Income averaging		−40	−40
6. Raise limitation on certain charitable contributions		(2)	(2)
7. Revise medical expense deduction		(2)	(2)
Total, relief of hardship and encouragement of growth		−740	−740
(b) Base broadening and equity:			
8. 5 percent floor under itemized deductions		+2,280	+2,280
9. 4 percent floor under casualty losses		+90	+90
10. Repeal allowance of unlimited charitable contributions		+10	+10
11. Repeal sick pay exclusion		+160	+160
12. Repeal exclusion of premiums on group term insurance		+60	+60
13. Repeal of the dividend credit and exclusion		+460	+460
Total, base broadening and equity		+3,060	+3,060
Total, structural reforms		+2,320	+2,320
Total, individuals	−2,760	−5,960	−8,720
II. Corporations:			
A. Rate revision:			
1. Rate reduction and change in normal and surtax rates	−450	−1,320	−2,630
2. Limit surtax exemptions of affiliated groups [3]	+120	+120	+120
3. Repeal 2 percent tax on consolidated returns [3]		−50	−50
Total, rate revision	−330	−1,250	−2,560
B. Structural reforms:			
(a) Relief of hardship and encouragement of growth:			
1. Allow expensing of certain research and development costs		−50	−50
(b) Base broadening and equity:			
2. Revise taxation of natural resources [4]		[5]+135	[5]+135
3. Amend tax treatment of personal holding companies		+10	+10
Total, base broadening and equity		[5]+145	[5]+145
Total, structural reforms		[5]+95	[5]+95
Total, corporations before acceleration of payments	−330	[5]−1,155	[5]−2,465
C. Acceleration of payments		+1,300	+1,500
Total, corporations including acceleration of payments	−330	[5]+145	[5]−965

See footnotes at end of table, p. 8.

TABLE 1.—*Estimated revenue effect before feedback*[1]—Continued

[In millions of dollars]

	Calendar year liabilities		
	1963	1964	1965
III. Revision of taxation of capital gains and losses (individuals and corporations):			
1. Reduce inclusion percentage and extend holding period		−430	−430
2. Allow indefinite carryover of losses		−20	−20
3. Tax net gains accrued at time of death or gift		+300	+300
4. Change definition of capital gains		+250	+250
Total (before induced effect of capital gains revision)		+100	+100
Induced effect of capital gains revision		+650	+650
Total, capital gains and losses		+750	+750
IV. Total, before acceleration of corporation payments:			
A. Rate reduction and revision	−3,090	−9,530	−13,600
B. Structural reforms including capital gains and losses		[5]+3,165	[5]+3,165
Total	−3,090	[5]−6,365	[5]−10,435
V. Total, including acceleration of corporation payments	−3,090	[5]−5,065	[5]−8,935

[1] At levels of income estimated for the calendar year 1963.
[2] Negligible.
[3] These 2 proposals must be considered jointly.
[4] Full year effect; this will be reached gradually as the carryover increases.
[5] Revised on the basis of information submitted in letter of March 20 from Secretary Dillon to Chairman Mills.

Source: Office of the Secretary of the Treasury, Office of Tax Analysis, Feb. 6, 1963.

NOTE.—It is estimated that the President's program, after its expected effect on the economy, will result in a revenue loss of $2.7 billion in the fiscal year 1964.

TABLE 2.—*Tax program for individuals: Distribution by adjusted gross income classes of proposed tax changes*[1] *excluding capital gains*

[Dollars in millions]

Adjusted gross income class	Tax liability under present law [2]	Change in tax liability resulting from—														Total change in tax liability
		Proposed rate change for 1965	Minimum standard deduction	Liberalized child-care deduction	Revise aged treatment	Income averaging	Moving expenses	5-percent floor on all itemized deductions	Revise medical deduction	4-percent floor on casualty losses	Charitable contributions	Eliminate sick-pay exclusion	Eliminate exclusion group term insurance	Eliminate dividend credit and exclusion	Natural resources	
Amounts																
0 to $3,000	1,450	−410	−180	(3)	−30	----------	(3)	20	(3)	(3)	(3)	10	(3)	10	(3)	−580
$3,000 to $5,000	4,030	−1,090	−100	−10	−130	----------	−20	110	(3)	10	(3)	30	(3)	20	(3)	−1,180
$5,000 to $10,000	18,300	−4,520	−30	−10	−150	(3)	−20	710	10	40	(3)	80	20	70	(3)	−3,800
$10,000 to $20,000	12,710	−2,690	----------	(3)	−30	−10	−10	620	(3)	20	(3)	30	20	110	(3)	−1,940
$20,000 to $50,000	6,760	−1,410	----------	(3)	10	−20	(3)	450	(3)	10	(3)	10	10	120	(3)	−820
$50,000 and over	4,170	−920	----------	(3)	10	−10	(3)	370	−10	10	10	(3)	10	130	10	−390
Total	47,420	−11,040	−310	−20	−320	−40	−50	2,280	(3)	90	10	160	60	460	10	−8,710
Percent																
0 to $3,000	100.0	−28.3	−12.4	(3)	−2.1	----------	(3)	1.4	(3)	(3)	(3)	0.7	(3)	0.7	(3)	−40
$3,000 to $5,000	100.0	−27.0	−2.5	−0.2	−3.2	----------	−0.5	2.7	(3)	0.2	(3)	.7	(3)	.5	(3)	−29
$5,000 to $10,000	100.0	−24.7	−.2	−.1	−.8	(3)	−.1	3.9	0.1	.2	(3)	.4	0.1	.4	(3)	−21
$10,000 to $20,000	100.0	−21.2	----------	(3)	−.2	−0.1	−.1	4.9	(3)	.2	(3)	.2	.2	.9	(3)	−15
$20,000 to $50,000	100.0	−20.9	----------	(3)	.1	−.3	(3)	6.7	(3)	.1	(3)	.1	.1	1.8	(3)	−12
$50,000 and over	100.0	−22.1	----------	(3)	.2	−.2	(3)	8.9	−.2	.2	.2	(3)	.2	3.1	0.2	−9
Total	100.0	−23.3	−.7	(3)	−.7	−.1	−.1	4.8	(3)	.2	(3)	.3	.1	1.0	(3)	−18

[1] Excludes the effects of increased dividend distributions due to the corporate tax rate reduction.
[2] Excludes $1,200,000,000 of tax on capital gains at the 25-percent alternative rate.
[3] Less than $5,000,000 or 0.05 percent.

Source: Office of the Secretary of the Treasury, Office of Tax Analysis, Feb. 6, 1963.

NOTE.—All of above changes assume enactment of proposed rate changes.

C. EXPLANATION OF ADMINISTRATION PROPOSALS

I. Individual Ordinary Income Taxes

A. TAX RATES AND RELATED MATTERS

1. Tax rate reductions

Rates in general.—The President's proposal provides a three-step rate reduction in individual income tax rates. About one-quarter of the reduction is effective for the calendar year 1963, another half for for the calendar year 1964, and the final one-quarter for the calendar year 1965.

In terms of changes in withholding tax rates, however, the program calls for a two-step rate reduction. Under the President's proposal the present 18-percent withholding rate is reduced to 15.5 percent for payments made on or after July 1, 1963. This rate is further reduced to 13.5 percent as of July 1, 1964. Since the first reduction in withholding rates is effective for only half of the calendar year 1963, the reductions in bracket rates for the calendar year 1963 are reduced by only about one-half of the amounts reflected by the withholding tax rate change. Similarly, since the withholding tax rate change in 1964 applies for only half of that calendar year, the bracket rates applicable for that year reflect only approximately half of this withholding tax rate change.

Table 1 shows by taxable income brackets the tax rates proposed for each of the calendar years 1963, 1964, and 1965. This table also shows the tax rates in each of these brackets under existing law and the percentage reduction provided in each bracket by the final 1965 rates proposed by the President.

TABLE 1.—*Comparison of tax rates under President's tax program and under present law*

Taxable income bracket for—		Present law	Calendar year			Percentage decrease (decrease in 1965 rates as percent of present rates)
Married persons filing jointly	Single persons		1963	1964	1965	
		Percent	*Percent*	*Percent*	*Percent*	*Percent*
0 to $2,000	0 to $1,000	20	18.5	15.5	14	30.0
$2,000 to $4,000	$1,000 to $2,000	20	19.0	17.0	16	20.0
$4,000 to $8,000	$2,000 to $4,000	22	21.0	19.0	18	18.2
$8,000 to $12,000	$4,000 to $6,000	26	25.0	22.0	21	19.2
$12,000 to $16,000	$6,000 to $8,000	30	28.5	25.5	24	20.0
$16,000 to $20,000	$8,000 to $10,000	34	32.0	29.0	27	20.6
$20,000 to $24,000	$10,000 to $12,000	38	36.0	32.0	30	21.1
$24,000 to $28,000	$12,000 to $14,000	43	41.0	36.0	34	20.9
$28,000 to $32,000	$14,000 to $16,000	47	44.5	39.5	37	21.3
$32,000 to $36,000	$16,000 to $18,000	50	47.5	42.5	40	20.0
$36,000 to $40,000	$18,000 to $20,000	53	50.0	45.0	42	20.8
$40,000 to $44,000	$20,000 to $22,000	56	53.0	48.0	45	19.6
$44,000 to $52,000	$22,000 to $26,000	59	56.0	50.0	47	20.3
$52,000 to $64,000	$26,000 to $32,000	62	59.0	53.0	50	19.4
$64,000 to $76,000	$32,000 to $38,000	65	62.0	55.0	52	20.0
$76,000 to $88,000	$38,000 to $44,000	69	65.5	58.5	55	20.3
$88,000 to $100,000	$44,000 to $50,000	72	68.0	61.0	57	20.8
$100,000 to $120,000	$50,000 to $60,000	75	71.0	62.0	58	22.7
$120,000 to $140,000	$60,000 to $70,000	78	73.0	64.0	59	24.4
$140,000 to $160,000	$70,000 to $80,000	81	76.0	65.0	60	25.9
$160,000 to $180,000	$80,000 to $90,000	84	78.0	67.0	61	27.4
$180,000 to $200,000	$90,000 to $100,000	87	81.0	68.0	62	28.7
$200,000 to $300,000	$100,000 to $150,000	89	82.5	69.5	63	29.2
$300,000 to $400,000	$150,000 to $200,000	90	83.5	70.5	64	28.9
$400,000 and over	$200,000 and over	91	84.5	71.5	65	28.6

Except for the first taxable income bracket the tax brackets under the President's proposal are the same as under existing law. His proposal, however, splits the first bracket into two equal parts, ultimately taxing the first $2,000 in the case of a married couple, or $1,000 in the case of a single person, at 14 percent and the next $2,000 in the case of a married couple, or $1,000 in the case of a single person, at 16 percent. Under present law this entire $4,000 or $2,000 is taxed at 20 percent.

Under present law the tax rates range from 20 percent up to 91 percent for single persons with income of $200,000 or more, or for married couples with incomes of $400,000 or more. Under the President's proposal the ultimate tax rates will range from 14 percent up to 65 percent on incomes of $200,000 or more in the case of single persons or $400,000 or more in the case of married couples. In 1963 and 1964, the two transition years, the rates would range from 18.5 to 84.5 percent and from 15.5 to 71.5 percent, respectively.

Distribution of reductions.—As shown in the last column of table 1, the tax reduction is 30 percent on the first $2,000 (or $1,000). In the next bracket the reduction is 20 percent, which rate of reduction is approximately maintained until an income level of $100,000 is reached in the case of married couples, or $50,000 in the case of single persons. Above that point the rate reductions in each bracket gradually increase until they reach a maximum of 28.5 to 29 percent at the top income brackets.

The withholding tax rates proposed by the President represent an attempt to collect approximately the full amount of tax on incomes at the top of the second rate bracket. This can be illustrated as follows: the bottom rate bracket of 14 percent reduced by 10 percent (or the standard deduction) would suggest a withholding tax rate of 12.6 percent and the second bracket rate of 16 percent reduced by 10 percent would suggest for income in that bracket a withholding tax rate of 14.4 percent. The 13.5 percent proposed by the President represents the average of these two figures.

The tax reduction by income classes proposed by the President when his program is fully effective is shown in table 2. This table shows both the tax liability in each income class under existing law and the reduction which would be brought about by the President's proposed rate changes. The last column of the table indicates the percentage the tax reduction in each case is of the present tax liability. It will be noted that for adjusted gross incomes of $0 to $3,000 there is a 28.3-percent reduction. This decreases to 20.9 percent for those with adjusted gross incomes of between $20,000 and $50,000. Above $50,000 the reduction again increases slightly to 22.1 percent. The data shown in this table reflect only the proposed rate changes. They do not take into account the effect of the 5-percent floor or the other structural changes proposed.

Table 2, as indicated above, reflects the changes in individual income tax rates in calendar year 1965. Table 3 shows similar data for the proposed rate change for calendar years 1963 and 1964.

TABLE 2.—*Distribution by adjusted gross income classes of proposed 1965 individual income tax rate changes excluding capital gains* [1]

[Dollars in millions]

Adjusted gross income class	Tax liability under present law [2]	Reduction in tax liability under proposed rate change	Percent proposed reduction is of present liability
0 to $3,000	$1,450	−$410	−28.3
$3,000 to $5,000	4,030	−1,090	−27.0
$5,000 to $10,000	18,300	−4,520	−24.7
$10,000 to $20,000	12,710	−2,690	−21.2
$20,000 to $50,000	6,760	−1,410	−20.9
$50,000 and over	4,170	−920	−22.1
Total	47,420	−11,040	−23.3

[1] Excludes the effects of increased dividend distributions due to the corporate tax rate reduction.
[2] Excludes $1.2 billion of tax on capital gains at the 25 percent alternative rate.

Source: Office of the Secretary of the Treasury, Office of Tax Analysis.

TABLE 3.—*Distribution by adjusted gross income classes of proposed 1963 and 1964 individual income tax rate changes excluding capital gains* [1]

[Dollars in millions]

Adjusted gross income class	Tax liability under present law [2]	Reduction in tax liability under 1963 proposed rate change		Reduction in tax liability under 1964 proposed rate change	
		Amount	Percent of present liability	Amount	Percent of present liability
0 to $3,000	$1,450	−$100	6.9	−$310	21.4
$3,000 to $5,000	4,030	−270	6.7	−820	20.3
$5,000 to $10,000	18,300	−1,130	6.2	−3,390	18.5
$10,000 to $20,000	12,710	−680	5.4	−2,010	15.8
$20,000 to $50,000	6,760	−350	5.2	−1,060	15.7
$50,000 and over	4,170	−230	5.5	−690	16.5
Total	47,420	−2,760	5.8	−8,280	17.5

[1] Excludes the effect of increased dividend distributions.
[2] Excludes $1.2 billion of tax on capital gains at the 25-percent alternative rate.

Source: Office of the Secretary of the Treasury, Office of Tax Analysis.

2. Five-percent floor on itemized deductions

Present law.—Under present law taxpayers may elect to deduct from their adjusted gross income either a standard deduction or certain itemized deductions. The standard deduction is 10 percent of their adjusted gross income or $1,000, whichever is the smaller. The itemized deductions which taxpayers in most cases take where they exceed the standard deduction include the deductions for nonbusiness interest, charitable contributions, State and local taxes, casualty losses, medical expenses above the 3-percent floor (and above the 1-percent additional floor in the case of drugs), the child-care deduction and certain other miscellaneous expenses, including certain business expenses of employees.

Proposal.—The President has proposed that taxpayers who take itemized deductions (but not those who take the standard deduction) reduce the total of these deductions by 5 percent of their adjusted gross income. This applies to the aggregate of all the itemized deductions, including those subject to a separate floor after such floor has been

applied and those subject to a ceiling after the ceiling limitation has applied.

The effect of the proposal in combination with the new tax rates for 1965 was illustrated by the Secretary of the Treasury in the following example:

	Present law	Proposed law
Adjusted gross income	$10,000	$10,000
Less:		
Personal exemptions (2)	1,200	1,200
Itemized deductions	2,000	2,000
5 percent of adjusted gross income		500
Allowable itemized deductions		1,500
Total	3,200	2,700
Taxable income	6,800	7,300
Tax, joint return	1,416	1,194
Tax, separate return	1,600	1,392

Alimony payments, which presently are deductible only *after* arriving at adjusted gross income, under the proposal would not be subject to this 5-percent floor because they would be shifted to the category of deductions which may be taken in arriving at adjusted gross income. In the case of married persons filing separate returns, there would be a 10-percent cutback in itemized deductions in lieu of the 5 percent referred to above unless the taxpayer and his spouse each agree to take one-half of their combined itemized deduction.

Date.—This provision would be effective for taxable years beginning after December 31, 1963.

Revenue.—As shown in table 4, this provision when fully effective is expected to increase revenues by about $2.3 billion, assuming the rate structure for individuals proposed by the President is adopted. This table also shows the distribution of the revenue raised by the 5-percent floor, both in terms of amount and precentages.

TABLE 4.—*Distribution by adjusted gross income classes of effect of 5-percent floor on itemized deductions and proposed individual income tax rate changes* [1]

[Dollars in millions]

Adjusted gross income	Tax liability under present law [2]	Change in tax liability from—					
		5-percent floor on itemized deductions		Proposed rate change		Combined effect of 5-percent floor and rate change	
		Amount	Percent	Amount	Percent	Amount	Percent
0 to $3,000	$1,450	$20	1.4	−$410	−28.3	−$390	−26.9
$3,000 to $5,000	4,030	110	2.7	−1,090	−27.0	−980	−24.3
$5,000 to $10,000	18,300	710	3.9	−4,520	−24.7	−3,810	−20.8
$10,000 to $20,000	12,710	620	4.9	−2,690	−21.2	−2,070	−16.3
$20,000 to $50,000	6,760	450	6.7	−1,410	−20.9	−960	−14.2
$50,000 and over	4,170	370	8.9	−920	−22.1	−550	−13.2
Total	47,420	2,280	4.8	−11,040	−23.3	−8,760	−18.5

[1] Excludes the effects of increased dividend distributions due to the corporate tax rate reduction.
[2] Excludes $1,200,000,000 of tax on capital gains at the 25-percent alternative rate.

Source: Office of the Secretary of the Treasury, Office of Tax Analysis.

Table 5 shows the rate structure which the Secretary of the Treasury indicated is necessary to offset the revenue loss if the 5-percent floor were *not* adopted. It is understood that this rate schedule is designed to recoup from each tax bracket the amount of revenue loss which will occur if the 5-percent floor is not adopted. The rate shown is that comparable to the proposal for 1965 when the rate changes proposed by the administration are to be fully effective. The rates range from 14.3 percent to 75 percent instead of from 14 percent to 65 percent as under the President's proposed rate schedule. The rate schedule shown is that for single persons. The schedule for married persons filing joint returns would be the same except that each taxable income bracket would be twice the width which is shown. Thus, the first bracket would be from 0 to $2,000 and the top bracket would apply for taxable incomes of $400,000 and over.

TABLE 5.—*Comparison of tax rates under present law, proposed program, and rates necessary to offset loss of 5-percent floor on all itemized deductions*

[In percent]

Taxable income bracket	Under present law	Under proposed program	Rates necessary to offset loss of 5-percent floor
0 to $1,000	20	14	14.3
$1,000 to $2,000	20	16	17.3
$2,000 to $4,000	22	18	19.0
$4,000 to $6,000	26	21	22.5
$6,000 to $8,000	30	24	26.5
$8,000 to $10,000	34	27	30.0
$10,000 to $12,000	38	30	33.0
$12,000 to $14,000	43	34	37.0
$14,000 to $16,000	47	37	40.0
$16,000 to $18,000	50	40	43.0
$18,000 to $20,000	53	42	46.0
$20,000 to $22,000	56	45	49.0
$22,000 to $26,000	59	47	51.0
$26,000 to $32,000	62	50	55.0
$32,000 to $38,000	65	52	58.0
$38,000 to $44,000	69	55	61.0
$44,000 to $50,000	72	57	63.0
$50,000 to $60,000	75	58	64.0
$60,000 to $70,000	78	59	65.0
$70,000 to $80,000	81	60	67.0
$80,000 to $90,000	84	61	69.0
$90,000 to $100,000	87	62	71.0
$100,000 to $150,000	89	63	73.0
$150,000 to $200,000	90	64	74.0
$200,000 and over	91	65	75.0

Source: Office of the Secretary of the Treasury, Office of Tax Analysis.

Other effects.—The Secretary of the Treasury indicated that with the 5-percent floor, some 7 million taxpayers would find it to their advantage to shift from itemized deductions to the standard deduction. He also pointed out that in recent years there has been a shift from the standard deduction to itemized deductions. This is shown in table 6. In 1944, 17.8 percent of the returns used itemized deductions and the remainder the standard deduction. The proportion taking itemized deductions gradually has risen to 39.5 percent in 1960.

Table 7 shows by adjusted gross income classes the proportion of returns with itemized deductions in 1960, and in these cases the percent the itemized deductions were of adjusted gross income. This

table indicates that the proportion of returns with itemized deductions ranged from 14 percent for those with adjusted gross incomes of $3,000 or less up to 97 percent for those with incomes over $50,000. Deductions as a percent of adjusted gross income, however, do not vary uniformly by income classes. Thus, these deductions equal 31.5 percent of adjusted gross income for those with incomes of $3,000 or less and from that point up to those with incomes between $20,000 and $50,000 this percentage decreases to 15.1 percent, but for incomes above $50,000 it again increases to 18.5 percent.

TABLE 6.—*Proportion of individual income tax returns with itemized deductions, 1944 and 1951–60*

Year	Total number of individual returns	Individual returns with itemized deductions	
		Number	Percent of total number
	Millions	*Millions*	
1944	47.1	8.4	17.8
1951	55.4	11.6	20.9
1952	56.5	12.8	22.7
1953	57.8	14.4	24.9
1954	56.7	15.7	27.7
1955	58.3	16.9	29.0
1956	59.2	18.5	31.2
1957	59.8	20.2	33.7
1958	59.1	20.8	35.2
1959	60.3	22.5	37.3
1960	61.0	24.1	39.5

Source: Office of the Secretary of the Treasury, Office of Tax Analysis. "Statistics of Income."

TABLE 7.—*Returns with itemized deductions in 1960 (taxable and nontaxable returns)*

	All	Adjusted gross income					
		0 to to $3,000	$3,000 to $5,000	$5,000 to $10,000	$10,000 to $20,000	$20,000 to $50,000	$50,000 and over
Total number of returns (thousands)	61,028	21,699	13,744	20,266	4,428	765	126
Number of returns with itemized deductions (thousands)	24,083	3,127	5,260	11,810	3,084	680	122
Proportion of returns with itemized deductions (percent)	39.5	14.4	38.3	58.5	69.6	88.8	97.2
Returns with itemized deductions:							
Average adjusted gross income	$7,521	$2,053	$4,064	$6,991	$12,889	$28,932	$93,041
Average itemized deductions	$1,446	$646	$951	$1,385	$2,223	$4,375	$17,213
Deductions as percent of adjusted gross income	19.5	31.5	23.4	19.8	17.2	15.1	18.5

Source: Office of the Secretary of the Treasury, Office of Tax Analysis.

3. Minimum Standard Deduction

Present law.—Under present law single taxpayers who take the standard deduction, if they have no dependents, become taxable on income above $667.[1] This represents the standard deduction of 10 percent ($67) plus the personal exemption ($600). For a married couple filing a joint return under present law income becomes taxable above $1,333. This represents the 10-percent standard deduction

[1] The tax table is ignored in the above discussion. This table, because of its brackets, does in some case make minor modifications in the taxable income points but these changes are not of sufficient size to be of significance.

($133) plus two $600 exemptions. Similarly, a married couple with one child becomes taxable on income above $2,000 (a standard deduction of $200 plus three $600 exemptions).

Proposal.—The administration proposed that in all cases taxpayers be allowed at least a standard deduction of $300 plus $100 for each dependent, including the spouse. Thus, a single person would be allowed a minimum standard deduction of $300 and, therefore, his income would not be subject to tax unless it exceeded $900. A married couple with no children would be allowed a minimum standard deduction of $400 (the $300 minimum plus $100 for the spouse). As a result, the married couple would pay tax on income only in excess of $1,600. A head of a household with one dependent also would be subject to tax only on income above $1,600 since the minimum standard deduction in this case also would be $300 plus $100 for the dependent. A married couple with dependents would have a standard deduction which increased by $100 with respect to each of these dependents. Similarly, a head of household with additional dependents would have a minimum standard deduction which would increase by $100 with respect to each dependent. The President's proposal, however, in no case provides for a minimum standard deduction in excess of the present $1,000 maximum standard deduction.

For married persons filing separately, the minimum standard deduction would be split between them, i.e., each would have a minimum standard deduction of $200.

The income levels under present law and under the proposal at or below which there would be no tax are as follows:

Status of taxpayer	Present law with 10 percent standard deduction	Proposed minimum standard deduction
Single person	[1] $667	$900
Married couple, no dependents or head of household, 1 dependent	[1] 1,333	1,600
Married couple, 1 dependent or head of household, 2 dependents	[1] 2,000	2,300
Married couple, 2 dependents or head of household, 3 dependents	[1] 2,667	3,000
Married couple, 3 dependents or head of household, 4 dependents	[1] 3,333	3,700
Married couple, 4 dependents or head of household, 5 dependents	[1] 4,000	4,400
Married couple, 5 dependents or head of household, 6 dependents	[1] 4,667	5,100
Married couple, 6 dependents or head of household, 7 dependents	5,333	5,800

[1] The amounts shown above assume that the income level under existing law is reached at exactly the level which would apply if a uniform 10 percent standard deduction were used. However, under present law for taxpayers with income below $5,000, a tax table with brackets is substituted for the uniform 10 percent. This modifies slightly all of the figures noted above. The taxable income levels in these cases according to the tax table are: $674; $1,324; $1,999; $2,674; $3,349; $3,999, and $4,649 respectively.

Examples.—Illustrations of how the tax is computed under present law and under the proposal are shown in table 8. This is shown for a single taxpayer with $1,000 of income, a married couple with $2,000 of income and a head of household with two dependents with $3,000 of income.

Effective date.—This proposal is effective for taxable years beginning after December 31, 1963.

Revenue.—The Treasury Department has estimated that the minimum standard deduction will result in a revenue loss of $310 million when the proposed 1965 rates are in effect. The loss under the proposed 1964 rates would be somewhat larger. The distribution of this loss and the number of taxpayers affected by the minimum standard

deduction are shown in table 9. More than half of the loss will go to those with incomes under $3,000 and the concentration of the taxpayers affected by this proposal is still larger in this income class. The revenue loss of $310 million is compared by the Treasury with the revenue loss which would occur in the case of a $100 increase in exemptions. The revenue loss of such an exemption increase would be $3 billion in the case of tax rates under present law and $2.2 billion in the case of the rates under the proposal.

TABLE 8.—*Comparison of method of computing minimum standard deduction under proposal with method of computing tax under present law*

	Present law	Proposed law
A single taxpayer with $1,000 of adjusted gross income, no other dependents, who elects the standard deduction:		
Adjusted gross income	$1,000	$1,000
Less personal exemption	600	600
Less standard deduction	100	300
Total	700	900
Taxable income	300	100
Tax	60	14
Reduction in tax due to rate reduction		18
Reduction in tax due to minimum standard deduction		28
A married couple filing a joint return with adjusted gross income of $2,000, no other dependents, who elect the standard deduction:		
Adjusted gross income	2,000	2,000
Less personal exemptions	1,200	1,200
Less standard deduction	200	400
Total	1,400	1,600
Taxable income	600	400
Tax	120	56
Reduction in tax due to rate reduction		36
Reduction in tax due to minimum standard deduction		28
A head of household with adjusted gross income of $3,000, 2 additional dependents, who elects the standard deduction:		
Adjusted gross income	3,000	3,000
Less personal exemptions	1,800	1,800
Less standard deduction	300	500
Total	2,100	2,300
Taxable income	900	700
Tax	180	98
Reductions in tax due to rate reduction		54
Reduction in tax due to minimum standard deduction		28

TABLE 9.—*Distribution by adjusted gross income classes of the full year effect of the proposed minimum standard deduction*

Adjusted gross income class	Tax savings	Number of taxpayer units [1]
	Millions	*Millions*
$600 and under $3,000	$180	8.3
$3,000 and under $5,000	100	3.0
$5,000 and under $10,000	30	2.1
$10,000 and over	0	0
Total	310	13.4

[1] The number of taxable returns which would use the standard deduction and on which the minimum standard deduction would exceed 10 percent of adjusted gross income. This total does not include taxpayers who might shift to use of the standard deduction as a result of the proposed 5-percent floor on itemized deductions.

Source: Office of the Secretary of the Treasury, Office of Tax Analysis.

B. TAX TREATMENT OF OLDER PERSONS

Present law.—Under present law persons who are over age 65 are eligible for a double personal exemption and also may receive a retirement income credit. This latter is a credit against tax of up to $304.80.

Proposal.—The President would substitute for the present extra exemption and retirement income credit a credit against tax of $300 ($600 in the case of a husband and wife who are both over age 65 and file a joint return). This credit, since it is not limited to those with earnings below a given level, would be available to many more taxpayers than the present retirement income credit (although to no more taxpayers than the present extra exemption).

The change in tax treatment which would be brought about by the proposed $300 tax credit can best be shown by a comparison of this provision with the present retirement income credit and extra exemption:

1. To be eligible for the retirement income credit the individual involved must have received earned income in 10 prior years in excess of $600 per year. The proposed tax credit does not require any prior earnings experience.

2. The retirement income credit in the case of an individual between the ages of 65[2] and 72 must be reduced by one-half of any earned income received by the individual in excess of $1,200 but not over $1,700 and by the entire amount of any earned income over $1,700. The proposed tax credit is not reduced because of earned income.

3. The retirement income credit is granted only with respect to pension and annuity income, interest, rents, dividends and interest from retirement plans for self-employed persons. The proposed tax credit is available with respect to any income received by individuals of the specified age.

4. The maximum retirement income on which the credit is based is reduced by the *full* amount of any social security, railroad retirement, or other exempt pension income received by the individual. The proposed tax credit would be reduced by *one-half* of this exempt social security, railroad retirement, or other exempt pension income multiplied by the individual's marginal tax rate.

5. The retirement income credit is computed by taking $1,524, reducing this by any social security, railroad retirement, or other exempt pension income and by the specified amount of earned income and then this amount is multiplied by the tax rate applicable to the first $2,000 of taxable income (20 percent under existing law and 14 or 16 percent under the proposed rates).

Where there are no reductions and the specified retirement income equals at least $1,524, this is a maximum tax credit of $304.80. In addition, under present law individuals over age 65 receive an additional $600 exemption. Under the proposal the tax credit is $300 per taxpayer, reduced by one-half of any social security, railroad retirement, or other tax-exempt pension income received, multiplied by the individual's marginal tax rate (i.e., the top rate at which any dollar of income is taxed).

[2] For those retired under a public retirement system, this age limitation is 62 instead of 65. For those under age 62 who retired from public retirement systems a reduction is made on a dollar-for-dollar basis with respect to earnings in excess of $900.

6. The retirement income credit is available to those under age 65 to the extent of any income from pensions and annuities under a public retirement system. The proposed credit does not apply to those under age 65. However, it is proposed that the present retirement income credit be retained for those who at any time before December 31, 1963, had retired under a public retirement system, but only until they reach age 65.

Points Nos. 1, 2, and 3 above indicate that the proposed tax credit will be available to a large group of taxpayers who presently receive the additional exemption but are not eligible for the retirement income credit or are eligible for only a reduced retirement income credit. These are the persons 65 or over who are employed and earning over $1,200 a year (the reduction of the retirement income on which the present credit is based is by one-half of their earnings between $1,200 and $1,700). The Treasury Department has indicated that employed persons represent 75 percent of the taxpayers over age 65. Most of these are presently ineligible for the retirement income credit and all of these persons will be eligible for the proposed $300 credit.

A second effect of the proposed change is to treat those with social security, railroad retirement, or other exempt pension income slightly better than under the present retirement income credit. This occurs because only one-half, rather than the entire amount, of this income is used to reduce the proposed credit available. The Treasury statements indicate that this adjustment was made to take into account the fact that employees covered by social security, as well as their employers, contribute toward the social security benefits and thus that part of the social security benefits received represent dollars on which a former employee has already paid tax.

A third effect of the proposed change is to tax a limited group of persons over age 65 which presently are not taxable. This occurs because the combination of the extra exemption and maximum retirement credit may exempt income from tax up to an income level of $3,027 in the case of a single individual or $6,053 in the case of married couples, if both are eligible for, and receiving, the retirement income credit. The proposed $300 tax credit on the other hand will exempt from tax a single person receiving an income of up to $2,900 or a married couple receiving income up to $5,778. Thus, for an income range of $127 above $2,900 in the case of single persons and for an income range of $275 above an income level of $5,778 in the case of married couples, the proposed tax treatment may represent a tax increase. The Treasury tables indicate that there are about 6,000 single taxpayers over age 65 who use the retirement income credit who might not benefit from the tax provisions proposed and that there are about 2,000 married couples in which the spouses are both 65 and over and use the retirement income credit who might not benefit from the tax provisions proposed.

A fourth effect indicated by point No. 4 above is that the $300 tax credit will be less beneficial to certain taxpayers in the higher income brackets than the present double exemption. The extra exemption may decrease an individual's tax liability under present law by $120 if he is in the lowest tax bracket or by $546 if he is in the highest or 91-percent tax bracket. On the basis of a direct comparison between the extra exemption and the $300 credit, therefore, it is clear that those in the tax bracket of less than 50 percent would be benefited more

by the proposed tax credit of $300 while those in higher tax brackets are benefited more by the present $600 exemption.

A fifth effect resulting from point No. 5 above occurs with respect to those who have retired from public retirement systems before age 65 and are eligible for the retirement income credit because their earnings from employment are sufficiently small so that they still are eligible for either a full or a reduced retirement income credit. The administration proposal continues the present retirement income credit for those who have retired under a public retirement system by the end of this calendar year so that with respect to those who have already retired or are about to retire there is no difference in treatment in this case between present law and the proposal. However, the proposal will result in an increase in tax for those who in subsequent years retire under a public retirement program. This includes both Federal Government and State and local government employees.

Date.—The proposal of the administration with respect to older people would become effective with respect to taxable years beginning after December 31, 1963. The Treasury has estimated that its proposal would reduce the taxes of 3.4 million taxpayers by $320 million a year. The retirement credit is presently used by about 800,000 taxpayers, of which about 700,000 are over age 65 and 100,000 are Government annuitants under age 65.

Revenue.—Table 10 shows by adjusted gross income classes the effect of eliminating the extra $600 exemption and retirement income credit and adding the $300 tax credit. This table indicates that the elimination of the extra exemption and retirement income credit would increase tax liabilities by $515 million but that this is offset by a reduction in tax liabilities as a result of the $300 tax credit of $835 million, resulting in a net reduction of $340 million. The net reduction occurs in the income classes of $20,000 and below. For income levels above $20,000 the proposal results in a net increase of $20 million.

TABLE 10.—*Total revenue effect of aged provision on individuals age 65 and over*

[In millions of dollars]

Adjusted gross income class	Tax liability, present law [1]	Eliminate extra personal xemption for aged	Eliminate retirement income credit	Allow $300 tax credit	Total aged provisions
0 to $3,000	40	40	10	−80	−30
$3,000 to $5,000	200	85	30	−245	−130
$5,000 to $10,000	730	125	55	−330	−150
$10,000 to $20,000	830	70	30	−130	−30
$20,000 to $50,000	990	45	10	−45	+10
$50,000 and over	1,240	15	(2)	−5	+10
Total	4,030	380	135	−835	−320

[1] Excludes 25 percent alternative tax rate on capital gains.
[2] Less than $2,500,000,000.

NOTE.—Figures are rounded and do not necessarily add to totals.

Source: Office of the Secretary of the Treasury, Office of Tax Analysis.

Table 11 shows, in addition to the revision of the specific provisions relating to the aged, the effect on those over age 65 of the tax rate changes and to the structural revisions. This table indicates that in addition to a reduction of $320 million because of the revision of the

specific provisions relating to the aged, those over 65 will also receive reductions of $930 million from the proposed rate reductions, the minimum standard deduction, and the revision of the medical care deduction. On the other hand, there are other structural reforms offsetting this reduction to the extent of $460 million with the result that the net reduction for pensions of age 65 as a group is $790 million.

TABLE 11.—*Revenue effect of President's tax program*[1] *on individuals age 65 and over*

[In millions of dollars]

Adjusted gross income class	Tax liability under present law[2]	Proposed rate change	Minimum standard deduction	Revise aged treatment	5 percent floor on all itemized deductions
0 to $3,000	40	−10	−10	−30	(3)
$3,000 to $5,000	200	−50	------------	−130	+10
$5,000 to $10,000	730	−180	------------	−150	+30
$10,000 to $20,000	830	−180	------------	−30	+40
$20,000 to $50,000	990	−210	------------	+10	+70
$50,000 and over	1,240	−260	------------	+10	+100
Total	4,030	−890	−10	−320	+250

Adjusted gross income class	Revise medical deduction	4 percent floor on casualty losses	Eliminate sick pay exclusion	Eliminate dividend credit and exclusion	Total change in tax liability
0 to $3,000	(3)	(3)	(3)	(3)	−40
$3,000 to $5,000	(3)	(3)	(3)	+10	−160
$5,000 to $10,000	(3)	(3)	(3)	+30	−270
$10,000 to $20,000	−10	(3)	(3)	+40	−140
$20,000 to $50,000	−10	(3)	(3)	+50	−90
$50,000 and over	−10	(3)	(3)	+60	−100
Total	−30	+10	+10	+190	−790

1 Under 1965 proposed rates; excludes capital gains provisions.
2 Excludes tax at the 25-percent alternative rate.
3 Less than $5,000,000.

NOTE.—Figures are rounded and do not necessarily add to totals.

Source: Office of the Secretary of the Treasury, Office of Tax Analysis.

C. ELIMINATION OF 4-PERCENT CREDIT AND $50 EXCLUSION FOR DIVIDENDS RECEIVED BY INDIVIDUALS

Present law.—Under present law individuals are allowed to exclude the first $50 of dividend income. Since a husband and wife may each claim this exclusion if they each have dividend income, the exclusion on a joint return may amount to $100 of dividend income. In addition, under present law a credit is allowed against tax for dividends received by individuals to the extent of 4 percent of the dividends remaining after the $50 or $100 exclusion.[3] This credit may not, however, exceed 4 percent of taxable income.

Proposal.—Under the administration proposal the 4-percent-dividend-received credit and $50 exclusion would be repealed with respect to dividends received after December 31, 1963.

3 The dividend exclusion and credit are not allowed for dividends received from foreign corporations, China Trade Act corporations, exempt corporations, corporations deriving most of their income from U.S. possessions, real estate investment trusts, life insurance dividends, dividends from mutual savings banks, domestic building and loan associations, etc., and capital gain dividends from regulated investment companies.

Revenue.—The Treasury estimated that this recommendation would increase revenues by $460 million at current levels of reported dividends. Table 12 shows the distribution of the $460 million by adjusted gross income levels and also shows the percent of present tax liabilities by these same adjusted gross income classes. This indicates that for adjusted gross income classes up to $20,000 the removal of this exclusion and deduction will increase tax liabilities by from four-tenths to nine-tenths of 1 percent. In the category from $20,000 to $50,000 the removal of this exclusion and deduction will increase tax liabilities by 1.8 percent and for income classes above $50,000 it will increase tax liabilities by 3.1 percent.

TABLE 12.—*Gross income classes of proposal to eliminate dividend credit and exclusion*

[Dollars in millions]

Adjusted gross income class	Tax liability under present law [1]	Increase in tax liability from elimination of dividend credit and exclusion	
		Amount [2]	Percent
0 to $3,000	$1,450	$10	0.7
$3,000 to $5,000	4,030	20	.5
$5,000 to $10,000	18,300	70	.4
$10,000 to $20,000	12,710	110	.9
$20,000 to $50,000	6,760	120	1.8
$50,000 and over	4,170	130	3.1
Total	47,420	460	1.0

[1] Excludes $1,200,000,000 of tax on capital gains at the 25 percent alternative rate.
[2] Amounts shown assume adoption of rates proposed by President.

The Treasury has indicated that if no action is taken on the repeal of the credit and the exclusion a higher individual rate schedule designed to yield an additional $460 million from the middle and upper brackets would be appropriate. It is stated that this would involve a rate structure that scaled to the top of 69 percent rather than 65 percent.

D. ITEMIZED DEDUCTIONS

1. *Interest deduction where an individual borrows to buy life insurance and the related problem of split dollar insurance*

Borrowing for premiums.—Under existing law no interest deduction is allowed in the case of indebtedness incurred or continued to purchase or carry a single premium life insurance, endowment, or annuity contract. In addition, if substantially all of the premiums on a contract are paid within 4 years of the date on which the contract is purchased, such a contract is treated as if it were a single premium contract for purposes of this provision. Similarly, where a purchaser borrows an amount equal to a substantial proportion of the premium payments on a contract, but, instead of purchasing the policy outright, deposits the borrowed funds with the insurance company for payment of the future payments on a policy, this, too, is treated as if it were a single premium contract and the interest deduction on the indebtedness relating to the contract is denied.

The Treasury has proposed that the interest deduction also be disallowed on indebtedness incurred or continued to purchase or

carry a life insurance, endowment or annuity contract "under circumstances which reasonably establish the existence of a systematic plan, program, or intention that any part of a substantial number of premiums be paid by means of indebtedness." The technical statement of the Treasury indicates that the interest deduction is to be denied only in abuse cases. Examples cited where the deduction would not be disallowed were—

1. Where the interest payment was small, such as $100.
2. Where no more than the equivalent of 1 year's premium has been borrowed in the last 4 years (this is intended to exclude cases where an individual occasionally borrows because of lack of funds due to sickness or loss of work).

One example cited where the presumption would be strong for the denial of an interest deduction was where the insurance policy provides a relatively high loan value in the early years.

The provision described above would apply to interest paid or incurred during taxable years beginning after December 31, 1963.

As in the cases under existing law where the interest deduction is denied, the concern of the Treasury Department is that the interest on the loan is deductible for tax purposes while the corresponding buildup on the reserve in the insurance policy is not taxable. The following example was cited by the Treasury Department to illustrate this point:

Insured's tax bracket	Interest expense per $1,000 of loan (3¾ percent)	Net interest expense after tax deduction	Annual increase per $1,000 of cash value (2¾ percent)	Net profit from borrowing
60 percent	$37.50	$15.00	$27.50	$12.50
50 percent	37.50	18.75	27.50	8.75

Split dollar insurance.—The Treasury also proposed legislation on a related subject known as split-dollar insurance.

Under this type of arrangement the employee pays the portion of the insurance premium on an ordinary life insurance policy on his life which provides the life insurance protection. The employer, on the other hand, pays the portion of the insurance premium which adds to the cash surrender value of the policy. The cash surrender value is owned by the employer, and on the employee's death the employee receives a portion of the proceeds from the policy equal to this cash surrender value at that time. The remainder of the proceeds goes to the employee's beneficiary. The interest earned by the insurance company on the cash surrender value each year is thus applied to reduce the premium the employee must pay.

Under present law the Internal Revenue Service has ruled (Rev. Rul. 55–713, C.B. 1955–2) that this is substantially the equivalent of the employer making a loan to the employee without charging him any interest on the money loaned. In this respect the Service states: "The mere making available of money does not result in realized income to the payee or a deduction to the payor."

The Treasury has proposed in such a case that the earnings on the employer's cash surrender value (to the extent applied toward the cost of the insurance protection for the employee) be treated as additional

compensation to the employee and, therefore, as taxable income to him. The earnings rate under the Treasury proposal would be the rate on which the insurance company computed the interest, usually between 2½ and 3 percent. This proposal would apply to premiums paid in taxable years beginning after December 31, 1963.

For example, if after a policy had been in effect for 6 years the cash surrender value to which the employer was entitled amounted to $690, the additional earnings taxed to the employee in the seventh year would be this $690 multiplied by the policy rate, so if this rate were 3 percent it would be $20.70. The employee would not be taxed, however, on any portion of the $20.70 which is credited to the cash surrender value instead of being used to pay for his life insurance protection.

2. Four-percent floor in the case of casualty losses

Present law.—Under present law taxpayers may claim a deduction for losses of property not connected with a trade or business if these losses arise from fire, storm, shipwreck, or other casualty, or from theft. Under present law this deduction is available without limitation to all taxpayers who itemize their personal deductions rather than electing the standard deduction.

Proposal.—The President has proposed that only extraordinary casualty and theft losses be deductible. He has proposed that only losses in excess of 4 percent of the taxpayer's adjusted gross income qualify for the deduction.

Where these casualty and theft losses exceed the taxpayer's adjusted gross income, this excess, as under present law, would give rise to a net operating loss which could be carried back or forward to other years and in those other years this particular amount would not again be subject to the 4-percent floor (or the 5-percent floor applicable to all itemized deductions).

This limitation does not apply to losses incurred in a taxpayer's trade or business or to losses incurred in connection with transactions for the production of income.

The administration indicated that this change in the casualty loss provision was designed to make it analogous to the deduction for medical expenses; i.e., that deductions of this type be available only where they are extraordinary and go beyond the usual "run-of-the-mill losses" that are a part of ordinary living expenses.

Date.—This proposal would be effective for taxable years beginning after December 31, 1963.

Revenue.—The Treasury estimates that this change would increase annual tax receipts by about $90 million a year. Table 13 shows the distribution of this revenue gain by adjusted gross income classes and the percentage tax increase resulting in each category.

TABLE 13.—*Distribution by adjusted gross income classes of proposal for 4-percent floor on casualty losses*

[Dollars in millions]

Adjusted gross income class	Tax liability under present law [1]	Change in tax liability resulting from 4-percent floor on casualty losses	
		Amount	Percent
0 to $3,000	$1,450	(2)	(2)
$3,000 to $5,000	4,030	$10	0.2
$5,000 to $10,000	18,300	40	.2
$10,000 to $20,000	12,710	20	.2
$20,000 to $50,000	6,760	10	.1
$50,000 and over	4,170	10	.2
Total	47,420	90	.2

[1] Excludes $1.2 billion of alternative tax on capital gains at 25 percent alternative rate.
[2] Less than $5 million or 0.05 percent.

3. Charitable contributions, increase of limitation from 20 percent to 30 percent in certain cases

Present law.—Under present law taxpayers are allowed a deduction of up to 20 percent of their adjusted gross income for contributions to charitable organizations generally. An additional 10-percent deduction is also available for contributions to churches, schools, hospitals, certain medical research organizations, and certain organizations affiliated with State colleges or universities. Thus, with respect to contributions in this latter category a charitable contribution of up to 30 percent is allowed.

Proposal.—The administration has recommended that this additional 10-percent category also be made available for contributions to other organizations which are publicly supported and controlled, but not to private foundations and trust funds. An organization, contributions to which would qualify for this 30-percent category, would be one which "normally receives the principal part of its support from the United States, or any State or political subdivision thereof, or from direct or indirect contributions from the general public or both." It is stated that this would make the 30-percent category available in the case of contributions to organizations such as the American Red Cross and Cancer Society, which received nationwide support from the general public, and also for contributions to museums, libraries, civic centers, symphony orchestras, etc., so long as they derive the principal part of their financial support from a "representative number" of persons within the community.

This change would be effective for taxable years beginning after December 31, 1963.

The Treasury indicated that the revenue loss expected from this proposal would be minor.

4. Removal of unlimited charitable contribution deduction

Present law.—Present Law provides that the 20-percent or 30-percent limitation on charitable contributions is not to apply, where the taxpayer's taxes and charitable contributions in the past several years account for the bulk of his taxable income. Thus, the charitable contribution dededuction is unlimited if the taxpayer in the current year and in 8 out of the 10 preceding years has made charitable contributions and paid income taxes which taken together exceed 90

percent of his taxable income (computed without the charitable contributions, personal exemptions, and net operating loss carrybacks).

Proposal.—The President has proposed that this unlimited charitable contribution deduction be eliminated for all taxable years beginning after December 31, 1963.

The Treasury Department says that in recent years very few taxpayers have claimed the unlimited deduction and that in almost every case the annual incomes of these individuals, generally in excess of $500,000, would place them in the highest tax brackets but for their unlimited charitable deductions. In the exhibits shown it is stated that for the 19 nontaxable returns in 1959 having adjusted gross incomes of $500,000 or more, 11 paid no income tax during the years 1958–60 because of the unlimited charitable contribution deduction while 3 others paid no taxes in at least 1 of the 3 years studied because of the unlimited charitable contribution deduction. It is stated that among these taxpayers were several with incomes as high as $20 million and one with an income of almost $50 million for the 3-year period. One of the exhibits of the Treasury Department (p. 245 of pt. I of hearings), also lists 14 individuals who made use of the unlimited charitable contribution deduction who would have paid $15.7 million more in taxes without the charitable contributable deduction. It is also indicated that 97 percent of the total value of the unlimited charitable contribution made in these cases was in the form of appreciated property. The fair market value of the property given by these 14 individuals to charity in the year investigated was $43.9 million for which the taxpayers have a cost or other basis of $1.3 million.

Revenue.—The Treasury Department estimates that the elimination of this provision will increase revenues by $10 million.

5. Revision of medical expense deduction

Combination of 3 percent and 1 percent limitation.—Under present law in the case of taxpayers under age 65 [4] only medical expenses which in the aggregate exceed 3 percent of adjusted gross income are deductible. In addition, in computing medical expenses subject to this 3-percent limit medicines and drugs may be taken into account only if they exceed 1 percent of adjusted gross income.

The President has proposed that the separate 1-percent floor be eliminated and that a 4-percent floor be substituted for the present separate 1-percent and 3-percent floors. As a result, expenses for drugs and medicines in applying this limitation would be treated in the same manner as doctor bills, etc.

For taxpayers whose medicine and drug expenses do not equal 1 percent of their adjusted gross income, this will decrease to some degree the medical expense deduction which they may take since in effect the unused portion of the 1-percent floor, under the proposal, would apply to medical expenses generally. For taxpayers whose medicine and drug expenses presently exceed 1 percent of their adjusted gross income this change would make no difference except for the fact that one rather than two floor computations would be required.

Removal of 1-percent limitation for those over age 65.—Under present law the 3-percent floor does not apply to medical expenses incurred

[4] The 3-percent limitation does not apply in the case of the taxpayer and his spouse where either of them is over age 65 nor does it apply to medical expenses of the mother or father of the taxpayer or the mother or father of the wife of the taxpayer where the parent receives his principal support from the taxpayer.

for the taxpayer or his spouse where either of them is age 65 or older nor does it apply to medical expenses incurred for the mother or father of the taxpayer or the mother or father of the wife of the taxpayer where they are over age 65 and derive their principal support from the taxpayer. However, the 1-percent floor on medicines and drugs applies uniformly across the board.

The President in consolidating the 1-percent drug floor with the 3-percent general medical floor has proposed that the 1-percent floor no longer be applicable in the case of these persons who are over age 65. Therefore, in the case of any of the persons referred to above who are over age 65, medicines and drugs will be deductible without regard to whether or not they exceed 1 percent of adjusted gross income.

Removal of ceiling on medical deduction.—Under present law there are ceilings in varying dollar amounts limiting the maximum deduction a taxpayer may deduct for medical expenses. In general, a taxpayer is entitled to medical expense deductions of up to $5,000 times his number of exemptions (not including extra exemptions for blindness or age 65 or over). However, the maximum medical expense deduction computed in this manner may not exceed $10,000 in the case of single persons (other than heads of households or surviving spouses) or in the case of a married person who files a separate return. For married couples, heads of households, and surviving spouses, the maximum medical expense deduction may not exceed $20,000. Under special exceptions to the ceiling described above, present law provides that the maximum medical expense deduction for a taxpayer who is 65 or over and is disabled or a taxpayer who files a joint return with a spouse who has reached age 65 and is disabled is $20,000. Present law also provides that the maximum medical expense deduction on a joint return where both the taxpayer and his spouse have reached age 65 and both are disabled is $40,000.

The President's proposal would completely remove the ceilings referred to above for taxable years beginning after December 31, 1963.

Definition of deductible medical expenses.—Under present law "medical care" is defined as amounts paid for the diagnosis, cure, mitigation, treatment, or prevention of disease, or for the purpose of affecting any structure or function of the body (including amounts paid for accident or health insurance) or for transportation primarily for and essential to any of the medical care referred to above. The administration has proposed that this definition be further restricted in four respects.

First, the cost of facilities, services, and devices would be deductible only if they are of a "type customarily used primarily for medical purposes, and in fact intended primarily for medical use of the taxpayer or a dependent. The following examples are cited of facilities, services, and devices which either would or would not be deductible under this restriction:

	Nondeductible	Deductible
Cost of facilities	Swimming pools and air conditioners (customarily used for nonmedical purposes).	Home elevator for the use of heart patient (to the extent deductible under present law).
Cost of services	Dancing or music lessons	
Cost of devices	Cost of a clarinet even though prescribed by a doctor to develop or correct mouth structure.	Cost of braces for straightening teeth

Second, the deductibility of expenses for medicines and drugs would be limited to those purchased "pursuant to a doctor's prescription."

Third, transportation expenses (as under present law) would be deductible "only if they were primarily for and essential to obtaining medical services." In addition, only local transportation expenses would be allowed "except for transportation costs incurred to obtain specialized medical services where comparable medical services are not available locally." In the case of travel to obtain highly specialized medical services for the treatment of serious illnesses or injuries, it would be presumed that the comparable medical services were not available locally. It is further stated that transportation costs for the purposes of "relaxing tension or convalescence, such as travel to a warmer climate" would not qualify as medical expenses. As under present law, food and lodging expenses incident to travel would not qualify for deduction in any event.

Fourth, it would be made clear in the case of accident and health premiums that "only premiums for protection against deductible medical expenses would qualify as a medical expense." This is consistent with the position taken by the Internal Revenue Service. However, some courts have held that where an insurance premium paid by a taxpayer covers both medical and nonmedical protection, including the portion attributable to the loss of earnings, the entire amount is a deductible medical expense (see *Heard* v. *Commissioner*, 269 F. 2d 921 (3d Cir. 1959); *Donald G. Kilgore*, 38 T.C. 340 (1962)).

Effective date.—All of the proposed changes described above would be effective for taxable years beginning after December 31, 1963.

Revenue effect.—The Treasury Department has estimated that the medical expense proposals described above will increase revenues by about $10 million in the adjusted gross income class of from $5,000 to $10,000. This is believed primarily attributable to the consolidation of the 3 percent and 1 percent limitations. For income classes of $50,000 and over it is anticipated that the proposals described above will result in a revenue loss of approximately $10 million. This is attributable primarily to removing the floor on drug expenses for those over age 65.

The medical expense proposals on an overall basis, however, are expected to about balance out.

6. Expansion of child care deduction

Present law.—Under present law a deduction of up to $600 is allowed in certain cases for expenses of child care incurred to enable the taxpayer to be gainfully employed. At present this is available to single women, women who are divorced or separated, and widows and widowers having one or more dependent children without regard to their earnings. In the case of working wives, this $600 deduction is presently available only if the combined adjusted gross income of the wife and the husband does not exceed $4,500. If their income exceeds this amount the deduction available is decreased $1 for each dollar of income above $4,500, thus disappearing entirely at an income level of $5,100. A dependent child of the taxpayer for purposes of this provision is a son or daughter (or stepson or stepdaughter) of the taxpayer who is under age 12 or, if not meeting either or both of these qualifications, is a dependent who is physically or mentally incapable of caring for himself.

Proposal.—The President has proposed a number of liberalizing modifications in this provision.

First, the maximum deduction would be increased from $600 to $1,000. The proposed deduction, as at present, would be $600 for the first child but would be $300 additional for the second child and $100 additional for the third. This graduated deduction is proposed on the grounds that the cost of child care increases with the number of children.

Second, the President has proposed that the $4,500 limitation on the husband's and wife's income be raised to $7,000. Thus, a working wife and her husband, who together have income of up to $7,000, would be entitled to a child care deduction of $600, $900 or $1,000 (depending upon the number of children) without diminution because of their combined earnings. This deduction would then be reduced on a dollar for dollar basis for earnings above $7,000, disappearing at $7,600, $7,900 or $8,000 (again depending upon the number of children). In supporting this rise in income level the Treasury pointed out that the median income in 1961 of all families with a full-time worker was $6,875 (for white families $7,030).

Third, the administration has proposed that in addition to allowing deductions for child care expenses of widows, widowers and certain working wives that a child care deduction be available in a family where the wife is in an institution. This case is considered comparable to the case of the widower as far as the necessity of incurring child care expenses is concerned.

Fourth, it is proposed that a wife who has been deserted by her husband be eligible for the child care deduction if the whereabouts of the husband has not been known at any time during the taxable year and she has applied to a court of competent jurisdiction to compel him to pay support. This is comparable to H.R. 2085 which has been passed by the House and Senate in this Congress.

Fifth, it is proposed that the definition of a child with respect to which the child care deduction may be taken be increased to include children 12 years of age, i.e., those under 13. This was proposed on the grounds that children of this age generally require care where the parent or parents are working.

Date.—These modifications of the child care deduction would be effective for taxable years beginning after December 31, 1963.

Revenue and other effects.—In 1960 the child care deduction was claimed on 272,000 returns of which 244,000 were taxable returns. The Treasury estimates that the liberalizing amendments to child care provision would make this deduction available on an additional 200,000 returns or on 444,000 taxable returns in all.

Under present law the child-care deduction is estimated to cost $25 million. The Treasury estimates that the liberalizing amendments would increase child-care deductions by $20 million. However, the proposed rate reductions would decrease the cost of the present child-care deduction, slightly making the net revenue loss from the child-care provision, as the administration would liberalize it, $40 million if the proposed new rates are adopted. It is estimated that the $20 million of additional revenue cost for this provision would be divided equally between the adjusted gross income brackets of $3,000 to $5,000 and $5,000 to $10,000, with most of the revenue loss attributable to those with incomes between $4,000 and $7,000.

7. Expansion and revision of employees' moving expense deduction

Present law.—Under present law certain moving expenses, of existing employees if reimbursed by the employer, are held to be not includible in the employee's income. By ruling they have been held to be excludable on the grounds that they are "primarily for the benefit of the employer." [5] The moving expenses of new employees, even though reimbursed, have been held to be includible in the employee's income. If moving expenses of employees are not reimbursed, they are not deductible even though the employee is an existing employee.

Under present law the cost of the transportation for moving an existing employee and his family and the freight and other related cost of moving his personal and household effects, where reimbursed, are held to be excludable. The exclusion also applies under present law for meals and lodging of the employee and his family while they are in travel status.

In addition, in one court case (*John E. Cavanagh*, 36 T.C. 300 (1961)) living costs incurred by the employee in excess of ordinary living expenses of his family while his household effects were in transit were held to be excludable where they were reimbursed. The Service has not accepted this position, however. The Tax Court in one case (*Otto Sorg Schairer*, 9 T.C. 549 (1947)) also held that where an employee was reimbursed for a loss incurred in selling his home, this reimbursement was excludable from his income. The Service has not accepted this position, however, and more recently the Tax Court has held that reimbursements of such expenses were additional compensation and not excludable from the employee's income (*Harris W. Bradley*, 39 T.C. No. 64 (1963)).

Proposal.—The President has proposed that the treatment of moving expenses be liberalized so that all employees will be allowed a deduction for certain moving expenses whether reimbursed or not, and whether the employee is a new or an existing employee. In addition, it is proposed that all reimbursed moving expenses be included in income and then deductible to the extent provided.

Although reimbursed, moving expenses are to be deducted rather than excluded from income; they will be treated as deductions in arriving at adjusted gross income (and, therefore, would not be included in the standard deduction or subject to the proposed 5-percent floor). No withholding would be required by the employer in the case of these reimbursements but these amounts would be reported to the Government and the employees. Deductible moving expenses which are not reimbursed, under the proposal would be treated as deductions in determining taxable income (and, therefore, would be included in the standard deduction and subject to the proposed 5-percent floor).

To prevent moves undertaken for personal reasons from qualifying as deductions, no moving expense deduction would be allowed unless—

(1) the employee had, prior to the move, a contract or commitment of employment at the new location (this would apply to new employees only);

(2) the employee was in fact employed at the new location for at least 9 months (this would apply only where the employer

[5] Rev. Rul. 54-429, C.B. 1954-2, 53.

did not reimburse the employee on the grounds that reimbursement by the employer of the expense is a sufficient basis for assuming continued employment);

(3) the employee's new place of employment was at least 20 miles farther from his former residence than was his former place of employment.

The deduction for moving expenses would be limited to the transportation expenses of the employee and his family and the cost of moving his household and personal belongings. No deduction would be allowed for meals and lodging of the employee and his family while they are in travel status. In addition, it would be made clear that other moving expenses, such as living expenses in excess of ordinary living expenses during the period the household effects are in transit, would not be deductible as moving expenses.

Members of the uniformed services would be permitted to continue to exclude reimbursed moving expenses from gross income. This is because such moves are frequent, there is little employee control over the moves, and the amounts of reimbursements are carefully limited.

Date.—The moving expense proposals are to be effective for expenses incurred with respect to moves made after December 31, 1963.

Revenue.—The Treasury has estimated that the changes it has proposed with respect to moving expenses will result in a loss of revenue of $50 million. It is anticipated that this loss will be distributed among the various income classes in the manner shown in table 14.

TABLE 14.—*Distribution by adjusted gross income classes of proposed changes with respect to moving expenses*

[Dollars in millions]

Adjusted gross income class	Tax liability under present law [1]	Change in tax liability resulting from moving expense proposal	
		Amount	Percent
0 to $3,000	$1,450	(2)	(2)
$3,000 to $5,000	4,030	−$20	−0.5
$5,000 to $10,000	18,300	−20	−.1
$10,000 to $20,000	12,710	−10	−.1
$20,000 to $50,000	6,760	(2)	(2)
$50,000 and over	4,170	(2)	(2)
Total	47,420	−50	−.1

[1] Excludes $1,200,000,000 of tax on capital gains at the 25 percent alternative rate.
[2] Less than $5 million or 0.05 percent.

Source: Office of the Secretary of the Treasury, Office of Tax Analysis.

8. Establishment of rules with respect to the deductibility of travel expenses

Present law.—Present statutory law provides for the deduction of ordinary and necessary business expenses including "travel expenses (including amounts expended for meals and lodging other than amounts which are lavish or extravagant under the circumstances) while away from home in the pursuit of a trade or business." On the basis of this statutory language the Service by rulings has developed certain general rules as to the deductibility of travel expenses. However, these rules do not cover all cases and, in a number of cases have not been followed by the courts.

Proposal.—The proposal of the administration in part codifies the administrative rulings presently followed by the Service and in part substitutes specific rules for more general administrative guidelines.

Duty area.—As may be noted above, travel expenses to be deductible must be those incurred while "away from home" in the pursuit of a trade or business. "Home" for this purpose has not been given its customary meaning of the taxpayer's residence or domicile but rather has been held to be his principal place of business. Moreover, it encompasses not only the specific place of duty but also the entire city or general locality in which this place of business is located.[6]

The proposal in line with the administrative rulings would substitute the term "duty area" for "home" in determining deductible travel expenses. Also, in place of the more general administrative determination that the principal place of business includes the entire city or general locality, it is proposed that the "duty area" include any area within 20 miles of the taxpayer's principal business post. The taxpayer's principal business post would be the place at which he has reported for work and reasonably anticipates that, during the future course of his present employment, he will principally report for work if he expects to work, or report there, more than any other place and at least one-third of his working days. If the taxpayer does not have a principal business post within this definition, his 20-mile duty area will be centered around his principal residence. Any taxpayer who has neither a principal business post nor a principal residence would be classified as an itinerant.

Travel expenses, other than food or lodging would under the proposal be deductible as under present law to the extent they were not held to be commutation expenses. Thus, a taxpayer could not deduct travel expenses of going from his home to any place in his "duty area" (within 20 miles of his principal business post). As under present law, once he had reported to work, transportation expenses incurred from his business post to any other place, even though within the "duty area" would be deductible. For taxpayers whose duty area was determined on the basis of a 20-mile radius from their principal residence the cost of travel from the residence to any place within this 20-mile area in reporting to and from work, would not be deductible. However, travel from home to a place beyond that point would be deductible. In addition, itinerants having no duty area could deduct all travel expenses related to going to or from a place at which business is transacted.

Overnight.—Under the present rulings it has in general been held that the taxpayer must be away from his home overnight if he is to deduct food and lodging expense (but not in order to deduct other travel expense). An overnight trip has been defined as a "trip on which the taxpayer's duties require him to obtain necessary sleep" away from his home. It has also been held that the taxpayer's absence from his home on business must be of such duration that he cannot reasonably leave and return to that location before and after each day's work. Thus, meals and lodging have been held to be deductible when the taxpayer "is on a business trip requiring * * * absence * * * for a minimum period which lasts substantially longer than an ordinary day's work." [7]

[6] Rev. Rul. 56-49, C.B. 1956-1, 152.
[7] Rev. Rul. 54-497, C.B. 1954-2, 75.

The proposal retains essentially the same rule with respect to the deduction of food and lodging expense in connection with travel. However, the rule is made more specific. It is proposed that food and lodging expense in connection with travel be deductible only when the taxpayer is temporarily away from his duty area for 16 hours, or a shorter period if he can prove that substantial rest is required on the trip.

Itinerants would in no case be entitled to deductions for food or lodging expense since they, having no permanent home, would not be incurring any larger expense than usual.

This proposal is intended to have no effect on the deductibility of business meals under the category of entertainment expenses.

Other.—In the case of an assignment to a new place of work, a taxpayer would be entitled to deduct travel expenses only if his absence from his duty area was temporary in nature. He would be considered temporarily away from home unless he moved his principal residence to the new location at which he was working, could reasonably foresee that he would remain at this new location for at least a year, or did in fact remain at the new location for a year.

As under present law, allowable travel expenses would be deducted in computing adjusted gross income and reimbursed travel expenses would not be subject to withholding.

Date.—The proposals with respect to travel expense would be effective for taxable years beginning after December 31, 1963.

Revenue.—No loss or increase of revenue is anticipated from the above revenues with respect to travel expenses.

E. EXCLUSIONS

1. *Limitation on exclusion of premiums on group term insurance*

Present law.—The present regulations provide that employees are to include in their income for tax purposes premiums paid by their employers to provide them with individual life insurance, or group permanent life insurance which carries a loan or surrender value. However, premiums paid by employers with respect to group term life insurance are not includible in the income of the employees although the employers received deductions for the amounts paid.[8]

Proposal.—The administration has proposed that the employee be required to include in income for tax purposes the premiums paid by the employer with respect to group term insurance furnished to the employee to the extent this protection exceeds $5,000. The employee is taxed on the basis of either the actual premiums paid by the employer or according to the schedule in table 15, set forth below. Thus, he includes in his income the premiums paid by the employer (or considered paid by him in the table) with respect to his attained age at the end of each year. Generally, the use of the table will result in a smaller inclusion in the employee's income than the actual amount paid. Where the employee also makes contributions toward the insurance, these payments will be attributed to the insurance protection above the $5,000 exclusion and will be fully deductible.

[8] Regulations 1.61-2(d)(2).

TABLE 15.—*Uniform 1-year term premiums for $1,000 life insurance protection*

Age	Cost per $1,000 of protection	Age	Cost per $1,000 of protection	Age	Cost per $1,000 of protection
15	$1.27	41	$4.73	66	$34.28
16	1.38	42	5.07	67	37.31
17	1.48	43	5.44	68	40.59
18	1.52	44	5.85	69	44.17
19	1.56	45	6.30	70	48.06
20	1.61	46	6.78	71	52.29
21	1.67	47	7.32	72	56.89
22	1.73	48	7.89	73	61,89
23	1.79	49	8.53	74	67.33
24	1.86	50	9.22	75	73.23
25	1.93	51	9.97	76	79.63
26	2.02	52	10.79	77	86.57
27	2.11	53	11.69	78	94.09
28	2.20	54	12.67	79	102.23
29	2.31	55	13.74	80	111.04
30	2.43	56	14.91	81	120.57
31	2.57	57	16.18	82	130.86
32	2.70	58	17.56	83	141.95
33	2.86	59	19.08	84	153.91
34	3.02	60	20.73	85	166.77
35	3.21	61	22.53	86	180.60
36	3.41	62	24.50	87	195.43
37	3.63	63	26.63	88	211.33
38	3.87	64	28.98	89	228.31
39	4.14	65	31.51	90	246.45
40	4.42				

The method of computing the inclusion in the employee's income can be illustrated by an employee, age 40, who is provided with $20,000 of group term life insurance protection. Table 15 indicates that for an individual whose attained age is 40, the annual cost per $1,000 of protection is $4.42. After deducting the $5,000 of tax-free insurance protection there remains $15,000, the premiums on which would be subject to tax under the proposal. Therefore, the taxable premiums in this case amount to $66.30 (15×$4.42). If this employee had himself contributed $2 per $1,000 of protection, this amount, or $40 (20×$2) would be deducted from the $66.30 of otherwise taxable premium income, leaving $26.30 includible in the employee's income.

The Treasury Department has indicated that the $5,000 level was proposed for the exemption because under present law death benefits of up to $5,000 paid by employers to beneficiaries employees (sec. 101(b) of the code) already are excludable. To correlate these two provisions the Treasury proposes that the amount excludable as a death benefit be reduced below $5,000 to the extent of any proceeds received by an employee from his tax-free group term life insurance.

It is proposed that only one $5,000 exemption be provided each year even though more than one employer is involved. However, in such cases withholding by each employer would be provided only for premiums paid for protection in excess of the $5,000 of coverage provided by each employer. Information reporting, rather than withholding, would apply in the case of group term life insurance supplied for retired employees.

Date.—The new tax treatment would apply to protection furnished by the employer in taxable years beginning after December 31, 1963.

Revenue and other effects.—The Treasury has stated that at the present time the net premiums paid by employers exceed $840 million

a year. The Treasury further states that the $5,000 exemption will leave unaffected more than two-thirds of the persons now covered by employer-financed group term life insurance contracts.

The Treasury has estimated that limiting the exclusion for groups term insurance in the manner outlined above (along with proposals regarding split dollar insurance and loans to carry life insurance) will increase revenues by $60 million a year. The distribution of this revenue increase as estimated by the Treasury Department is shown in table 16.

TABLE 16.—*Distribution by adjusted gross income classes of proposed reduction in group term insurance exclusion*

[Dollars in millions]

Adjusted gross income class	Tax liability under present law [1]	Change in tax liability resulting from reduction in group term insurance exclusion and other insurance proposals	
		Amount	Percent
0 to $3,000	$1,450	(2)	(2)
$3,000 to $5,000	4,030	(2)	(2)
$5,000 to $10,000	18,300	$20	0.1
$10,000 to $20,000	12,710	20	.2
$20,000 to $50,000	6,760	10	.1
$50,000 and over	4,170	10	.2
Total	47,420	60	.1

[1] Excludes $1,200,000,000 of tax on capital gains at the 25-percent alternative rate.
[2] Less than $5,000,000 or 0.05 percent.

Source: Office of the Secretary of the Treasury, Office of Tax Analysis.

2. Elimination of sick pay exclusion

Present law.—Under present law (sec. 105(d) of the code) amounts paid to an employee by his employer to continue his wage payments when he is sick or injured, under certain conditions are excludable from the employee's income (and deductible by the employer). The exclusion in this case may not exceed $100 a week and does not apply unless the employee is hospitalized because of the sickness or is absent from work because of sickness for more than 7 days (the exclusion is not available for these first 7 days).

Proposal.—The President has proposed that this sick pay exclusion be eliminated with respect to payments received for periods of absence occurring after December 31, 1963.

Wage continuation payments under this proposal would be includible in the employee's income for tax purposes whether they are paid directly by the employer or through insurance purchased by the employer. However, one exception is provided to this. The sick pay exclusion under present law by regulations has been held to cover those who are permanently retired because of disability before the normal retirement age (but only until the normal retirement age is reached).[9] It is proposed that disability pension payments for those disabled before January 1, 1964, would continue to be eligible for the sick pay exclusion.

The proposed repeal of the provision relating to the sick pay exclusion is intended to have no effect upon the exclusion presently avail-

[9] Regulations 1.105-4(a)(2).

able for compensation received for injuries or sickness (under sec. 104 of the code) or for amounts received from an employer which specifically cover expenses incurred for medical care (sec. 105(b) of the code) or which are payments for the loss of a member or function of the body (sec. 105(c)).

Revenue.—The repeal of the sick pay exclusion is expected to increase tax receipts by $160 million a year. The distribution of this $160 million of revenue by adjusted gross income classes is shown in table 17.

TABLE 17.—*Distribution by adjusted gross income classes of proposed elimination of sick pay exclusion*

[Dollars in millions]

Adjusted gross income class	Tax liability under present law [1]	Change in tax liability resulting from elimination of sick pay exclusion	
		Amount	Per cent
0 to $3,000	$1,450	$10	0.7
$3,000 to $5,000	4,030	30	.7
$5,000 to $10,000	18,300	80	.4
$10,000 to $20,000	12,710	30	.2
$20,000 to $50,000	6,760	10	.1
$50,000 and over	4,170	(2)	(2)
Total	47,420	160	.3

[1] Excludes $1,200,000,000 of tax on capital gains at the 25-percent alternative rate.
[2] Less than $5,000,000, or 0.05 percent.

Source: Office of the Secretary of the Treasury, Office of Tax Analysis.

F. AVERAGING OF FLUCTUATING INCOMES

Present law.—Present law provides specific averaging provisions for compensation for personal services where the payment is heavily concentrated in 1 year, in the case of income from inventions or artistic works, back pay, compensation for damages for patent infringement, breach of contract damages, and damages for injuries under the antitrust laws.

To be eligible for the provision relating to compensation from personal services under present law, the employment involved must have covered more than 36 months and 80 percent of the compensation from the employment must be received in the current year. For the income from the invention or artistic work to be eligible for the averaging provided, the work must have covered a period of 24 months or more and the income received with respect to it in the current year must have amounted to 80 percent or more of the income from the work (taking into account all prior years and 1 immediately future year). For income from back pay to be eligible for the averaging provided by present law the amount received in the current year must exceed 15 percent of the individual's income for that year. No specific eligibility rules of this type are provided in the case of patent infringement, breach of contract, or injuries received under antitrust violations. In all of these present averaging provisions the income tax attributable to the special type of income is determined by spreading the income back ratably over the period to which the income relates (except that in the case of the artistic work this may not exceed

36 months and in the case of the invention may not exceed 5 years). However, the tax in each case is imposed as of the current year, although determined on the basis of making a recomputation for the back years.

Proposal.—The administration has proposed a uniform averaging rule for widely fluctuating income which will be available where there is the requisite fluctuation of income without regard to the nature of the income. This would be a substitute for (and an addition to) the existing averaging provisions described above. Under the averaging provision proposed, once the amount of income to be averaged is determined, the taxpayer would compute a tentative tax on one-fifth of this amount by including it in the current year's income. The tax attributable to this one-fifth is then multiplied by 5 to determine the final tax on this income.

Two basic tests are employed in determining the income eligible for the averaging. First, only income in the current year which exceeds by more than one-third the average taxable income in the 4 prior years is eligible for averaging. Second, this excess amount is eligible for averaging only if it exceeds $3,000. The one-third increase requirement is intended to make averaging available only where there has been a wide fluctuation in income.

The manner in which this provision works is shown by an example of an unmarried taxpayer having an average taxable income of $4,000 in the years 1961–64 and a taxable income in 1965 of $44,000. The taxpayer in this case is eligible for averaging since his current income exceeds 133⅓ percent of his average income in the 4 prior years by more than $3,000. The tax on this $40,000 is determined by adding one-fifth of it ($8,000) to the income for the current year which is not subject to averaging; namely, the first $4,000. The tax on this $12,000 (under the proposed new rates for 1965) is $2,700 of which $660 is attributable to the $4,000 not eligible for averaging and the remainder, or $2,040, is attributable to the $8,000 eligible for averaging. This latter tax is multiplied by 5 to determine the ultimate tax on the income subject to averaging ($10,200). In addition, there is the tax of $660 on the income not subject to averaging, resulting in a total tax liability for the current year of $10,860. This can be compared with a tax of $17,960 which would have been payable on the $44,000 without the benefit of averaging.

In addition to the general rules set forth above, certain additional rules are also proposed. First, it is proposed that this averaging treatment be available only to taxpayers who are a part of the work force and subject to U.S. tax. By this it is meant that this provision would not be available in the case of a taxpayer who in the current year or any of the 4 prior taxable years—

(1) Had not attained the age of 19;
(2) Was claimed as a dependent by another taxpayer;
(3) Was a full-time student;
(4) Was a nonresident alien; or
(5) Was a U.S. citizen who claimed an exclusion for income earned abroad.

It is intended that the mere absence of income in the 4 prior years will not disqualify an individual for the averaging treatment so long as he was working (such as in the case of the author writing a book) or was unemployed but seeking work.

Second, in the case of net long-term capital gains, such amounts are to be excluded from the 4 prior years and the current year in determining the amount of income which is to be averaged. The Treasury excluded this income on the grounds that the proposed 30-percent inclusion factor for long-term capital gains already provides a type of averaging, and because capital gains by their nature can in many cases be controlled as to the time realized. Capital gains are taken into account, however, in the computation of the average income in the 4 prior years and in the current year in determining whether or not a taxpayer has sufficient income to be eligible for averaging.

Third, in determining the amount of income with respect to which the averaging treatment is available, it is proposed that there be excluded any income (above some de minimis amount) attributable to property acquired by gift, bequest, or inheritance during the current year and the 4 prior years. It is suggested that in such situations the taxpayer fortuitously has come into a new tax situation in which averaging relief is not appropriate. Income from these gifts, bequests, or inheritances would be taken into account, however, in determining whether or not a taxpayer was eligible for the averaging treatment.

Fourth, where, because of marriage, divorce, separation, or death a taxpayer with respect to which the averaging is sought in the current year, did not have the same status in the 4 prior years, it is proposed that the income in the 4 prior years be adjusted to reflect the tax situation which exists in the current year with respect to the taxpayers involved.

Fifth, the averaging treatment proposed in the case of carryforwards of net operating losses is applied after the application of these losses to all of the appropriate years. In the case of carrybacks of net operating losses it is proposed that subsequent adjustments be taken into account where they affect the actual year of computation but not where they affect merely some of the 4 prior years which were used in determining the amount to be subject to the averaging provision.

It is indicated that it also may be necessary to adjust the averaging provision somewhat in the case of certain special situations. An example of this cited is the proposal for the treatment of lump-sum pension and profit-sharing plan distributions.

Date.—It is proposed that taxpayers be permitted to elect to apply the averaging provision with respect to taxable years beginning after December 31, 1963. The 4 prior years may be years occurring before that time.

Revenue.—The Treasury Department has estimated that the averaging provisions described above will result in an annual loss in revenue of $40 million. As indicated in table 18, although the provision is available to all income classes, the revenue impact is concentrated in income classes above $10,000.

TABLE 18.—*Distribution by adjusted gross income classes of proposed income averaging modification*

[Dollars in millions]

Adjusted gross income class	Tax liability under present law [1]	Change in tax liability resulting from income averaging—	
		Amount	Percent
0 to $3,000	$1,450		
$3,000 to $5,000	4,030		
$5,000 to $10,000	18,300	(2)	(2)
$10,000 to $20,000	12,710	−$10	−0.1
$20,000 to $50,000	6,760	−20	−0.3
$50,000 and over	4,170	−10	−0.2
Total	47,420	−40	−0.1

[1] Excludes $1,200,000,000 of tax on capital gains at the 25-percent alternative rate.
[2] Less than $5,000,000 or 0.05 percent.

Source: Office of the Secretary of the Treasury, Office of Tax Analysis.

II. Corporation Ordinary Income Taxes

A. TAX RETURNS AND RELATED MATTERS

1. Overall rate reduction

Present law.—Under present law the total, or combined, corporate income tax rate is 52 percent, consisting of a 30-percent normal tax rate applying to all corporate income and a 22-percent surtax rate applying to corporate income in excess of $25,000.

Proposal.—The President's proposal would reduce the corporate tax applying to the first $25,000 of income effective for the calendar year 1963 (this is discussed in No. 2 below dealing with the reversal of the normal and the surtax). The President's proposal also provides a two-step rate reduction in the combined corporate rate applying to income in excess of $25,000. The present 52-percent rate under the administration proposal would be reduced to 50 percent for the calendar year 1964 and to 47 percent for the calendar year 1965 and subsequent years.

The 47-percent rate applicable for 1965 and subsequent years is the same corporate rate which would be applicable in the absence of the corporate rate extensions which have been made in each year since the Korean war.

The Secretary of the Treasury has indicated that the investment credit and faster depreciation rates provided last year should be taken into account in any analysis of reductions in corporate income tax burdens. The revenue reduction involved in these two provisions amounted to more than $2 billion.

As indicated above, the general corporate rate for calendar year corporations would be reduced to 50 percent in 1964 and to 47 percent in 1965. For fiscal year taxpayers, comparable reductions would be received for the portions of their fiscal years falling in the calendar year 1964 or 1965. Thus, for a corporation, one-third of whose year

fell in 1963 and two-thirds of whose year fell in 1964, the tax would be computed using the 52-percent rate and the 50-percent rate and the final tax would be determined by weighting the 52-percent computation by one-third and the 50-percent computation by two-thirds (actually by the number of days in each portion of the year).

Conforming rate changes would be made for life insurance companies and casualty insurance companies. Other corporate taxpayers would automatically have their tax rates changed to conform to the new corporate rate schedule. These include cooperatives, banks, and building and loan associations, etc. Certain deductions would also automatically reflect corporate rate changes. In addition, a conforming change would be made in the minimum distribution table (sec. 963) which makes certain of the new foreign provisions enacted last year inapplicable where there are specified distributions by a foreign subsidiary combined with specified foreign taxes. This table would be revised so that it results in an overall rate of 45 percent, rather than 47 percent as at present.

Revenue.—The overall reduction in corporate rates is expected to decrease tax liabilities by $1,320 million in 1964 when the 50-percent rate is in effect and by $2,630 million in 1965 when the 47-percent rate is in effect. However, these figures include $450 million attributable to the reversal of the normal and surtax rates discussed below. Without this change the decrease in revenues attributable to corporate rate reduction would be $870 million when the 50-percent rate is in effect and $2,180 million when the 47-percent rate is in effect. The reduction in corporate tax liabilities by surtax net income classes is shown in table 19.

TABLE 19.—*Tax program—Corporations—Revenue effect*[1] *of proposed tax rate reductions*

Surtax net income class	Number of corporations	Computed tax liability, present rates[2]	Decrease normal tax to 22 percent and increase surtax to 28 percent		Decrease normal tax to 22 percent and increase surtax to 25 percent	
			Amount of reduction	Percent reduction	Amount of reduction	Percent reduction
		Millions	*Millions*		*Millions*	
0 to $25,000	467,500	$874	$233	26.7	$233	26.7
$25,000 to $50,000	54,000	636	117	18.4	130	20.4
$50,000 to $100,000	25,000	759	72	9.5	105	13.8
$100,000 to $1,000,000	25,500	3,427	175	5.1	362	10.6
$1,000,000 and over	4,000	18,664	723	3.9	1,800	9.6
Total	576,000	24,360	1,320	5.4	2,630	10.8

[1] At 1963 levels of income.
[2] Excluding capital gains presently taxed at the alternative rate.

Source: Office of the Secretary of the Treasury, Office of Tax Analysis, Feb. 6, 1963.

2. *Reversal of normal tax and surtax rates*

Present law.—Under present law the corporate normal tax rate is 30 percent and the surtax rate 22 percent. The normal tax rate applies to the first dollar of corporate taxable income whereas the 22-percent surtax rate applies only to income above $25,000. Thus, in effect, the present corporate tax rate is 30 percent on the first $25,000 of income and 52 percent on income above this level.

Proposal.—The President proposes the reversal of the normal tax and surtax rates effective for the calendar year 1963. Thus, the normal tax rate for the calendar year 1963 and subsequent years would be reduced from 30 percent to 22 percent while the surtax rate would be increased from 22 percent to 30 percent. However, this surtax rate would be reduced from 30 percent to 28 percent for the calendar year 1964 and to 25 percent for the calendar year 1965 and subsequent years, as the general corporate rate reduction occurs. The effect of these changes is to provide a corporate rate of 22 percent instead of 30 percent on the first $25,000 of income in 1963 and subsequent years and on incomes above $25,000 a combined rate of 52 percent in 1963, of 50 percent in 1964, and of 47 percent in 1965 and the following years.

In the case of fiscal year taxpayers, the rate reduction for the year straddling 1962 and 1963 would be prorated according to the rates applicable to the two periods in the same manner as explained above for subsequent years in the case of the general corporate rate reductions. Some of the other adjustments referred to above with respect to other corporate rates and the various deductions would also be required in the fiscal year 1963.

Revenue.—The Treasury has estimated that the reversal of the corporate rates will result in a revenue loss of $450 million. The primary benefit from this will go to corporations with the smaller taxable incomes. This is indicated by table 20 below which shows the percentage point decrease in effective rates for different income levels. It will be noted from this table 20 that the percentage point decrease in tax attributable to the rate reversal is 8 percentage points for incomes of $25,000 or less and that this decreases gradually to 1 percentage point for incomes of $200,000.

TABLE 20.—*Corporate income tax reduction—Comparison of effective rates at existing levels and under proposed reversal of normal and surtax rates, calendar year 1963*

Net income	Effective rates (percent)		Percentage point decrease under proposal
	Existing	Proposed	
0 to $25,000	30.00	22.00	8.00
$30,000	33.67	27.00	6.67
$40,000	38.25	33.25	5.00
$50,000	41.00	37.00	4.00
$75,000	44.67	42.00	2.67
$100,000	46.50	44.50	2.00
$200,000	49.25	48.25	1.00
$500,000	50.90	50.50	.40
$1,000,000	51.45	51.25	.20
$10,000,000	51.95	51.93	.02
$100,000,000	51.99	51.99	[1]

[1] 2/1,000 of 1 percent.

Source: Office of the Secretary of the Treasury, Office of Tax Analysis, Feb. 6, 1963.

NOTE.—Effective rates rounded to nearest hundredth of 1 percent; percentage point decreases computed as difference between computed effective rates.

Table 21 shows the combination of the general corporate rate reduction and the reversal of the normal tax and surtax rates. It will be noted that, as indicated above, the reduction below $25,000 is 8 percentage points which gradually decreases to substantially the 5 percentage points at income levels of $10 million.

TABLE 21.—*Corporate income tax reduction—Comparison of effective rates at existing levels and under proposed reversal of normal and surtax rates with 47 percent combined rate, calendar year 1965*

Net income	Effective rates (percent)		Percentage point decrease under proposal
	Existing	Proposed	
0 to $25,000	30.00	22.00	8.00
$30,000	33.67	26.17	7.50
$40,000	38.25	31.38	6.87
$50,000	41.00	34.50	6.50
$75,000	44.67	38.67	6.00
$100,000	46.50	40.75	5.75
$200,000	49.25	43.88	5.37
$500,000	50.90	45.75	5.15
$1,000,000	51.45	46.38	5.07
$10,000,000	51.95	46.94	5.01
$100,000,000	51.99	46.99	5.00

Source: Office of the Secretary of the Treasury, Office of Tax Analysis, Feb. 6, 1963.

NOTE.—Effective rates rounded to nearest hundredth of 1 percent; percentage point decreases computed as difference between computed effective rates.

3. Current payment of corporate income taxes

Present law.—Under present law a calendar year corporation pays 25 percent of its estimated tax in excess of $100,000 in the third quarter or on September 15 of the year of liability. Another one-quarter of this estimated tax is paid in the fourth quarter or on December 15 of the year of liability. The remainder of the tax is paid in two equal installments in the following year, the first installment being due on March 15 and the second installment on June 15. Comparable dates are provided for fiscal year corporations.

This system of paying two quarterly installments with respect to tax in excess of $100,000 in the actual year of liability was initially provided at the time of the adoption of the Internal Revenue Code of 1954. Before that time Congress had, in 1950, provided in the case of calendar year corporations that the tax was to be paid in two installments of 50 percent each on March 15 and June 15 of the year following the year of liability. Prior to 1950, corporate taxes were payable in four installments, the first two for calendar year corporations on the dates specified above and the last two on September 15 and December 15 of the year following the year of liability.

Proposal.—The President's proposal would in effect provide that the two installment payments due on March 15 and June 15 *of the year following* the year of liability be advanced to April 15 and June 15 *of the year of liability* for calendar year corporations, leaving the September 15 and December 15 estimates of 25 percent still due at the same time as under present law. Also, any liability to the extent it is not in excess of $100,000 would still be payable in two installments after the close of the year on March 15 and June 15 in the same manner as under present law.

It is proposed that this further advance in corporate tax payments be provided gradually over a 5-year period commencing in 1964 with respect to liabilities of that year. The procedure used under this transitional rule is shown in table 22. This table shows for tax liabilities in excess of $100,000 the speedup in payment which would be required under the proposal. This table multiplies the percentage payments which would be required in each of the years from 1963 through the completion of the transition, before 1969, by the proposed effective

corporate tax rates which would be applicable in each of the years specified. The liability in each year is divided between the prior year's tax liability, the currently collected liability, and the total liability payable in that year. By multiplying the percentage of the payment by the applicable tax rate in each case it is possible to indicate the impact upon cash flow for corporations in each year. This does not take into account the fact that it is possible to cut payments back to 70 percent of the tax liabilities without penalty nor does it take into account the first $100,000 of tax liability which is not payable by declaration. Moreover, if the proposed rate reductions are adopted, more of a corporation's total tax lability will shift to the $100,000-and-less tax category. Because of these modifications the actual effective tax rates paid by corporations will be less than shown in table 22. It also should be emphasized that while this table shows the impact of the proposal on cash flow, it does not show the impact of the proposal on after-tax income or on incentive effects of the rate cuts.

TABLE 22.—*Percentage distribution by year of present or proposed corporate tax liability under proposed acceleration in corporate payments*

[Excludes first $100,000 of tax liability and assumes full payment of estimates]

For calendar year corporation	Payments made in year shown attributable to liabilities of—		
	Prior year	Current year	Total
			Percent
1963—March or April	25%×52%=13%		13.0
June	25%×52%=13%		13.0
September		25%×52%=13%	13.0
December		25%×52%=13%	13.0
Total for year	26%	26%	52.0
1964—March to April	25%×52%=13%	5%×50%=2.5%	15.5
June	25%×52%=13%	5%×50%=2.5%	15.5
September		25%×50%=12.5%	12.5
December		25%×50%=12.5%	12.5
Total for year	26%	30%	56.0
1965—March or April	20%×50%=10%	10%×47%=4.7%	14.7
June	20%×50%=10%	10%×47%=4.7%	14.7
September		25%×47%=11.75%	11.75
December		25%×47%=11.75%	11.75
Total for year	20%	32.90%	52.9
1966—March or April	15%×47%=7.05%	15%×47%=7.05%	14.1
June	15%×47%=7.05%	15%×47%=7.05%	14.1
September		25%×47%=11.75%	11.75
December		25%×47%=11.75%	11.75
Total for year	14.1%	37.6%	51.7
1967—March or April	10%×47%=4.7%	20%×47%=9.4%	14.1
June	10%×47%=4.7%	20%×47%=9.4%	14.1
September		25%×47%=11.75%	11.75
December		25%×47%=11.75%	11.75
Total for year	9.4%	42.3%	51.7
1968—March or April	5%×47%=2.35%	25%×47%=11.75%	14.1
June	5%×47%=2.35%	25%×47%=11.75%	14.1
September		25%×47%=11.75%	11.75
December		25%×47%=11.75%	11.75
Total for year	4.7%	47%	51.7
1969—March or April		25%×47%=11.75%	11.75
June		25%×47%=11.75%	11.75
September		25%×47%=11.75%	11.75
December		25%×47%=11.75%	11.75
Total for year		47%	47.0

It will be noted in table 22 that the speedup in corporate collections has no effect in the calendar year 1963. This is indicated by the fact that the total for that year in the last column remains at the usual 52-percent level. In 1964, however, this total increases to 56 percent. This is attributable to the fact that portions of the payments otherwise due in March and June of 1965 (one-fifth of these payments) have been transferred to April and June of 1964. These payments when multiplied by the 50-percent tax rate effective for that period indicate a tax increase in tax collections of 5 percentage points for that year. This accounts for the 56 percent being in excess of the 52-percent rate. In 1965 it will be noted that the quarterly payments due in April and June of that year have been further increased while the comparable payments due in 1966 have been correspondingly reduced. This procedure is repeated each year until the payments in April and June of the current year equal a full 25 percent of the tax liability in excess of $100,000, leaving none of these payments to be made in the year following the year of liability. This transition is completed under the proposal in 1968 and, therefore, the effect of the speedup is terminated in 1969 with the tax collections in that year corresponding with the tax liability proposed by the President, namely, the 47 percent.

The present provisions exempting corporations from any additional charges for failure to comply with the provisions of the declarations of estimated tax would be continued. Under present law additional charges equal to 6 percent per annum for underpayments are imposed only if the estimated tax payments fall in none of the following four categories:

(1) They amount to 70 percent of the tax shown on the final return after subtracting $100,000 and allowing credits;

(2) They amount to as much as the previous year's tax reduced by $100,000;

(3) They are equal to what last year's tax (less $100,000 and allowable credits) would have been had current rates been applicable to that year's income; or

(4) The installment with respect to the declaration for any quarter is equal to 70 percent of the tax (less $100,000 and allowable credits) due on the basis of the income received to date, placed on an annual basis.

Under the proposal, refunds of estimated tax would be allowed during the year of liability where on the basis of a later estimate the total payments received to that date exceeded the corporation's then expected total tax liability for the taxable year (including the first $100,000 of such liability).

Revenue and other effects.—The recommendations described above with respect to the speedup of corporate tax payments would start to become effective for taxable years beginning after December 31, 1963.

The Treasury Department has estimated that this proposal would increase revenues in the calendar year 1964 by $1.3 billion and in each of the 4 succeeding years by $1.5 billion. Since this provision applies only to corporations with tax liabilities in excess of $100,000, it is estimated that it would apply to only approximately 15,000 out of the 575,000 active corporations or to approximately 2½ percent of the total. In addition, some 2,000 or 3,000 of the 15,000 would have

tax liabilities of just above $100,000 and, therefore, would be effected only to a small extent by the proposal.

The Treasury Department in discussing this proposal has stated that although it will accelerate the flow of cash from the larger corporations to the Government, it believes this is of relatively minor significance because of the large liquid accumulations of corporations at the present time. In this regard it is pointed out that the cash and other liquid assets of corporations in 1962 amounted to $68.5 billion or some five times the aggregate tax liability of these corporations.

4. Limiting surtax exemption in the case of related corporations

Present law.—Present law (sec. 269) provides that where an individual or a corporation acquires control of a corporation and the principal purpose of the acquisition is the evasion or avoidance of Federal income tax by securing the benefit of a deduction, credit or other allowance, this deduction, credit or allowance is not to be allowed. Also, elsewhere under present law (sec. 482) it is provided that where two or more corporations are owned or controlled directly or indirectly by the same interests, the Secretary or his delegate may allocate deductions, credits, or allowances between or among these corporations if he determines that this is necessary to prevent evasion of taxes or clearly to reflect the income of the corporations. In addition, present law provides that if a corporation transfers property to another corporation created to acquire the property, and if after the transfer the transferor is in the control of the transferee, then the transferee corporation is not to be allowed the $25,000 surtax exemption or the $100,000 accumulated earnings credit unless it is established that the securing of this exemption or credit was not a major purpose of the transfer.

Proposal in general.—The Treasury Department believes that a business which is operating in a multicorporate form but is essentially a single enterprise should be restricted to one surtax exemption, regardless of whether the multicorporate structure can satisfy the above subjective tax avoidance tests. In fact, it has stated that the reversal of the corporate normal tax and surtax rates is not feasible unless the multiple surtax question is dealt with. It is stated that the reversal in these rates is intended to be of benefit to small business, whereas if multiple surtax exemptions are permitted to continue, this reversal in rates will also be of benefit to medium and large multicorporate groups.

The administration proposes in the case of common ownership of related corporations that only one $25,000 surtax exemption be granted to the related corporations. Similar rules would also be provided in the case of the $100,000 which is exempted from the accumulated earnings tax and the first $100,000 of estimated tax liability which is not subject to the accelerated corporate tax payment system.

Common ownership.—For purposes of determining whether there is common ownership an 80-percent-ownership test is used and three different types of common ownership are taken into account:

(1) Ownership of subsidiary corporations by a parent corporation (parent-subsidiary corporations).

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(2) Subsidiary corporations which are commonly controlled by a limited group of other corporations (commonly controlled corporation).

(3) Two or more corporations which are controlled by a limited group of individuals (brother-sister corporations).

In determining whether a parent-subsidiary relationship exists the parent must itself own 80 percent or more of the stock of one of the members of the group. Included in the stock owned by the parent is (*a*) stock held directly, (*b*) stock held by a "principal" shareholder of the parent (a 5 percent shareholder in the parent), (*c*) stock held by an officer of the parent, and (*d*) stock held by a pension or profit-sharing plan for the benefit of the employees of the parent. Further, if the parent owns 50 percent of the stock of the subsidiary, stock held by (*a*) a pension or profit-sharing plan for the benefit of the employees of the subsidiary, and (*b*) an owner-manager of the subsidiary, is not taken into account as outstanding stock for purposes of determining whether the parent owns 80 percent of the stock of the subsidiary. An owner-manager is defined as one charged with the general affairs of the subsidiary.

A commonly controlled subsidiary corporation would include a corporation, 80 percent of whose stock (either in voting power or value) is owned by not more than five corporations. In this case the subsidiary corporation would not necessarily be fully denied a surtax exemption. A surtax exemption would be allowed to it to the extent that one of its controlling corporate shareholders which owned more than a 20-percent interest in the subsidiary could not utilize its own surtax exemption.

A "brother-sister" affiliated group would include any group of two or more corporations if at least 80 percent of the value or voting power of the stock of each is owned by not more than five individuals. For individuals to be taken into account for this purpose, however, they must own 5 percent or more of the value, or voting power, of the stock of one of the corporations. In addition, each of the five or fewer individuals must own substantially the same proportion of the voting power, or value, of the stock of each of the corporations. For this purpose the test of "substantially the same proportion" of stock held by an individual is determined by taking into account the stock-ownership of any individual in a corporation to the extent of not more than twice his percentage of stockownership in the other corporation. This was illustrated by the Treasury Department by the following example:

Shareholders	X Corp. (percent)	Y Corp. (percent)
A	50	50
B	30	10
C	10	30
D	10	
E		10
Total	100	100

In this case the substantially common ownership in corporation X is 80 percent. This consists of the 50 percent held by A, a 20-percent holding of B (this is limited to twice his smaller holding in corporation Y) and the 10-percent holding of C. There is also an 80-percent common ownership in Y. In this case the holding of C taken into account is 20 percent and the holding of B is 10 percent.

For purposes of determining whether a brother-sister group exists, an individual is deemed to own stock held by a corporation, partnership, or estate or trust, to the extent of his interest in these entities. However, this rule (known as direct attribution) does not apply unless the individual owns a 5 percent (or more) interest in the corporation, partnership, or estate or trust.

In addition to the above rules certain family attribution rules apply. An individual is deemed to constructively own stock owned by (*a*) his spouse, (*b*) his minor children and minor grandchildren (under 21 years), (*c*) his adult children and grandchildren and parents and grandparents, but only if the individual owns more than 50 percent of the stock in the corporation the adult children, etc., have an interest in. If the individual is a minor child, he is deemed to own stock held by his parents and grandparents. In applying the family attribution rules, stock can be attributed to another member of the family only once. Thus, once attributed, it cannot be reattributed to make another the owner of the same stock. Finally, stock held under option by an individual is attributed to him.

The $25,000 surtax exemption available to an affiliated group would be divided equally among the members of the group unless they elect to apportion the exemption in some other manner. However, they cannot apportion it to provide a single member of two affiliated groups a surtax exemption in excess of $25,000.

Effective dates.—It is proposed that the multiple surtax exemptions be eliminated by gradually reducing the amount of extra surtax exemptions to zero in 1967, the fifth year of the transition. In 1963, the first year of the transition, each member of the affiliated group with earnings of $25,000 or more would have a "supplemental surtax exemption" equal to 75 percent of $25,000 minus any portion of the regular surtax exemption allocable to that corporation. In succeeding years this supplemental exemption would be reduced to 60 percent, 40 percent, 20 percent and zero respectively. For corporations with incomes of at least $25,000 this assures them surtax exemptions of at least $18,750 in 1963, $15,000 in 1964, $10,000 in 1965, $5,000 in 1966 and zero in 1967. Assuming a 52 percent tax rate on the income between the exemptions specified and $25,000 this means an effective tax rate of 29.5 percent on the first $25,000 in 1963, of 33.2 percent in 1964, of 37 percent in 1965, of 42 percent in 1966 and 47 percent in 1967. If the multiple corporation's income is less than $25,000, the 75 percent, 60 percent, 40 percent and 20 percent formula, described above, would be applied to the amount of actual income.

For fiscal years ending in 1963 and subsequent transitional years, the supplemental surtax exemption available would be prorated according to the portion of the fiscal year falling within the specified year.

Revenue.—The Treasury Department has estimated that the elimination of the multiple or surtax exemptions in the manner described above will result in a revenue gain which, together with the loss from the removal of the 2 percent tax on the consolidated returns described below, will result in a net revenue gain of $70 million when fully effective.

5. Removal of 2 percent tax on consolidated returns and 15 percent inclusion on certain dividend income received

Present law.—Under present law a consolidated income tax return can be filed by a group of subsidiary corporations where there is 80 percent control at each level of the chain of corporations, and there is a common parent corporation. In this return, intercompany transactions are washed out, and it is possible to offset losses of one corporation against the gains of other members of the group. However, under present law where the election to file a consolidated return is made, a special tax is levied of 2 percent of the consolidated taxable income of the group.

Also under existing law where corporate dividends are paid by one corporation to another, a deduction equal to 85 percent of the dividends income received is allowed the recipient corporation. This generally has the effect of including 15 percent of the dividend income in the second corporation's income tax base.

Proposal.—The administration has proposed that the special 2 percent tax on consolidated returns, referred to above, be eliminated for taxable years beginning after December 31, 1963. It has also proposed that the 85 percent deduction for dividends received be increased to 100 percent in the case of dividends received from a domestic corporation which is a member of a group which meets the 80-percent test. This amendment would apply with respect to taxable years of the recipient corporations beginning after December 31, 1963.

The Treasury Department has estimated that these modifications would result in an annual revenue loss but when taken together with the surtax exemption proposal described above will result in a net revenue gain of $70 million.

B. LIBERALIZING DEDUCTION FOR RESEARCH AND DEVELOPMENT

Present law.—Under present law (sec. 174) taxpayers may elect to deduct research and experimental expenditures currently or they may amortize these costs for tax purposes ratably over a period of 60 months or more. These are alternatives to capitalizing these costs and then writing them off over the life of the patent or improvement obtained as a result of the research or experimentation. The current expensing or 60 months writeoff is not available under present law in the case of depreciable assets. The cost of these assets presently is recovered through the depreciation allowance over their useful life.

Proposal.—The President has proposed that taxpayers be permitted to elect to expense the cost of depreciable research and development equipment rather than to recover the cost of these assets through depreciation. Research and development for this purpose is defined as including basic and applied research in the sciences and engineering and activities designed to develop new products and processes or substantial innovating improvements in present products or processes.

Research and development for this purpose, however, would not include—

(1) The design and development of preproduction prototypes, and of pilot plants and processes which are intended to be or are sold or put into use for the production of a product to be sold or marketed.

(2) Quality control, routine product testing, market research sales promotion, legal services and similar nontechnological activities.

For a research or development expenditure for equipment to qualify for current expensing—

(1) The equipment would have to be used directly and exclusively in research and development as defined above,

(2) Equipment used in research and development carried on in the performance of a Federal contract would not qualify for the expensing.

(3) The equipment would have to be specialized research equipment and not general purpose use or supporting assets. Assets which would not be eligible for the expensing would include general office equipment and furniture, transportation and communication equipment, and tangible depreciable property annexed to a building and necessary for the operation of machinery or for the comfort, safety and health of the personnel. All of these restrictions would apply only if the assets involved were of a type used elsewhere in the taxpayer's business.

(4) Buildings and improvements not eligible for the investment credit would not qualify under this provision.

It is proposed that companies with small research and development budgets under certain conditions need not meet the first two requirements set forth above requiring equipment to be used exclusively for research and development or requiring that none of it be used on Federal contracts. For these two requirements not to be applicable, however—

(1) Expenditures for equipment will qualify only to the extent of 4 percent of total expenditures, up to $500,000, for research and development (this means a maximum deduction not over $20,000).

(2) The equipment would have to be used at least 50 percent of the time for research and development purposes. If used more than 50 percent for research and development but less than 100 percent, the equipment would qualify for the expensing to the extent of 50 percent of the cost.

Where the cost of the qualifying equipment exceeds 4 percent of the research and development expenditures, a taxpayer would allocate the permitted amount of write-off among the qualifying equipment.

The expensing of the cost of research and development equipment would in no way deprive the taxpayer of an investment credit with respect to these expenditures.

Where equipment expensed in the year of purchase ceases to qualify in a subsequent year before the end of its normal useful life, the taxpayer would be required to include in income the amount equal to what its remaining basis would have been had it been capitalized and depreciated instead of expensed. Where research and development property is sold or otherwise disposed of, any gain on the sale or disposition would be treated as ordinary income to the extent of the amount expensed.

Date.—The expensing of equipment provided under this proposal would be allowable with respect to expenditures made after December 31, 1963, for constructions or acquisitions after that date, if the original use of such property commences with the taxpayer and commences after that date.

Revenue.—This proposal is expected to result in an annual revenue loss of $50 million.

C. TAXATION OF NATURAL RESOURCES

1. Carryover of excess deductions

Present law.—Under present law the percentage depletion allowance is computed either on a gross or net income basis, whichever results in the lesser depletion deduction. Under the gross income method, the gross income from the mineral property is multiplied by a specific statutory rate ranging from 27½ percent to 5 percent, depending upon the mineral involved. Under the net income method there is deducted from the gross income from the property all deductions, except depletion, which are attributable to the property. The percentage depletion deduction taken may not exceed 50 percent of this net income. Included in the deductions taken in arriving at net income on the property are intangible drilling costs in the case of oil and gas wells and exploration and development expenditures in the case of other mineral deposits.

Proposal.—The problem with which the Treasury Department is concerned is the fact that drilling, development, or other deductions taken in years before production from a property commences, or taken in excess of the gross income from the property, are deductible against other income of the taxpayer but are not taken into account in computing net income from the property realized in subsequent years. This is illustrated by two companies whose income and deductions are the same except for the fact that one of them incurs the cost of drilling a well in the year before production commences and the other in the year in which substantial production occurs.

	Taxpayer A	Taxpayer B
Gross income	$300,000	$300,000
Deductions	180,000	30,000
(The cost of drilling a well at $150,000 was incurred by taxpayer A in the year shown and by taxpayer B in the prior year.)		
Net income	120,000	270,000
Percentage depletion based on gross income, 27½ percent	82,500	82,500
50 percent net income limitation	60,000	135,000
Percentage depletion allowance	60,000	82,500

The President would modify cases like that of taxpayer B described above so that his tax treatment would be the same as that provided taxpayer A. This is accomplished by providing that all expenditures on a property whenever made are to be taken into account at one time or another in computing the taxpayer's net income from the property for purposes of the 50-percent limitation. This is accomplished by providing that to the extent deductions taken with respect to a property exceed the gross income from it in any taxable year, these excess deductions will be carried forward to reduce the taxpayer's net income from the property in subsequent taxable years, but only

for purposes of applying the 50-percent limitation. The deduction itself will reduce taxable income, however, in the year incurred. The amount of the carryover that will be used to reduce net income in any subsequent taxable year is limited to an amount which will reduce the taxpayer's percentage depletion otherwise allowable for the year by no more than 50 percent, or by the amount which makes full allowance for the deduction of cost depletion, if that is larger. Any carryover of excess deductions which was not used up in 1 year will be carried forward to the next year with the procedure outlined above repeated for that year. Any amount still remaining unused will be carried forward to subsequent years until used up.

Example.—The Treasury illustrates the operation of its proposal by a taxpayer who drills a well in 1964 at a cost of $150,000 but obtains no production from the property in that year. In 1965 his income, deductions, and depletion allowance under present law would be computed as follows:

Gross income	$150, 000
Deductions	20, 000
Net income	130, 000
27½ percent of gross income	41, 250
50 percent of net income	65, 000
Percentage depletion allowance under present law	41, 250

The carryover of excess deductions of $150,000 from 1964 to 1965 under the limitation provided could not reduce the net income ($130,000) below $41,250 since with the 50-percent limitation any further deduction would reduce the percentage depletion allowance by more than 50 percent. As a result, $88,750 of the carryover deduction ($130,000 less $41,250) would be used in 1965. The remaining $61,250 ($150,000 less $88,750) would be carried over to 1966 and subsequent years until fully used to reduce net income from the property.

The above example assumes that cost depletion would not be above the $20,625 of depletion allowed in the example given above. If it were above, for example if it were $25,000, then this would be the factor which would limit the extent to which the excess deduction was used in 1965. In this case the excess deduction could not reduce net income below $50,000 (since 50 percent of this equals the $25,000). As a result, under this assumption $80,000 of the carryover account would be used and $70,000 would remain to be used in subsequent years.

Date.—This proposal would apply to excess deductions taken with respect to a property in taxable years beginning after December 31, 1963.

Revenue.—The Secretary of the Treasury in his letter of March 20 to Chairman Mills indicated that this provision would involve a revenue gain to the Treasury of $85 million a year. Of this, $80 is attributable to oil and gas and $5 to hard minerals.

2. Aggregation of oil and gas property

Present law.—The percentage depletion deduction is either a specified statutory percentage multiplied by the gross income from the "property" or, if less, 50 percent of the net income from the "property." As a result, what constitutes property is of considerable significance in determining the percentage depletion deduction avail-

able, especially in the case of the 50-percent net income limitation. In this case, if wells or mines, having a relatively small net income relative to the gross income involved can be combined with wells or mines having a high ratio of net income to gross income, the 50-percent net income limitation may have little or no effect.

At one time each separate mineral deposit in a lease or acquisition was treated as a separate property. Prior to 1954, however, the administrative practice arose of permitting, at the taxpayer's option, the aggregation or combination of deposits in a single lease or acquisition. In 1954, Congress (in sec. 614) permitted the aggregation of properties across lease lines so long as all of the properties were in one "operating unit." This treatment was prompted by the hard mineral industry but the 1954 Code provision also applied to oil and gas interests. In 1958 Congress adopted detailed rules in the case of hard minerals. In general these rules provided that operating mineral interests may be aggregated mine by mine and that any number of mines may be aggregated so long as they are in a single operating unit. In the case of oil and gas, Congress in 1958 gave operators an option to use either the 1939 Code "lease" rule or the 1954 Code "operating unit" rule.

Proposal.—The Treasury objects to the 1954 Code operating unit rule on the ground that it gives rise to substantial administrative problems and also because this operating unit rule makes possible the combination of high-cost and low-cost properties with the result that the 50-percent net income limitation becomes effective in fewer cases. The Treasury indicates that the operating unit concept in the oil and gas industry is a tax concept which has no business substance and that as a result the computation has in practice resulted in continual disputes.

The administration proposal would eliminate the 1954 Code operating unit rule in the case of oil and gas properties. Instead of this the taxpayer could either maintain separate deposits as separate properties or could elect to combine all deposits falling within a single lease or acquisition, but could not combine different leases or acquisitions.

An exception would be permitted to the lease rule where an oil or gas producer enters into a so-called unitization agreement. Under such an agreement the producer transfers his leasehold interest, or interests, in exchange for an undivided interest in a larger area. In this case the undivided interest would be treated as one property even though it covered more than one lease. This would also be true where a producer owning a number of leases enters a unitization agreement with various royalty owners to determine the share of production allocable to each of these owners.

Date.—This proposal would apply to all oil and gas properties for taxable years beginning after December 31, 1963. Thus, all aggregations used by taxpayers in prior years would be required to be taken apart or "unscrambled" as of the first taxable year beginning after December 31, 1963. Thus, the new rules would apply to existing as well as to new acquisitions.

Revenue.—The Treasury Department has estimated that the adoption of this provision would result in a revenue gain of approximately $50 million a year.

3. Limitation on capital gains in the case of the sale of mineral interests

See No. III E 1 for a discussion of ordinary income treatment in the case of the sale of mineral interests.

4. Limitations on allowance of foreign tax credit and certain deductions in the case of oil, gas, and mineral operations abroad

Present law.—Under present law U.S. companies which through foreign branches develop and produce minerals are permitted to take an immediate deduction against U.S. income for intangible drilling expenses and development expenses or exploration costs. These costs may be offset against domestic income either because they occur before the realization of any foreign income, or because the foreign income is earned in a separate corporation, while the expenditures referred to are incurred by a branch of the U.S. company.

Present law provides that where operations are carried on in more than one foreign country, foreign taxes in one foreign country, to the extent they exceed what the U.S. tax would be on such income, can in effect be averaged out, against foreign income in another country where the foreign tax is less than what the U.S. tax would be on such income. This averaging out of foreign income and taxes in different countries, or different operations in the same country, is particularly important where natural resource income is involved. Because U.S. percentage depletion deductions and deductions for intangible drilling and development costs tend to be larger than those provided by foreign countries, the effective U.S. tax rates on natural resource operations tend to be lower, relatively, than the effective foreign taxes imposed on such operations. As a result, if natural resource production is carried on in one foreign country and other foreign operations are also carried on (either in the same country or another country) any excess foreign tax credits arising from the natural resource income production can be offset against the U.S. tax which otherwise would be imposed with respect to the other foreign income.

Deductions.—First, in the case of the deductions of intangible drilling and development expenditures and exploration expenditures of U.S. branches operating abroad the administration has recommended that these deductions not be available to reduce U.S. tax on income earned in the United States. This would be accomplished by providing that to the extent deductions of intangible drilling and development costs and exploration expenditures result in an operating loss in a foreign country (or foreign countries), these deductions may not be used (either directly or through the computation of the limitation on the foreign tax credit) to reduce the tax on income earned in the United States. These amounts would be available, however, to offset any other foreign income and to the extent they exceed foreign income they would be available as a carryforward to offset foreign income in subsequent years until exhausted. An exception to this rule would be made in the case of the abandonment of the property. Abandonment losses would be allowed as a deduction against domestic taxable income.

Tax credit.—The second proposal in general provides that excess foreign tax credits which arise from the allowance of percentage depletion and the deduction of intangible drilling expenses, development costs, and exploration expenditures on foreign mineral operations

may not operate in such a manner as to offset U.S. taxes on other nonmineral foreign income. Instead, these excess credits must be used, if at all, against U.S. tax imposed on income from mineral operations in other taxable years.

Date.—The above proposals would apply in the case of a U.S. company engaging in foreign operations for all taxable years beginning after December 31, 1963.

Revenue.—No revenue estimate has been given by the Treasury Department with respect to the gain from these limitations on foreign operations.

D. TIGHTENING OF PERSONAL HOLDING COMPANY PROVISIONS

Under present law a domestic personal holding company is taxed on its undistributed personal holding company income at a rate of 85 percent (75 percent on the first $2,000). This is in addition to the regular corporate income tax. In general terms a personal holding company is defined as a closely held corporation, most of whose income is derived from certain specified forms of passive investment income.

The administration has made a series of six recommendations for changes in these provisions which have the effect of broadening somewhat the application of this tax.

1. Gross income test

To be a personal holding company, 80 percent of a company's gross income must be "personal holding company income," i.e., certain specified forms of passive investment income.

The administration believes that this 80 percent test is too high and that instead if as much as 60 percent of a company's income is "personal holding company income" it should in this regard be classified as a personal holding company. The Treasury points out that under present law if 21 percent of the gross income of a company is from the operation of a business, at present such an amount can keep gross investment income equal to 79 percent of gross income from being subject to personal holding company income tax. The Treasury points out that this is true even though the investment income may be dividend income which, because of the 85 percent dividends deduction, will be subject to a maximum tax of 7.8 percent.

2. Rental income

Under present law rental income is classified as personal holding company income unless it constitutes 50 percent or more of total gross income. It was thought that where rental income represented the major activity this was more likely to be an active rather than passive form of business.

The Treasury has recommended that this basic 50 percent test be retained but that in computing the rental income subject to this test (and also in computing the total income for purposes of this test) depreciation, interest, and property taxes be subtracted. In addition, if the company in turn leases the property to someone else, it proposes that amortization and rents paid also be subtracted.

The Treasury also has recommended that an additional test be met before rental income be classified as other than personal holding company income. The Treasury has proposed, in addition to the 50 percent test, that for rental income to escape classification as personal

holding company income, the personal holding company income other than rental income must not represent more than 10 percent of the gross income of the company. This test is somewhat similar to the test used under present law in the case of copyright royalties and mineral royalties.

The administration would also provide certain special rules with respect to film rentals. Under present law payments received from the distribution and exhibition of motion picture films are treated as rentals. As a result, a corporation may be formed by an individual who owned a motion picture negative and have its earnings treated as rents which, by reason of the 50-percent test referred to above, escape the personal holding company tax.

To meet this problem the Treasury Department has proposed that payments received from the exhibition and distribution of film be treated as copyright royalties. This means, among other tests, that as copyright royalties they will escape personal holding company tax only if business deductions represent 50 percent or more of gross income. The Treasury Department would also amend the copyright royalty provision to provide that *all* royalties paid are excluded for purposes of determining whether the "business expense" test is met and to make it clear that deductions under the code other than those under section 162 (such as depreciation deductions) are not treated as deductions for purposes of this test. However (recognizing that this tightens to considerable extent the business expense test in the case of copyright royalties) the Treasury also proposes that the required percentage of business expenses be reduced from 50 percent to 20 percent.

3. Oil and gas interests

Under present law, a working interest in an oil or gas well is classified as income from an active trade or business. Therefore, it is not treated as personal holding company income in determining whether a company has more than 80 percent of its income (60 percent under the proposal described above) from personal holding company income sources.

Because the deductions which may be taken from such gross income are relatively large, a substantial gross income from these sources may indicate only a small taxable income. The Treasury indicates that each dollar of gross income from an oil or gas well has the effect of "sheltering" almost $4 of gross personal holding company income under the 80-percent test or almost $1.50 of personal holding company income under the 60-percent test.

The Treasury proposes that gross income from an oil or gas interest would be reduced by depletion, interest, and royalties paid out in computing the 80- or 60-percent gross income test.

4. Mineral royalties

Under present law, mineral, oil, or gas royalties are considered to be personal holding company income unless they represent 50 percent or more of the gross income of the company, and unless the deductions allowable under section 162 relating to trade or business expenses (other than compensation for personal services rendered by the shareholders) represent 15 percent or more of the gross income of the company.

The administration proposes two changes in this test. First, in determining whether the mineral royalty income represented 50 percent or more of gross income, both the mineral royalty income and the total gross income would be reduced for any depletion deduction and interest deduction. Second, in determining whether or not the 15-percent test was met those deductions attributable to the mineral royalties would be taken into account.

5. Capital gains on assets other than stock, securities or commodities

Under present law capital gains (other than capital gains attributable to stocks, securities, or commodities) are not treated as personal holding company income. They are, however, included in the gross income of a company.

The Treasury Department is concerned because a company owning a capital asset with large appreciation can sell this asset and since the gain on it is gross income, but not personal holding company gross income, this will aid the company in avoiding classification as a personal holding company. The Treasury points out that the capital asset is sold on an installment basis the capital gains can be used over a period of several years as a means of avoiding classification as a personal holding company.

The administration has proposed that capital gains on assets other than stocks, securities, or commodities be excluded from gross income in determining whether 80 percent (or 60 percent under the proposal) or more of the gross income of a company is personal holding company income.

6. Liquidating dividends

Under present law, the 85- or 75-percent tax on personal holding companies applies only to the undistributed personal holding company income. Thus, this tax is applied after dividend distributions are taken into account. Included among the amounts treated as dividends eligible for the dividend-paid deduction are distributions in liquidation to the extent of the accumlated earnings and profits. Thus, in the year of the liquidation of a personal holding company, there is no income subject to personal holding company tax for that year. As a result, in the year of liquidation, even though the company qualifies as a personal holding company, it will not be subject to the personal holding company tax and its stockholders can receive the income of the final year taxable at only capital gains rates.

The Treasury Department is concerned on the grounds that these provisions permit a company which is a personal holding company to avoid the personal holding company tax and the ordinary income rates with respect to its shareholders in the year in which it liquidates.

The Treasury also is concerned with the case involving the liquidation of a subsidiary under section 332. If both the parent and subsidiary corporation in this case are personal holding companies and the current and accumulated earnings and profits of the subsidiary exceed its undistributed personal holding company income in the year of the liquidating distribution, the parent corporation may use the excess as a carryover dividends-paid deduction in computing its own dividend-paid deduction, thus reducing its own undistributed

personal holding company income in the taxable year and the 2 succeeding years.

The administration has proposed that no dividends-paid deduction be allowed with respect to undistributed personal holding company income in the case of a liquidating distribution except to the extent that the liquidating corporation elects to treat this distribution as an ordinary dividend distribution to its shareholders.

7. *Effective date*

The administration would make all of the personal holding company amendments described above effective for taxable years beginning after December 31, 1963.

8. *Revenue effect*

The Treasury has estimated that the personal holding company amendments described above will result in an annual revenue increase of $10 million.

III. Taxation of Capital Gains

A. GENERAL PROVISIONS

1. *Individuals*

Present law.—Under present law capital gains are divided into two general groupings: short-term capital gains and long-term capital gains. The former are gains on assets held for not more than 6 months and the latter are gains on assets held for longer periods of time. Net short-term gains in excess of net long-term losses are taxed to individuals as ordinary income. Net long-term gains in excess of net short-term losses are taxed to individuals under one of two procedures. Either the gain would be included in the taxpayer's income and reduced by 50 percent or the entire gain may be omitted from the taxpayer's ordinary income tax base and a 25-percent tax paid with respect to it.

Capital losses under present law also are generally divided into two groupings, depending upon whether the assets sold were held for not more than 6 months or a longer period of time. Those held for 6 months or less are first offset against any comparable gains; similarly, long-term capital losses are first offset against any long-term capital gains. Then any loss in either category is offset against any gain in the other category. If there still remains an excess of capital losses (either short-term or long-term) these losses may be offset against ordinary income but only to the extent of $1,000. If any net loss still remains, it may be carried forward for the period of up to 5 years as a short-term capital loss and as such offset against capital gains in each year and against ordinary income in each year to the extent of $1,000.

Proposal.—The administration proposes changes in all of the general rules specified above. First, it would extend the holding period for short-term capital gains from the present 6 months to a year. Thus, under this proposal capital gains on assets held up to a year would in general terms be treated as ordinary income rather than only gains on assets held for periods of 6 months or less.

Second, the administration proposes that, instead of allowing 50 percent of net long-term gains in excess of net short-term losses to be deducted, 70 percent would be deducted. Thus in effect taxpayers would be required to include 30 percent, rather than 50 percent, of net long-term capital gains in their ordinary income tax base. If

the rate revision proposed by the administration is adopted (with rates for 1965 ranging from 14 to 65 percent) this 30-percent inclusion rule for long-term capital gains will mean that they are taxed at rates ranging from 4.2 to 19.5 percent, as contrasted to the range from 10 to 25 percent under existing law.[10] The tax rates for long-term capital gains after the percentage exclusion under present law and under the proposal are shown in table 23.

TABLE 23.—*Comparison of rates of tax applicable to capital gains after percentage exclusion under present law and under proposed plan*

(Rates for a single person)

[In percent]

Taxable income bracket	Present law		Proposed plan	
	Gains on sale of assets held:			
	Not more than 6 months	Over 6 months	Not more than 1 year	Over 1 year [1]
0 to $1,000	20.0	10.0	14.0	4.2
$1,000 to $2,000	20.0	10.0	16.0	4.8
$2,000 to $4,000	22.0	11.0	18.0	5.4
$4,000 to $6,000	26.0	13.0	21.0	6.3
$6,000 to $8,000	30.0	15.0	24.0	7.2
$8,000 to 10,000	34.0	17.0	27.0	8.1
$10,000 to $12,000	38.0	19.0	30.0	9.0
$12,000 to $14,000	43.0	21.5	34.0	10.2
$14,000 to $16,000	47.0	23.5	37.0	11.1
$16,000 to $18,000	50.0	25.0	40.0	12.0
$18,000 to $20,000	53.0	25.0	42.0	12.6
$20,000 to $22,000	56.0	25.0	45.0	13.5
$22,000 to $26,000	59.0	25.0	47.0	14.1
$26,000 to $32,000	62.0	25.0	50.0	15.0
$32,000 to $38,000	65.0	25.0	52.0	15.6
$38,000 to $44,000	69.0	25.0	55.0	16.5
$44,000 to $50,000	72.0	25.0	57.0	17.1
$50,000 to $60,000	75.0	25.0	58.0	17.4
$60,000 to $70,000	78.0	25.0	59.0	17.7
$70,000 to $80,000	81.0	25.0	60.0	18.0
$80,000 to $90,000	84.0	25.0	61.0	18.3
$90,000 to $100,000	87.0	25.0	62.0	18.6
$100,000 to $150,000	89.0	25.0	63.0	18.9
$150,000 to $200,000	90.0	25.0	64.0	19.2
$200,000 and over	91.0	25.0	65.0	19.5

[1] 30 percent inclusion.

Source: Office of the Secretary of the Treasury, Office of Tax Analysis, Feb. 6, 1963.

Third, an indefinite loss carryforward would be allowed in the case of net capital losses. Short-term losses as under present law would first be offset against any short-term gains; similarly, any long-term losses would first be offset against any long-term gains. Also, as under present law, any net capital losses in excess of all capital gains would be allowed as a deduction against ordinary income to the extent of $1,000. However, instead of being permitted to carry any still remaining capital loss from the current taxable year to only the five

[10] The range rates under the proposal can be computed by applying the 30-percent inclusion to the specific rates provided, i.e., 30 percent of 14 percent equals 4.2 percent and 30 percent of 65 percent equals 19.5 percent. Under existing law the tax rates on long-term capital gains range from 10 percent, which is computed as 50 percent of 20 percent, to the maximum alternative rate specifically provided in the statute of 25 percent.

immediately following taxable years, taxpayers would be permitted an indefinite loss carryforward. In addition, any net loss carryforward to a succeeding year would be included in either the short- or long-term capital loss category for that year, depending upon which it was in the year in which it originated. Under present law capital losses carried forward for the 5-year period are in all cases treated as short-term capital losses without regard to their origin. Also, it is proposed that married taxpayers filing separate returns be limited to an annual offset of $500. Under present law married taxpayers filing a separate return may each offset $1,000 of ordinary income by capital losses.

Date.—The changes described above would in general be effective for taxable years beginning after December 31, 1963. The 1-year holding period, however, would be applicable to assets purchased after December 31, 1963.

Revenue.—The Treasury Department has estimated that reducing the capital gains included in income to 30 percent, together with the extension of the holding period to 1 year will reduce individual income tax revenues by $390 million. This, however, is without regard to the increase in sales expected as a result of the 30 percent inclusion factor. These "induced effects" are expected to increase collections from capital gains by $260 million a year, with the result that these provisions are expected to result in a net decrease of $130 million, rather than $390 million.[11] In addition, it is estimated that the indefinite loss carryover would result in another $20 million loss, with the result that the gross loss from these provisions is expected to be $410 million and the net loss $150 million.

Table 24 shows the distribution of net long-term capital gains in 1959 by adjusted gross income classes and also by type of asset.

TABLE 24.—*Net long-term capital gains, 1959—Percentage distribution by type, for adjusted gross income classes*

	0 to $10,000	$10,000 to $50,000	$50,000 to $100,000	$100,000 to $500,000	$500,000 plus	All	Gain as a percentage of gross sales [1]
Security-type gains	30.4	55.9	67.3	70.6	78.4	54.1	----------
Securities	19.4	43.1	55.2	61.6	72.4	43.0	25.6
Corporation stocks	19.1	41.7	53.4	59.8	70.5	41.4	29.3
Bonds	.3	1.4	1.8	1.8	1.9	1.6	7.1
Distributions from regulated investment companies	3.8	4.0	2.2	.7	.4	2.9	----------
Gain from partnerships and fiduciaries	7.2	8.8	9.9	8.3	5.6	8.2	----------
Real estate	29.4	18.2	11.3	10.2	1.5	18.0	22.2
Business buildings, machinery	5.9	5.8	2.2	1.5	1.0	4.4	22.3
Livestock	16.3	2.2	1.0	.5	.1	5.7	71.5
Natural resources	3.5	1.2	0.8	1.7	2.6	2.1	68.7
Other	13.9	16.6	17.3	15.6	16.2	15.7	----------
Total	100.0	100.0	100.0	100.0	100.0	100.0	----------

[1] Where such data are given.

NOTE.—Individual items may not add to column totals because of rounding error.

Source: Statistics of Income, "Sales of Capital Assets Reported on Individual Income Tax Returns," 1959. Office of the Secretary of the Treasury, Office of Tax Analysis. Feb. 6, 1963.

[11] The 30 percent inclusion is expected to result in a gross revenue loss of $700 million and a net loss of $310 million. The longer holding period is expected to result in a gross gain of $310 million and a net gain of $180 million.

2. Corporations

Present law.—There is the same grouping of capital gains as short term and long term under present law in the case of corporations as in the case of individuals. Those from assets held for 6 months or less are classified as short-term gains and taxed with the regular corporate income. Those from assets held for longer periods of time are classified as long-term capital gains. In the case of corporations, however, there is no 50-percent inclusion factor; a corporation either includes the gain in its ordinary income or alternatively pays a tax of 25 percent on these capital gains. In the case of capital losses, corporations are allowed to offset such losses only to the extent of gains from the sale or exchange of capital assets. However, as in the case of individuals, any net capital loss which is not offset in the current year may be carried forward and offset against capital gains in the 5 succeeding taxable years.

Proposal.—The administration proposes that the holding period for long-term capital assets of corporations be extended to 1 year in the same manner as it proposes in the case of individuals. Thus, corporate capital gains realized from assets held 1 year or under would be treated in the same manner as ordinary corporate income.

The administration has also proposed that the alternative rate on capital gains be reduced from 25 percent to 22 percent. This is the same tax rate which, under the administration proposals, would be applicable to corporations with respect to the first $25,000 of their income. Thus, this would mean that for the small corporations with no ordinary income over $25,000, a single 22-percent tax rate would apply. This accounts for 467,500 out of the 576,000 active corporations.

No change is proposed in the case of corporations in the manner in which capital losses are treated. These losses would continue only to be offset against capital gains and the loss carryover in their case would continue to be limited to 5 years.

Date.—The 22-percent capital gains rate in the case of corporations would be effective for taxable years beginning after December 31, 1963. The 1-year holding period requirement would be applicable to assets purchased after December 31, 1963.

Revenue.—The Treasury has estimated that the 22-percent capital gains rate for corporations, combined with the extension of the holding period, will result in a loss of $40 million a year on a gross basis, or $30 million on a net basis.

B. TAXATION OF ACCRUED GAINS ON CAPITAL ASSETS AT THE TIME OF GIFT OR TRANSFER AT DEATH

Present law.—Under present law, property is transferred at the time of the death of the individual without any income tax being imposed on any appreciation in the value of the assets which has occurred. However, these assets are given a new basis equal to their fair market value at the time of the death of the decedent (or within 1 year thereafter). In the case of gifts there is no income tax imposed on appreciation in value at the time of the gift, but in this case the basis of the property in the hands of the donee remains the same as its basis in the hands of the donor (except that it is increased by the amount of any gift taxes attributable to this property).

Proposal in general.—Under the proposal, subject to certain exceptions, any appreciation in the value of property at the time of the transfer of the decedent's assets at death will be subject to income tax. This gain would be taxed to the decedent in his last income tax return and the appreciation in value would be determined either at the date of death or within 1 year after the date of death. This tax would be treated as payable before any estate tax and, therefore, any amount of property subject to the estate tax would under this proposal be reduced by the amount of the income tax imposed at date of death.

Generally the gains taxed to the individual at death will be capital gains and the proposal would provide for the inclusion of 30 percent of these gains (all are assumed to be long-term capital gains whether or not they actually are long term) in the income of the individual for his last taxable year. As indicated subsequently, an averaging provision will be available in such cases.

This tax on appreciation in value at the time of a transfer at death would also be imposed on transfers by gift during lifetime.

The tax applies not only to appreciation at the time of transfer by gift or death but also recognizes losses where property has gone down in value as well. Where an individual holds assets where their fair market value at the time of death or optional valuation date is less than their adjusted tax basis, the losses will be treated as sustained at that time. These losses, which will generally be capital losses, will be allowed as in the case of other capital losses to the extent of $1,000 against ordinary income in the decedent's last return. If any capital loss remains, a special 3-year carryback will be allowed with respect to it. However, in this case the loss will be reduced to the extent of the 30-percent inclusion factor for capital gains.

Exemptions.—A series of rules provide specific exceptions to the full taxation of gain to the individual at the date of his death. These can be summarized as follows:

(1) Any gain on all ordinary personal and household effects of the decedent would be exempt. This would include the clothing of the decedent, drapery and carpeting, furniture, appliances, and so forth. Personal and household effects of unusual value such as expensive jewelry, furs, original paintings, antiques, and so forth., would not be covered and would be treated like any other asset of the decedent. The basis to the transferee of the personal and household effects even though exempt from income tax would be their fair market value at the time of the decedent's death.

(2) The portion of the gain at the decedent's death attributable to the portion of the decedent's total assets transferred to charity would be exempt from tax. Since the transferee in this case is tax exempt, the basis of the asset in its hands is immaterial.

(3) An exclusion equal to one-half of the appreciation in property passing at death would be permitted provided one-half of the total property passes to the taxpayer's spouse. If a lesser portion of the property passes to the spouse, the exclusion of appreciation is proportionately decreased. The spouse would in effect carry over the decedent's basis for the property, the appreciation on which was not taxed in his last return. This is similar to the treatment which occurs automatically in the case

of one-half of community property since one-half of this property belongs to the spouse initially and is not transferred at the time of the decedent's death.

The marital exclusion proposed here is similar to the marital deduction presently provided in the case of the Federal estate tax. In this case there would be no attempt to trace the basis of specific property into the hands of the decedent's spouse. Instead, if the spouse received one-half (or less) of the property in terms of value, she would receive one-half (or less) of the basis of the decedent for his aggregate property. If the spouse received more than half of the property, to the extent the transfer to her exceeded this 50 percent, the property would receive a step-up in basis at the date of the decedent's death.[12]

(4) A special provision would apply where the decedent has a personal residence which is left to his surviving spouse. If the residence is community property or jointly owned, the half of the appreciation included in the decedent's basis will be free of income tax and the other half which is not in his estate will nevertheless receive a step-up in basis at the date of his death. If the residence is separate property and the appreciation in it exceeds the amount of the marital exclusion, the exclusion will be increased to cover the entire gain on the residence. In addition, the personal residence, unlike other property covered by the marital exclusion, will receive a basis at the date of the decedent's death equal to its fair market value.

(5) A minimum exemption of $15,000 is to be available in all cases. This is in addition to the marital exclusion. This exemption may be used to exempt appreciation on gifts made during lifetime from tax or, if not used up in this manner, is available at the time of the decedent's death. Property passing under the $15,000 exemption will receive a basis equal to its fair market value at the time of the transfer.

(6) In the case of personal residences where there is no surviving spouse (see No. 3 above where there is such a spouse) and the appreciation on a personal residence exceeds the $15,000 (see No. 5 above), then this $15,000 exemption is to be increased to cover the entire gain on the personal residence.

The exemptions referred to above are summarized by the Treasury in a chart shown as table 25 below.

TABLE 25.—*Exceptions under proposal to tax capital gains at death*

Property	Treatment at death	Basis to transferee
1. Ordinary personal and household effects.	Exempt	FMV.[1]
2. Transferred to charity	do	FMV.[1]
3. Transferred to surviving spouse	Exempt up to ½ of total gain in estate	Carryover of decedent's basis on part not taxed, except FMV [1] for personal residence.
4. $15,000 of gain	Exempt	FMV.[1]
5. Personal residence	Exempt under marital or $15,000 of gain exceptions, with special rules to increase those exceptions to cover certain cases where marital exception or $15,000 is less than gain involved.	FMV.[1]

[1] FMV—Fair market value at decedent's death or alternate valuation date.

[12] However, the spouse would have to receive property other than cash with a fair market value at least equal to the amount of the marital exclusion for the marital exclusion to be available.

Averaging.—To prevent a bunching of income and a higher tax in the decedent's last year as a result of taxing the entire appreciation at that time, it is proposed that the income taxed as a result of death, even though capital gain, be eligible for the 5-year averaging device previously discussed. This income would be eligible for averaging whether or not it is one-third above the average income in prior years.

Filing return and paying tax.—The final income tax return of the decedent which would be filed by the executor, under this proposal would be due to be filed at the same time as the estate tax return of the decedent, namely, 15 months after the date of death. In addition, it is proposed that the provisions in present law designed to give more time to pay estate taxes also be made available in the case of the income tax on transfers at death. Thus, the provision of present law permitting the redemption of stock in closely held corporations in certain cases without the payment of ordinary income tax on the redemption, would be available to provide funds for the payment not only of estate taxes but of the ordinary income tax at the time of death as well. Also, the two provisions in present law, providing under somewhat different circumstances for up to 10 years for payment of the estate tax, would also be available for payment of the income tax resulting from transfers at death. In addition, for purposes of these provisions circumstances involving a forced sale of a family business to outsiders or a forced sale on a depressed market would be considered undue hardship and therefore eligible for the 10-year payment provision.

Ordinary income items.—Under present law items of income which are earned by a decedent prior to his death but which are not reportable on his final return generally must be reported as income by the successor in interest of the decedent at the time of receipt. In general, this treatment for such items would be continued. However, there are various assets, the gain on which may in part be taxed as ordinary income and in part taxed as capital gain, such as the sale of depreciable equipment. Gain on such property would be recognized under the proposal at the time of death. Other detailed rules are also provided in the case of noncapital assets.

Gifts.—As indicated previously, gifts made during lifetime would to the extent of any appreciation involved also result in a tax at the time of the transfer. In general terms the treatment is the same as that provided in the case of transfers at death. Thus, there is an exemption for ordinary personal, and household effects and another for charitable gifts. In addition, there is an exclusion for gifts between the husband and wife and the $15,000 of gain exempted for transfers at death would be available for transfers during the taxpayer's lifetime. To the extent this exemption is used during the taxpayer's lifetime it would not be available upon his death. Losses also would be allowed in the case of gifts although as in the case of sales or exchanges, losses would not be realized where they are between related parties and coming within the provisions of section 267. There would be some variations in the treatment of gifts and transfers at death. For example, the actual holding period is used rather than assuming all gains were long term, the exclusion for personal residences would not apply and no additional time would be provided for payment of the tax.

Transition.—It is proposed by the Treasury that the new rules described above in the case of gifts apply to those made after January 24, 1963, the date of the President's tax message. In the case of transfers at death, a transitional rule would be provided. The Treasury has suggested that a 3-year transitional rule could be provided to the effect that persons dying during 1964 would pay tax on one-third of the gain on death and have a carryover basis to the extent of one-third of the marital exclusion claimed; persons dying during 1965 would be taxable on two-thirds and there would be a carryover basis of two-thirds; and then the provision would become fully effective with respect to decedents dying on or after January 1, 1966. As an alternative, a 5-year transitional rule worked out in a similar manner is also suggested as a possibility.

Example.—The manner in which the proposal described above would work is illustrated by the Treasury Department by several examples. One of these is as follows:

Taxpayer had $10,000 of taxable income in 1967. Taxpayer dies on June 30, 1968, after receiving $5,000 of taxable income during 1968. Taxpayer's will provides that half of his estate (including the family residence) is to go to his wife and half to his son. The assets belonging to the taxpayer at death are as follows:

Assets	Fair market value	Basis	Appreciation
Cash	$7,000		
Personal effects	3,000		(1)
Household effects	5,000		(1)
Residence	30,000	$25,000	$5,000
Stock in corporation X (closely held)	220,000	50,000	170,000
Stocks in listed companies	85,000	50,000	35,000
Total	350,000		210,000

[1] Exempt.

The income tax on the appreciation in taxpayer's assets is computed as follows:

Appreciation tentatively subject to tax		$210,000
Marital exclusion	$105,000	
$15,000 exemption	15,000	
		120,000
Appreciation subject to tax		90,000

Under the averaging provision which is applicable here, the capital gain at death will be taxed at the marginal rates that would have been applicable if one-fifth of the gain had been realized in decedent's last full taxable year. Computing the tax in this manner results in a total increase in income tax due to gain realized by decedent's death of $6,180.

The estate tax of the decedent is computed as follows:

Gross estate		$350,000
Expenses	$20,000	
Tax on appreciation	6,180	
Tax on $5,000 of 1968 income	780	
		26,960
Adjusted gross estate		323,040
Marital deduction	$161,520	
Exemption	60,000	
		221,520
Taxable estate		101,520
Estate tax payable		20,572

The executor has the following liabilities to discharge:

Expenses	$20,000
Income tax on $5,000 of 1968 income	780
Income tax on appreciation	6,180
Estate tax	20,572
State death taxes (assumes tax equal to Federal credit only)	584
Total	48,116

The executor pays these liabilities out of the $7,000 cash in the estate and out of the proceeds from the sale of a part of the listed securities. After payment of the debts, property having a value of $301,884 remains for distribution, one-half to the wife and one-half to the son. The wife would receive property having a value of $161,520 and a basis of $61,520. The son would receive property having a value of $140,364 and having a basis of the same amount.

The $6,180 of income taxes on the appreciation taxed at the taxpayer's death reduced estate taxes by $877 so that additional taxes of $5,303 resulted by reason of the proposal.

Revenue.—The Treasury Department has estimated that the taxation of appreciation on transfers by gift or at death will directly increase revenues by $300 million. Another $450 million of revenue would be picked up, according to Treasury estimates, as a result of the encouragement of sales of assets during life which this would bring about. Thus the revenue gain from this proposal is estimated at $750 million.

C. TAX TREATMENT OF STOCK OPTIONS

Present law.—In the case of employee restricted stock options, present law provides that no income tax is to be recognized at the time the options are granted or exercised but instead tax generally is to be imposed only at the time the stock involved is sold by the employee. In the case of options where the option price is at least 95 percent of the market price of the stock at the time of the grant, the entire amount of gain realized by the employee at the time of the sale of the stock is treated as capital gain. However, if the option price is between 85 and 95 percent of the market price at the time of the grant of the option, then the amount of the spread between the option price and the market price of the stock at the time of the grant is treated as ordinary income, but not until the employee sells the stock. Any additional gain in such cases is treated as capital gain. Employers are not allowed any deduction for the amount of this gain accruing to the employee.

Among other restrictions to qualify as a restricted stock option, the option price must be at least 85 percent of the market of the stock at the time the option was granted, the stock must be held by the individual for at least 2 years after the date of the granting of the option and for at least 6 months after the stock is transferred to him, the option must not be transferable other than at death, the individual may not be a 10-percent shareholder in the corporation, and the option must not be for more than a period of 10 years.

Proposal.—The administration has proposed that the employee restricted stock option provision be repealed in its entirety. As a result, an employee's restricted stock option would result in ordinary income at the time of the exercise of the option, the amount of ordinary income in this case being the difference between the value of the stock acquired and the option price. However, a provision would be added to the code providing that income tax attributable to the exercise of an employee stock option would be eligible for a special installment payment privilege. As a result, the tax attributable to the exercise of an option could be paid over 5 years, the taxpayer paying one-fifth in the year of exercise and one-fifth in each of the 4 succeeding years. If the employee died before the final payment, the remaining installments would be payable with his last return.

The amount of ordinary income received at the time of the exercise of the employee's stock option would be eligible or not for the 5-year averaging provision depending upon whether it met the general eligibility requirements for averaging. Thus, averaging would be available if this increased the income by more than one-third above the average income in the 4 prior years and this excess amount equaled at least $3,000.

Date.—The repeal of the employee stock option provision and other modifications would be effective with respect to options granted after January 24, 1963, the date of the President's tax message.

Revenue.—The Treasury Department has estimated that the revenue effect of this proposal is expected to be minor. This is true because the repeal of the provision will result in such amounts being treated as compensation for employees and as a result such amounts would become deductible to the employer corporation.

The number of employee restricted stock options has grown substantially since special tax treatment was provided for these options in 1950. At that time the number of restricted stock option plans in the case of companies listed on the New York Stock Exchange was 8. By June of 1961 this had grown to 714. The data for each year are shown in table 26 below. In 1958 a study of 3,500 companies indicated that about one-third had stock option plans, which compares with about one-half of the companies listed on the New York Stock Exchange having such plans at that time.

TABLE 26.—*Total number of companies listed on the New York Stock Exchange with restricted stock options* [1]

Year	Cumulative number of plans	Cumulative number of companies with plans	Number of companies listed on New York Stock Exchange	Percentage of New York Stock Exchange companies with plans
1961 (June)	1,059	714	1,128	63.3
1960	986	693	1,121	61.8
1959	871	640	1,089	58.8
1958	759	591	1,082	54.6
1957	669	537	1,091	49.2
1956	544	463	1,071	43.2
1955	388	353	1,071	33.0
1954	287	269	1,070	25.1
1953	240	227	1,063	21.4
1952	195	183	1,061	17.2
1951	112	104	1,048	9.9
1950	27	19	1,033	1.8
Before 1950	12	8	1,009	.8

[1] The data, which were compiled from public records, are limited to New York Stock Exchange companies with common stock listed as of June 30, 1961, and apply only to restricted stock option plans authorized as of that date.

Source: New York Stock Exchange, Library and Research Files. Office of the Secretary of the Treasury, Office of Tax Analysis, Feb. 6, 1963.

D. TAX TREATMENT OF THE SALE OR EXCHANGE OF REAL ESTATE

Present law.—Under present law taxpayers may take depreciation on real property (other than land) used in a trade or business or held for the production of income. The depreciation methods available are the same as those applying to tangible personal property. They include straight-line depreciation, double declining balance depreciation, sum-of-the-years-digit depreciation and any other consistent method which does not during the first two-thirds of the useful life of the property result in greater depreciation than under the double declining balance method. The depreciation taken decreases the cost or other basis for the real property. If the property subsequently is sold, any gain realized on the difference between the sale price (adjusted for selling expenses) and the adjusted basis of the property is generally taxed as a capital gain if there is a gain, or as ordinary loss where the amount realized is less than the adjusted basis.

Proposal.—The administration made two recommendations with respect to real estate. First, it proposed that depreciation with respect to depreciable real property acquired after February 6, 1963, be limited to an amount not in excess of the depreciation which is allowed under the straight-line method of depreciation. Second, it recommended that gain on the sale of real property after December 31, 1963, be treated as ordinary income to the extent of the depreciation taken for taxable years after December 31, 1962. However, this ordinary income treatment would be fully applicable only in the case of real estate held for 6 years or less. In the case of property held for more than 6 years, the percentage of gain reflecting the depreciation which would be treated as ordinary income would be reduced by 1 percentage point for each month the property has been held for more than 6 years. As a result, after the property has been held for 14⅓ years (6 years plus 120 months), none of the gain would be treated as ordinary income. The Treasury proposes that in addition to the recapture of depreciation deduction, provision also be made for the

recapture of deductions for the amortization of leaseholds and for rental deductions.

Example.—An example will illustrate the operation of the administration proposal. Assume a taxpayer purchases an office building at a cost (not including cost of land) of $100,000 on July 1, 1963. After taking depreciation deductions of $30,000, the taxpayer sells the property on June 30, 1974, for $110,000 (not including land). The adjusted basis of the taxpayer in the property at the time of the sale in this case is $70,000 (i.e., $100,000 less $30,000). Since he sold the property for $110,000, his gain is $40,000 (i.e., $110,000 minus $70,000). Under present law this $40,000 would be a capital gain. Under the proposal, part of it would be a capital gain and part of it ordinary income. First of all, $10,000 of this $40,000 would be capital gain in any event since the depreciation taken amounted to only $30,000 instead of $40,000. However, a portion of the $30,000 would also be a capital gain since the property was held in excess of 6 years. The actual holding period was 11 years, or 5 years in excess of the 6. Therefore, 60 percent ($1\% \times 5 \times 12$) of this portion of the gain would be a capital gain. As a result, 60 percent of the $30,000, or $18,000, would also result in capital gain. This means that $28,000 of the total $40,000 gain in this case would be treated as a capital gain and $12,000 would be treated as ordinary income.

Revenue.—The Treasury Department has estimated that this change in the tax treatment of real estate will result in a revenue increase of $80 million a year, $60 million of this being derived from corporations and $20 million from individuals.

E. OTHER RECAPTURE AND DEFINITIONAL PROVISIONS

1. Disposition of mineral properties

Present law.—Under present law intangible drilling and development costs in the case of oil and gas and certain development and exploration expenditures in the case of the hard mineral industry can be written off in the year incurred or shortly thereafter. In addition, natural resource taxpayers are allowed a deduction for depletion, based either on a specified statutory percentage or on cost. This depletion deduction reduces any basis the taxpayer may have in the property but the deduction in this case is not terminated when the basis is written off. If the taxpayer sells his interest in a mineral property, any gain he realizes on this is treated as a capital gain.

Proposal.—The President has proposed that on the sale of a mineral property a portion of any gain realized be treated as ordinary income in a manner substantially similar to that now provided in the case of tangible personal property. The amount treated as ordinary income at the time of sale would be (1) the amount of intangible drilling and development expenditures in the case of oil or gas properties, or exploration and development expenditures in the case of other mineral properties, which had been deducted, together with (2) any depletion taken (either cost or percentage) but only to the extent of the basis of the taxpayer in the property. Thus, if the depletion deduction taken exceeded the cost or other basis of the taxpayer in the property, this excess amount would not give rise to ordinary income.

Example.—The proposal of the administration can be illustrated by a taxpayer who acquires an interest in an oil property for $50,000.

In the first year he incurs intangible drilling and developments costs of $250,000. In addition, in either that year or subsequent years prior to his sale of the property he takes percentage depletion deductions of $55,000. It is assumed in this case that after this percentage depletion deduction is taken the taxpayer sells the property for a million dollars. His basis for the property in this case is zero since the depletion deduction taken exceeds the $50,000 cost by $5,000. Thus his gain on the property is the full $1 million. Under the proposal $300,000 of this amount would be treated as ordinary income and the remaining $700,000 would, as under present law, be treated as capital gains. The $300,000 in this case represents the $250,000 of intangible drilling and development costs which were deducted, plus $50,000 of the percentage depletion deduction taken. The remaining $5,000 of percentage depletion deductions taken would not result in ordinary income under the proposal since they are in excess of the taxpayer's basis for the property.

Special rules.—The recapture provision, as the provision described above is called, would apply to all dispositions of mineral property where the seller presently recognizes capital gain. In addition, it would apply to those transactions which under the general rules of tax law are fully or partially tax free but which under the provisions of the recapture rule in present law (sec. 1245) result in income to the transferor.

In those cases where the taxpayer does not dispose of all of his mineral interests, it is proposed that the depletion and intangible drilling and development costs, or exploration expenditures, which result in ordinary income be allocated between the mineral interest which is retained and that which is sold. The allocation would be made on the basis of the fair market value of each at the time of the sale.

Present law (sec. 632) provides in the case of sale of an oil or gas property or interest where the principal value of the property has been demonstrated by prospecting or exploration or discovery work done by the taxpayer that the surtax on such sale is not to exceed 30 percent of the selling price of the property, in the case of an individual. Since the normal tax in the case of individuals is 3 percent of the total, this means that the aggregate tax in such cases cannot exceed 33 percent. The Treasury in connection with its recapture proposal would also repeal this provision.

Date.—The proposals described above would apply to dispositions of mineral properties after December 31, 1963, and in the case of these dispositions the deductions of capital costs which would give rise to ordinary income would be those incurred in periods after December 31, 1963.

Revenue.—The Treasury Department estimates that the recapture provision in the case of oil and minerals will result in a revenue increase of $50 million. Forty million dollars of this is attributed to corporations and $10 million to individuals. Forty-five million dollars of this is attributed to oil and gas and $5 million to hard minerals.

2. Lump-sum pension payments

Present law.—Under present law a lump-sum distribution of an employee's interest in a qualified pension, profit-sharing, or stock bonus plan is taxed as long-term capital gain if the distribution is

made to the employee on account of his separation from the service of the employer or is made to the employee's beneficiary on account of his death. In addition, in the case of those plans where the distribution is made in the stock of the employer, no tax is imposed on the appreciation in value of this stock up to the time the distribution is made, although this amount will subsequently be treated as a capital gain when the employee sells the stock (if the price of the stock has not gone down).

Proposal.—Under the proposal of the administration the employee or his heir receiving a lump-sum distribution of the type referred to above would treat this amount as ordinary income rather than as a capital gain. However, under the proposal he would receive special averaging treatment with respect to this lump-sum distribution.

The new treatment would apply to lump-sum distributions from pension, profit-sharing and stock bonus plans received after December 31, 1963. However, it would not apply to the portion of a lump-sum distribution under a profit-sharing or stock bonus plan or under a money purchase pension plan which equals the amount in the employee's account as of the close of the last plan year preceding February 6, 1963, plus the future earnings on this amount. In the case of a lump-sum distribution under a pension plan other than a money purchase plan, the new treatment will not apply to the portion of the distribution which represents benefits already accrued on the basis of employees' earnings and service through the plan year ending before February 6, 1963. Such amounts would continue to be treated as capital gains as under present law.

Lump-sum distributions under the pension or profit-sharing plan would be eligible for 5-year averaging whether or not they resulted in an increase in the current year of more than one-third of the average in 4 prior years and whether or not the amount involved represented $3,000 or more. In addition, in determining the tax applicable to these lump-sum distributions, there would be excluded from the employee's income, for purposes of this computation, any wage or salary income he received from the employer. This averaging treatment would generally be available in the case of lump-sum distributions which qualify for capital gains treatment under present law but would not be available unless contributions had been made for the employee for at least 5 years.

No revenue estimate is available on this provision.

3. Timber

Present law.—Under present law a taxpayer who owns timber, or has a contract right to cut timber, receives capital gains treatment on the sale of the timber. In addition, where he cuts timber which he owns the taxpayer is permitted to elect capital gains treatment. The capital gain in this latter case is the excess of the fair market value of the timber on the first day of the year in which it is cut over the cost of the timber.

Proposal.—The President has proposed that generally any sale of timber, or a contract right to cut timber, whether sold outright (with or without the land) or whether sold with a retained economic interest be accorded ordinary income treatment. It is proposed, however, that an annual exception be made for each individual taxpayer for up to $5,000 of timber income ($10,000 in the case of a married

couple filing a joint return). Any individual receiving timber income under the proposal would continue to receive capital gains treatment on up to $5,000 of timber income. The excess over $5,000 received in any year, however, would be ordinary income. This would apply only to individual taxpayers however and not to corporations. It is pointed out that the corporate rate on the first $25,000 of taxable income is the same 22 percent as the capital gains tax rate applying to corporations.

Under the proposal certain dispositions of timber, such as corporate liquidations, would be treated as taxable sales or exchanges to the extent of timber income involved.

Under the proposal, in order to encourage reforestation it is also provided that the expenses of forest management incurred after February 6, 1963, including planting costs, be deductible currently.

Date.—This proposal would be effective with respect to contracts entered into after February 6, 1963.

Revenue and other effects.—The Treasury Department has estimated that its proposal with respect to timber income would result in a revenue increase of $90 million a year. Seventy-five million of this is attributed to corporations and $15 million to individuals. However, it estimates that the cost of allowing forest management expenses to be currently deductible would be $10 million. The Treasury estimates that the $5,000 exception in the case of individual timber owners means that 95 to 99 percent of all such owners would receive only capital gains tax on the sale of their timber.

One-third of the U.S. land area is classified as commercial forest land—488 million acres. About one-quarter of this area, 130 million acres, is in Federal and State forests. The remaining 358 million acres are in some 4½ million private ownerships which average 79 acres each. Of these there are about 3.4 million farm owners with 34 percent of the commercial forests, namely, 165 million acres. The average farm ownership is about 49 acres. The area and number of farms and other private ownership holdings by size of forest holding is shown in table 27.

TABLE 27.—*Area and number of farm and "other" private ownerships, 1953*

Size of forest holding	Farm					"Other" private				
	Number		Area			Number		Area		
	Thousands	*Cumulative percent*	*Million acres*	*Cumulative percent*	*Cumulative percent*[1]	*Thousands*	*Cumulative percent*	*Million acres*	*Cumulative percent*	*Cumulative percent*[1]
Less than 10 acres[2]	671	20	4.2	3	1	125	11	0.9	1	(3)
10 to 20 acres	742	42	10.2	9	3	122	22	1.9	2	1
20 to 30 acres	485	56	11.2	15	5	95	31	2.5	4	1
30 to 40 acres	279	64	9.4	21	7	89	39	3.0	6	2
40 to 50 acres	197	70	8.5	26	9	157	53	6.8	12	3
50 to 75 acres	324	80	18.7	38	13	189	70	11.3	20	5
75 to 100 acres	193	85	15.6	47	16	196	88	16.3	33	9
100 to 500 acres } 500 acres and larger	492	100	59.2	83	28	131	100	36.6	61	16
500 acres and larger			28.2	100	34			51.4	100	27
All ownerships	3,383	100	165.2	100	34	1,104	100	130.7	100	27

[1] Percent of total commercial forest area in the United States.
[2] East only, 3 to 10 acres for number of owners; 1 to 10 acres for area.
[3] Less than 0.5.

4. Coal leases

Under present law the gain on payments made under a coal lease, providing for payments for coal mined on the lessor's land, is treated as gain from the sale or exchange of a capital asset.

The administration proposes that the special capital gains treatment for coal leases be repealed with respect to contracts entered into after February 6, 1963. This would mean that income of a lessor under a coal lease entered into in the future would result in ordinary income.

The Treasury believes that since this applies only to future contracts, it will not become fully effective for a period of at least 20 to 30 years. At that time the Treasury estimates that it will cause a price increase of about two-tenths of 1 percent or about 1 cent a ton. The Treasury further estimates that when this becomes fully effective, coal consumption will not be reduced by more than one-quarter of 1 percent.

The Treasury estimates that the revenue gain from this proposal will be negligible.

5. Property used in the trade or business of farming

Present law.—Under existing law, the sale of livestock held for dairy breeding or draft purposes gives rise to capital gains. An investor raising livestock can deduct the expenses attributable to their care and maintenance and also may take depreciation deductions with respect to the cost of purchased animals. If there is no farm income in that year, these deductions can be used to offset the taxpayer's nonfarm income. Later the herd may be sold and any gain taxed as a capital gain. Similar treatment can be obtained by investing in other farm operations such as the development of citrus groves, fruit trees, etc. These produce little or no income during the period of growth but result in ordinary income deductions during this period. Subsequently when they reach maturity they can be sold at capital gains rates. Another example involves expenditures for clearing, conserving soil and water, and otherwise increasing the value of farmland. The deduction in many cases also may be taken against ordinary nonfarm income and then the farmland which has increased in value because of such expenditures may be sold with any gain taxed as a capital gain.

Proposal.—The administration has proposed that in any year in which the taxpayer's adjusted gross income from nonfarm sources equals $15,000 or more, and at the same time he has deductions from farming in excess of farm income, that a record be kept of these excess deductions and that to the extent he in subsequent years realizes capital gains from farming, that to the extent of such deductions this gain be treated as ordinary income. The deductions arising from farming would continue, as under present law, to be deductible against the nonfarm income in the year to which the deductions relate They would be taken into account in subsequent years to the extent they exceed any net farm income in the interval only for purposes of determining the character of any gain from farm operations or sales of farms. They would change the character of any farm gain, which otherwise would be capital gain, until they are absorbed by capital gains or ordinary income from farming.

Date.—The proposal described above is to apply in taxable years beginning after December 31, 1963. In such years taxpayers would

keep a record of excess farming deductions and these deductions to the extent not offset by future farm income would be used to characterize the nature of any gain from farm operations in the following years. (A record of these deductions, however, would be kept only in years in which the taxpayer's adjusted gross income exceeded $15,000.)

Example.—The operation of the administration proposal is illustrated by an example in which a taxpayer who owns a farm and in 1964 has farming deductions of $8,000 in excess of income. In addition, it is assumed that he received an annual salary as a corporate executive in a manufacturing concern of $100,000. In 1965 the farm produces ordinary income of $1,000 and capital gains of $1,500. The excess deductions would be reduced in this case by $2,500, or from $8,000 to $5,500. In addition, the $1,500, which would ordinarily be a capital gain, in this case would be ordinary income. It is assumed further that the taxpayer in 1966 retires and receives ordinary income of $12,000 and that the farm in that year shows a net loss of $3,500. The losses in this year would not be taken into account since the taxpayer's nonfarm income did not exceed $15,000. In 1967 it is assumed that the taxpayer sells his farm for a gain of $12,000. Under the proposal $5,500 of this $12,000 gain, namely, the amount of excess deductions still remaining unused, would be treated as ordinary income and the remaining $6,500 would remain a capital gain.

Livestock amendments.—The administration has also proposed two modifications relating to the tax treatment of livestock accorded by the Revenue Act of 1962. First, it would remove the exception provided by that act for livestock from the provision providing ordinary income treatment for tangible personal property sold to the extent of depreciation taken or the gain, whichever is the smaller. This would be applied only with respect to depreciation deductions taken after December 31, 1963. The Treasury also proposes that livestock be made eligible for the investment credit provided by the Revenue Act of 1962.

Date.—These proposals would apply to dispositions occurring after December 31, 1963.

Revenue.—The Treasury Department has estimated that this provision with respect to farming would result in a revenue increase of $5 million a year.

6. Sale of a patent

Under present law, the sale of a patent by the inventor (or by the person who has an interest in it because he supplied the inventor with funds to reduce the invention to practice) generally results in capital gains treatment. This is true of both the professional and the amateur inventor. This is not true, however, of personal efforts which result in the creation of a copyright or artistic composition.

The administration has proposed that patents be treated in the same manner as copyrights and similar property. As a result their sale by those who created them would result in ordinary income rather than capital gain.

This proposal would apply to dispositions made after December 31, 1963.

No estimate is given as to the revenue impact of this proposal.

7. Installment sales of assets without adequate interest or where payments are contingent on future income

Absence of interest.—Under present law an individual may sell a capital asset on an installment basis without any specific provision for interest payments on the installments. In such cases the full difference between the cost or other basis and the sales price is treated as capital gain to the seller and the buyer takes a basis for the property equal to the total sales price.

The administration believes that in the type of case described above, part of the payments received under the installment contract in reality represent interest payments rather than purchase price of the asset. It proposes, therefore, that certain proportions of the purchase price in such cases be designated as interest which would be reportable as ordinary income by the seller and would be deductible currently by the purchaser. It is proposed that if a contract fails to designate as interest any part of the deferred payments, or if the amount designated as interest is "unrealistically low," the contract be treated as though it had designated a reasonable amount of interest. (Carrying charges would, for this purpose be treated as interest.) This would apply to sales of assets where any part of the payment is deferred to more than 1 year. The proposal would require the seller to treat the amount designated as interest as ordinary income and would permit the purchaser to treat the same amount as an interest deduction.

Where no interest payment is specified, it is proposed that the contract be treated as though it had specified total interest over the term of the contract of 5 percent per year on unpaid balances. The Secretary of the Treasury or his delegate would be given authority, however, to provide lower rates of interest from time to time if he deemed lower rates to be reasonable. The portion of each deferred payment treated as interest would be the same proportion of the interest payment which the deferred payment in question is of total payments.

Where a contract specified a total interest payment at least equal to interest computed at an annual interest rate of 4 percent on unpaid balances (or a lower rate to the extent the Secretary or his delegate has so prescribed) no additional amount would be classified as interest. However, where the interest provided under the contract was less than this 4-percent charge, then the amount deemed to be interest would be recomputed on the basis of the 5-percent rate referred to above.

Variations of the procedure described above would be prescribed for deferred payments which are contingent and cannot be determined in advance. However, as noted below, a special rule would apply to the extent payments are contingent on future income.

The proposal of the administration can be illustrated by the following example: Assume a contract for sale of a capital asset provided for a downpayment of $300 and installment payments of $200 in each of the next 10 years. Assume further the seller has a $300 basis in the asset and elects the installment method of reporting the income. Under the proposal, interest computed at 5 percent on the declining balance in this case would indicate interest payments over the 10-year period of approximately $456. This would be spread evenly over each of the $200 payments occurring during the 10 years

following the year of the initial downpayment. The capital gain in this case would be treated as follows: The sale price in this case is $2,300 and the taxpayer has a basis of $300. This would mean a capital gain under present law of $2,000. However, $456 of this is treated as interest income with the result that the remainder or $1,544 would remain as a capital gain.

Payments contingent on income.—Under present law capital gains treatment is also available on the sale of an asset where the installment privilege is elected even though the payments are spread over a period of years and are contingent on future income.

The Treasury proposed in such cases that if the payments are spread over more than 5 years and are contingent on future income, that they be treated as ordinary income. The amount treated as ordinary income would be the amount in excess of the basis the seller had in the property.

The administration proposal is illustrated by the following example: It is assumed that a taxpayer owns all of the stock in a corporation and has an adjusted basis for it of $75,000. It is assumed that he sells this stock to a second party for $50,000 cash plus $300,000 payable out of 75 percent of the corporation's profits in excess of the first $50,000 of net profits. Under present law the seller would recover his cost from the $50,000 cash payment and the first contingent payment. Thereafter any amounts received would be treated as capital gain. Under the proposal the seller would recover his basis in the same manner as under present law but subsequent payments would be treated as ordinary income.

These proposals would apply to payments received with respect to contracts entered into after February 6, 1963.

No revenue estimate is given for these proposals.

8. Life estates

Present law.—Under existing law and regulations where property goes to one individual for his life and upon his death over to a remainderman, any basis that the donor had in the property goes first to the life estate but then ratably, over the life of the life tenant, is transferred to the remainderman so that upon the expiration of the expected life of the life tenant, the entire basis is in the hands of the remainderman. If the life tenant acquired the life estate by gift, bequest, or inheritance, although his basis in his life estate is decreased year by year as the remainderman's basis is increased, he is not allowed an amortization deduction for this amount.[13] However, if this life tenant sells his interest, he is permitted to decrease any gain he might realize on the sale by his basis in the life estate and the purchaser receives a basis which he can amortize.

Proposal.—The administration is concerned with the fact that if the life tenancy is sold, the income from much of it will not be taxable since both the life tenant and the remainderman will be accorded the same basis. The President has proposed that this result be avoided by treating the sale of a life interest acquired by gift, bequest, or devise as an anticipatory realization of the income of the life tenant and that the life tenant be denied a basis for this property in the same manner as he would in effect be denied a basis had he held the property for his entire life. The general 5-year averaging provision would be available in case of such sales.

[13] If he acquired the life estate by purchase, this amount could be amortized over his expected life tenancy

An exception would be made, under the proposal, where the life tenant and the remainderman joined together in a single transaction to sell both the life estate and remainder interest simultaneously as a fee interest. In such a case the life tenant would be treated in the same way as under existing law; his gain would be the excess of the proceeds from the sale over his adjusted basis in the life estate. In addition, the gain would be accorded capital gains treatment. The Treasury recommends this treatment in such a case because the purchaser, having received a single interest, a fee, would not be allowed to amortize the life interest and therefore there would be no double allowance of the basis in this case.

Example.—The proposal of the administration can be illustrated by the following example: Assume that in 1965 an individual dies leaving stock having a fair market value of $10,000 in trust to one individual for life and the remainder to another individual. Assume that, in accordance with life expectancy tables, the life tenant in this case is assigned a basis of $6,000 in the life interest and the remainderman is assigned a basis of $4,000 for his interest. Assume further that in the same year the life tenant sells his life interest to another individual for $6,000.

Under existing law no gain or loss is recognized to the life tenant since his basis is exactly equal to his sale price. The purchaser in this case, however, could amortize his $6,000 cost over the period of the life estate. In addition, when the remainderman's interest vests upon the death of the life tenant, his basis in the stock would be the full $10,000.

Under the proposal the purchaser of the life interest and the remainderman would be treated the same as under existing law. However, the life tenant upon the sale of the $6,000 life interest would receive $6,000 of ordinary income, the same result which would occur if he held the property over his life and received $6,000 of income during that period.

Date.—The proposal of the Treasury would apply to sales occurring after February 6, 1963, of terminable interests acquired by gift, bequest, or inheritance after that date.

Revenue.—No revenue estimate is made with respect to this proposal.

SECTION 5

DIGEST OF TESTIMONY PRESENTED AND STATEMENTS SUBMITTED TO THE COMMITTEE ON WAYS AND MEANS WITH RESPECT TO THE PRESIDENT'S 1963 TAX MESSAGE

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PREPARED FOR THE USE OF THE

COMMITTEE ON WAYS AND MEANS

HOUSE OF REPRESENTATIVES

BY THE STAFF OF

THE JOINT COMMITTEE ON INTERNAL REVENUE TAXATION

JUNE 12, 1963

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JOINT COMMITTEE ON INTERNAL REVENUE TAXATION

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II

INTRODUCTION

During the period February 6 to March 27, 1963, inclusive, the Committee on Ways and Means held public hearings on the President's 1963 tax message. In addition, the hearings contain statements which were filed with the committee office until April 15, 1963.

This digest contains a subject-by-subject summary of the positions taken and recommendations made in testimony and statements of witnesses appearing before the committee and also of the statements which were submitted for the record in connection with these hearings. It does not, however, attempt to summarize the arguments advanced for, or against, any particular subject, nor does it list the questionable points which were raised on any particular subjects.

This digest lists under each subject the names of those taxpayers commenting on that subject; states what is believed to be the overall opinion of the particular witness on a particular subject in capsule form, in terms of either favoring or opposing a particular subject matter; and indicates where in the hearings his testimony or statement may be found. In addition, this digest contains specific recommendations made by both the witnesses, and in the statements submitted, either as alternative suggestions or as other amendments which the committee might wish to consider.

An attempt was made to cover all recommendations; however, if some testimony and statements have been omitted, it was unintentional. For detailed statements presented by witnesses and by those whose statements were submitted for the record, it is necessary to refer to the printed hearings.

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I. COMMENTS ON TAX REDUCTIONS

Page No. in hearings	Name of witness and association represented	Comments
1	Treasury Department	Over 3-year period reduces bottom rate from 20 to 14 percent (also splits this bracket) and top rate from 91 to 65 percent. Makes corresponding changes in other tax brackets. Reduces general corporate rate from 52 to 50 percent in 1964 and to 47 percent in 1965. (See also p. 622 for alternative rate schedule.)
544	Hon. Luther H. Hodges, Secretary of Commerce	Believes that the proposed tax reductions will help us meet the problems of persistent unemployment, the underutilization of our manpower and material resources, and the relatively unsatisfactory record of growth over the last several years.
717	Hon. W. Willard Wirtz, Secretary of Labor	Believes that the key to unlocking the potential demand in this country for full potential product of our manpower is to release purchasing power and to stimulate investment in productive, labor-using enterprise by the proposed tax reduction. Also believes tax reforms will contribute to the effectiveness of the work force, and meet particular needs of wage earners, and more fully satisfy certain equities which are involved.
747	Hon. Kermit Gordon, Director of the Bureau of the Budget.	States that the 1964 budget is a tight budget and is explicitly constructed in recognition of the need to hold down expenditures in a period of tax reduction.
800	Hon. Orville L. Freeman, Secretary of Agriculture.	States proposed rate reduction would cut $250,000,000 to $300,000,000 from about $1,300,000,000 farm people now pay in taxes; that the proposed revision, namely, the $300 tax credit, would relieve large part of farm population from any tax liability; and the increased economic activity resulting from the tax program would result in great benefits to the f rm population in terms of new jobs, more purchasing power, and a stronger demand for farm products.
814	Hon. Stewart L. Udall, Secretary of the Interior	Supports objectives of the tax program and states the raw material industries will benefit from the restoration of growth to the economy resulting from rate reductions.

I. *Comments on Tax Reductions*—Continued

Page No. in hearings	Name of witness and association represented	Comments
814	Hon. Frederick G. Dutton, Assistant Secretary of State.	The Department strongly supports the objectives of the tax program; believes they are well founded, are in the national interest, and will have a beneficial effect on our international relations.
804	Hon. John E. Horne, Administrator, Small Business Administration.	Strongly urges adoption of tax program. States almost 500,000 small firms would have tax liabilities reduced by 27 percent. Tax reductions would also result for corporations with incomes of $50,000 to $100,000. Tax liabilities would also be reduced for some 4,000,000 small unincorporated businesses through the individual rate reductions.
819	Hon. Tom Steed, chairman, Subcommittee No. 3, House Select Committee on Small Business.	States corporate and individual rate reductions should contribute substantially to a healthier climate, result in an increase in after-tax profits of small enterprises, have a desirable effect of attracting new risk capital, and improving the borrowing power of small firms.
865	Noah M. Mason, former Member of Congress	Reduction of income taxes unwise unless accompanied by full equalization of taxation among competing businesses and by sufficient curb of expenditures.
981	National Association of Letter Carriers	Favors a tax reduction.
1021	Bell System Cos	Favors a prompt, substantial, and permanent tax cut with basic thrust toward improving incentives to invest. Also favors significant reductions in corporate tax rate. Herlong-Baker bill seems to be a desirable bill.
1127	Ford Motor Co	Agrees some rate adjustment, both corporate and individual, is necessary, but with controlled Federal expenditures.
1286	Council of Profit Sharing Industries	Endorses general objective of tax program.
1405	Keith Funston, New York Stock Exchange	Proposals aim in right destination, but proceed down wrong road.
1537	National Livestock Tax Committee	Favors a tax cut, but feels each reform should be examined separately and that the cut should be coupled with reduced Government spending.
1234	American Medical Association	Believes it unwise and inequitable to condition a reduction in tax rate on a decrease in the deductions now allowed to taxpayers for extraordinary medical expenses.
1624	William H. Peterson, New York University	Favors a tax cut, but with reduced Federal expenditures. Endorses the Herlong-Baker rate reform bill. (See also p. 1642.)

1696	National Restaurant Association	Believes a tax cut is needed and is desirable, but is fearful of continued Federal deficits.
1714	American Taxpayers' Union, Jersey City, N.J	Agrees in principle with tax cut, but believes effective date should be Jan. 1, 1963 and that the proposal is unfair and discriminates against middle class and lower income group.
1063	Dan Throop Smith, Harvard University	Overall tax program on balance is very bad. Agrees with reduction in corporate rates. As an alternative revenue producer, suggests either a broad-based excise tax or a value-added tax.
1719	National Association of Counties	Believes a tax reduction is desirable.
1727	National Tool, Die & Precision Making Association.	Proposals espouse right objectives, but are directed to wrong ends. Individual and rate reductions are needed, but structural reforms should be eliminated in any consideration of rate reform. Reforms such as elimination of multiple surtax exemption and accelerated corporate payments would nullify any tax savings. Endorses Herlong-Baker bills.
1739	Electronic Industries Association	Agrees with objectives of the tax rate reform, but believes basic approach is inadequate to achieve desired economic goals. Would postpone consideration of structural reforms. Endorses Herlong-Baker bill and suggests an immediate 5-percent reduction in corporate rates.
1743	Florida Junior Chamber of Commerce	Believes rate reform is necessary but that structural reforms should be dealt with separately. Endorses the Herlong-Baker bills.
1749	Associated Industries of Alabama, Alabama Textile Manufacturing Association, Automotive Wholesalers Association of Alabama.	Opposed to tax proposals as outlined. Endorses Herlong-Baker bills. Ill advised to consider structural reform with rate reform.
1753	California Grape & Tree Fruit League, Grower-Shipper Vegetable Association of Central California, Western Growers' Association.	Recommends moderate tax rate structure such as in Herlong-Baker bills. Believes structural reforms run counter to professed objectives.
1818	Walter T. Margetts, Laytham Foundry, Inc	Believes tax proposals are wrong in philosophy, in amount, in kind, and in timing. Endorses Herlong-Baker bills.
1822	Dr. Jacob T. Schwartz, Gordon & Breach Science Publishers.	Supports tax proposals as presented.
1830	Hon. James P. Wesberry, Jr., Georgia State senator, representing Georgia Junior Chamber of Commerce, Georgia Chamber of Commerce, Georgia Association of Broadcasters, Savannah Chamber of Commerce, Southern Brick & Tile Manufacturers Association, Southern Farm Equipment Manufacturers, Inc.	Endorses Herlong-Baker bills. Urges reforms be deferred.

I. Comments on Tax Reductions—Continued

Page No. in hearings	Name of witness and association represented	Comments
1834	Georator Corporation, Manassas, Va	Believes rate reductions should be primarily aimed at middle and higher income groups. Endorses Herlong-Baker bills.
1840	American Life Convention, Life Insurers Conference, and Life Insurance Association of America.	Favors a prompt tax cut with an across-the-board flat percentage cut with a maximum 60 percent for individuals and reduction to 47 percent and later to 42 percent for corporations. Would consider reforms separately. Rate reductions must be coupled with curbing of rise in Federal expenditures.
1758	Ralph E. Burgess, University of Bridgeport	Believes the proposed program, as a whole, without regard to structural reforms would have little significance for long-term growth. Endorses Herlong-Baker bills.
1766	Perry E. Gresham	Believes a tax cut is necessary, desirable, and feasible, and should include a modest reduction in corporate rates.
1773	Hon. Charles S. Gubser, Member of Congress	States that until a balanced budget is a probability, no tax cut be recommended which does not directly stimulate formulation of capital and broadening of the tax base. Endorses the Herlong-Baker bills.
1776	National Tax Equality Association	Favors a reduction in corporate and individual rates but not without reduced Federal spending. Approves of proposed corporate rate changes, but suggests a maximum rate of 42 percent. To recoup losses from reduction in corporate taxes, suggests a manufacturers' sales tax and a retail sales or use tax. (See also p. 1787.)
1789	Bankers Committee for Tax Equality	Survey shows 81 percent of bankers favor no tax reduction unless accompanied by reductions in Federal expenditures or unless 1964 budget be held to 1963 budget. Supports proposal which gives greatest reductions to individuals. Suggests corporate rate be reduced to 47 percent and individual rates be cut across the board about 8 percent as 1st phase of cut in rate. (See also p. 4035.)
1816	Fountain Pen & Mechanical Pencil Manufacturers Association.	Agrees with objective of proposals but endorses Herlong-Baker bills. Prefers an immediate reduction rather than 5-year spreadout.
1922	International Telephone & Telegraph	Favors rate reduction, but would give corporate rate reduction first priority.

1955	AFL-CIO	Believes tax cut in amount of $10 billion should be made immediately, and retroactive to Jan. 1, 1963, with emphasis of cut in lowest bracket. Does not oppose reduction in corporate rates, but should not be reduced below 49 percent and reduction should be postponed. Commends and supports provisions relieving hardship and closing loop holes, but believes they are too limited. Suggests a 2-step tax bill. First step: (*a*) an immediate and substantial cut in 1st bracket, retroactive to Jan. 1, 1963, with bracket split with 12 percent and 15 percent rates; (*b*) reduction from 30 percent to 22 percent on 1st $25,000 of corporate profits. Second step—structural reform. Unalterably opposed to a Federal sales tax. Believes no reduction of top bracket tax rates or of 52 percent corporate rate is justifiable unless loopholes are more effectively closed.
2017	American Textile Manufacturers Institute	Recommends a 15-percent across-the-board reduction over a 2-year period with lowest income bracket split, and that corporate rates be reduced 5 percent over 3-year period.
2023	Research and Policy Committee of the Committee for Economic Development.	Believes that (1) greatest economic good would come from a balanced program reducing tax rates on individuals in all brackets but giving special emphasis to relieving the excess burdens on corporations and on individuals in the middle and upper income brackets; (2) tax cut should be adequate and prompt, thus suggests a cut of $11,000,000,000, $6,000,000,000 in 1st year, and the remaining $5,000,000,000 cut would depend on whether Congress succeeded in gaining control of the national budget; (3) tax cuts should not be delayed by consideration of structural reforms; and (4) there is a need to avoid persistent Federal deficits.
2037	United Shareowners of America, Inc	Favors an immediate tax cut. Recommends that (1) no personal tax be over 65 percent; (2) the corporate tax remain at 52 percent with no tax on dividends, or be reduced to 47 percent with tax on dividends; (3) the withholding tax be reduced from 20 percent to 15 percent.
2038	Investors League, Inc	Rejects all proposals and supports Herlong-Baker bills.
2041	Nation-Wide Committee on Import-Export Policy	Favors increasing the purchasing power of individuals and of stimulating investments, but believes the Trade Expansion Act of 1962 will more than undo the good effects of a tax reduction.
2057	Hon. Robert W. Hemphill, Member of Congress	Favors a tax cut, and certain reforms.
2090	National Association of Manufacturers	Administration program is inadequate. Supports Herlong-Baker bills. Budget must be reduced whether or not there is a tax cut.
2139	National Association of Home Builders	Prefers alternative rate schedule proposed by Treasury on Feb. 7 (i.e., without structural reform).

I. Comments on Tax Reductions—Continued

Page No. in hearings	Name of witness and association represented	Comments
2167	National Oil Jobbers Council, Inc	Believes benefits which would be available to about 40 percent of all jobbers from the proposed individual rate reductions would be offset by the structural reforms such as the 5-percent floor and the new capital gains structure. Would prefer retaining existing law until a commission could be established to study and to propose a new overall form and concept of taxation.
2227	Alvin H. Howard	Favors rate reductions for individuals and corporations. Suggests offsetting revenue losses by a broadly based excise tax.
2258	Illinois State Chamber of Commerce	Advocates in principle the rate reduction program of the Herlong-Baker bills. Endorses an immediate income tax rate reduction of about $6,000,000,000 in 1963. Reiterates its opposition to repeated Federal deficits.
2277	Manufacturers' Association of the City of Bridgeport, Connecticut, Inc.	Supports Herlong-Baker bills.
2288	The Voice of the People in Action (The Society of the People, Inc.).	Favors a tax reduction with special emphasis for relief in the lower- and middle-income groups, with a curtailment of unnecessary and wasteful spending. Believes reduction proposal is inadequate in these respects. Alternatively, suggests increasing the $600 personal exemption to $800 in 1963, to $1,000 in 1964, and to $1,200 in 1965.
2296	Frank K. Jones, Berwyn, Pa	Suggests alternative methods of accomplishing a reduction in taxes.
2424	Richard A. Musgrave, Princeton University	Supports tax reduction and reform program.
2507	Americans for Democratic Action	Believes that a tax cut for incomes below $10,000 should be enacted in their entirety, effective Jan. 1, 1963; rate reductions for incomes above $10,000 should also be enacted in 1963 to the extent they are coupled with corresponding tax reforms.
2514	U.S. Junior Chamber of Commerce	Supports the Herlong-Baker bills.
2431	Machinery & Allied Products Institute	Believes that income tax reductions of about $5,000,000,000—divided equally between individuals and corporations—should be enacted promptly and made effective in 1963. Believes the overall tax reform program is inadequate, inequitable, and inconsistent with general objectives of the program.

2307	U.S. Chamber of Commerce	Does not agree in all respects with the proposed rate reductions. Proposes a tax reduction of $8,600,000,000 in the 1st full year, to be effective June 30, 1963. Would reduce the present individual 91-percent rate to 65 percent, with proportionate reductions in all brackets, splitting the 20-percent bracket and applying a 15-percent rate to the 1st $1,000 of the new bracket. Would reduce the corporate rate from 52 to 47 percent, effective June 30, 1963. Suggests a low-rate uniform excise tax and also suggests consideration of the feasibility of a value-added tax as possible tax sources for proposed enactment later. Believes actual 1964 Federal expenditures can be held to 1963 levels. (See also p. 2340.)
2378	American Bankers Association	Recommends that the entire tax proposal be rejected unless Congress finds effective ways to prevent planned increases in Federal spending. Recommends that 50-percent ceiling be placed on individual income tax rate. Suggests reducing corporate rate to as low as 42 percent but at least to 45 percent.
2571	Financial Executives Institute	Believes quick reduction in rates should be made, but should not be delayed by tying reductions to structural changes.
2623	American Farm Bureau Federation	Believes a tax reduction is needed; however, is opposed to any general reduction in taxes until effective action has been taken to reduce Federal Government expenditures. Tax reform should be considered separately from tax rate reduction.
2583	Committee for Repeal of Federal Retail Excise Taxes.	Agrees that rates should be reduced for both individuals and corporations.
2533	American Institute of Certified Public Accountants.	Believes tax program would be acceptable if certain suggested changes were made. Would reduce normal corporate rate by 5 percentage points. If corporate rate reduction confined to 5 percentage points, make 2 percentage points reduction in 1963, and remaining 3 percentage points reduction in 1965. Would confine proposed reduction in lowest tax rate for individuals to 20 percent. Would postpone proposals which would narrow tax base for individuals, such as the proposed minimum standard deduction, liberalization of child-care deduction and extension of the 30-percent limit to all charitable contributions, until 1965.
2640	American Retail Federation	Believes tax reductions should be granted immediately, with emphasis on individual income tax rates, and that such rates be reduced to a range of from 15 to 65 percent. Favors proposed corporate rate reduction.
3464	American Mining Congress	Tax rates should be reduced as soon as possible, but "tax reform" should be considered separately.

I. Comments on Tax Reductions—Continued

Page No. in hearings	Name of witness and association represented	Comments
3485	American Iron Ore Association	Believes that suggested proposals will not reach stated goals.
1371	Roswell Magill	Endorses goals sought by President, but opposed to the tax proposals as a package. Believes major and permanent tax cuts at this time would be desirable. As an alternative to the tax proposals, suggests (1) substantial rate reductions should be made in individual income tax with opening rate of 16 percent in lieu of 14 percent; (2) reducing corporate tax rates quickly by permitting the Korean rate increase to expire on June 30 as scheduled; (3) treating structural reforms separately and only true reforms should be considered, in such revenue-raising measures as the "5 percent floor" on itemized deductions, the repeal of the dividend credit, and the proposed new levy on unrealized capital gains; (4) working toward a top rate on the individual income tax of 50 percent. Similarly, suggests a much lower top level for business. In addition, suggests consideration be given to alternate business or transaction taxes; and (5) suggests Federal expenditures be rigorously held to at least the fiscal 1963 level.
1394	Federal-Mogul-Bower Bearings, Inc	Prefers Baker-Herlong tax rate reform.
1497	Hon. Abraham J. Multer, Member of Congress	Believes bulk of proposals would benefit the economy.
2076	Hon. Jack Miller, U.S. Senate	Recommends an "incentive taxation of growth income" approach.
2184	Conservative Party of New York State	Urges Congress to remove the constrictions from the tax laws, principally in the tax rates.
2504	Carl S. Shoup, Columbia University	Believes that the tax program does not achieve in all respects the vertical and horizontal equity necessary. Believes no major structural changes in the Federal tax system, such as a value-added tax, is called for.
2239	Roy Blough, Columbia University	Believes economic situation calls for substantial reduction now in taxes consistent with a fiscally responsible approach, and agrees with the rate reforms proposed.
2188	Dr. Miller Upton, Beloit, Wis	Opposed to the overall tax program.
2207	Council of State Chambers of Commerce	Believes overall tax program is unbalanced. Supports Herlong-Baker bills.

1904	National Small Business Men's Association	Believes economy is better stimulated by encouraging modernization of industry rather than by increasing consumer purchasing power. Of 1,200 replies, 87 percent emphasized need for trimming Federal expenditures and balancing budget. 62 percent advocate reduction in corporate and individual rates. One predominating suggestion was to increase normal tax to $50,000, or to $100,000.
2746	Harry Von Zell	Opposed to proposed tax reduction and structural reforms as presented. Any such proposal must call for counterbalancing reductions in Government expenditures and budgetary commitments. Supports Herlong-Baker bills.
2712	Southern States Industrial Council	Believes any tax cut should be matched dollar for dollar and in advance by reduced spending. Does not want any tax cut which would further unbalance the budget. Supports Herlong-Baker bills.
2687	Manufacturing Chemists' Association, Inc	Any substantial rate reduction should be coupled with efforts to reduce nonessential governmental expenditures. If rate reduction is tied to tax reform, only those reforms which stimulate economic growth should be considered.
2677	Association of American Railroads	Recommends that the corporate rate be reduced to 47 percent as of June 30, 1963.
2220	National Federation of Independent Business	Majority of members would, in general, be in favor of the tax proposals; and 83 percent of members favor matching tax cuts by Federal spending cuts.
3543	National Coal Association	Favors a substantial rate reduction for corporations from 52 to 47 percent as soon as such reduction is feasible in the context of anticipated receipts and expenditures of the Federal Government.
3543	Anthracite Institute	
3543	National Coal Policy Conference	
3543	Southern Coal Producers Association	
3623	National Council of Coal Lessors, Inc	Favors both the corporate and individual proposed reductions but believes the reductions are too great for individuals in the lower brackets and too little for the higher bracket taxpayers. Suggests a 50-percent maximum rate for individuals.
3662	Midland Chamber of Commerce and Odessa Chamber of Commerce.	Opposed to a tax cut without a balanced budget annually and without reforms which encourage more free enterprise and less need for governmental services.
2725	Hoyt Ammidon, United States Trust Co. of New York.	Favors a rate reduction, but not as proposed by Treasury, and only if coupled with a reduction in the budget requests.
2899	Lawrence B. Lehman, Sarasota, Fla	Overall proposal will provide little incentive to growth of the economy.
2887	Warren Himmelberger, Wellesley Hills, Mass	Believes entire tax revision program should be enacted as a single comprehensive bill and submits an item-by-item revised proposal.
2864	W. R. Grace & Co	Supports proposed rate reductions but believes reduction should not be tied to reform and that Government expenditures should be reduced.

I. *Comments on Tax Reductions*—Continued

Page No. in hearings	Name of witness and association represented	Comments
2621	Hon. Arnold Olsen, Member of Congress	Believes tax reform and tax reduction are vitally necessary, and if tax reduction is adopted, it should be granted to the overall consuming public. Recommends for consideration H.R. 2531 which increases personal exemption from $600 to $800 as an alternative approach.
2853	Texaco, Inc	Believes tax rate reduction unduly concentrates tax relief at bottom of income scale and provides disproportionately lesser relief at other income levels. Also believes corporate tax rate reduction would be offset by proposal for accelerated payments of tax. Supports Herlong-Baker bills.
2906	Philip Savy, Hartford, Conn	Opposed to the overall tax program. In addition, believes middle and higher income groups will bear more of a taxload.
2908	Theodor Werner, Woodhaven, N.Y	Opposed to overall program. Believes rate reductions would be offset by structural reforms.
1014	International Association of Fire Fighters	Supports tax reduction program.
1016	Government Employees' Council, AFL–CIO	Supports basic purpose of tax plan.
2835	National Lumber & Building Material Dealers Association.	Any tax reductions must be coupled with decreased spending and authorization for new programs.
1010	American Federation of Government Employees	Favors rate reduction but would provide a 12-percent rate on first $1,000 and on first $2,000 for a married couple, and a 15-percent rate on next $1,000 and next $2,000 for married couples. Make reductions effective Jan. 1, 1963. There is no justification for reducing upper tax rates and corporate rates unless tax reform is accomplished.
966	American Federation of Musicians, AFL–CIO	Joins AFL–CIO in recommending 2-package approach, but urges prompt action for tax reform also.
2903	Edwin J. Rosenbaum, New York, N.Y	Favors a substantial lowering of corporate taxes.
2900	William D. Loucks, Jr., New York, N.Y	Believes rate reduction is necessary; however, feels that middle and upper brackets have not been adequately favored.
939	National Apartment Owners Association, Inc	Favors a tax cut, but only if Federal expenditures are reduced.

2860	Armstrong Cork Co	Proposals would not achieve desired objectives. Endorses Herlong-Baker bills. Rate reductions are needed now, but would postpone reforms until nonessential Government spending is curbed. Favors a bill in 1963 which would reduce rates ultimately on individuals and corporations to 42 percent.
2817	Industrial Relations Counselors Service, Inc	Rate reductions and structural reforms are unfairly weighted against middle income groups.
2827	Association of Consulting Management Engineers	Would consider rate reduction without structural reform and would give attention to middle and upper individual tax brackets and corporate rate reductions. Endorses Herlong-Baker bills.
2848	Chicago Association of Commerce & Industry	Believes proposals must be modified substantially to achieve desired objectives. Recommends reduction in 1963 of $6,000,000,000 to $10,000,000,000, allocated $1,500,000,000 to $2,500,000,000 to corporations and $4,500,000,000 to $7,500,000,000 to individuals. Would consider structural reforms separately; reduce substantially the steep progression; and would favor greater reductions in middle and upper brackets. Recommends reductions be made effective in 1963 or by Jan. 1, 1964, at the latest. Support for tax reduction is dependent on Federal expenditures being held at fiscal 1963 levels.
1671	David Schaenen, Billings, Mont	Cannot accept tax cut without either a tax reform or an equal reduction in spending.
2798	Rubber Manufacturers Association	Believes emphasis should be placed on capital investment rather than consumer spending, and that Federal expenditures should be controlled concurrently with any reductions in level of Federal revenue. Supports Herlong-Baker bills. Believes corporate rate reduction too small.
1927	American Electric Power Co	Supports corporate rate reduction.
2803	National Association of Wholesalers	If Federal expenditures are controlled, believes individual rates be reduced in all brackets by about same percentage, and that corporate reduction of 5 percent be first applied to surtax rates.
2812	Investment Bankers Association of America	Agrees to maximum rate reduction this year, but only to the extent that any deficit caused thereby can be financed responsibly and in a non-inflationary way. Supports Herlong-Baker bills. Would consider certain structural reforms separately.
2889	Richard W. Hulbert, New York, N.Y	Would reduce individual rates only to extent of 1964 proposed rate reduction, and would increase the optional standard deduction to 15 percent and eliminate any alternative gross dollar measure.

I. Comments on Tax Reductions—Continued

Page No. in hearings	Name of witness and association represented	Comments
2903	George C. Roberts, Tacoma, Wash	Would lower tax rates less than proposed and is opposed to more sharply decreasing rates for low income groups than for highest groups. In favor of provisions narrowing and redefining capital gains provisions and adding exemptions to people over 65 years.
2836	New York State Bar Association	Submits table of rates with suggested progression ranging from 15 percent tax rate applicable to first $1,000 and 60 percent tax rate applicable to over $100,000. Agrees with corporate rate reduction to 47 percent.
2829	Associated Retail Bakers of America	Agrees with individual rate reduction to 14 percent minimum and 65 percent maximum. Would couple rate reduction and reversal of surtax and normal tax with elimination of basis reduction investment credit provision. Would also couple with program of drastic reduction in Government spending.
2869	Green Giant Co	Opposed to overall program. Recommends Herlong-Baker bills. Believes rate reductions necessary.
2871	Improved Risk Mutuals	Believes there is merit in reducing tax rates, but would offset any revenue loss by reducing Government expenditures and not by increasing taxes of certain groups.
2845	Associated Industries of Georgia	Opposed to overall tax program and supports Herlong-Baker bills.
2801	National Farmers Union	Agrees rate reductions necessary now. Disagrees with corporate rate reduction. Agrees with individual rate reductions for middle and lower income groups, but not with upper group reductions.
1669	Hon. James Harvey, Member of Congress	Reports groups of constituents believe tax cut would be helpful, but must be coupled with cut in Federal spending. Further, that tax reforms unfairly hurt people in $5,000 to $15,000 brackets.
1670	Hon. Frank Horton, Member of Congress	Favors an across-the-board tax cut, but feels only those reforms which strengthen overall tax structure can justify such a tax cut.
2531	Hon. Thomas G. Morris, Member of Congress	Tax cuts should be made only when warranted by a sound financial structure of the Government, and be accompanied by a reduction in Government spending. Tax cuts through increasing Federal deficits are risky. In addition, believes small business owners would benefit

		but would be reluctant to agree to cut unless coupled with reduced Federal spending.
1934	Virginia Manufacturers Association, Inc	Believes proposed tax program will not meet its objectives. Emphasis should be placed on expanding productive facilities, and not on increasing consumer spending. Suggests not renewing 5 percent corporate rate, but permitting it to expire June 30. Believes Federal spending must be reduced.
1929	American Paper & Pulp Association	Favors a tax reduction provided it does not cause inflation, increase unfavorable balance of payment, nor the national debt. Favors immediate corporate rate reduction.
1932	National Retail Furniture Association	Favors rate reductions but not in a single step, and not if deficit financing would result.
2582	Hon. Edward J. Derwinski, Member of Congress	Believes a tax reduction should be in close proportion to reductions in Federal spending.
1936	F. S. Smithers Co	Believes a shifting of tax burden is necessary. However, (*a*) for individuals suggests a surcharge of up to 20 percent to extent necessary to offset deficit in Federal budget and (*b*) for corporations suggests a 30-percent normal tax with balance of taxable income less dividends subject to a 22-percent surtax. Suggests increasing surtax to 50 percent and allowing a 20-percent surtax credit.
1939	Brigham Young University	Favors Herlong-Baker bills.
1942	Associated Industries of Florida	Supports Herlong-Baker bills.
1946	Bellwood-Westchester Junior Chamber of Commerce.	Do.
1946	Valparaiso Junior Chamber of Commerce	Believes tax program would not achieve desired objectives. Need is for a noninflationary program which provides for a maximum release of capital.
1949	W. W. Newberry, La Crosse, Wis	Favors a rate reduction but with a corresponding reduction in the budget.
2876	Robert J. Bryant, Harbor City, Calif	Believes key problem is unemployment and proposed tax program would not help. Submits list of items for consideration.
2910	Joseph Wiecek, Goshen, N.Y	Believes proposed tax cut will hasten country into a depression.
2911	Edmond Weil, Inc., Charles A. Weil	Believes tax program is based on Keynesian policies which he considers unsound.
2842	Tax section, Florida bar	Total tax program would further complicate the code.
2884	George A. Eddy, Alexandria, Va	Alludes to various weaknesses in the tax program.
2847	New Jersey Taxpayers Association	Fiscal problems of Government nor problems of taxpayers will be solved until tax reduction is related to expenditure reduction.

I. Comments on Tax Reductions—Continued

Page No. in hearings	Name of witness and association represented	Comments
2884	H. C. McCarthy, Richmond, Va	Opposes tax proposals.
2879	John H. Wyss, Kenosha, Wis	Opposed to tax program as proposed. Believes only tax savings will result in case of low incomes.
2879	R. W. Anderson, St. Paul, Minn	Believes tax rates should be considered separate from reform, and that no rates be reduced without a corresponding reduction in Federal spending.
2880	Mrs. Ronald Troutman, Marion, Ill	Believes tax cut is necessary and that unnecessary Government spending should be eliminated.
2831	American Veterans Committee	Believes today's situation calls for increased Government spending (1) by providing large-scale employment through mass construction of housing, etc., and (2) by training, retraining, and education for the unemployed. If tax cut is enacted, suggests 1st 3 brackets be 12, 14, and 16 percent with $2,000 in each bracket.
2570	Edwin Hawes, Jr., Wharton, Tex	Believes enactment of proposal will lead to a new tax plan, the taxing of gross income.
1440	American Stock Exchange	The essential task insofar as rate reductions are concerned, is to weigh the advisability of such a step in light of projected national expenditures and to assess the fairness and impact of deductions in particular brackets or types of taxes. A rate reduction program would be partially self-defeating if concurrent steps were taken which would tend to inhibit investment.
1696	Verner E. Gabany	Opposed to any tax reduction and believes there is a need for eliminating deficit spending.
1948	Cedar City (Utah) Junior Chamber of Commerce	Endorses Herlong-Baker bills. Believes lowering of income tax rates in middle and upper income brackets will provide greatest release of capital.
1689	Wiener, Vierling & Karasov	Believes proposals affecting corporations would appear to improve economic growth, whereas proposal affecting individuals would have opposite effect.

1947	Lancaster Chamber of Commerce	Believes proposed rate reductions are too little to produce a significant lift to the level of economic growth and when coupled with the proposed tax reforms are completely dissipated. Endorses the Herlong-Baker reduction bills.
1771	National Association of Business Economists	Favors a tax cut in 1963. See hearings for poll taken.
1933	Conference of State Manufacturing Associations	Endorses Herlong-Baker bills.

II. INDIVIDUAL ORDINARY INCOME TAXES

A. 5-PERCENT FLOOR ON ITEMIZED DEDUCTIONS

Page No. in hearings	Name of witness and association represented	Comments
1	Treasury Department	Limits total itemized deductions to amounts in excess of 5 percent of taxpayer's adjusted gross income.
800	Hon. Orville L. Freeman, Secretary of Agriculture	States that proposal would not apply to such farm expenses as interest on a farm mortgage and State and local taxes paid on farmland, buildings and equipment as well as sales and other taxes paid by the farmer in connection with the operation of his farm.
804	Hon. John E. Horne, Administrator, Small Business Administration.	States proposal would not affect the unincorporated small firm since the floor applies only to personal, nonbusiness deductions.
879	National Association of Real Estate Boards	Opposed to proposal.
977	Fraternal Order of Police and National Conference on Public Employee Retirement Systems.	Do.
986	National Association of Retired Civil Employees	Do.
1217	National Association of Life Underwriters	Opposed to proposal. Supports H.R. 2079 which expands definition of term "outside salesman" in sec. 62(2)(D).
1260	Symphony Orchestras Association and Arts Councils.	Opposed to proposal.
1359	New Jersey Manufacturer's Association	Do.
1602	Committee on Taxation of the American Council on Education; American Alumni Council; American College Public Relations Association.	Would retain existing law.
1605	National Social Welfare Assembly, Inc	Would retain existing law. (See also pp. 1609, 1619, 1653.)
1624	William H. Peterson, New York University	Opposed to proposal.
1643	Girl Scouts of U.S.A	Do.
1646	American Association of Fund Raising Counsel, Inc.	Do.
1712	United Community Funds & Councils of America	Disapproves of proposal.
1719	National Association of Counties	Would oppose proposal.
1766	Perry E. Gresham	Disapproves of any change which would impinge upon incentives to contribute. Alternatively, suggests all taxpayers itemize to get credit for contribution for educational and charitable gifts.

2139	National Association of Home Builders	Opposed to proposal. (See also p. 2152.)
2378	American Bankers Association	Opposed to proposal.
2533	American Institute of Certified Public Accountants.	Would oppose.
2640	American Retail Federation	Opposed to proposal.
1904	National Small Business Men's Association	Of 1,200 replies, 87 percent strongly opposed proposal.
1063	Dan Throop Smith, Harvard University	Believes some limitation on personal deductions with a floor comparable to that on medical expenses is desirable. However, if adopted, would reduce optional standard deduction.
1497	Hon. Abraham J. Multer, Member of Congress	Opposed.
2188	Dr. Miller Upton, Beloit, Wis	Do.
1955	AFL-CIO	A constructive alternative should be sought for 5-percent floor on itemized deductions. Believes 5-percent floor is not a feasible remedy. Might consider a 3- or 2-percent floor but this has same faults as proposed floor.
2207	Council of State Chambers of Commerce	Would oppose.
2288	Voice of People in Action	Appears to oppose.
2296	Frank K. Jones, Berwyn, Pa	Would oppose.
2017	American Textile Manufacturers Institute	Do.
2755	Robert S. Puder, CPA	Opposed to proposal.
2307	U.S. Chamber of Commerce	Would oppose.
2258	Illinois State Chamber of Commerce	Do.
2230	Federal Tax Forum, Inc	Do.
2239	Roy Blough, Columbia University	Would favor.
2725	Hoyt Ammidon, United States Trust Co. of New York.	Opposed.
939	National Apartment Owners Association, Inc	Opposed to proposal.
2899	Lawrence B. Lehman, Sarasota, Fla	Do.
2900	William D. Loucks, Jr., New York, N.Y	Do.
2895	John J. Gerlach, Columbus, Ohio	Appears to oppose proposal.
2570	Edwin Hawes, Jr., Wharton, Tex	Opposed to proposal.
2812	Investment Bankers Association of America	Proposal would not be in the public interest with respect to raising of funds for charitable purposes.
2798	Rubber Manufacturers Association	Not conducive to investment in private home, institutional facilities, or capital improvement of State and local governments.
1660	National Association of Evangelicals	Opposed to proposal.
1657	Council of Jewish Federations & Welfare Funds, Inc.	Would oppose. Charitable deductions should be treated different from other deductions.
1659	Federation of Protestant Welfare Agencies, Inc	Would retain existing law even at cost of a smaller tax cut.
1285	Hon. James H. Quillen, Member of Congress	Opposed to proposal.

II. *Individual Ordinary Income Taxes*—Continued

A. 5-PERCENT FLOOR ON ITEMIZED DEDUCTIONS—continued

Page No. in hearings	Name of witness and association represented	Comments
1011	National Association of Postal Supervisors	Would appear to oppose.
1661	National Council of the Churches of Christ	Expresses serious concern over adverse effect proposal will have. If adopted, make the floor inapplicable to charitable deductions.
1662	Church Council of the American Lutheran Church	If adopted, remove charitable deductions from this category.
1663	Cleveland Commission on Higher Education	Opposed to proposal.
1666	National Foundation	Do.
1004	American Association of Retired Persons; National Retired Teachers Association.	Do.
2872	Irving F. Bolton, Oakland, Calif	Believes 5-percent floor is unfair to upper middle income taxpayers. Suggests standard deduction continue at 10 percent but increasing maximum dollar limitation to $3,000 and that only deductions in excess of 7½ percent be allowed as itemized deductions.
2817	Industrial Relations Counselors Service, Inc	Relatively speaking, proposal would preclude a net reduction for middle income groups which is fair when compared with other groups.
2807	American Apparel Manufacturers Association	Opposed to proposal.
2889	Richard W. Hulbert, New York, N.Y	If adopted, provide a separate floor of 4 percent on medical expenses and casualty losses and a separate 5 percent floor on all other itemized deductions.
2848	Chicago Association of Commerce & Industry	Opposed to proposal.
2847	New York County Lawyers' Association	Opposed to proposal. If necessary, would make up any revenue loss from a small reduction in tax rates.
2810	Mortgage Bankers Association of America	Opposed to proposal.
2801	National Farmers Union	Believes proposal will benefit lower income groups, but may increase taxes for the middle income group.
2869	Green Giant Co	Opposed to proposal.
2903	George C. Roberts, Tacoma, Wash	Do.
1668	Hon. John Lesinski, Member of Congress	Do.
1670	Hon. Frank Horton, Member of Congress	Do.
1671	David Schaenen, Billings, Mont	Do.
1653	Boy Scouts of America	Do.

1669	Hon. James Harvey, Member of Congress	Reports groups of constituents oppose proposal.
1348	Lane Co., Inc., Altavista, Va	Would oppose, and suggests establishing a commission to write a new revenue act. Also suggests a manufacturers' sales tax to produce needed revenue for tax cut in lieu of this proposal.
2523	Hon. Joseph M. Montoya, Member of Congress	Opposed to proposal.
1949	W. W. Newberry, La Crosse, Wis	Do.
1934	Virginia Manufacturers Association, Inc	Do.
2531	Hon. Thomas G. Morris, Member of Congress	Do.
2842	Tax Section, Florida Bar	Would retain existing law.
2882	Naturita Block Plant, Nellie D. Miller	Opposed to proposal.
1686	Grinnell College	Opposed to all proposals which adversely affect all institutions of higher education.
1686	Lake Erie College, William E. Frenaye	Make charitable contributions deductible in full; make all other deductions subject to the floor.
1689	Long Beach Jewish Community Center	Would retain existing law.
1690	Travelers Aid Society of Long Beach	Opposed to proposal.
1690	Long Beach Community Welfare Council	Do.
1947	Lancaster Chamber of Commerce	Do.
1672	State of Florida, Secretary of State	Do.
1672	Hon. Edward J. Gurney, Member of Congress	Do.
1673	South Bend Urban League & Hering House	Believes proposal would definitely diminish incentive to give.
1674	United Fund of St. Lucie County, Fla	Opposed to proposal.
1683	City of Charlotte, N.C	Would retain existing law.
1683	Alma College	Opposed to proposal.
1685	Greensboro College	Do.
1599	Hon. Richard H. Poff, Member of Congress	Believes proposal will have an adverse impact upon charitable contributions to educational institutions.
1687	Federation of Jewish Philanthropies of New York	Opposed to proposal.
1688	Family Service of Westchester, Inc	Do.
1688	Jewish Welfare Federation of Detroit	Believes contributions to nonprofit charitable organizations should be excluded from any floor.
1688	J. C. Nichol Co	Believes contributions will be drastically reduced.
1689	Wiener, Vierling & Karasov	Opposed to proposal.
1501	Hon. Spark M. Matsunaga, Member of Congress	Do.
1692	Long Beach Area Council, Boy Scouts of America	Do.
1693	Family Counseling Service of Long Beach	Do.
1693	First Presbyterian Church, Bogalusa, La	Do.
1693	Church of the Covenant, Presbyterian, New Orleans, La.	Would oppose proposal.

II. Individual Ordinary Income Taxes—Continued

A. 5-PERCENT FLOOR ON ITEMIZED DEDUCTIONS—continued

Page No. in hearings	Name of witness and association represented	Comments
1694	Woodland Presbyterian Church, New Orleans, La.	Opposed to proposal.
1694	First Presbyterian Church, New Orleans, La.	Do.
1694	Carolyn Park Presbyterian Church, Arabi, La.	Do.
1695	Amite-Arcola Presbyterian Churches, Amite, La.	Do.
1695	Edward A. Williams	Do.
1695	D. W. Matson	Do.
1696	Verner E. Gabany	Do.
2836	New York State Bar Association	Doubts propriety of proposal. Believes principle seems arbitrary and is lacking in rational justification.

B. MINIMUM STANDARD DEDUCTION

Page No. in hearings	Name of witness and association represented	Comments
1	Treasury Department	Provides minimum standard deduction of $300 for taxpayer plus $100 for each dependent including a spouse (maximum of $1,000).
811	Hon. Anthony J. Celebrezze, Secretary of Health, Education, and Welfare.	Proposal would be of benefit to taxpayers 65 and over and to many other taxpayers as well.
800	Hon. Orville L. Freeman, Secretary of Agriculture	States low-level-income farm families would be prime beneficiaries.
2307	U.S. Chamber of Commerce	Would oppose.
2207	Council of State Chambers of Commerce	Do.
2288	Voice of People in Action	Appears to oppose.
2017	American Textile Manufacturers Institute	Would oppose.
1955	AFL–CIO	Would increase minimum standard deduction to $400 for an individual and $200 for each dependent
1010	American Federation of Government Employees	Would increase $100 for each dependent to $200.
2872	Irving F. Bolton, Oakland, Calif.	Favors retaining existing law.
2895	John J. Gerlach, Columbus, Ohio	Opposed to proposal.

2889	Richard W. Hulbert, New York, N.Y.	As an alternative to changes in the minimum standard deduction and the $300 tax credit for the aged, suggests a $100 tax credit in lieu of the $600 personal exemption.
2836	New York State Bar Association	Believes standard deduction should be eliminated rather than extended. Should not have this proposal and 5-percent floor. If 5-percent floor adopted, this proposal should be rejected.
2801	National Farmers Union	Favors proposal.
2829	Associated Retail Bakers of America	Opposed to proposal.
1904	National Small Business Men's Association	Of 1,200 replies, 59 percent opposed proposal.
2882	Naturita Block Plant	Opposed to proposal.
1260	American Symphony Orchestra League	Opposes.
1063	Dan Throop Smith, Harvard University	Do.
986	National Association Retired Civil Service Employees.	Do.
2533	American Institute of Certified Public Accountants	Suggests putting off until 1965.
1497	Hon. Abraham J. Multer, Member of Congress	Favors.
2507	Americans for Democratic Action	Do.
1195	President's Commission on the Status of Women	Do.

C. TAX TREATMENT OF OLDER PERSONS

1	Treasury Department	Substitutes $300 tax credit for those over age 65 for present $600 additional exemption from income and retirement credit of up to $304.
811	Hon. Anthony J. Celebrezze, Secretary of Health, Education, and Welfare.	Proposal would be of far greater value to most older taxpayers than existing law.
800	Hon. Orville L. Freeman, Secretary of Agriculture	States would result in most aged farmers not paying any taxes.
977	Fraternal Order of Police and National Conference on Public Employee Retirement Systems.	Opposes proposals. Would continue existing law, but would provide, under retirement system other than social security and railroad retirement, a retirement income credit for the wife equal to ½ of her husband's credit where a joint return is filed.
979	National Association of Postmasters	Approves of provisions as they affect lower income groups. If extra $600 exemption retained, retain present retirement income credit and retain sick pay exclusion. Recommends exclusion of Federal income tax from civil service annuities at a definite age.
981	National Association of Letter Carriers	Would increase tax credit to $350; retain the sick pay exclusion; and provide a proportional credit for individuals between 62 and 65.

II. Individual Ordinary Income Taxes—Continued

C. TAX TREATMENT OF OLDER PERSONS—continued

Page No. in hearings	Name of witness and association represented	Comments
986	National Association of Retired Civil Employees	Favors tax reductions; welcomes liberal deductions for drugs and medicines. Would retain existing provision re retirement income benefits.
1003	Herman Rosanetz	Supports H.R. 1787, relating to additional deduction for aged dependent who has no retirement income of his own.
2533	American Institute of Certified Public Accountants.	Would oppose.
2296	Frank K. Jones, Berwyn, Pa	Do.
2017	American Textile Manufacturers Institute	Would favor.
1955	AFL–CIO	Do.
2307	U.S. Chamber of Commerce	Would oppose.
2258	Illinois State Chamber of Commerce	Would favor.
2207	Council of State Chambers of Commerce	Would oppose.
2288	Voice of People in Action	Would increase exemption to $1,800 in lieu of $300 credit and provide for social security and pension income.
1018	Golden Ring Council of Senior Citizens	Favors proposal.
1016	Government Employes Council, AFL–CIO	Proposal would adversely affect some civil service annuitants. Recommends bill introduced which would eliminate all or a large part of tax on civil service retirement benefits.
1019	American Public Welfare Association	Would favor proposal.
1018	Washington State Retired Teachers Association	Would retain existing law.
1014	International Association of Fire Fighters	Proposal is deficient in that it is not effective for those under 65; should allow a credit of up to $304.80 against pensions.
1013	National Conference of Police Associations	Believes proposal would not benefit those persons retiring under age 65, and would wipe out tax credits enacted last year.
1011	National Association of Postal Supervisors	Believes proposal will adversely affect retirees under age 65.
2531	Hon. Thomas G. Morris, Member of Congress	Believes proposal would be beneficial.
2842	Tax section, Florida bar	Agrees with principle, but favors retaining existing law.
2882	Naturita Block Plant	Would retain existing law.

1010	American Federation of Government Employees	Opposed. Alternatively, suggests an exemption from tax of all income received as benefits under the Federal civil service retirement system.
2900	William D. Loucks, Jr., New York, N.Y.	Appears to oppose.
2895	John J. Gerlach, Columbus, Ohio	Appears to oppose proposal.
1004	American Association of Retired Persons; National Retired Teachers Association.	Favors certain aspects of proposals and opposes other aspects.
2836	New York State Bar Association	Questions whether proposal should be enacted.
2801	National Farmers Union	Favors proposal.

D. ELIMINATION OF 4-PERCENT CREDIT AND $50 EXCLUSION FOR DIVIDENDS RECEIVED BY INDIVIDUALS

1	Treasury Department	Repeals 4-percent dividend credit and $50 dividend exclusion.
1021	Bell System Cos	Proposal should be rejected.
1405	Keith Funston, New York Stock Exchange	Opposes repeal. Alternatively, suggests increasing credit to 10 percent and exclusion to $100.
1776	National Tax Equality Association	Opposed to repeal.
2007	Edison Electric Institute	Opposed to proposal.
2378	American Bankers Association	Do.
2431	Machinery & Allied Products Institute	Do.
2571	Financial Executives Institute	Would retain existing provision and suggests increasing credit and amount of exclusion.
1063	Dan Throop Smith, Harvard University	Disagrees with proposal.
2640	American Retail Federation	Opposed to repeal, and suggests extension of relief.
1497	Hon. Abraham J. Multer, Member of Congress	Opposed.
2288	Voice of People in Action	Appears to oppose.
2296	Frank K. Jones, Berwyn, Pa	Would favor.
2017	American Textile Manufacturers Institute	Would oppose.
1955	AFL-CIO	Would favor.
2687	Manufacturing Chemists' Association, Inc	Opposed to proposal.
2307	U.S. Chamber of Commerce	Would oppose.
2258	Illinois State Chamber of Commerce	Do.
2239	Roy Blough, Columbia University	Does not entirely favor retaining existing law.
2207	Council of State Chambers of Commerce	Would oppose.
2895	John J. Gerlach, Columbus, Ohio	Appears to have no objection.
2860	Armstrong Cork Co	Would retain existing law.
2829	Associated Retail Bakers of America	Opposed to proposal.

II. *Individual Ordinary Income Taxes*—Continued

D. ELIMINATION OF A 4-PERCENT CREDIT AND $50 EXCLUSION FOR DIVIDENDS RECEIVED BY INDIVIDUALS—continued

Page No. in hearings	Name of witness and association represented	Comments
2812	Investment Bankers Association of America	Endorses statement of New York Stock Exchange recommending present law be retained and that credit be increased to 10 percent and exclusion to 100 percent.
2798	Rubber Manufacturers Association	Repeal would be a step backward.
2817	Industrial Relations Counselors Service, Inc	Relatively speaking, proposal would preclude a net reduction for middle income groups which is fair when compared with other groups.
2900	William D. Loucks, Jr., New York, N.Y	Would retain existing law.
2825	Independent Natural Gas Association	Would retain existing law and would expand.
1004	American Association of Retired Persons; National Retired Teachers Association.	Opposed to proposal.
2220	National Federation of Independent Business	18 percent favored repeal of proposal and 72 percent opposed repeal.
2853	Texaco, Inc	Opposed to proposal. Suggests relief be expanded.
924	Pennsylvania Power & Light Co	Would increase $50 to $200 and would retain 4-percent credit.
3464	American Mining Congress	Opposed to proposal.
933	Association of Stock Exchange Firms	Would retain existing law and would expand $50 exclusion and 4-percent credit to $100 and 10 percent.
2899	Lawrence B. Lehman, Sarasota, Fla	Proposal will provide little tax relief for middle-income groups.
2864	W. R. Grace & Co	Opposed to proposal and suggests extension of existing provision.
2801	National Farmers Union	Favors proposal.
2889	Richard W. Hulbert, New York	Would favor proposal.
2857	Abbott Laboratories	Opposed to proposal.
2836	New York State Bar Association	Would favor only if suggested changes in rates and progression are adopted.
2869	Green Giant Co	Opposed to proposal.
2847	New York County Lawyers' Association	Favors proposal.
1443	Boston Stock Exchange	Agrees with statement of New York Stock Exchange.
1670	Hon. Frank Horton, Member of Congress	Opposed to proposal.
1671	David Schaenen, Billings, Mont	Would retain existing law.
2531	Hon. Thomas G. Morris, Member of Congress	Proposal would be likely to make corporate stock less attractive as an investment.

1904	National Small Business Men's Association	Of 1,200 replies, 81 percent opposed proposal.
2882	Naturita Block Plant	Opposed to proposal.
2881	Melvin Cole, Rochester, N.Y.	Favors proposal.
2842	Tax Section; Florida Bar	Do.
2831	American Veterans Committee	Do.
1371	Roswell Magill	Opposed.
1789	Bankers Committee for Tax Equality	Do.
2038	Investors League, Inc	Do.
2609	Freedom, Inc	Do.
2195	National Tax Savers Party	Favors.
2507	Americans for Democratic Action	Do.
2504	Carl S. Shoup, Columbia University	Do.
2424	Richard A. Musgrave	Favors repeal, but alternatively suggests a dividend paid credit at the corporate level.
1440	American Stock Exchange	Opposed to proposal.
1947	Lancaster Chamber of Commerce	Do.

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II. Individual Ordinary Income Taxes—Continued

E. ITEMIZED DEDUCTIONS

1. Interest Deduction Where an Individual Borrows To Buy Life Insurance and the Related Problem of Split Dollar Insurance

Page No. in hearings	Name of witness and association represented	Comments
1	Treasury Department	Denies a deduction for interest payments where there is a systematic plan to borrow to pay any substantial number of the premiums on a life insurance policy and treats as income of the employee the interest on any funds put up by the employer (cash surrender value of a policy) to buy life insurance for the employee.
1217	National Association of Life Underwriters	Opposed to proposal.
1320	Association for Advanced Life Underwriting	Do.
1840	American Life Convention, Life Insurers Conference, and Life Insurance Association of America.	Opposed to proposal. (See also p. 1864.)
2836	New York State Bar Association	Would retain existing law.
1880	San Jose Life Underwriters Association, Inc	Opposed to proposal.

2. 4-Percent Floor in the Case of Casualty Losses

1	Treasury Department	Limits deductible casualty losses to those in excess of 4 percent of taxpayer's adjusted gross income. (See also p. 655.)
1063	Dan Throop Smith, Harvard University	Proposal seems desirable.
2640	American Retail Federation	Opposed to proposal.
1497	Hon. Abraham J. Multer, Member of Congress	Opposed.
2307	U.S. Chamber of Commerce	Would oppose unless a small deductible fixed-dollar figure ($100) would be used in lieu of a floor.
2207	Council of State Chambers of Commerce	Would oppose.
2296	Frank K. Jones, Berwyn, Pa	Do.
2848	Chicago Association of Commerce & Industry	Opposed to proposal.
2869	Green Giant Co	Do.
2836	New York State Bar Association	Would favor proposal.
2842	Tax section, Florida bar	Favors proposal.
2882	Naturita Block Plant	Would appear to oppose proposal.
2017	American Textile Manufacturing Institute	Would limit deduction to those in excess of $50.
2258	Illinois State Chamber of Commerce	Do.

II. Individual Ordinary Income Taxes—Continued

E. ITEMIZED DEDUCTIONS—continued

3. Charitable Contributions, Increase Limitation From 20 Percent to 30 Percent in Certain Cases

Page No. in hearings	Name of witness and association represented	Comments
1	Treasury Department	Increased maximum charitable contributions deduction from 20 percent to 30 percent for all contributions except those to private foundations.
1260	Symphony Orchestras Association and Arts Council.	Favors proposal.
1600	L. Quincy Mumford, Librarian of Congress	Would favor proposal. Recommends adoption of sense of H.R. 498 and H.R. 2078 and also that (1) sec. 503(b)(2) be amended to include libraries within definition of an "educational institution," or (2) that sec. 170(b)(1) be amended somewhat as follows: "(iv) a museum, historical society or agency, library, or other cultural, educational, or community center open to and operated for the benefit of the general public and which normally receives a substantial part of its support from the United States, or any State or political subdivision thereof, or from direct or indirect contributions from the general public, or any combination thereof."
1646	American Association of Fund Raising Counsel, Inc.	Favors proposal.
1712	United Community Funds and Councils of America.	Approves of proposal.
1063	Dan Throop Smith, Harvard University	Suggests deductions for art objects be limited to cost.
2307	U.S. Chamber of Commerce	Would favor.
2288	Voice of People in Action	Do.
2296	Frank K. Jones, Berwyn, Pa	Would oppose.
2017	American Textile Manufacturers Institute	Would favor.

966	American Federation of Musicians, AFL–CIO	Favors proposal.
1657	Council of Jewish Federations & Welfare Funds, Inc.	Do.
1656	American Library Association	Do.
1655	American Association of Museums	Agrees with the Librarian of Congress, Mr. Mumford, in favoring proposal.
1653	Boy Scouts of America	Favors proposal.
2882	Naturita Block Plant	Do.
2881	Melvin Cole, Rochester, N.Y	Deduction should be limited to cost or appreciation should be taxable as ordinary income.
2842	Tax Section, Florida Bar	Would retain existing law in view of opposition to 5-percent floor.
1653	National Social Welfare Assembly, Inc	Favors. (See also pp. 1609 and 1619.)
1673	South Bend Urban League & Hering House	Favors proposal.
1599	Hon. Richard H. Poff, Member of Congress	Believes proposal will have an adverse impact upon charitable contributions to educational institutions.
1687	Federation of Jewish Philanthropies of New York	Favors proposal.

4. Removal of Unlimited Charitable Contribution Deduction

1	Treasury Department	Removes from existing law the provision that permits the deduction of charitable contributions without limitation in those cases where these contributions plus taxes equaled 90 percent or more of income in last 8 out of 10 years.
1260	Symphony Orchestras Association and Arts Council.	Opposed to proposal.
1602	Committee on Taxation of the American Council on Education; American Alumni Council; American College Public Relations Association.	Would retain existing law.
2057	Hon. Robert W. Hemphill, Member of Congress	Enactment of this proposal would be a disservice to the Nation, the churches, and the good works they perform.
1063	Dan Throop Smith, Harvard University	Disagrees with proposal.
2307	U.S. Chamber of Commerce	Would oppose.
2258	Illinois State Chamber of Commerce	Do.
2207	Council of State Chambers of Commerce	Would oppose.
2296	Frank K. Jones, Berwyn, Pa	Would favor.
1674	Cravath, Swaine & Moore	Would retain existing law.
1677	Dallstream, Schiff, Hardin, Waite & Dorschel	Do.

II. Individual Ordinary Income Taxes—Continued

E. ITEMIZED DEDUCTIONS—continued

4. Removal of Unlimited Charitable Contribution Deduction—Continued

Page No. in hearings	Name of witness and association represented	Comments
1675	John C. Newington, Greenwich, Conn	Opposed to proposal.
1663	Cleveland Commission on Higher Education	Do.
1657	Council of Jewish Federations & Welfare Funds, Inc.	Would oppose. Charitable deductions should be treated different from other deductions.
1660	National Association of Evangelicals	Opposed to proposal.
2836	New York State Bar Association	Would modify by allowing individual who gave gifts for 5 years or more to qualify and have 10 years in which to claim deduction. Alternatives should be considered.
1904	National Small Business Men's Association	Of 1,200 replies, 64 percent opposed proposal.
2842	Tax Section, Florida Bar	Favors proposal.
1599	Hon. Richard H. Poff, Member of Congress	Believes proposal will have an adverse impact upon charitable contributions to educational institutions.

5. Revision of Medical Expense Deduction

Page No. in hearings	Name of witness and association represented	Comments
1	Treasury Department	Substitutes a 4-percent floor on medical expenses generally for the separate 3-percent floor on such expenses and the 1 percent floor on drugs, removes the ceilings on medical expenses and revises the definitions of certain deductible medical expenses.
1234	American Medical Association	Endorses proposal to eliminate 1-percent floor on drug expenses for those over 65 and in accord with eliminating maximum dollar limitations. However, in general, submits that 5-percent floor on items deductions and separate 4-percent floor for medical deductions creates a serious inequity. Proposes following amendments to code: (1) provide a tax credit instead of a medical deduction, the credit to be related to the amount of income and medical expenses; (2) provide a 3-year carry-

		back and a 5-year carryforward of unused medical deductions; (3) permit a deduction in full of amounts paid for medical care of any person 65 or over defined as a dependent under sec. 152.
2307	U.S. Chamber of Commerce	Generally opposed to a "floor" type limitation; however, supports the elimination of ceiling on deductible medical expenses.
2207	Council of State Chambers of Commerce	Has no objection to proposal.
1018	Golden Ring Council of Senior Citizens	Favors elimination of limit on deductions insofar as it affects the elderly but prefers King-Anderson bills.
1011	National Association of Postal Supervisors	Believes proposal would not benefit older persons.
2900	William D. Loucks, Jr., New York, N.Y	Proposal fails to take into account problem posed by percent limitation on the middle-aged salary officer of a corporation earning between $15,000 and $25,000 per year.
2895	John J. Gerlach, Columbus, Ohio	If a floor is adopted, 3½ percent would be fair. In favor of regulating ceiling on deductions.
2848	Chicago Association of Commerce & Industry	Opposed to proposal.
2903	George C. Roberts, Tacoma, Wash	Favors proposal.
1004	American Association of Retired Persons; National Retired Teachers Association.	Opposed as it relates to prescription medicine.
2881	Melvin Cole, Rochester, N.Y	Favors proposal.
2882	Naturita Block Plant	Opposed to proposal.

6. *Expansion of Deduction for Child Care and Disabled Dependents*

1	Treasury Department	Liberalizes child care deduction by raising the maximum deduction from $600 to $1,000, by raising from $4,500 to $7,000 the maximum earnings a working wife and her husband may have and still claim the full child care deduction, by increasing from 11 to 12 the maximum age of children which may qualify a taxpayer for this deduction, and by making certain other modifications in the provision.
1195	President's Commission on the Status of Women	Favors proposal.
1252	National Federation of the Blind	Believes proposal falls short in case of dependents disabled by blindness. Supports H.R. 1659 (Mr. King of California), relating to additional exemption for taxpayer supporting dependent who is blind.
2207	Council of State Chambers of Commerce	Would favor.
2288	Voice of People in Action	Suggests expenses be increased to $1,000 for each child.
2296	Frank K. Jones, Berwyn, Pa	Would favor.
1955	AFL–CIO	Do.
2531	Hon. Thomas G. Morris, Member of Congress	Believes proposal would benefit working mothers.

II. Individual Ordinary Income Taxes—Continued

E. ITEMIZED DEDUCTIONS—continued

6. Expansion of Deduction for Child Care and Disabled Dependents—Continued

Page No. in hearings	Name of witness and association represented	Comments
1125	Hon. William F. Ryan, Member of Congress	Recommends adoption of his bill, H.R. 1971, which provides a deduction for transportation expenses of disabled individuals, and provides for an additional personal exemption because of physical disability.
1254	Joint Handicapped Council	Recommends adoption of the Keogh bill, H.R. 424, which provides additional deductions and exemptions for disabled individuals.
1203	American Nurses' Association	Favors proposal, but would allow $1,000 deduction regardless of number of children under 12.
1204	National Committee for the Day Care of Children	Favors proposal.
2895	John J. Gerlach, Columbus, Ohio	Has no objection but would raise limitation to $1,200 for taxpayer with 2 or more dependents.
2801	National Farmers Union	Favors proposal.
2836	New York State Bar Association	Questions whether proposal should be enacted.
2882	Naturita Block Plant	Would not be necessary if rates were lowered.
2842	Tax Section, Florida Bar	Favors proposal.
1259	Hon. William Wallace Barron, Governor of West Virginia.	Endorses the Keogh bill, H.R. 424, relating to the deductibility of transportation costs for handicapped people.

7. Expansion and Revision of Employees' Moving Expense Deduction

Page No. in hearings	Name of witness and association represented	Comments
1	Treasury Department	Permits the deduction of moving expenses of new as well as old employees, of nonreimbursed expenses as well as those reimbursed and defines moving expenses.
944	Actors Equity Association	Recommends approval.
1277	Fleming Bomar	Favors proposal, but in addition would allow a deduction for (1) meals and lodging for employee and family while en route, including expenses incurred during period of 2 to 4 weeks while awaiting availability of a permanent residence; (2) expenses of house hunting; (3) penalties for

		breaking a lease on rented property; (4) expenses of legal or brokers' fees for purchase or rental of new expenses; (5) expenses of disconnecting and installing appliances. Above expenses should not constitute ordinary income to employee. However, reimbursement received by employee from employer from sale of employee's old residence should be considered as additional proceeds from sale of residence.
1922	International Telephone & Telegraph	Feels proposal should also include an allowance for living expenses while new employee is house hunting and for measurable differences in housing costs.
1063	Dan Throop Smith, Harvard University	Proposal seems desirable.
2571	Financial Executives Institute	Recommends that provision apply only to moving expenses reimbursed either by present employer or by new employer. Also, suggests reimbursements not be required to be included in income, and then deductible. Would also expand exclusion on deductibility to include brokerage fees, cost of obtaining release from leases, legal fees, expenses of house hunting, and additional food and lodging costs.
2533	American Institute of Certified Public Accountants.	Would favor but should broaden to include out-of-pocket costs directly related to such moves.
2017	American Textile Manufacturers Institute	Favors, would, however, allow as moving expenses forced losses on sale of employee's former residence, cost of sale of employee's old house and living expenses while house hunting.
1955	AFL–CIO	Would favor.
2687	Manufacturing Chemists' Association, Inc.	Favors proposal, but would modify by (1) not requiring inclusion in gross income and offsetting by a corresponding deduction; and (2) that there be excluded from gross income (*a*) actual transportation expenses; (*b*) food and lodging while in temporary quarters; and (*c*) other nonrecurring miscellaneous expenditures in connection with the move.
2307	U.S. Chamber of Commerce	Would favor.
2258	Illinois State Chamber of Commerce	Do.
2230	Federal Tax Forum, Inc	Do.
2277	Manufacturers Association of City of Bridgeport, Conn.	Do.
2864	W. R. Grace & Co	Supports proposal, but would extend deduction to cover more items. However, opposes the 20-mile limitation.
1281	Winn-Dixie Stores, Inc	Suggests proposal be broadened to provide relief for employees reimbursed by employers for losses incurred in sale of their house in connection with a transfer for employer's convenience, and would make it retroactive to all open years.

II. Individual Ordinary Income Taxes—Continued

E. ITEMIZED DEDUCTIONS—continued

7. *Expansion and Revision of Employees' Moving-Expense Deduction*—Continued

Page No. in hearings	Name of witness and association represented	Comments
2800	National Society of Professional Engineers	Endorses proposal.
2836	New York State Bar Association	Matter has been handled administratively quite satisfactorily. If adopted, would apply same rules to self-employed.
1021	Bell Telephone System	Proposal is unrealistic and unfair. Would expand proposal to exclude from taxable income of both new hires and in-service employees all necessary and reasonable expenses incurred as a result of a change in work locations. (See also p. 1283.)
2882	Naturita Block Plant	Moving expenses should only be of concern to employer and employee.
2842	Tax Section, Florida Bar	Favors but would expand to include nonemployees who undertake a new job or start a new income-producing activity.
1947	Lancaster Chamber of Commerce	Favors proposal.
1282	International Business Machines	Recommends all expenses incidental to move paid to employee will be excludable by employee. Also recommends that payments to employee in connection with sale of employee's residence be treated as additional proceeds from the sale of the residence, rather than as ordinary income.

8. Establishment of Rules With Respect to the Deductibility of Travel Expenses

1	Treasury Department	Provides specific rules for deduction of transportation expenses when outside "duty area" on business, and for deduction of meals and lodging while away from duty area more than 16 hours and in certain other cases.
944	Actors Equity Association	Recommends approval.
2258	Illinois State Chamber of Commerce	Would oppose.
2017	American Textile Manufacturers Institute	Do.
2533	American Institute of Certified Public Accountants.	Would retain existing law.
2864	W. R. Grace & Co	Opposed to 16-hour rule. Alternatively, suggests that food and lodging obtained outside the duty area be treated as travel expenses even if taxpayer returns to duty area the same day. Suggests relieving burden of recordkeeping. Proposes a deduction for transportation from hotel to business appointment and return while in travel status and proposes a deduction for cleaning and laundry while in travel status.
2895	John J. Gerlach, Columbus, Ohio	Opposed to proposal.
2881	Melvin Cole, Rochester, N.Y	Value of meals furnished employees should be taxable income to employee. Mileage allowance should be taxable income also.
2882	Naturita Block Plant	Recommends against taxing meals to employees.

II. Individual Ordinary Income Taxes—Continued

F. EXCLUSIONS

1. *Limitation on Exclusion of Premiums on Group Term Insurance*

Page No. in hearings	Name of witness and association represented	Comments
1	Treasury Department	Limits exclusion for group term insurance furnished by employer to premiums paid for 1st $5,000 of coverage.
1859	Do	Letter of Apr. 2, 1963, to Chairman Mills submitting comments on points raised in testimony.
1217	National Association of Life Underwriters	Would set limit at $40,000.
1241	Council on Employee Benefits	Opposed to proposal.
1324	Association For Advanced Life Underwriting	Opposed to proposal. Suggest limit of $20,000 to $40,000, if proposal is enacted.
1488	Towers, Perrin, Forster & Crosby, Inc	Opposed to proposal. If enacted, urges values upon which tax is based be determined on basis of employer's actual cost of group life insurance, allocated independently of age at a uniform rate per $1,000 based on actual cost. (See also p. 1494.)
1840	American Life Convention, Life Insurers Conference, and Life Insurance Association of America.	Opposed to proposal.
2431	Machinery Allied & Products Institute	Do.
2571	Financial Executives Institute	Do.
2640	American Retail Federation	Do.
2687	Manufacturing Chemists' Association, Inc	Proposal is not desirable.
2307	U.S. Chamber of Commerce	Would oppose.
2017	American Textile Manufacturers Institute	Do.
2258	Illinois State Chamber of Commerce	Do.
2296	Frank K. Jones, Berwyn, Pa	Would favor.
2277	Manufacturers Association of City of Bridgeport, Conn.	Would oppose.
2207	Council of State Chamber of Commerce	Do.
2871	Improved Risk Mutuals	Opposed to proposal.
941	National FHA Apartment Owners Association	Would retain existing law.

2817	Industrial Relations Counselors Service, Inc	Relatively speaking, proposal would preclude a net reduction for middle income groups which is fair when compared with other groups.
2798	Rubber Manufacturers Association	Would be grossly inequitable as applied to older employees and retirees.
2807	American Apparel Manufacturers Association	Would retain existing law.
2848	Chicago Association of Commerce and Industry	Opposed to proposal.
2900	William D. Loucks, Jr., New York, N.Y	Would favor some limitation on exclusion; however, believes the $5,000 limitation is too low.
1004	American Association of Retired Persons; National Retired Teachers Association.	Opposed to proposal.
2872	Indian Head Mills, Inc	Do.
2857	Abbott Laboratories	Do.
1021	Bell System Cos	Opposed to proposal. (See also p. 1345.)
1346	Eastman Kodak Co	Opposed to proposal. If any action necessary, deny corporate deduction for contributions to a discriminatory pension plan.
1348	Lansing B. Warner, Inc	Would oppose proposal.
1348	Moore Business Forms, Inc	Would not favor proposal.
1010	American Federation of Government Employees	Provide an exclusion for first $15,000 in lieu of first $5,000.
2864	W. R. Grace & Co	Opposed to proposal. If adopted, suggests limiting any change to employees hired after December 1963. Also suggest that the employee be exempt if his insurance does not exceed 3 times his annual salary.
2853	Texaco, Inc	Opposed to proposal.
2895	John J. Gerlach, Columbus, Ohio	If adopted, set a higher limitation.
2860	Armstrong Cork Co	Opposed to proposal.
2882	Naturita Block Plant	Do.
1904	National Small Business Men's Association	Of 1,200 replies, 69 percent opposed proposal.
2842	Tax Section, Florida Bar	Opposed to proposal.
1881	Judd C. Benson, Cincinnati, Ohio	Endorses statement of Charles A. Siegfried on behalf of American Life Convention, etc.
1955	AFL–CIO	Opposed; if adopted, suggests raising amount to $15,000.
1947	Lancaster Chamber of Commerce	Opposed to proposal.

II. Individual Ordinary Income Taxes—Continued

2. Elimination of Sick Pay Exclusion

Page No. in hearings	Name of witness and association represented	Comments
1	Treasury Department	Eliminates wage continuation exclusion of up to $100 a week for those who have been hospitalized or sick more than 1 week.
1204	Health Insurance Association of America	Opposed to proposal. (See also p. 1213.)
1217	National Association of Life Underwriters	Opposed to proposal.
1840	American Life Convention, Life Insurers Conference, and Life Insurance Association of America.	Opposed to proposal. Endorses statement of Health Insurance Association in opposition to repeal.
1063	Dan Throop Smith, Harvard University	Proposal seems desirable.
2307	U.S. Chamber of Commerce	Would favor.
2277	Manufacturers Association of City of Bridgeport, Conn.	Would oppose.
2017	American Textile Manufacturers Institute	Would favor.
2207	Council of State Chamber of Commerce	Has no objection to proposal.
2288	Voice of People in Action	Appears to oppose.
2296	Frank K. Jones, Berwyn, Pa	Would favor.
1011	National Association of Postal Supervisors	Would adversely affect civil service employees retired on disability.
1014	International Association of Fire Fighters	Opposed to proposal.
1010	American Federation of Government Employees	Do.
2895	John J. Gerlach, Columbus, Ohio	Has no objection.
2900	William D. Loucks, Jr., New York, N.Y	Favors proposal.
1004	American Association of Retired Persons; National Retired Teachers Association.	Opposed to proposal. Persons retired on disability under age 65 from a public employee retirement system will be adversely affected.
2872	Indian Head Mills, Inc	Opposed to proposal.
2881	Melvin Cole, Rochester, N.Y	Favors proposal.
2882	Naturita Block Plant	Do.
1955	AFL–CIO	Would oppose unless part of vigorous loophole closing for wealthy.
979	National Association of Postmasters	Opposes.
981	National Association of Letter Carriers	Do.
986	National Association of Retired Civil Service Employees.	Do.

2195	National Tax Savers Party	Favors.
2504	Carl S. Shoup, Columbia University	Do.
2424	Richard A. Musgrave	Do.
1947	Lancaster Chamber of Commerce	Opposed to proposal.

G. AVERAGING OF FLUCTUATING INCOMES

1	Treasury Department	Provides equivalent of averaging of income over a 5-year period where income in current year exceeds average of 4 prior years by more than one-third and this excess equals at least $3,000.
800	Hon. Orville L. Freeman, Secretary of Agriculture	States proposal would benefit farmers.
804	Hon. John E. Horne, Administrator, Small Business Administration.	Favors as benefiting small business.
819	Hon. Tom Steed, chairman, Subcommittee No. 3, House Select Committee on Small Business.	States proposal would be favorable to small businessmen.
1063	Dan Throop Smith, Harvard University	Proposal seems desirable.
944	Actors Equity Association	Supports averaging proposal but believes is unduly narrow. Suggests providing for downside averaging also by permitting averaging over selected blocks of years, with no one year included in more than 1 year.
948	Authors League of America, Inc	Supports averaging provisions, but suggests elimination of $3,000 minimum excess requirement.
954	Screen Actors Guild	Supports averaging provisions, but would limit to personal service employment income. Suggests consideration be given to (*a*) downside averaging or to an averaging beyond the period of the 1st year in which significant income is earned; and (*b*) a 10-year averaging period instead of 5-year period; (*c*) eliminating the age requirement; and (*d*) permitting certain taxpayers to use any one of five years as the current year. Also suggests an earned income credit of 4 percent of earned income but not to exceed 4 percent of taxable income with maximum in excess of $1,400, based on a percentage of compensation for personal services either in excess of a stated minimum or on a moving average. (See also p. 957.)
998	Ohio Brass Co	In lieu of the averaging provision, would support tax rate reform sponsored by Messrs. Herlong and Baker.
1095	A. Wilfred May	Favors proposal.

II. Individual Ordinary Income Taxes—Continued

2. Elimination of Sick Pay Exclusion

G. AVERAGING OF FLUCTUATING INCOMES—continued

Page No. in hearings	Name of witness and association represented	Comments
1537	National Livestock Tax Committee	Favors proposal, but would increase base period to 10 years and would provide for a carry forward or backward of unused personal exemptions and unused standard deductions similar to Canadian law.
2533	American Institute of Certified Public Accountants.	Favors proposal, but would provide for averaging over selected blocks of 5 years.
1497	Hon. Abraham J. Multer, Member of Congress	Favors.
2307	U.S. Chamber of Commerce	Would favor.
2017	American Textile Manufacturers Institute	Do.
2258	Illinois State Chamber of Commerce	Do.
2230	Federal Tax Forum, Inc	Believes the concept of averaging is desirable, but the proposal is unwieldy and inadequate.
1955	AFL-CIO	Would favor.
2288	Voice of People in Action	Do.
2296	Frank K. Jones, Berwyn, Pa	Do.
976	American Guild of Authors & Composers	Favors proposal.
975	Motion Picture Association of America	Favors proposal, but would provide for downside averaging and would eliminate age requirement (19).
974	Association of the Bar of the City of New York (Committee on Copyright).	Favors proposal as it relates to copyright property.
974	Warner Bros. Pictures, Inc	Favors proposal.
972	American Book Publishers Council, Inc	Supports proposal.
973	Writers Guild of America, East, Inc	Favors proposal.
973	Writers Guild of America, West, Inc	Favors proposal.
973	National Federation of Independent Business	Do.
966	American Federation of Musicians, AFL-CIO	Do.
2895	John J. Gerlach, Columbus, Ohio	Proposal has merits.
2800	National Society of Professional Engineers	Endorses concept of proposal.

2836	New York State Bar Association	Proposal needs further study and thought.
2812	Investment Bankers Association of America	Endorses proposal.
2882	Naturita Block Plant	Favors proposal.
1904	National Small Business Men's Association	Of 1,200 replies, 71 percent favored proposal.
2531	Hon. Thomas G. Morris, Member of Congress	Believes proposal would be beneficial.
2842	Tax Section, Florida Bar	Opposed to proposal.
943	Hon. John V. Lindsay, Member of Congress	Believes proposal would not give relief to same extent as that afforded under his bill H.R. 2520, and urges it be included in any tax bill reported to the House.
976	Mystery Writers of America, Inc	Favors proposal.
1597	American Hereford Association	Favors proposal and authorizes National Livestock Tax Committee to express its views.

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III. CORPORATION ORDINARY INCOME TAXES

A. TAX RETURNS AND RELATED MATTERS

1. *Reversal of Normal and Surtax Rates*

Page No. in hearings	Name of witness and association represented	Comments
1	Treasury Department	Reduces in 1963 rate on first $25,000 of corporate income from 30 percent to 22 percent.
804	Hon. John E. Horne, Administrator, Small Business Administration.	Favors as beneficial to small business.
819	Hon. Tom Steed, chairman, Subcommittee No. 3, House Select Committee on Small Business.	Favors proposal. States many groups and studies have urged, for many years, a lesser tax rate on net income of $25,000 or less.
1749	Associated Industries of Alabama, Alabama Textile Manufacturing Association, Automotive Wholesalers Association of Alabama.	Proposal is bad tax psychology.
2167	National Oil Jobbers Council, Inc	$25,000 limit should be increased to $75,000 or $100,000.
2583	Committee for Repeal of Federal Retail Excise Taxes.	Favors proposal.
2640	American Retail Federation	Do.
2307	U.S. Chamber of Commerce	Would favor.
2258	Illinois State Chamber of Commerce	Do.
2017	American Textile Manufacturers Institute	Do.
3623	National Council of Coal Lessors, Inc	Favors proposal.
2889	Richard W. Hulbert, New York, N.Y	As an alternative, suggests a deduction for dividends paid of up to 10 percent of taxable income before deduction.
2803	National Association of Wholesalers	Favors proposal.
2829	Associated Retail Bakers of America	Do.
2869	Green Giant Co	No direct opposition, but should not be used as an excuse for not making reductions across the board.
1932	National Retail Furniture Association	Favors proposal.
1834	Georator Corp	Opposes.

2. Current Payment of Corporate Taxes

1	Treasury Department	Gradually, over a 5-year period, starting in 1964 advances the timing of corporate income tax payments over $100,000 so that all 4 quarterly payments are made during year of liability rather than 2 payments being made during that year and 2 being made following the year of liability as at present.
1749	Associated Industries of Alabama, Alabama Textile Manufacturing Association, Automotive Wholesalers Association of Alabama.	Corporations with tax liabilities in excess of $100,000 would not receive benefits until 1967 and 1968.
1816	Fountain Pen & Mechanical Pencil Manufacturers Association.	Would oppose proposal.
1834	Georator Corp., Manassa, Va	Proposal heads in wrong direction.
1922	International Telephone & Telegraph	Opposed to proposal.
2571	Financial Executives Institute	Do.
2533	American Institute of Certified Public Accountants	Believes proposal would offset proposed rate reductions.
2640	American Retail Federation	If adopted, suggests the use of annualization of the 70-percent rule.
1063	Dan Throop Smith, Harvard University	Disagrees with proposal.
2687	Manufacturing Chemists' Association, Inc	Believes that reductions will be nullified by this proposal. If enacted should not be made effective until 1965.
2677	Association of American Railroads	Believes this proposal would offset benefits of rate reduction. If adopted, postpone acceleration of payments until 1965, and that the transitition period be extended to at least 10 years.
2307	U.S. Chamber of Commerce	Would oppose.
2258	Illinois State Chamber of Commerce	Do.
2230	Federal Tax Forum, Inc	Do.
2239	Roy Blough, Columbia University	Would favor.
2277	Manufacturers Association of City of Bridgeport, Conn.	Would oppose.
2207	Council of State Chambers of Commerce	Do.
2017	American Textile Manufacturers Institute	Do.
3623	National Council of Coal Lessors, Inc	Opposed to proposal.
2899	Lawrence B. Lehman, Sarasota, Fla	Proposal will result in adding little to the cash flow of corporations.
2853	Texaco, Inc	Opposed to proposal.
2895	John J. Gerlach, Columbus, Ohio	Alternatively, suggests the use of "dated certificates" which could be used for the purpose of paying estimated taxes.
2798	Rubber Manufacturers Association	Would be ineffective and would work at cross purposes with investment credit and depreciation reform.

III. *Corporation Ordinary Income Taxes*—Continued

A. TAX RETURNS AND RELATED MATTERS—continued

2. *Current Payment of Corporate Taxes*—Continued

Page No. in hearings	Name of witness and association represented	Comments
2760	Aerospace Industries Association of America, Inc	Opposed to proposal.
1927	American Electric Power Co	Proposal would delay reduction in tax burden. Long-range effect of overall program for corporation would be a net reduction in taxes.
2836	New York State Bar Association	Proposal would render tax cuts ineffective until 1969. If adopted, a 10-year transitional period would be preferable and 4th installment payment date should be Jan. 15 of the following year.
2869	Green Giant Co	Would oppose proposal.
2857	Abbott Laboratories	Opposed to proposal.
2825	Independent Natural Gas Association of America	Accelerated payments and rate reductions seem inconsistent.
2842	Tax Section, Florida Bar	Alternatively, suggests deferring rate reduction on a graduated basis.
1953	Wyatt, Inc	Opposed to proposal.
1904	National Small Business Men's Association	Of 1,200 replies, 56 percent opposed proposal.
2090	National Association of Manufacturers	Would accept if part of long-term tax relief for corporations.
1371	Roswell Magill	Opposes.
1727	National Tool, Die & Precision Making Association	Do.
1818	Walter T. Margetts, Laytham Foundry, Inc	Do.
2431	Machinery & Allied Products Institute	Do.
3485	American Iron Ore Association	Do.
1947	Lancaster Chamber of Commerce	Opposed to proposal.

3. *Limiting Surtax Exemption in the Case of Multiple Corporations*

Page No. in hearings	Name of witness and association represented	Comments
1	Treasury Department	For corporations where there is common control to the extent of 80 percent or more the corporations involved are generally to be limited to one $25,000 surtax exemption for the group.

Page	Witness	Position
804	Hon. John E. Horne, Administrator, Small Business Administration.	Favors. See letter dated Apr. 1, 1963, to Secretary Dillon reporting results of survey of extent to which the multiple surtax exemption is utilized by small firms. Letter concludes "Very few truly small businesses operate through multiple corporations."
815	Hon. Joe L. Evins, chairman, House Select Committee on Small Business.	Submits replies received from the Department of Justice and Federal Trade Commission which state that the present use of multiple surtax exemptions by large corporations has an adverse effect on competition and unjustifiably favors chainstore enterprises.
819	Hon. Tom Steed, chairman, Subcommittee No. 3, House Select Committee on Small Business.	Favors proposal and states that the result would restore competitive balance between corporations and would enhance the prospect of small businesses to attract outside capital.
1063	Dan Throop Smith, Harvard University	Proposal seems desirable.
1696	National Restaurant Association	Proposal would discourage expansion.
1882	Committee of Consumer Finance Companies	Opposed to proposal. (See also p. 1892.)
1894	National Association of Shoe Chain Stores	Opposed to proposal. (See also p. 1902.)
1919	Commerce & Industry Association of New York, Inc.	Opposed to proposal.
2057	Hon. Robert W. Hemphill, Member of Congress	Proposal would present one of the most inherently dangerous administrative problems. Urges committee not to disrupt business organizations without compelling reasons which do not appear at present. Opposed to proposal.
2139	National Association of Home Builders	Opposed to proposal.
2202	Leon O. Stock, Peat, Marwick, Mitchell & Co	Would retain existing law.
2571	Financial Executives Institute	Opposed to proposal.
2640	American Retail Federation	Do.
1904	National Small Business Men's Association	Of 1,200 replies, 36 percent made no comment on proposal. Of those 64 percent commenting, 40 percent were opposed and 24 percent were in favor.
2288	Voice of People in Action	Would increase normal surtax limit to $100,000.
2017	American Textile Manufacturers Institute	Would favor.
2307	U.S. Chamber of Commerce	Would favor elimination of the multiple surtax exemption, accompanied by removal of the tax on intercorporate dividends and the 2-percent tax on consolidated returns.
2258	Illinois State Chamber of Commerce	Would oppose.
2230	Federal Tax Forum, Inc	Do.
2207	Council of State Chambers of Commerce	Do.
2895	John J. Gerlach, Columbus, Ohio	Opposed to proposal.
2760	Aerospace Industries Association of America, Inc	Endorses proposal.
2803	National Association of Wholesalers	Would increase surtax exemption to $50,000.

III. Corporation Ordinary Income Taxes—Continued

A. TAX RETURNS AND RELATED MATTERS—continued

3. Limiting Surtax Exemption in the Case of Multiple Corporations—Continued

Page No. in hearings	Name of witness and association represented	Comments
2847	New York County Lawyers' Association	Majority of members concur in proposal only insofar as it would apply to a parent-subsidiary group, but would eliminate tax on intercorporate dividends and would repeal 2-percent penalty tax on consolidated returns. Would adopt regardless of whether there is any reduction in corporate rates.
2836	New York State Bar Association	Details seem arbitrary and overcomplicated, particularly in brother-sister area. Needs simplification and clarification.
2869	Green Giant Co	Would retain existing law.
1954	Digby Management Co	Opposed to proposal.
1932	National Retail Furniture Association	Opposed to proposal. Suggests increasing normal tax from present $25,000 with a corresponding increase in personal exemptions.
1371	Roswell Magill	Endorses proposal but believes proposal may cause hardships in certain cases.
1727	National Tool Die & Precision Making Association.	Opposes.
1947	Lancaster Chamber of Commerce	Opposed to proposal.

4. Removal of 2-Percent Tax on Consolidated Returns and Intercorporate Dividend-Received Deduction

Page No. in hearings	Name of witness and association represented	Comments
1	Treasury Department	Eliminates 2 percent tax on consolidated returns and provides a 100 percent, rather than 85 percent, deduction for dividends received from corporations with which the taxpayer could file a consolidated return.
1063	Dan Throop Smith, Harvard University	Proposal seems desirable.
1922	International Telephone & Telegraph	Favors proposal.
2571	Financial Executives Institute	Do.

2687	Manufacturing Chemists' Association, Inc	Favors proposal but believes proposal should not be conditioned on limiting surtax exemption.
2258	Illinois State Chamber of Commerce	Would favor.
2207	Council of State Chambers of Commerce	Do.
2017	American Textile Manufacturers Institute	Do.
2836	New York State Bar Association	Would favor proposal.
2760	Aerospace Industries Association of America, Inc	Endorses proposal.
1951	Pullman, Inc	Favors proposal.
1949	General Telephone & Electronics Corp	Do.
1947	Lancaster Chamber of Commerce	The proposal is no real compensation when the proposal to limit surtax exemption is considered.

B. LIBERALIZING DEDUCTION FOR RESEARCH AND DEVELOPMENT

1	Treasury Department	Provides for the current expensing, subject to limitations, of expenditures made for depreciable machinery and equipment used solely in research and development.
804	Hon. John E. Horne, Administrator, Small Business Administration.	Would be favorable to small business.
819	Hon. Tom Steed, chairman, Subcommittee No. 3, House Select Committee on Small Business.	States would be favorable to small businesses.
1816	Fountain Pen & Mechanical Pencil Manufacturers Association.	Favors proposal.
1922	International Telephone & Telegraph	Favors proposal but would make technical changes.
2431	Machinery & Allied Products Institute	Favors proposals but would broaden to eliminate certain narrow limitations and to include depreciable real property used for industrial research and development.
1063	Dan Throop Smith, Harvard University	Proposal seems desirable.
2617	Hon. Emilio Q. Daddario, Member of Congress	Favors proposal, but would broaden to encourage more civilian investment.
2687	Manufacturing Chemists' Association, Inc	Favors proposal, but should be modified to provide that (1) disallowance of expenditures should be confined to pilot plants and processes which are primarily intended to be put into use for the production and sale of a product; (2) disallowance should apply only where equipment is used exclusively in connection with performance of Federal contract; and (3) to permit deduction of acquisition costs of industrial processes.

III. Corporation Ordinary Income Taxes—Continued

B. LIBERALIZING DEDUCTION FOR RESEARCH AND DEVELOPMENT—continued

Page No. in hearings	Name of witness and association represented	Comments
2307	U.S. Chamber of Commerce	Would favor.
2258	Illinois State Chamber of Commerce	Do.
2277	Manufacturers Association of City of Bridgeport, Conn.	Do.
3543	National Coal Association	Endorses proposal.
3543	Anthracite Institute	
3543	National Coal Policy Conference	
3543	Southern Coal Producers Association	
2836	New York State Bar Association	Questions whether proposal should be enacted.
2760	Aerospace Industries Association of America, Inc.	Endorses objective of proposal; however, believes more effective incentive can be granted through more realistic depreciation techniques. Government contractors should not be excluded from any proposal.
2800	National Society of Professional Engineers	Endorses proposal.
2812	Investment Bankers Association of America	Favors proposal.
1904	National Small Business Men's Association	Of 1,200 replies, 56 percent favored proposal.
1947	Lancaster Chamber of Commerce	Opposed to proposal.

C. TAXATION OF NATURAL RESOURCES

1. Carryover of Certain Deductions for Intangible Drilling and Development Costs

Page No. in hearings	Name of witness and association represented	Comments
1	Treasury Department	Deductions for intangible drilling and development costs not offset against income from the property in the year incurred, are to be carried forward and reduce net income in subsequent years but only for the purposes of computing the net income limitation on the percentage depletion allowance.

Page	Witness	Position
3463	Do	Letter dated Mar. 20, 1963, to Chairman Mills revising estimated revenue loss on natural resource proposals.
2057	Hon. Robert W. Hemphill, Member of Congress	Proposal would operate to the broad detriment of the mining and quarrying industry and would unfairly penalize both small and large operator.
2167	National Oil Jobbers Council, Inc	No fixed policy.
3685	American Petroleum Institute	Opposed to proposal. (See also pp. 3727, 3735, 3766, 3776, and 3777.)
3685	Mid-Continent Oil & Gas Association	
3685	Independent Petroleum Association of America	
3685	Rocky Mountain Oil & Gas Association	
3685	Western Oil & Gas Association	
3799	Standard Oil of New Jersey	Opposed to proposal. (See also p. 3804.)
3497	Structural Clay Products Industry Depletion Committee.	Would retain existing law. Suggests 5 percent depletion allowance for brick and tile clay be increased to 15 percent and that the "production process" be advanced from "pug mill" to the "introduction of the kiln feed into the kiln."
3464	American Mining Congress	Opposed to proposal. If adopted, provide for a carryover of unused gross income and unused net income.
3485	American Iron Ore Association	Opposed to proposal. Concurs in views of American Mining Congress. If adopted, provide that the carryover adjustment should be limited to the 5-year period succeeding the year of the excess deduction.
1904	National Small Business Men's Association	Believes a study should be made of the question by a group including representatives of the extractive industries. Of 1,200 replies, over 50 percent made no reference to natural resource proposals; balance was evenly divided for and against.
2687	Manufacturing Chemists' Association, Inc	Opposed to all proposals re natural resources.
2307	U.S. Chamber of Commerce	Believes consideration of these provisions should be postponed pending the study recommended by the President.
2239	Roy Blough, Columbia University	Would favor all proposals on natural resources.
2207	Council of State Chambers of Commerce	Would defer any action pending results of study to be made on natural resources.
3878	California Stripper Well Association	Opposed to proposal.
3891	Pennsylvania Oil Producers Association & New York Oil Producers Association.	Do.
3899	Independent Oil Producers & Land Owners Association.	Do.
3901	Kentucky Oil & Gas Association	Would oppose proposal.
3928	Kansas Independent Oil & Gas Association	Opposed to proposal.

III. Corporation Ordinary Income Taxes—Continued

C. TAXATION OF NATURAL RESOURCES—continued

1. *Carryover of Certain Deductions for Intangible Drilling and Development Costs*—Continued

Page No. in hearings	Name of witness and association represented	Comments
3969	Union Pacific Railroad Co	Concurs in statements made by representatives of the oil and gas industry.
3673	Gen. Lucius D. Clay	Oil is still important to national defense. Provisions which would encourage exploration would be to the best interests of the country. Must have proper balance between our domestic and foreign oil.
3828	North Texas Oil & Gas Association	Opposed to all natural resource proposals.
3820	Hon. Henry Bellmon, Governor of Oklahoma	Do.
3816	Hon. Clifford P. Hansen, Governor of Wyoming	Do.
3807	Hon. Matthew E. Welsh, Governor of Indiana, for Interstate Oil Compact Commission.	Would retain existing law in lieu of all natural resource proposals.
3861	Association of Oilwell Servicing Contractors	Opposed to all natural resource proposals.
3826	Hon. Graham Purcell, Member of Congress	Would retain existing law in lieu of all natural resource proposals.
3908	Oklahoma Independent Petroluem Association	Opposed to all natural resource proposals.
3907	Ohio Oil & Gas Association	Do.
3924	San Joaquin Valley Oil Producers Association of California.	Would retain existing law in lieu of all natural resource proposals.
3926	West Central Texas Oil & Gas Association	Opposed to proposal.
3956	Mid-Continent Oil & Gas Association	Opposed to all natural resource proposals.
3954	Illinois Oil & Gas Association	Do.
3960	Oil Producers Agency of California and Independent Oil Producers Agency.	Do.
3963	Texas Mid-Continent Oil & Gas Association	Would retain existing law in lieu of all natural resource proposals.
3911	Permian Basin Petroleum Association	Do.
3934	Texas Independent Producers and Royalty Owners Association.	Opposed to proposal.

Page	Witness	Position
3543	National Coal Association	Opposed to proposal. Suggests increasing rate of depletion for coal from 10 percent to at least 15 percent and would redefine the term "taxable income from the property." (See also p. 3620.)
3543	Anthracite Institute	
3543	National Coal Policy Conference	
3543	Southern Coal Producers Association	
3372	Hon. George C. Wallace, Governor of Alabama	Would retain existing law in lieu of all natural resource proposals.
3628	American Gas Association	Opposed to all natural resource proposals.
3662	Midland Chamber of Commerce and Odessa Chamber of Commerce.	Do.
3809	Hon. James F. Battin, Member of Congress	Would retain existing law in lieu of all natural resource proposals.
3810	Hon. Tim Babcock, Governor of Montana	Opposed to all natural resource proposals.
3824	Hon. Ralph J. Rivers, Member of Congress	Would retain existing law in lieu of all natural resource proposals.
3830	Hon. John A. Love, Governor of Colorado	Do.
3842	American Association of Oilwell Drilling Contractors.	Opposed to all natural resource proposals. (See also p. 3867 for letter re petroleum reserves.)
3863	American Association of Petroleum Landmen	Would oppose all natural resource proposals.
3870	National Stripper Well Association	Do.
2227	Alvin H. Howard	Would retain existing law.
3983	Hon. William L. Guy, Governor of North Dakota	Do.
2831	American Veterans Committee	Favors proposals.
2523	Hon. Joseph M. Montoya, Member of Congress	Opposed to natural resource proposals.
2842	Tax Section, Florida Bar	Favors proposal, but believes depletion is a greater loophole.
2881	Melvin Cole, Rochester, N.Y.	Depletion deductions should be limited to cost, same as depreciation.
2531	Hon. Thomas G. Morris, Member of Congress	While in short run proposals would result in additional revenue, in the long run they would result in lower rate of economic growth and less tax revenue.
3652	Alabama State Oil & Gas Board	Urges Congress to make no changes with respect to depletion allowances.
3684	Hon. George Mahon, Member of Congress	Opposed to all natural resource proposals.
3749	Hon. John Connally, Governor of Texas	Do.
3813	Hon. Gale W. McGee, U.S. Senator	Urges rejection of any proposal to tamper with depletion allowance formulas.
3840	Hon. Tom Steed, Member of Congress	Natural resource proposal would be a severe depressant on the industry.
3975	Hon. William H. Avery, Member of Congress	Expresses concern for adverse effects proposal would have.
3976	Hon. Winfield K. Denton, Member of Congress	Would not favor any restrictive measures which would stifle oil industry. (See also p. 3897.)
3898	Hon. George E. Shipley, Member of Congress	Believes proposals would hurt economy of his district.
3979	Hon. Don L. Short, Member of Congress	Favors retaining existing law.
3979	Hon. Hjalmar C. Nygaard, Member of Congress	

III. Corporation Ordinary Income Taxes—Continued

C. TAXATION OF NATURAL RESOURCES—continued

1. *Carryover of Certain Deductions for Intangible Drilling and Development Costs*—Continued

Page No. in hearings	Name of witness and association represented	Comments
3980	Hon. Paul Fannin, Governor of Arizona	Believes natural resource proposals are undesirable.
4009	Hon. Archie Gubbrud, Governor of South Dakota	Opposed. Believes proposals would be contrary to State's best interest.
4010	Bernard Linn, Commission of School and Public Lands, South Dakota.	Would retain existing law.
3980	James H. Gill, Louisiana Department of Conservation.	Do.
3982	Hon. Jack M. Campbell, Governor of New Mexico.	Opposed to all natural resource proposals.
4010	Hon. George D. Clyde, Governor of Utah	Do.
2895	John J. Gerlach, Columbus, Ohio	Proposal appears to have some merit.
1671	David Schaenen, Billings, Mont	Would retain existing law with respect to natural resource proposals.
2801	National Farmers Union	Favors proposal.
2825	Independent Natural Gas Association	Would retain existing law.
4014	Hon. Albert D. Rosellini, Governor of Washington	Opposed to proposals on natural resources.
4032	International Minerals & Chemical Corp	Appears to approve proposal.
4034	Independent Garage Owners of America, Inc	Urges elimination of laws, rules, and regulations that permit concessions under depletion allowance to be used for expanding marketing outlets.
4030	Los Angeles Chamber of Commerce	Believes proposals on natural resources are not type of "reform" needed now and expresses concern of adverse effects proposals may have on California.
4015	Petroleum Industry Research Foundation	Submits study showing tax burden on oil and other industry.
4025	Texaco, Inc	Opposed.
1689	Wiener, Vierling & Karasov	Notes program contains no proposal for reduction in depletion allowance.

2. Aggregation of Oil and Gas Properties

1	Treasury Department	Restricts the aggregation of oil and gas properties to those under a single lease (or amortization agreement) instead of permitting the aggregation of properties in an "operating unit."
3685	American Petroleum Institute	Opposed to proposal.
3685	Mid-Continent Oil & Gas Association	Opposed to proposal.
3685	Independent Petroleum Association of America	Opposed to proposal.
3685	Rocky Mountain Oil & Gas Association	Opposed to proposal.
3685	Western Oil & Gas Association	Opposed to proposal.
3799	Standard Oil of New Jersey	Do.
3464	American Mining Congress	Do.
3926	West Central Texas Oil & Gas Association	Do.
3934	Texas Independent Producers and Royalty Owners Association.	Takes no position.
3928	Kansas Independent Oil & Gas Association	Do.
3969	Union Pacific RR. Co	Suggests that the administrative rulings with respect to aggregation in existence today should be written into the law.
2801	National Farmers Union	Favors proposal.
4025	Texaco, Inc	Opposed to proposal.

III. Corporation Ordinary Income Taxes—Continued

C. TAXATION OF NATURAL RESOURCES—continued

3. Limitation on Capital Gains on Sale of Mineral Interests

Page No. in hearings	Name of witness and association represented	Comments
1	Treasury Department	Treats as ordinary income the gain on the sale of mineral properties to the extent of the deduction, after 1963, for percentage (or cost) depletion representing capital costs and for intangible drilling and development costs.
3685	American Petroleum Institute	Opposed to proposal.
3685	Mid-Continent Oil & Gas Association	Opposed to proposal.
3685	Independent Petroleum Association of America	Opposed to proposal.
3685	Rocky Mountain Oil & Gas Association	Opposed to proposal.
3685	Western Oil & Gas Association	Opposed to proposal.
3799	Standard Oil of New Jersey	Do.
3464	American Mining Congress	Do.
3926	West Central Texas Oil & Gas Association	Do.
3934	Texas Independent Producers & Royalty Owners Association.	Do.
3623	National Council of Coal Lessors, Inc	Do.
4032	International Minerals & Chemical Corp	Opposes proposal.
4014	National Lime Association	Opposed. If adopted, provide for a sliding scale cutoff with a 3-year and a 3- to 5-year bracket.
4025	Texaco, Inc	Opposed to proposal.

4. Limitation on Allowance of Foreign Tax Credit and Deduction of Foreign Development Costs in the Case of Oil, Gas, and Mineral Operations Abroad

1	Treasury Department	Prohibits the deduction against domestic income of intangible drilling and development expenses incurred in foreign operations and prohibits the averaging of relatively highly taxed foreign natural resource income and foreign taxes with other foreign income and foreign taxes in determining the allowable foreign tax credit.
814	Hon. Frederick G. Dutton, Assistant Secretary of State.	This proposal is of primary concern to the Department, but states that "the Department is not qualified to determine the effect of these provisions in practice." Believes remittances of oversea earnings of oil companies "make a substantial contribution to the U.S. balance of payments"; that "the relations of the companies with their host governments * * * are important elements of the U.S. posture in vital and politically sensitive areas of the less developed world"; but that the "U.S. taxation of oversea oil operations is, of course, only one of several factors determining the competitiveness of U.S. oil companies on the world petroleum market. By skillfully deploying its impressive capabilities, we feel the industry will continue in a strong position to maintain and expand its share of the world petroleum market." "As to the minerals and metals sector of natural resources, it is not possible to say in detail what effects the tax proposals would have on our international relations."
3685	American Petroleum Institute	Opposed to proposal.
3685	Mid-Continent Oil & Gas Association	
3685	Independent Petroleum Association of America	
3685	Rocky Mountain Oil & Gas Association	
3685	Western Oil & Gas Association	
3799	Standard Oil of New Jersey	Do.
3538	National Foreign Trade Council	Do.
3464	American Mining Congress	Do.
3485	American Iron Ore Association	Do.
3534	U.S. Council of the International Chambers of Commerce.	Do.

III. Corporation Ordinary Income Taxes—Continued

C. TAXATION OF NATURAL RESOURCES—continued

4. Limitation on Allowance of Foreign Tax Credit and Deduction of Foreign Development Costs in the Case of Oil, Gas, and Mineral Operations Abroad—Continued

Page No. in hearings	Name of witness and association represented	Comments
3934	Texas Independent Producers and Royalty Owners Association.	Takes no position, but would strongly support appropriate steps to achieve tax equity as between foreign and domestic production.
3634	National Congress of Petroleum Retailers, Inc	Suggests: (1) That on foreign production, the deduction for depletion should be limited to the actual cost depletion now provided in the law as an alternative to percentage depletion; and (2) That payments to foreign governments for severance of oil from the ground which are of the same economic nature as royalty payments by domestic producers have the same tax treatment as domestic royalty payments; that is, they should be deductible from gross income in computing net income rather than directly from taxes due in the United States.
3928	Kansas Independent Oil & Gas Association	Independents in the midcontinent area seek equality of tax treatment with foreign producers.
1388	Standard Oil Co. of California	Opposed.
4025	Texaco, Inc	Opposed to proposal.

D. TIGHTENING OF PERSONAL HOLDING COMPANY PROVISIONS

1	Treasury Department	Decreases from 80 percent to 60 percent the portion of a company's gross income as a personal holding company, provides for the deduction of certain expenses from rental income, income from oil and gas interests and mineral royalty income in determining how such income is to be taken into account in applying personal holding company income tests, excludes capital gains (other than those on stock, securities, or commodities) in applying the personal holding company income tests and provides that liquidating distributions are not to avoid personal holding company tax unless taxed as dividends to the recipients.
1063	Dan Throop Smith, Harvard University	Suggests tighter rules.
2202	Leon O. Stock, Peat, Marwick, Mitchell & Co	Would retain existing law.
2755	Robert S. Puder, CPA	Recommends provisions to: (1) Permit the stockholders of a personal holding company to elect to avoid all corporate income tax by having the company's income taxed directly to the stockholders; (2) Permit taxable gain on liquidation of a personal holding company to be limited to the earned surplus applicable to the period when the corporation was not a personal holding company; and (3) Reduce the penalty surtax rates proportionately to conform to the proposed new top individual tax rate.
2307	U.S. Chamber of Commerce	Would support reasonable modifications in the provisions governing the taxation of personal holding companies.
2207	Council of State Chambers of Commerce	Would oppose.
3623	National Council of Coal Lessors, Inc	Suggests that if personal holding companies distribute realized long-term capital gains, the gains so distributed should retain their character as capital gains when received by the stockholders. Also suggests that the benefits accorded investment companies investing in personal securities and those accorded trusts invested in real estate should be extended to personal holding companies.
2895	John J. Gerlach, Columbus, Ohio	Appears to have no objection.
923	Kenneth W. Gemmill, Philadelphia, Pa	Opposed to proposal. If adopted, provide a deduction (similar to 1943 act) for amounts used or set aside to retire indebtedness incurred prior to Jan. 1, 1963.
2842	Tax Section, Florida Bar	Favors proposal.

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IV. TAXATION OF CAPITAL GAINS

A. GENERAL PROVISIONS

1. Substitution of 30-Percent Inclusion for 50-Percent Inclusion

Page No. in hearings	Name of witness and association represented	Comments
1	Treasury Department	Individuals: Decreases from 50 percent to 30 percent the portion of long-term capital gains included in taxable income, extends from 6 months to 1 year the holding period of assets resulting in long-term capital gains and provides for an indefinite (instead of a 5-year) capital loss carryover. Corporations: Reduces the tax on long-term capital gains from 25 percent to 22 percent and extends from 6 months to 1 year the holding period for assets resulting in long-term capital gains.
1063	Dan Throop Smith, Harvard University	Proposal seems desirable. 25 percent ceiling rate should be brought down to 15 percent and as to property held over 10 years, gains should be included at only 10 percent.
1359	New Jersey Manufacturers' Association	Opposed to capital gain proposals. Alternatively suggests: (1) excluding capital gains and losses from their "taxable income"; (2) separately tax their net capital gains at progressive rates (without allowing deductions against this income) which never exceed 35 percent for short-term gains or 17½ percent for long-term gains; (3) providing 3 classes of gains according to holding periods—taxing ½ of gains on assets held over 6 months, ¾ of gains on assets held from 3 to 6 months and all of the gains on assets held for shorter periods; (4) provide a reduction in the capital gains tentative tax as otherwise computed, of $50, or the amount of the tentative tax, whichever is less; (5) eliminating all deductions of capital losses against ordinary income; (6) eliminating the "alternative tax" computation (7) permit Secretary to require separate returns for capital gains and losses.
800	Hon. Orville L. Freeman, Secretary of Agriculture	States a substantial savings would result for many farmers under this proposal.

804	Hon. John E. Horne, Administrator, Small Business Administration.	Would be favorable to small business.
819	Hon. Tom Steed, chairman, Subcommittee No. 3, House Select Committee on Small Business.	States capital gains proposals will result in increased investments in small companies.
1405	Keith Funston, New York Stock Exchange	Endorses proposal. (See also p. 1413.)
2431	Machinery & Allied Products Institute	Favors proposal for reduction in capital gains rates, but opposes introduction of further progressivity in the capital gains structure.
2533	American Institute of Certified Public Accountants.	Would favor proposal.
2307	U.S. Chamber of Commerce	Would favor.
2258	Illinois State Chamber of Commerce	Would favor all proposals relating to capital gains except those specifically noted.
2207	Council of State Chambers of Commerce	Would oppose all capital gains proposals except that which reduces rate to 30 percent.
2017	American Textile Manufacturers Institute	Would favor.
2725	Hoyt Ammidon, United States Trust Co. of New York.	Do.
933	Association of Stock Exchange Firms	Favors proposal.
2900	William D. Loucks, Jr., New York, N.Y	Do.
2836	New York State Bar Association	Believes proposal is desirable, but should be considered separately and without reference to proposal to tax unrealized appreciation at death.
2889	Richard W. Hulbert, New York, N.Y	Suggests alternative maximum 25-percent rate be eliminated and no changes be made in rates except as commented on in IV–A(2).
1004	American Association of Retired Persons; National Retired Teachers Association.	Favors proposal.
2812	Investment Bankers Association of America	Endorses proposal.
1443	Boston Stock Exchange	Agrees with New York Stock Exchange in favoring proposal.
1955	AFL–CIO	Opposes.
1440	American Stock Exchange	Favors proposal.

IV. Taxation of Capital Gains—Continued

A. GENERAL PROVISIONS—continued

2. Extension of Short-Term Capital Gain Holding Period From 6 to 12 Months

Page No. in hearings	Name of witness and association represented	Comments
1	Treasury Department	See IV. A. 1.
800	Hon. Orville L. Freeman, Secretary of Agriculture	Change would have little effect on tax liabilities of farmers.
804	Hon. John E. Horne, Administrator, Small Business Administration.	Would be favorable to small business and could result in investors devoting more funds to investments in small firms.
1405	Keith Funston, New York Stock Exchange	Opposed to proposal. Alternatively, suggests a 3-month holding period.
1537	National Livestock Tax Committee	Favors proposal.
1063	Dan Throop Smith, Harvard University	Proposal seems desirable.
2533	American Institute of Certified Public Accountants.	Would favor proposal.
1497	Hon. Abraham J. Multer, Member of Congress	Would decrease holding period to 3 or 4 months.
2307	U.S. Chamber of Commerce	Would support the change in the holding period for capital gains, with some reservations and subject to the inclusion of a 15 percent ceiling rate so that the ceiling rate will be in proportion to the reduction in the capital gains rate for the lower bracket taxpayers; (A rollover provision should also be adopted.)
2288	Voice of People in Action	Is desirable.
2296	Frank K. Jones, Berwyn, Pa	Would extend holding period to 3 years.
2017	American Textile Manufacturers Institute	Would favor.
3623	National Council of Coal Lessors, Inc	Would not object if extension is coupled with the reduction in rate to 30 percent and with a drop in the corporate rate.
2725	Hoyt Ammidon, United States Trust Co. of New York.	Would oppose.
933	Association of Stock Exchange Firms	Opposed to proposal.
2872	Irving F. Bolton, Oakland, Calif	Alternatively, suggests a graduated rate rule applicable to a varying holding period.
2900	William D. Loucks, Jr., New York, N.Y	Would retain existing law.
2848	Chicago Association of Commerce & Industry	Do.

2836	New York State Bar Association	Does not object to proposed extension of the long-term holding period.
2889	Richard W. Hulbert, New York, N.Y	Suggests a table which provides for the inclusion of decreasing amounts of a gain for increasing length of the holding period.
2812	Investment Bankers Association of America	Opposed to proposal. Would reduce holding period to 3 months.
1443	Boston Stock Exchange	Agrees with New York Stock Exchange in opposing proposal and in suggesting a 3-month holding period.
1444	Pittsburgh Stock Exchange	Opposed to proposal.
1955	AFL–CIO	Favors.
2258	Illinois State Chamber of Commerce.	No serious objection.
1440	American Stock Exchange	Opposed to proposal. Alternatively, suggests reducing holding period to 3 months.

3. Provision for Indefinite Carryover of Capital Losses Incurred by an Individual

1	Treasury Department	See IV. A. 1.
800	Hon. Orville L. Freeman, Secretary of Agriculture	States proposal would benefit farmer.
804	Hon. John E. Horne, Administrator, Small Business Administration.	Would prove helpful to small concerns and small business investors.
1405	Keith Funston, New York Stock Exchange	Favors proposal or, alternatively, suggests raising the $1,000 annual limit.
1063	Dan Throop Smith, Harvard University	Proposal seems desirable.
2533	American Institute of Certified Public Accountants.	Would favor.
2307	U.S. Chamber of Commerce	Do.
2017	American Textile Manufacturers Institute	Do.
3623	National Council of Coal Lessors, Inc	Favors proposal.
933	Association of Stock Exchange Firms	Do.
2872	Irving F. Bolton, Oakland, Calif	Favors proposal. Suggests a maximum annual deduction of $1,500 or 10 percent of adjusted gross income on losses on investments.
2812	Investment Bankers Association of America	Favors proposal.
1443	Boston Stock Exchange	Agrees with New York Stock Exchange in favoring proposal.
1440	American Stock Exchange	Favors proposal.

IV. Taxation of Capital Gains—Continued

B. TAXATION OF APPROVED GAINS ON CAPITAL ASSETS AT THE TIME OF GIFT OR TRANSFER AT DEATH

Page No. in hearings	Name of witness and association represented	Comments
1	Treasury Department	Provides for capital gains tax on appreciation in value of assets transferred by gift or death. Exclusions are provided for ordinary personal and household effects, for the 1st $15,000 of gain, for up to half of the gain to the extent up to half of the value of the property is transferred to the spouse and at least to the extent of any gain on the personal residence of the decedent.
800	Hon. Orville L. Freeman, Secretary of Agriculture	States proposal would increase tax liabilities of only a relatively small number of farmers, but not severely.
804	Hon. John E. Horne, Administrator, Small Business Administration.	States the impact of this proposal would be cushioned by the following provisions: The 5-year averaging, the installment payment, the $15,000 exemption, the marital exclusion, the lower capital gains and income tax rates, and the fact that such tax would reduce the estate for Federal estate tax purposes.
1326	National Association of Retail Grocers, Associated Retail Bakers of America, National Food Brokers Association, and United States Wholesale Grocers Association.	Opposed to proposal. Suggests estate tax exemption be increased to $120,000.
1336	Association of Institutional Distributors	Opposed to proposal. However, if enacted, provide an exception for stock of closely held corporations and for partnerships and proprietorship business interest the exception to apply to estates and donors holding a 10-percent or greater interest. As an alternative, suggests consideration be given to (1) the allowance of a credit against estate taxes for capital gains taxes paid by a decedent within some limited period of time prior to death; (2) enactment of investment "rollover" provisions which would apply a principle of tax-free exchanges in kind to investment-type capital assets; or (3) the removal or substantial reduction of tax on true capital gains and the classification of certain other realized gains as ordinary income. Questions constitutionality of this proposal.

1359	New Jersey Manufacturers' Association	Opposed to proposal. Believes provision would be unconstitutional.
1371	Roswell Magill	Questions the constitutionality of this proposal.
1405	Keith Funston, New York Stock Exchange	Would retain present tax treatment. Posed question of constitutionality.
1537	National Livestock Tax Committee	Opposed to proposal.
1749	Associated Industries of Alabama, Alabama Textile Manufacturing Association, Automotive Wholesalers Association of Alabama.	Proposal would serve small businessman badly.
1753	California Grape & Tree Fruit League, Grower-Shipper Vegetable Association of Central California, Western Growers' Association.	Would not favor proposal.
1919	Commerce & Industry Association of New York, Inc.	Opposed to proposal.
2378	American Bankers Association	Do.
2431	Machinery & Allied Products Institute	Do.
2533	American Institute of Certified Public Accountants.	Would oppose.
2640	American Retail Federation	Opposed to proposal.
1063	Dan Throop Smith, Harvard University	Disagrees with proposal.
2755	Robert S. Puder, CPA	Opposed to proposal. Alternatively, suggests a carryover basis.
2230	Federal Tax Forum, Inc	Would oppose.
2017	American Textile Manufacturers Institute	Do.
2307	U.S. Chamber of Commerce	Do.
2258	Illinois State Chamber of Commerce	Do.
2239	Roy Blough, Columbia University	Would favor.
2188	Dr. Miller, Upton, Beloit, Wis	Opposed.
1955	AFL–CIO	Would favor.
3623	National Council of Coal Lessors, Inc	Opposed to proposal.
2725	Hoyt Ammidon, United States Trust Co. of New York.	Opposed.
2807	American Apparel Manufacturers Association	Opposed to proposal. Questions constitutionality of proposal. If a change is to be made, suggests a carryover basis approach.
2798	Rubber Manufacturers Association	Proposal approaches confiscation.
2812	Investment Bankers Association of America	Would retain existing law until all alternatives and this proposal are thoroughly considered.
2903	George C. Roberts, Tacoma, Wash	Opposed to proposal.
2810	Mortgage Bankers Association of America	Do.
2829	Associated Retail Bakers of America	Opposed to proposal. Suggests increasing exemption to $120,000.

IV. *Taxation of Capital Gains*—Continued

B. TAXATION OF APPROVED GAINS ON CAPITAL ASSETS AT THE TIME OF GIFT OR TRANSFER AT DEATH—continued

Page No. in hearings	Name of witness and association represented	Comments
2803	National Association of Wholesalers	Would increase exemption to $120,000. Endorses comments of National Association of Retail Grocers in opposing proposal.
2889	Richard W. Hulbert, New York, N.Y	Opposed to proposal. As an alternative, suggests a carryover basis approach.
2860	Armstrong Cork Co	Would oppose.
1350	Dallas Estate Council	Opposed to proposal.
1663	Cleveland Commission on Higher Education	Do.
2872	Irving F. Bolton, Oakland, Calif	Believes proposal would destroy property base of the family unit. Suggests (1) heirlooms, 50 years old or more, be excluded from estate tax base with a maximum exclusion of $100,000; and (2) that estate tax on estates of less than $500,000 be repealed if estate is left to a widow and/or children under 21 or if left to support a disabled or incompetent person.
939	National Apartment Owners Association, Inc	Opposed to proposal.
2899	Lawrence B. Lehmam, Sarasota, Fla	Do.
2895	John J. Gerlach, Columbus, Ohio	Opposed to proposal. If adopted, use valuation date of Jan. 23, 1963 as basis.
2836	New York State Bar Association	Opposed to proposal. Questions constitutionality of proposal.
2900	William D. Loucks, Jr., New York, N.Y	Opposed to proposal. Suggests broadening present Federal estate tax exemption to at least $150,000.
2523	Hon. Joseph M. Montoya, Member of Congress	Opposed to proposal.
2842	Tax Section, Florida Bar	Do.
2531	Hon. Thomas G. Morris, Member of Congress	Proposal could be detrimental to those engaged in cattle and agriculture operations.
1904	National Small Business Men's Association	Of 1,200 replies, 71 percent were strongly opposed.
1353	Boyle, Wheeler, Gresham, David & Gregory, San Antonio, Tex.	Would oppose proposal.
1348	Lane Co., Inc., Altavista, Va	Do.
1440	American Stock Exchange	Opposed to proposal.

2638	American Farm Bureau Federation	Opposed to proposal. One alternative suggestion—reduce rate of tax on capital gains as the length of the holding period increases.
1597	American Hereford Association	Opposed to proposal.

C. TAX TREATMENT OF STOCK OPTIONS

1	Treasury Department	Repeals the restricted stock option provision effective for options granted after Jan. 24, 1963. As a result, the spread between the option price and fair market value would be taxed to the employee at the time he exercises the option but the payment of the tax attributable to this spread could be paid in installments over a 5-year period
804	Hon. John E. Horne, Administrator, Small Business Administration.	Proposal would be of benefit to small business.
1021	Bell System Cos	If revision to be made, distinguish between executive stock options and employee stock purchase plans. Also recognize sale of stock on installment basis to employees generally. (See hearings for suggested statutory language on p. 1036.)
1054	B. F. Goodrich Co	Would retain existing provisions with following changes: (1) require option price be not less than market value of stock on date option granted (but make this rule inapplicable to stock purchase plans); (2) extend restricted stock option provisions to stock purchase plans; (3) establish basis to permit small, closely held corporations to use restricted stock option provisions and provide that unintentional underpricing of stock option stock by such companies would not disqualify their plans; (4) require options to mature in installment over a period of not less than 5 years; (5) disqualify new options granted to replace options canceled because of decline in market price; (6) require option plans be first approved by a majority of shareholders of the company.
1072	Harris-Intertype Corp	Opposed to proposal.
1095	A. Wilfred May	Favors proposal.
1359	New Jersey Manufacturers' Association	Opposed to proposal.
1107	Norman Loyall McLaren	Would retain existing provisions, but would amend to provide ordinary income treatment, when optional stock is sold by the optionee, on the difference between the option price and the fair market price at the date of grant. The balance would be subject to capital gain.
1119	Roger F. Murray, Columbia University	Opposed to proposal.

IV. Taxation of Capital Gains—Continued

C. TAX TREATMENT OF STOCK OPTIONS—continued

Page No. in hearings	Name of witness and association represented	Comments
1127	Ford Motor Co	Would retain existing provisions with the following amendments which would apply only to restricted stock option plans: (1) option price should not be below 100 percent of market value (if mistakenly set below 100 percent, do not invalidate, but subject difference to 100 percent tax); (2) permit no downward revision of option price; (3) provide stock option plan be approved by vote of stockholders; (4) provide for stretchout in exercise of the option; and (5) would eliminate installment payments, if Congress deemed it necessary. (See also p. 1137.)
1394	Federal-Mogul-Bower Bearings, Inc	Opposed to proposal.
1922	International Telephone & Telegraph	Would retain existing provision. Endorses statement of Ford Motor Co.
2431	Machinery & Allied Products Institute	Opposed to proposal.
1146	Sidney J. Weinberg	If legislation is necessary, delete existing law which permits deduction of option price and require all options granted be at not less than 100 percent of market.
2571	Financial Executives Institute	Opposed to proposal.
2640	American Retail Federation	Do.
1904	National Small Business Men's Association	Opposed to proposal. Of 1,200 replies, 35 percent (smaller firms) expressed no opinion; 29 percent (smaller firms) favored proposal and 36 percent (mostly larger firms) opposed proposal.
1063	Dan Throop Smith, Harvard University	Would retain existing law, but with changes recommended by B. F. Goodrich.
1497	Hon. Abraham J. Multer, Member of Congress	Endorses, and would apply provision to all earnings received after date of enactment.
2687	Manufacturing Chemists' Association, Inc	Opposed to proposal.
2258	Illinois State Chamber of Commerce	Would oppose.
2017	American Textile Manufacturers Institute	Do.

2307	U.S. Chamber of Commerce	Would oppose tax treatment of stock options (however, with respect to stock options the chamber would agree to the following changes): (1) The option price should not be below 100 percent of market value; (2) There should be no downward revision in the option price; (3) Any stock option plan should be approved by the vote of the stockholders; (4) No part of an option should be exercised in the 1st 2 years after grant and not more than ⅓ should become exercisable in each of the next 3 years; and (5) Installment payments should be eliminated.
2230	Federal Tax Forum, Inc	Would oppose.
2864	W. R. Grace & Co	Opposed to proposal. If a change in the law is necessary, provide that an option will not be considered a restricted stock option unless (1) the option price was at least the fair market value of stock at the time option was granted; (2) the number of shares to be made available under options and the terms of the stock option plan were approved by a vote of the stockholders; and (3) that the option could not be exercised until at least 18 months after it was granted.
2853	Texaco, Inc	Opposed to proposal.
2807	American Apparel Manufacturers Association	Would retain existing law.
2848	Chicago Association of Commerce & Industry	Opposed to proposal.
2798	Rubber Manufacturers Association	Stock option plans should be encouraged; not eliminated.
2827	Association of Consulting Management Engineers	Disagrees with proposal.
2812	Investment Bankers Association of America	Concurs in statement of Mr. Ford and also in suggestions for curbing administrative abuses.
2857	Abbott Laboratories	Opposed to proposal.
1178	Dudley Swim, Monterey, Calif	Would favor proposal.
1188	John C. Baker, Essex Fells, N.J	Would retain existing law, but would redefine restricted stock options to provide (1) they must be not less than 100 percent of market value at date of grant; (2) they will be distributed over the 8- or 10-year period the option plan is in existence; (3) a longer holding period; and (4) the elimination of the possibility of reducing the option price.
1178	Knights of Columbus	Favors proposal.
1179	General Motors Corp	Would retain existing law. Opposed to the suggestion that restricted stock options mature or become exercisable in installments over a period of not less than 5 years.
1180	Procter & Gamble Co	Would retain existing law. (See also p. 1515.)

IV. *Taxation of Capital Gains*—Continued

C. TAX TREATMENT OF STOCK OPTIONS—continued

Page No. in hearings	Name of witness and association represented	Comments
1183	3 M Co.	Would retain existing law. To correct any abuse, would not object to a longer holding period (5 and 2 years); nor to an option price of 100 percent of market at time option is granted; nor to having secs. 421(e)(1) and 421(d)(7) repealed. Has no objections to suggestions made by B. F. Goodrich and by Ford Motor Co.
1186	United California Bank	Would retain existing law.
1187	Massachusetts Investors Trust	Do.
1190	George F. Bennett, Boston, Mass	Do.
2860	Armstrong Cork Co	Do.
2903	George C. Roberts, Tacoma, Wash	Favors proposal.
2872	Indian Head Mills, Inc	Opposed to proposal.
1466	McKinsey & Co., Inc	Would retain existing law with the following amendments: (1) Limit option price to 100 percent of market; (2) eliminate provision permitting a reduction in option price; (3) provide a 2-year period before options can be exercised; (4) provide for a pro rata exercise of options over life of the plan; and (5) require a 2-year holding period after purchase.
1150	Joel Dean Associates	Would oppose. Proposal will result in a revenue loss.
2881	Melvin Cole, Rochester, N.Y	Favors proposal.
1955	AFL–CIO	Favors.
1947	Lancaster Chamber of Commerce	Opposed to proposal.

D. TAX TREATMENT OF THE SALE OR EXCHANGE OF REAL ESTATE

1	Treasury Department	Limits depreciation on building to straight-line method. Provides that gain on the sale of real estate (other than land) is to be ordinary, instead of capital gain, to the extent of depreciation deductions in 1963 and subsequent years, if property is sold within 6 years of purchase. If the property is sold in the period from 6 years to 14⅓ years of purchase, a decreasing proportion of the gain (attributed to the depreciation deductions) is treated as ordinary income and if the property is held longer no portion of any gain is treated as ordinary income.
879	National Association of Real Estate Boards	Would retain present accelerated methods of depreciation. To correct existing abuses, suggests taxing as ordinary income the gain to the extent of the depreciation taken *in excess of straight line* where property is sold within period of, say, 3 years after acquisition or completion of construction. (See also p. 903.)
907	Realty Committee on Taxation	Recommends continuation of existing provisions re accelerated depreciation and capital gain. To curb abuses, suggests 3-year holding period, plus additional scaled-off period which would extend up to 6-year period. Dispositions after minimum holding period would receive capital gain treatment. Where dispositions occur within restricted period, basis would be recast to straight-line depreciation, and ordinary income treatment would be accorded to difference between adjusted basis and book value; balance of gain would be capital gain. Supports position of National Association of Real Estate Boards. (See also p. 912.)
2139	National Association of Home Builders	Opposed to proposal. If legislation is necessary, provide for depreciation equal to amortization payments.
2431	Machinery & Allied Products Institute	Opposed to proposal.
2533	American Institute of Certified Public Accountants.	Would oppose.
2640	American Retail Federation	Opposed to proposal.
3485	American Iron Ore Association	If adopted, requests consideration be given to recognition of mine buildings and structures as constituting "special purpose buildings" which would be entitled to the depreciation rates included under the guideline lives for mining personal property and that as to these buildings and structures, any of the accelerated depreciation methods available under the 1954 code could be applied.

IV. Taxation of Capital Gains—Continued

D. TAX TREATMENT OF THE SALE OR EXCHANGE OF REAL ESTATE—continued

Page No. in hearings	Name of witness and association represented	Comments
1063	Dan Throop Smith, Harvard University	Suggests tighter tax treatment for gains on sales.
2687	Manufacturing Chemists' Association, Inc	Opposed to elimination of accelerated depreciation. Believes guideline rates applicable to chemical industry should include buildings in which manufacturing and research activities are carried on as "special purpose structures."
2755	Robert S. Puder, CPA	Opposed to elimination of accelerated depreciation.
2307	U.S. Chamber of Commerce	Would oppose.
2258	Illinois State Chamber of Commerce	Do.
2017	American Textile Manufacturers Institute	Do.
3543	National Coal Association	If adopted, suggests that an exception be drafted for depreciable real estate used in connection with depletable properties, similar to sec. 13(e) of the Revenue Act of 1962.
3543	Anthracite Institute	
3543	National Coal Policy Conference	
3543	Southern Coal Producers Association	
3623	National Council of Coal Lessors, Inc	Opposed to proposal.
941	National FHA Apartment Owners Association	Do.
2220	National Federation of Independent Business	35 percent favored proposal and 54 percent opposed proposal.
2872	Irving F. Bolton, Oakland, Calif	Believes proposal will effectively reduce new construction to a minimum. Would permit accelerated depreciation on new construction but would include a recapture provision similar to proposal. Also suggests a writeoff for expenditures made to renovate substandard housing, including apartments.
3464	American Mining Congress	If adopted, reduction of depreciation should be made only to the so-called real estate tax shelter.
939	National Apartment Owners Association, Inc	Opposed to proposal.
2864	W. R. Grace & Co	Has no objection to proposal; however, if adopted, provide an exception for factories, offices, laboratories, and other buildings used by manufacturing and other business corporations for housing their own operations.

2895	John J. Gerlach, Columbus, Ohio	Appears to oppose proposal.
2836	New York State Bar Association	Arguments supporting proposal seem persuasive. Alternatives should be considered such as recapture of excessive deductions for amortization of leaseholds and of excessive rental deductions.
2760	Aerospace Industries Association of America, Inc.	Opposes limiting depreciation to straight line. Agrees with recapture provision, but would provide more realistic appraisals of useful lives of buildings.
2807	American Apparel Manufacturers Association	Would oppose proposal.
2848	Chicago Association of Commerce & Industry	Opposed to proposal.
2810	Mortgage Bankers Association of America	Do.
1904	National Small Business Men's Association	Of 1,200 replies, 57 percent opposed proposal.
2523	Hon. Joseph M. Montoya, Member of Congress	Opposed to proposal. Commends amendment submitted by NAREB which would tax as ordinary income the gain to the extent that the depreciation taken exceeded the normal straight-line depreciation, such ordinary tax to apply only if the property was sold within 3 years.
1955	AFL-CIO	Favors.

E. OTHER RECAPTURE AND DEFINITIONAL PROVISIONS

1. *Lump-Sum Pension Payments*

1	Treasury Department	Provides that any gain on lump-sum pension, profit-sharing, and stock bonus payments is to give rise to ordinary income instead of capital gain, to the extent attributable to amounts added to employees accounts in the future or attributable to the employee's future earnings and service. A special 5-year averaging device is made available for the amounts to be treated as ordinary income, which omits from the base on which the tax is computed any wage or salary income received currently.
1217	National Association of Life Underwriters	Opposed to proposal.
1286	Council of Profit Sharing Industries	Opposed to proposal. Opposed to elimination of $5,000 death benefit exclusion proposal.
1302	Sears, Roebuck & Co	Would reject proposal.
1320	Association for Advanced Life Underwriting	Opposed to proposal.
1355	Woodward Governor Co. of Rockford, Ill, Worker-members of.	Do.
1359	New Jersey Manufacturers' Association	Do.
1388	Standard Oil Co. of California	Do.

IV. *Taxation of Capital Gains*—Continued

E. OTHER RECAPTURE AND DEFINITIONAL PROVISIONS—continued

1. *Lump-Sum Pension Payments*—Continued

Page No. in hearings	Name of witness and association represented	Comments
1394	Federal-Mogul-Bower Bearings, Inc	Opposed to proposal.
1397	Commercial Steel Treating Corp	Do.
1401	Hoerner Boxes, Inc	Do.
1444	Robert D. Midkiff, Hawaiian Trust Co., Ltd	Would retain existing provisions.
1451	Bankers Trust Co., New York, N.Y	Opposed to proposal.
1455	Shell Oil Co	Would retain existing provisions.
1466	McKinsey & Co., Inc., New York, N.Y	Opposed to proposal.
1488	Towers, Perrin, Forster & Crosby, Inc	Do.
1502	John R. Lindquist, member of law firm of McDermott, Will & Emery, Chicago, Ill.	Do.
2057	Hon. Robert W. Hemphill, Member of Congress	Proposal would adversely affect all citizens within district.
2378	American Bankers Association	Opposed to proposal.
2431	Machinery & Allied Products Institute	Do.
1063	Dan Throop Smith, Harvard University	Proposal seems desirable, but would retain provision with respect to stock of employer.
2571	Financial Executives Institute	Opposed to proposal.
2640	American Retail Federation	Do.
1904	National Small Business Men's Association	Do.
2687	Manufacturing Chemists' Association, Inc	Do.
2307	U.S. Chamber of Commerce	Would oppose.
2258	Illinois State Chamber of Commerce	Do.
2017	American Textile Manufacturers Institute	Do.
2853	Texaco, Inc	Opposed to proposal.
2817	Industrial Relations Counselors Service	Proposal is a discouraging action, rather than an incentive.
2827	Association of Consulting Management Engineers	Disagrees with proposal.
2807	American Apparel Manufacturers Association	Would oppose proposal.
2848	Chicago Association of Commerce & Industry	Opposed to proposal.

2857	Abbott Laboratories	Do.
1521	Midwest Metals Corp	Do.
1518	Hunt Foods & Industries, Inc	Do.
1521	Bumble Bee Seafoods, Inc	Do.
1522	Joslyn Manufacturing & Supply Co	Do.
1515	Procter & Gamble Co	Do.
1523	Chase Manhattan Bank, New York	Do.
1515	Independent Radionic Workers of America	Do.
1524	First National Bank of Chicago	Would retain existing law.
1526	New York State Bankers Association	Opposed to proposal.
1524	First National City Bank, New York	Do.
2275	Zenith Radio Corp	Would retain existing law.
1955	AFL-CIO	Favors.
1501	Hon. Spark M. Matsunaga, Member of Congress	Opposed to proposal.
1194	Jefferson Chemical Co	Do.
1532	A. D. Martin Properties, Inc	Do.
1533	Norsworthy-Mercer, Inc	Do.
1533	Stewart Title Co., Inc	Do.
1534	Trans-National Leasing, Inc	Do.
1534	Vitalic Battery Co., Inc	Do.
1534	R. M. Alderson	Do.
1535	Dorothy Graff	Do.
1535	Mrs. E. B. Hartis	Favors proposal.
1535	Mrs. Jodie Isom	Would appear to oppose.
1535	Jo Reta McMinn	Opposed to proposal.
1536	Martha L. Moen	Do.
1536	J. Dale Perry	Do.
1536	Florence Philpot	Do.
1511	Sidney J. Weinberg	Do.
1526	McGraw-Edison Co	Would retain existing law.
1527	Pacific Scientific Co	Opposed to proposal.
1527	Fairmont Foods	Do.
1527	Kennedy-Sinclaire, Inc	Would oppose proposal.
1528	State Securities, Inc	Would retain existing law.
1529	Duke Power Co	Opposed to proposal.
1530	American Factors, Ltd	Do.
1530	Belt, Collins & Associates, Ltd	Would retain existing law.
1530	Castle & Cooke, Inc	Do.

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IV. *Taxation of Capital Gains*—Continued

E. OTHER RECAPTURE AND DEFINITIONAL PROVISIONS—continued

1. *Lump-Sum Pension Payments*—Continued

Page No. in hearings	Name of witness and association represented	Comments
1531	City Mill Co., Ltd	Opposed to proposal.
1531	Insurance Factors, Ltd	Do.
1531	Refrigeration Service & Supply Co., Ltd	Opposed to proposal. Endorses statement of Hawaiian Trust Co., Ltd.
1532	Central Engineering & Supply Co	Opposed to proposal.
1532	Electrified Water Co	Do.

2. *Timber*

Page No. in hearings	Name of witness and association represented	Comments
1	Treasury Department	Provides that the sale, or cutting, of timber is to result in ordinary income, rather than capital gain, to the extent of any income from timber in any year in excess of $5,000. Also provides for the expensing of reforestation costs.
2976	Do	Letter of Feb. 25, 1963, to Chairman Mills which reports conversations, subsequent to Feb. 6 and 7 between members of the industry, etc., and the Treasury regarding this proposal.
804	Hon. John P. Duncan, Acting Secretary, Department of Agriculture.	Proposal may have certain adverse impacts on forest management and conservation. When entire tax package is considered as it relates to the individual forest owner, program will generally favor forest conservation efforts. The $5,000 exception would cover more than 95 percent of all forest owners who hold nearly two-thirds of all private commercial forest lands. For those individuals with income in excess of $5,000, an increase in taxes on timber would have adverse impacts on conservation investment. For forest industry corporations with annual taxable income in excess of $25,000, the proposal will result in an increase in tax burden. Impacts on conservation should be carefully considered in drafting of legislation on this matter.

2057	Hon. Robert W. Hemphill, Member of Congress	Present law offers soundest procedure for taxing timber as a natural resource, and the proposal would do damage to that industry.
2139	National Association of Home Builders	Opposed to proposal.
2533	American Institute of Certified Public Accountants	Would oppose.
2687	Manufacturing Chemists' Association, Inc	Opposed to proposal.
2307	U.S. Chamber of Commerce	Would oppose.
3377	Forest Industries Committee on Timber Valuation and Taxation.	Opposed to proposal.
2921	Hon. William Jennings Bryan Dorn, Member of Congress.	Do.
2925	Hon. G. Elliott Hagan, Member of Congress	Do.
3055	Western Forest Industries Association	Do.
3346	Hon. Clifford G. McIntire, Member of Congress	Do.
3333	Prof. John A. Zivnuska, University of California	Would oppose proposal.
2990	Prof. G. R. Gregory, University of Michigan	Opposed to proposal. Suggests, as an alternative, preventing capital gain treatment for timber income up to the amount spent for forest land management or perhaps permit some tax credit program. If such a suggestion is adopted, couple it with a provision for expensing plantation establishments.
3005	Georgia Forestry Association	Would retain existing law.
3407	Forest Farmers Association	Do.
3014	American Pulpwood Association	Do.
3029	T. L. James Co., Ruston, La	Do.
3031	Edward Stamm, Portland, Oreg	Do.
3045	Boise Cascade Corp., Boise, Idaho	Do.
3343	Society of American Foresters	Do.
3344	American Forestry Association	Do.
3077	Goodwin Chase, National Bank of Tacoma, Wash	Do.
3080	Kenneth Beggs, forest industry studies, Stanford Research Institute, Calif.	Do
3393	Industrial Forestry Association, Portland, Oreg	Do.
1719	National Association of Counties	Do.
1371	Roswell Magill	Do.
1523	Chase Manhattan Bank	Do.
3440	David T. Mason, Portland, Oreg	Opposed to proposal.
3455	Vulcan Corp., Cincinnati, Ohio	Would retain existing law.
2989	Texas Forestry Association	Do.

IV. Taxation of Capital Gains—Continued

E. OTHER RECAPTURE AND DEFINITIONAL PROVISIONS—continued

2. Timber—Continued

Page No. in hearings	Name of witness and association represented	Comments
3433	Northern Hardwood & Pine Manufacturers Association, Green Bay, Wis.	Opposed to proposal.
3391	Association of Consulting Foresters	Do. (See also p. 3389.)
3439	Ernest E. Ahler, Knoxville, Tenn	Opposed to proposal.
2937	Hon. Thomas M. Pelly, Member of Congress	Would retain existing law.
2938	Hon. William H. Harsha, Member of Congress	Opposed to proposal.
2939	Hon. Walt Horan, Member of Congress	Would retain existing law.
2941	Hon. Gillis W. Long, Member of Congress	Opposed to proposal.
2943	Hon. Jack Westland, Member of Congress	Do.
2936	Hon. Harold T. Johnson, Member of Congress	Do.
2936	Hon. Don H. Clausen, Member of Congress	
2944	Hon. D. R. (Billy) Matthews, Member of Congress.	Do.
2944	Henderson Land & Lumber Co	
3653	Hon. George C. Wallace, Governor of Alabama	Would retain existing law.
3348	Hon. John H. Reed, Governor of Maine	Opposed to proposal.
3373	Hon. Robert E. Smylie, Governor of Idaho	Would retain existing law.
3361	Hon. John M. Dalton, Governor of Missouri	Do.
3374	Hon. Terry Sanford, Governor of North Carolina	Do.
3376	Hon. Bert T. Combs, Governor of Kentucky	Do.
3374	Hon. Ross R. Barnett, Governor of Mississippi	Do.
3376	Hon. Albert D. Rosellini, Governor of Washington	States "safeguards [are] necessary to provide incentive for aggressive forestry programs." Believes proposal destroys incentives.
3372	Hon. Carl E. Sanders, Governor of Georgia	Would retain existing law.
3376	Hon. Donald Russell, Governor of South Carolina	Do. (See also p. 2921.)
3363	Hon. Albertis S. Harrison, Jr., Governor of Virginia.	Opposed to proposal.

3364	George W. Dean, State forester, Charlotte, Va	Would retain existing law.
2931	Hon. Len B. Jordan, U.S. Senator (Idaho)	Opposed to proposal. (See also p. 3044.)
2934	State Tax Commission (Idaho)	Would retain existing law.
2872	Irving F. Bolton, Oakland, Calif	Proposal may have adverse effect. Alternatively, suggests (1) a maximum $100,000 exclusion for land and timber for estate tax purposes; (2) gain from sales of timber be taxed 50 percent at capital gain and 50 percent at ordinary income; and (3) costs of reforestation, tree planting, etc., be deductible in year incurred or amortized over 3-year span.
2848	Chicago Association of Commerce & Industry	Opposed to proposal.
2860	Armstrong Cork Co	Would retain existing law.
2523	Hon. Joseph M. Montoya, Member of Congress	Do.
2940	Hon. Richard H. Ichord, Member of Congress	Do.
2942	Hon. Arnold Olsen, Member of Congress	Opposed to proposal.
3005	Herman E. Baggenstoss, Trace City, Tenn	Would retain existing law.
3044	R. G. Watt, Redding, Calif	Believes proposal would have adverse effect.
3337	W. L. Moise, Sarasota, Fla	Refutes conclusions drawn by Treasury in reference to one of his written articles. States present treatment of law is the least Government can do to foster adequate forest resources.
3407	West Virginia Department of Natural Resources	Opposed to proposal.
3457	Crandon Paper Mills, Carl Langenbach, Fort Madison, Iowa.	Do.
3458	Potlach Forests, Edwin C. Rettig, Lewiston, Idaho	Would retain existing law.
3450	Minnesota & Ontario Paper Co	Do.
2927	Union Bag-Camp Paper Co	Do. (See also p. 3452.)
3431	Walter H. Meyer, Yale University	Would retain existing law.
3428	Hardy L. Shirley, Syracuse University	Opposed to proposal.
3429	Frank C. Ash, State University College, Syracuse University.	Do.
3430	John F. Hosner, Virginia Polytechnic Institute	Do.
3431	Gordon D. Marckworth, University of Washington	Would retain existing law.
3426	Peter W. Fletcher, John Muench, Jr., and Nicholas Muhlenberg, Pennsylvania State University.	Believes proposal would tend to have an adverse effect on improvements in forest management and could reduce production and employment in the forest-based sector of the economy.
3424	R. J. Preston, North Carolina State College	Would retain existing law.
3423	Richard C. Smith, University of Missouri	Do.
3425	W. F. McCulloch, Oregon State University	Opposed to proposal.

IV. *Taxation of Capital Gains*—Continued

E. OTHER RECAPTURE AND DEFINITIONAL PROVISIONS—continued

2. *Timber*—Continued

Page No. in hearings	Name of witness and association represented	Comments
2926	Georgia Forestry Association	Opposed to proposal.
2927	Georgia Bankers Association	
2927	Union Bag-Camp Paper Corp	
2927	Bruce J. Bayless	
2928	Atlantic Creosoting Co., Inc	
2929	Savannah Sugar Refining Corp	
2929	B. E. Allen	
2930	H. M. Hodges	
2930	Tom Weathers	
2930	V. E. Kelly	
2931	Paul S. Stone	
3401	Hon. Harry Noch, State senator, Idaho	Would retain existing law and urges consideration of Idaho State Senate Joint Memorial No. 12.
3402	Iowa State Conservation Commission	Would appear to favor retaining existing law.
3402	State of Illinois Department of Conservation	Opposed to proposal.
3406	State of Washington, Department of Natural Resources.	Do.
3405	State of Ohio Department of Natural Resources	Present law has had a stabilizing influence on local economy.
3366	State of Oregon, Office of State Forester	Believes proposal is unwarranted and those taxpayers obtaining any tax advantage can be handled through existing provisions of Code.
3349	Joint Resolution, S.P. 537, Maine State Legislature.	Petitions Congress to defeat and reject proposal.
3349	Society of American Foresters—New England section.	Would retain existing law.
3461	Idaho Senate Joint Memorial No. 12	Petitions that existing law be neither tampered with nor repealed. (See also p. 2934.)

3361	Arkansas State Forestry Commission	Would oppose proposal.
3361	New York Conservation Department	Opposed to proposal.
3403	Maine Forest Products Council	Do.
3362	Texas Forest Service	Would oppose proposal.
3367	State Forester, State of South Carolina	Opposed to proposal.
3359	California Department of Conservation, Division of Forestry.	Would retain existing law.
3360	Missouri Conservation Commission	Do.
3012	Alabama Senate Joint Resolution No. 3	Opposed to proposal.
3356	Michigan Department of Conservation	Would oppose proposal.
3357	Florida Board of Forestry	Would continue existing law.
3357	Pennsylvania Department of Forests and Waters	Opposed to proposal.
3421	Dr. Richard A. Skok and Frank D. Irving, University of Minnesota.	Would retain existing law.
3423	Paul E. Bruns, University of New Hampshire	Would retain existing law with an amendment defining "eligible timber" as that timber held (including contract interest, for a minimum period of some 5 to 10 years.
3401	State of Idaho Cooperative Board of Forestry	Opposed to proposal.
3354	State of North Carolina, Department of Conservation and Development.	Do.
3374	Resolution 46, General Assembly of State of North Carolina.	Petitions Congress to reject and defeat proposal.
1348	The Lane Co., Inc., Altavista, Ga	Opposed to proposal.
3405	Oklahoma State Department of Agriculture	Would retain existing law.
3369	State of Wisconsin Conservation Department	Opposed to proposal.
3412	Harold E. Christen, Auburn University	Would retain existing law.
3409	North Carolina Forestry Association	Opposed to proposal.
3409	Society for the Protection of New Hampshire Forests.	Would retain existing law.
3410	Foresters Council of South Carolina	Opposed to proposal.
3404	Massachusetts Forest & Park Association	Do.
3408	Georgia Forestry Commission	Would retain existing law.
3399	Southern Timber Management Service, Inc	Believes proposal would have extremely adverse effects on the forest industry.
3400	West Coast Lumbermen's Association	Opposed to proposal.
3401	Hon. Hugh Gillis, State senator, Georgia	Would retain existing law.

IV. *Taxation of Capital Gains*—Continued

E. OTHER RECAPTURE AND DEFINITIONAL PROVISIONS—continued

2. *Timber*—Continued

Page No. in hearings	Name of witness and association represented	Comments
3348	Association of State Foresters	Supports American Forestry Association in urging retention of present law. (See also p. 3398.)
3399	Northeastern Lumber Manufacturers Association, Inc.	Would retain existing law.
3376	Hon. J. J. Nosser, mayor, Natchez, Miss	Opposed to proposal.
3389	Robert Moore, consulting forester, Danville, Pa	Concurs with Association of Consulting Foresters in opposing proposal.
3425	Ray A. Yoder, Oregon State University	Believes Treasury and the press have given gross misinterpretations to facts relative to this matter. Believes future of forest industry is seriously threatened by this proposal.
3420	Samuel T. Dana, University of Michigan	Would retain existing law. Any abuses could be curbed by other means.
3420	Gene A. Hesterberg, Michigan College of Mining & Technology.	Would retain existing law.
3421	F. H. Kaufert, University of Minnesota	Do.
3417	A. D. Nutting, University of Maine	Opposed to proposal.
3418	Kenneth P. Davis, University of Michigan	Do.
3418	T. D. Stevens, Michigan State University	Would retain existing law.
3416	J. W. Willingham, University of Florida	Opposed to proposal.
3416	Carl H. Stoltenberg, Iowa State University	Would oppose.
3415	James G. Yoho, Duke University	Endorses testimony of Prof. John A. Zivnuska.
3413	Arne K. Kemp, Stephen F. Austin State College	Would retain existing law.
3414	C. H. Wasser, Colorado State University	Do.
3415	A. E. Wackerman, Duke University	Opposed to proposal.
3411	Virginia Forests, Inc	Do.
1599	Hon. Richard H. Poff, Member of Congress	Do.

3370	Hon. Allen J. Ellender, U.S. Senator	Points out devastating effect proposal would have on timber industry.
3370	Hon. J. Howard Edmondson, U.S. Senator	Would retain existing law.
3369	George E. Tomlinson Co	Proposal would have adverse effect on business.
3068	Hon. W. O. Kelsay, member, Oregon State Legislature.	Would result in disappearance of small businesses and have other adverse effects.
3069	State of Oregon, House Taxation Committee	Outlines adverse effects of proposal.
3071	Hon. Mark O. Hatfield, Governor of Oregon	Opposes any change in existing law.
3073	Ben Musa, president of senate, Oregon State Legislature.	Would retain existing law.
3074	Clarence Barton, speaker of the house, Oregon State Legislature.	Opposed to proposal.
3403	Louisiana Forestry Commission	Expresses concern over adverse potentialities of proposal.
3403	State of Louisiana, Department of Commerce and Industry.	Would retain existing law.
3404	Mississippi Forestry Commission	Do.
2945	Hon. Arthur Winstead, Member of Congress	Believes proposal would have devastating effect on future growth of timber on economy of Mississippi and on the Nation.
2945	Hon. Catherine May, Member of Congress	Would retain existing law.
3448	Weston Paper & Manufacturing Co., Terre Haute, Ind.	Do.
3445	Winton Co., Minneapolis, Minn	Opposed to proposal.
2944	Hon. Armistead I. Selden, Jr., Member of Congress	Recommends that no change be made in present law.
3457	Collins Pine Co., Portland, Oreg	Proposal would cause abandonment of long-range forestry plans and activities.
3450	Northern Pacific Ry. Co., St. Paul, Minn	Opposed to proposal.
3434	Huntsville-Walker County Chamber of Commerce, Huntsville, Tex.	Do.
3456	Lightsey Bros., Miley, S.C	Believes proposal would be greatest setback to the American tree farmer in the last 30 years.
3447	D. J. St. Germain & Co., Springfield, Mass	Would retain existing law.
3443	Bruce G. Buell, forester	Do.
3447	Calcasieu Paper Co., Jacksonville, Fla	Opposed to proposal.
3447	Hon. Edward J. Gurney, Member of Congress	Concurs in views expressed by Calcasieu Paper Co.
3452	Willamette Valley Lumber Co., Dallas, Oreg	Opposed to proposal. The question of "upbidding" should not be determinative with acceptance or rejection of proposal.
2639	American Farm Bureau Federation	Would retain existing law.
3046	K. R. Beavens, Kremmling Timber Co	Outlines detrimental effects proposal will have on company's operations.
3389	National Lumber Manufacturers Association	Would retain existing law.

IV. *Taxation of Capital Gains*—Continued

E. OTHER RECAPTURE AND DEFINITIONAL PROVISIONS—continued

2. *Timber*—Continued

Page No. in hearings	Name of witness and association represented	Comments
3402	Kentucky State Division of Forestry	Opposed to proposal.
3406	South Carolina State Development Board	Would retain existing law.
3006	Langdale Co., Valdosta, Ga	Do.

3. *Coal Leases*

Page No. in hearings	Name of witness and association represented	Comments
1	Treasury Department	Coal royalty payments are to be taxed as ordinary income, rather than as capital gains, for leases entered into in the future.
3543	National Coal Association	Opposed to proposal.
3543	Anthracite Institute	Opposed to proposal.
3543	National Coal Policy Conference	Opposed to proposal.
3543	Southern Coal Producers Association	Opposed to proposal.
3623	National Council of Coal Lessors, Inc	Opposed to proposal. Favors positions taken by National Coal Association.
3983	Hon. William L. Guy, Governor of North Dakota	Endorses position of National Coal Association.
2307	U.S. Chamber of Commerce	Opposes.

4. Capital Gains From Farming

1	Treasury Department	Net losses on farming operations, for those who also have at least $15,000 of nonfarm income, are to be used, to the extent of these losses, to characterize as ordinary income any gains from farming operations in subsequent years, which under present law would be capital gains.
800	Hon. Orville L. Freeman, Secretary of Agriculture	States proposal would not hurt the genuine farmer.
1537	National Livestock Tax Committee	Reserves judgment until draft of provision is prepared. However, if proposal is enacted, suggests statute contain a broad definition of farm income which would include income from (1) sale of crops, livestock, produce, and other typical farm commodities, plus income from sale of farmland and from rental of the land; (2) natural deposits discovered on the ranch; (3) a farm partnership; (4) a subch. S corporation engaged in farming; (5) dividends from a corporation engaged in farming but not a subch. S corporation. The definition should exclude capital gains unless of a recurring nature, such as from sale of timber, coal, patents, etc. Suggests $15,000 floor be increased to $50,000, $75,000, or $100,000. EDA should not apply on death if the appreciation in assets is subject to tax under other proposals made, nor should it apply in case of involuntary conversion.
1559	American Society of Farm Managers & Rural Appraisers.	Feels taxpayers with an adjusted gross income from nonfarm sources in excess of $15,000 should not be denied the same tax treatment as other suppliers of capital in farm activities.
2533	American Institute of Certified Public Accountants.	Would oppose.
2307	U.S. Chamber of Commerce	Do.
1565	Col. H. L. Oppenheimer and Arthur Levitt, Oppenheimer Industries, Kansas City, Mo.	Opposed to proposal.
1566	William Greenough, Bridger, Mont	Do.
1567	Earl Puckett, Allied Stores, Inc	Do.
1569	James Trimble, National Cattlemen's Cooperative	Do.
1573	James Furlong, Green City Chamber of Commerce, Missouri.	Do.
1574	Jacquin D. Bierman, partner, J. K. Lasser & Co	Do.
2848	Chicago Association of Commerce & Industry	Do.

IV. Taxation of Capital Gains—Continued

E. OTHER RECAPTURE AND DEFINITIONAL PROVISIONS—continued

4. Capital Gains From Farming—Continued

Page No. in hearings	Name of witness and association represented	Comments
2801	National Farmers Union	Favors proposal.
1589	Armour & Co	Would oppose proposal.
1590	Farm Management Associates, Inc	Opposed to proposal.
1591	Winthrop Rockefeller	Would appear to favor retaining existing law.
1587	Kansas City Stockyards Co	Would not favor.
1589	First National Bank of Gallatin, Gallatin, Mo	Opposed to proposal.
1588	First National Bank of Kansas City	Do.
2523	Hon. Joseph M. Montoya, Member of Congress	Do.
1597	American Hereford Association	Do.
1590	Missouri Farmers Association, Inc	Believes proposal would make less available capital and financing, and thus become a detriment to the farm economy.

5. Recapture of Excessive Depreciation of Livestock

Page No. in hearings	Name of witness and association represented	Comments
1	Treasury Department	See IV. E. 4.
1537	National Livestock Tax Committee	Concludes no changes in present law is called for.
1588	Missouri Livestock Association	Opposed to proposal.

6. *Patents*

1	Treasury Department	Income of inventors from the sale of patents is to be treated as ordinary income rather than capital gains.
2307	U.S. Chamber of Commerce	Would oppose.
2258	Illinois State Chamber of Commerce	Do.
1514	American Institute of Chemists	Opposed to proposal.

7. *Installment Sales of Assets*

1	Treasury Department	Where assets are sold on an installment basis and either no, or inadequate, interest is provided, a portion of the gain (generally 5 percent on the unpaid balance) is to be treated as interest income (and deduction to seller) rather than as a capital gain. In addition, where assets are sold with the price dependent on future income and with the installments spread over more than 5 years, the gain is to be treated as ordinary income.
2139	National Association of Home Builders	Opposed to proposal.
2533	American Institute of Certified Public Accountants.	If adopted, limit provision to taxpayers who engage in these transactions as part of regular business operations.
2307	U.S. Chamber of Commerce	Would favor.
2848	Chicago Association of Commerce & Industry	Opposed to proposal.

8. *Life Estates*

1	Treasury Department	Where a person holding a life estate acquired by gift, bequest, or inheritance sells this estate, the amount received is to be treated as anticipated income and is to be taxed as ordinary income without decrease for any basis he may have in the property.
2307	U.S. Chamber of Commerce	Would favor the tax treatment of life estate, but only if the income averaging provision is adopted.

V. GENERAL

Page No. in hearings	Name of witness and association represented	Comments
865	Hon. Noah M. Mason, former Member of Congress.	Suggests (1) Placing 45-percent ceiling upon all Federal individual income taxes, all corporation taxes, and all estate taxes; (2) repealing all present Federal excise taxes and imposing flat 5-percent manufacturers' excise tax to all end products, except food and medicine; and (3) taxing earnings of savings and loan associations, cooperatives, mutual savings banks, credit unions, REA's and other mutuals same as their competitors—taxing patrons same as corporate dividend recipients.
1497	Hon. Abraham J. Multer, Member of Congress	Recommends consideration of (1) H.R. 4182, which exempts for individuals over 65 amounts up to $2,400 in annuities, pensions, or retirement benefits paid by local, State or Federal Governments; (2) H.R. 525, which would allow a deduction for additional investment in depreciable assets, inventory and accounts receivables; (3) H.R. 530, also relating to small and independent businesses.
1773	Hon. Charles S. Gubser, Member of Congress	Submits for consideration his bills, H.R. 3083, which relates Federal spending and taxation on an annual and continuing basis; and H.R. 1619, which requires Commissioner of Internal Revenue to adopt Tax Court decision or to appeal the decision within a reasonable time. Also suggests an additional exemption be given for supporting dependents through college, and that for taxpayers over 65 years, any gain from the sale of their residence, resulting from a forced sale, should be exempt from capital gains tax.
2007	Edison Electric Institute	Recommends that the corporate tax be made applicable to Federal Government power agencies.
2038	Investors League, Inc	Supports H.R. 257, which reduces tax on capital gains if invested in 5-year 2-percent U.S. Government bonds.
2053	Richard Stahl	Suggests that taxes should be levied on all gross income; should be collected on a monthly pay-as-you-go basis; should be uniform for all taxable economic entities; the rate should be determined for each fiscal year of the United States; the present exemptions, deductions,

Page	Witness	Testimony
		special credits and other privileges be discontinued; criminal prosecutions be mandatory for evading a declaration of gross income if in a grossly negligent or irresponsible manner; complete exemption should be granted to submarginal economic entities, public bodies, certain draftees, and certain organizations.
2057	Hon. Robert W. Hemphill, Member of Congress	Suggests simplifying the filing of tax returns for taxpayers with incomes of less than $5,000, or perhaps $10,000.
2533	American Institute of Certified Public Accountants	Believes consideration should be given to (1) deduction for preliminary investigation of business or investment opportunities; (2) reorganization, stock dividend, stock split, etc., expenses; (3) carryover of operating losses; (4) eliminating reduction of basis requirement for investment credit; (5) certain changes in section 382; (6) certain changes with respect to travel and entertainment expenses; and (7) certain changes with respect to capital gains taxation, secs. 307 and 1091.
2640	American Retail Federation	Suggests repeal of excise tax on sales of jewelry, furs, toilet preparations, luggage, as well as manufacturers' taxes on consumer end product.
3522	Clay Pipe Industry Depletion Committee	Suggests that (1) percentage depletion rate for sewer pipe clays should not be less than allowance for other clays or for limestone used in the manufacture of cement; (2) the method of computation of allowance for clays is unfair when compared to the computation allowed for limestone; (3) the "cutoff point" for clay sewer pipe should be the same as for cement; namely, the kiln feed.
2378	American Bankers Association	Suggests the alternative 40-percent method of tax computation now permitted by savings and loan associations and mutual banks be increased to at least 80 percent.
2583	Committee for Repeal of Federal Retail Excise Taxes.	Recommends repeal of retail excise taxes on sales of furs, luggage, handbags, cosmetics, jewelry and silverware. (See also p. 2591.)
2609	Freedom, Inc	Supports freedom bill, H.R. 737.
2571	Financial Executives Institute	Recommends that carryover provisions of sec. 170 be amended to provide a 5-year carryover and a 3-year carryback adjustment to conform the time limitations with respect to the allowance for charitable contributions to those in sec. 172 for operating loss deductions.
1955	AFL–CIO	Noted that although proposals relating to mineral depletion are desirable, no reduction in excessive depletion allowance rates is proposed; no request made to end tax-free status of interest from State and local bonds; no plans to end tax enticement shared by American shipowners operating under foreign flags; the split-income privilege is continued; that tax withholding on interest and dividends is not revived.

V. *General*—Continued

Page No. in hearings	Name of witness and association represented	Comments
2258	Illinois State Chamber of Commerce	Suggests revising investment credit provision so as not to require a reduction of cost basis; also elimination from sec. 274 of all provisions not needed to preclude application of the "Cohan rule"; and suggests reenactment of prepaid income and prepaid estimated expense provision.
2195	National Tax Savers Party	Alternatively suggests a national lottery tax or a tax of 1 percent on all real estate in the United States.
1789	Bankers Committee for Tax Equality	Recommends that the first option of computing tax which permits mutual savings banks and savings and loan associations to set aside in a reserve for losses an amount equal to 60 percent of net income be eliminated.
1904	National Small Business Men's Association	Believes in depreciation reform to include: (*a*) shorter lives; (*b*) assurance that these lives will not be changed administratively; and (*c*) some legislation permitting the effects of inflation to be taken into account in the depreciation deduction. Believes that the provision of the Revenue Act of 1962 providing for diminishing depreciation base by investment credit should be repealed.
2687	Manufacturing Chemists' Association, Inc	Recommends for consideration certain provisions relating to— (1) Investment credit; (2) Repeal of IRC sec. 367; (3) Coordination of foreign tax credit with taxation of controlled foreign corporations; (4) Foreign tax credits with respect to minimum distributions; (5) Application of foreign tax credit to additional taxes; (6) Allowance of foreign tax credit for taxes spared; (7) Carryover of foreign tax credit in reorganizations and liquidations; (8) Full taxation of co-ops; (9) Amortization of trademark and trade name expenditures; (10) Annual reporting of wages for social security purposes;

Page	Witness	Summary
		(11) Minimum distribution provisions should include foreign branches of domestic subsidiaries regardless of whether consolidated returns are filed.
3543	National Coal Association	Would amend investment credit provisions so as not to require a reduction of basis of property by an amount of credit.
3543	Anthracite Institute	
3543	National Coal Policy Conference	
3543	Southern Coal Producers Association	
2717	American Finance Conference of Chicago, Ill	Suggests that credit unions be taxed in a similar manner with other institutions supplying consumer financing.
1017	District of Columbia Retired Teachers Association.	Recommends elimination of tax on capital gains on sale of house for people over 65 years of age.
1011	National Association of Postal Supervisors	Suggests civil service annuities be made tax free.
966	American Federation of Musicians, AFL–CIO	A preliminary survey reveals losses of ½ to ⅓ of all musicians employed in restaurants, etc., directly attributable to the severe cutback in business goodwill spending. Also suggests elimination of 20-percent excise tax on entertainment in establishments vending food and beverages.
2872	Irving F. Bolton, Oakland, Calif	Suggests a deduction be allowed for cost of tuition, books, etc., for children attending either parochial or public grade schools, high schools, or universities.
2895	John J. Gerlach, Columbus, Ohio	Suggests the 3-month automatic extension of time for filing of tax returns now available to corporations should be available to individuals and that the tax penalties under existing law should be reviewed.
2878	Dudley B. Tenney, Port Washington, N.Y	Suggests a 5-percent limitation on any individual's gross income which could be exempt from Federal income tax.
2620	Hon. Durward G. Hall, Member of Congress	Submits for consideration H.R. 3307 to increase the tax base upon which States and local communities can draw funds to finance education, and H.R. 4489 to provide tax credits for persons over 65 and for anyone who contributes to their medical care.
1671	David Schaenen, Billings, Mont	Favors proposal of Mr. Mills which provides for either a 50-percent reduction in withholding tax or a reduction to 4 percent of withholding.
2889	Richard W. Hulbert, New York, N.Y	As an alternative to the provision of tax-free interest on municipal bonds, suggests (1) subjecting some fraction of the total interest to tax, or (2) limiting the amount excludible to some flat dollar amount.
2803	National Association of Wholesalers	Suggests amending investment credit provision to include 7 percent credit for aggregate increased investment in inventory and accounts receivable.
2881	Melvin Cole, Rochester, N.Y	Suggests death benefits to widows be taxable as part of gross estate.
2767	National Rural Electric Cooperative Association	Calls attention to need for congressional review of tax laws relating to the commercial electric power industry.

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V. *General*—Continued

Page No. in hearings	Name of witness and association represented	Comments
2863	Federation Bank & Trust Co	Suggests an amendment to sec. 501(c) to permit tax-exempt status to trust funds for union members.
2523	Hon. Joseph M. Montoya, Member of Congress	Suggests increasing personal exemptions from $600 to $1,000.
1932	National Retail Furniture Association	Would oppose any proposal of a low rate uniform excise tax and a value-added tax.
2831	American Veterans Committee	Suggests a standard deduction of 12 percent in lieu of all present deductions, credits, and exclusions (with exception of business and charitable deductions).
2853	Orange Community Chamber of Commerce, Orange, Calif.	Recommends committee refrain from enacting any tax reform that increases recordkeeping or lowers Government revenue if accompanied by greater Government spending.
2582	Hon. Edward J. Derwinski, Member of Congress	Advocates repeal of excise taxes on telephones, telegrams, teletypes, cosmetics, jewelry, luggage, etc.
2587	Athletic Goods Manufacturers Association, et al	Recommends repeal of excise tax on athletic goods.
2594	National Retail Merchants Association	Recommends repeal of all excise taxes except those on liquor and tobacco.
2594	Jewelry Industry Tax Committee	Supports testimony of Committee for Repeal of Federal Retail Excise Taxes.
2597	National Association of the Legitimate Theater, Inc.	Recommends elimination of the admission tax.
2600	Fountain Pen & Mechanical Pencil Manufacturers Association, Inc.	Supports H.R. 1006, which repeals excise tax on pens and mechanical pencils.
2602	Luggage & Leather Goods Manufacturers of America, Inc.	Recommends repeal of excise tax on luggage and personal leather goods.
2607	Associated Fur Manufacturers, Inc	Recommends repeal of 10-percent excise tax on sale at retail of articles made of fur or of which such fur is a component material.
2722	Credit Union National Association, Inc	Points out continued need of exemption for credit unions.

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SECTION 6

COMPILATION OF PRESS RELEASES ISSUED BY THE COMMITTEE ON WAYS AND MEANS

RR 63–1

May 20, 1963.

The Committee on Ways and Means Today Made the Following Tentative Decisions for the Purpose of Drafting Language

The committee today tentatively adopted, for the purpose of drafting legislative language and further consideration by the committee, the basic proposal contained in the President's 1963 tax message relating to the averaging of fluctuating incomes subject to technical modifications. In general, the administration proposal would apply to individuals whose income in the 5th year exceeds their average income in the 4 preceding years by at least one-third. The portion of their income subject to averaging would be, with certain constraints, income in excess of 133⅓ percent of the average income for the immediately preceding 4 years; this excess income would be taxed in an amount equal to five times the tax payable on the first one-fifth of it.

Adoption of this provision necessitates the repeal of certain special averaging provisions of existing law (secs. 1301 through 1306 of the Internal Revenue Code of 1954) in the case of compensation for personal services where the payment is heavily concentrated in 1 year, income from inventions or artistic works, back pay, compensation for damages for patent infringement, breach of contract damages, and damages for injuries under the antitrust laws.

The Treasury Department estimates a revenue cost of approximately $40 million from this proposal annually.

The committee will meet at 10 a.m. Tuesday, May 21, 1963, to take up the recommendation concerning the sick-pay exclusion.

RR 63–2

May 22, 1963.

The Committee on Ways and Means Today Made the Following Tentative Decisions for the Purpose of Drafting Language

The committee today tentatively adopted, for the purpose of drafting legislative language and further consideration by the committee, an amendment to the "sick-pay exclusion" of present law (sec. 105(d) of the Internal Revenue Code of 1954). Under existing law, amounts paid to an employee by his employer to continue his wage payments when he is sick or injured, under certain conditions are excludable for income tax purposes from the employee's income. The exclusion in

this case may not exceed $100 a week and in the case of sickness, does not apply unless the employee is hospitalized or is absent from work for more than 7 days.

The amendment today tentatively adopted by the committee would provide that the exclusion would be available only where the employee was absent from work for more than 30 days, whether or not he was hospitalized and whether or not because of sickness or injury. The exclusion would be available only for absence from work that exceeds 30 continuous days. The excludable amount would remain the same.

The Treasury Department estimates an annual revenue gain from this amendment of $110 million.

The committee will meet at 10 a.m. Thursday, May 23, 1963, to continue its consideration of the medical expense deduction.

RR 63-3

May 23, 1963.

The Committee on Ways and Means Today Made the Following Tentative Decisions for the Purpose of Drafting Language

The committee today tentatively adopted, for the purpose of drafting legislative language and further consideration by the committee, the administration proposal relating to the increase from 20 to 30 percent in the limitation on the charitable contribution deduction in certain cases.

Under this tentative decision, the 30 percent limitation (now available in the case of contributions to churches, schools, hospitals, certain medical research organizations, and certain organizations affiliated with State colleges or universities) would be extended to include contributions to organizations which are publicly supported and controlled (but not to private foundations and trust funds). (This will include such publicly supported organizations as charities (Red Cross, Community Chest, Cancer Society, etc.), cultural arts, etc., in the 30-percent category.) The amendment will make clear that this extension of the 30-percent category will include nonprofit, publicly supported organizations which are organized and operated as a museum of history, art, or science; as a library open to and operated for the general public; as a community center to promote the arts; or for the purpose of providing facilities or support for an opera, symphony, orchestra, ballet, or repertory drama.

The committee also tentatively adopted an amendment to this section of the code (sec. 170) which would deny the charitable contribution deduction in the case of gifts of future interests in the case of tangible personal property.

No revenue estimate available.

The committee will meet at 10 a.m. Friday, May 24, 1963, to consider the casualty loss deduction.

RR 63–4

May 24, 1963.

The Committee on Ways and Means Today Made the Following Tentative Decisions for the Purpose of Drafting Language

The committee today tentatively adopted, for the purpose of drafting legislative language and further consideration by the committee, the following provisions:

1. Casualty loss deductions

The committee tentatively approved a provision to limit deductions for casualty losses to the amount of each loss in excess of $100. (That is, each casualty loss would be deductible only to the extent that it exceeds $100.)

Treasury Department estimate of annual revenue gain: $60 million.

2. Group term insurance

The committee tentatively adopted a provision which will require that an employee must include in income for tax purposes the premiums paid by the employer with respect to group term insurance furnished to the employee to the extent this protection exceeds $30,000. Retired persons will be exempt from this provision, whether presently retired or retiring in the future. Where the employee also makes contributions toward the insurance, these payments will be attributed to such insurance protection above the $30,000 exclusion. The provision would apply to protection furnished by the employer in taxable years beginning after December 31, 1963. The amount to be included in income can be on the basis of either the actual premiums paid by the employer or according to a table setting forth one premium for each 5-year age bracket (the average premium cost for that bracket) for each $1,000 in excess of the $30,000 ceiling.

Treasury Department estimate of annual revenue gain: $5 to $6 million.

The committee will meet at 10 a.m. Monday, May 27, 1963, to consider the personal holding company tax.

RR 63–5

May 27, 1963.

The Committee on Ways and Means Today Made the Following Tentative Decisions for the Purpose of Drafting Language

The committee today tentatively adopted, for the purpose of drafting legislative language and further consideration by the committee, the proposal of the administration regarding the personal holding company tax, with modifications, as described below:

1. Gross income test

Under the tentative decision of the committee, the gross income test will be modified to provide that if 60 percent of a company's gross income is personal holding company income (that is, certain specified forms of passive investment income), the company should be classified as a personal holding company. (Present law provides a gross income test of 80 percent.)

2. Rental income

The committee also tentatively adopted the proposal of the administration that, in determining whether or not rental income of the company is to be classified as personal holding company income, depreciation, interest, and property taxes are to be subtracted from the rental income in making the 50-percent test. (Under present law, rental income is classified as personal holding company income unless it constitutes 50 percent or more of total gross income.) The committee also tentatively approved the proposal that for rental income to escape classification as personal holding company income, the personal holding company income other than rental income must not represent more than 10 percent of the gross income of the company. It was agreed that during opportunities to review these provisions, there may be an effort to consolidate the two tests, while achieving a similar result, with a view toward simplification.

Payments received from the exhibition and distribution of film are to be treated as copyright royalties under the provision tentatively approved, and all copyright royalties paid would be excluded for purposes of determining whether the "business expense" test is met, the required percentage of business expenses to be reduced from 50 percent to 20 percent. With respect to film rentals still in the hands of those producing the films, the 10-percent test outlined above will not apply to "produced film rentals" and the 50-percent test will continue to apply in the same manner as under present law.

3. Finance companies

It was agreed that there will be a refinement in the definition of the gross income test (No. 1 above) as it applies to finance companies in order to take care of the problems arising from the application of the new test in the case of such companies.

4. Oil and gas interests

The committee also tentatively adopted the proposal of the administration that in computing the gross income test (No. 1 above), gross income from an oil or gas interest is to be reduced by depletion, interest, and royalties paid out.

5. Mineral royalties

With regard to mineral royalty income, the committee tentatively approved the proposals of the administration. First, in determining whether the mineral royalty income represents 50 percent or more of gross income, both the mineral royalty income and the total gross

income are to be reduced for any depletion deduction and interest deduction; and second, in determining whether or not the 15-percent test (relating to deductions for trade or business expenses) is met, those deductions attributable to the mineral royalties would be taken into account.

6. Capital gains

Under the committee's tentative decision regarding capital gains, all capital gains would be excluded from both gross income and personal holding company income in determining whether 80 percent (60 percent under the provision adopted today) or more of the gross income of a company is personal holding company income.

7. Liquidating dividends

The committee also tentatively approved a provision that no dividends-paid deduction be allowed with respect to undistributed personal holding company income in the case of a liquidating distribution except to the extent that the liquidating corporation elects to treat this distribution as an ordinary dividend distribution to its shareholders, and then only to the extent of current earnings and profits.

8. Opportunity to liquidate

There will be an opportunity, for a limited period of time, for companies coming under these personal holding company provisions to liquidate without adverse tax consequences on any appreciation in value on securities acquired before January 1, 1963.

Treasury Department estimate of annual revenue gain: $10 million.

The committee will meet at 2 p.m. today, May 27, 1963, to consider alternatives to the proposal for a 5-percent floor on itemized deductions.

RR 63–6

May 28, 1963.

The Committee on Ways and Means Today Made the Following Tentative Decisions for the Purpose of Drafting Language

TAXATION OF CAPITAL GAINS

The committee today tentatively approved, for the purpose of drafting legislative language and further consideration by the committee, the following provisions relating to the taxation of capital gains:

Under the tentative decision of the committee, a taxpayer would include 30 percent (instead of 50 percent as under present law) of net long-term gains in excess of net short-term losses in his ordinary income tax base in the case of certain long-term capital gains where the asset has been held for 3 years or more. However, this 30-percent inclusion factor will only apply to gains which may be classified as "true" capital gains, the exact definition of which the committee will subsequently decide upon. These capital gains will be subject to a maximum tax rate of 19.5 percent. The 50-percent inclusion factor and the

25-percent maximum tax rate of existing law will continue to apply in the case of assets held for more than 6 months and less than 3 years.

The committee tentatively adopted a provision to the effect that in the case of the sale of a personal residence by a taxpayer aged 65 and over, where the residence has been held for 5 years or more, the taxpayer can once in his lifetime receive an exclusion of any capital gain attributable to the first $20,000 of the sales price.

The committee tentatively approved the administration proposal that an indefinite loss carryforward be allowed in the case of net capital losses (instead of the 5-year carryforward of present law), and that any net loss carryforward to a succeeding year be included in either the short- or long-term capital loss category for that year, depending upon which it was in the year in which it originated.

With respect to the administration proposal relating to the taxation of accrued gains on capital assets at the time of gift or transfer at death, the committee tentatively approved a provision known as the "carryover basis rule." Under the committee decision, an asset transferred at death will have a basis to the heir equal to the basis in the hands of the decedent plus any estate tax attributable to the asset; this basis, however, cannot exceed the fair market value of the asset at the time of death. The holding period of the heir would include the holding period of the decedent (i.e., if the decedent had held the property for 2 years and the heir held it for 1 year, it would qualify for the 30-percent inclusion factor provided the gain thereon met the definition of a "true" gain).

The committee will meet at 10 a.m. Wednesday, May 29, 1963, to continue consideration of capital gains provisions.

RR 63–7

May 29, 1963.

The Committee on Ways and Means Today Made the Following Tentative Decisions for the Purpose of Drafting Language

TAXATION OF CAPITAL GAINS

Stock options

The committee today tentatively approved, for the purpose of drafting legislative language and further consideration by the committee, the following provisions relating to the tax treatment of stock options:

1. Extension of the required holding period for stock acquired pursuant to an option from the present 6 months to 3 years.
2. Reduction of the permissible period for an option to be outstanding from the present 10 years to 5 years.
3. Denial of stock option tax treatment to "substantial" shareholders of the corporation. In the case of major corporations, a substantial shareholder would be a 5-percent-or-more shareholder. The committee will explore the possibility of developing a somewhat more liberal rule for smaller corporations.

4. Requirement that options be issued at 100 percent of the market price of the stock. Any differential below 100 percent would be included in ordinary income 1½ times for tax purposes, at the time of exercise.

5. Elimination of provisions permitting resetting of the option price when the value of the stock declines after the initial issuance of the option. In this connection, new options could not be issued covering the same period to the same individual.

6. Elimination of variable pricing provisions (which permit options to be issued to purchase stock at a specified percentage of the price of the stock at the time stock option is exercised).

7. Requirement that shareholders' approval of option plans must be secured, and that options pursuant thereto must be made available within 12 months of such approval.

8. Employee stock purchase plans will be provided a separate rule so that the treatment of present law will be preserved for nondiscriminatory plans.

Under the committee decision, the rules tentatively adopted and set forth above would apply to stock options issued after May 29, 1963.

Treasury Department estimate of revenue effect: Negligible.

The committee will resume consideration of capital gains provisions in executive session at 10 a.m., on Wednesday, June 5, 1963. (Other committee business will be considered in executive session on Tuesday, June 4.)

RR 63–8

June 5, 1963.

The Committee on Ways and Means Today Made the Following Tentative Decisions for the Purpose of Drafting Language

TAXATION OF CAPITAL GAINS

The committee today tentatively adopted, for the purpose of drafting legislative language and further consideration by the committee, the following provisions regarding the tax treatment of capital gains:

Sale or exchange of real estate

The committee today tentatively approved a provision that in the case of real estate sold in the first year after acquisition, gain is to be treated as ordinary income to the extent of 100 percent of the depreciation that has been taken. If the real estate is sold in the second year, gain is to be treated as ordinary income to the extent of 100 percent of the excess of depreciation taken over straight-line depreciation. For real estate held for longer periods, gain would be treated as ordinary income in decreasing proportion to the excess of the depreciation taken over straight-line depreciation; i.e., for real estate sold in the third year, seven-eighths of the excess; in the fourth year, six-eighths of the excess; in the fifth year, five-eights of the excess, and so on.

Thus, for real estate sold in the 10th year or in subsequent years, there would be no ordinary income treatment on the gain.

Lump-sum pension payments

With respect to lump-sum pension payments, the committee tentatively approved a provision which will have the effect of treating such payments as under existing law. Under a provision tentatively approved on May 26, 1963 (RR 63–6), certain "true" assets (when held for 3 years or more) will be eligible for a 30-percent inclusion factor and 19.5-percent maximum rate; under the decision of the committee today, lump-sum pension payments will not be considered as "true" assets, and thus will continue to be treated as under present law; i.e., a 50-percent inclusion factor and 25-percent maximum rate (except as noted in the folowing paragraph).

Under the committee's tentative decision, however, where the distribution is made in stock of the employer company, the gain to the employee at the time of distribution of the stock would, when ultimately realized, be eligible for the 50-percent inclusion factor and 25-percent maximum rate only; but any appreciation in the value of the stock subsequent to that date will be eligible for the 30-percent inclusion factor and 19.5-percent maximum rate, provided the stock is held for 3 years or more.

No revenue estimate available.

The committee will meet at 2 p.m. today, June 5, 1963, to continue consideration of capital gains provisions.

RR 63–9

June 5, 1963.

The Committee on Ways and Means Today Made the Following Tentative Decisions for the Purpose of Drafting Language

TAXATION OF CAPITAL GAINS

The committee today tentatively adopted, for the purpose of drafting legislative language and further consideration by the committee, the following provisions regarding the tax treatment of capital gains:

Timber

In the case of individuals, under the committee decision timber income will be eligible for the 30-percent inclusion factor (see RR 63–6) where it has been held over 3 years, if it would under existing law be classified as a "capital gain" without regard to section 631 of the Internal Revenue Code. (Generally speaking, this means that the 30-percent inclusion factor will be available where the asset is held for more than 3 years and the timber and land are sold together, or where all interest in timber is sold.) The 50 percent inclusion factor would continue to apply in the case of other capital gains from timber.

Coal leases

Eligible only for 50-percent inclusion factor (as under existing law).

Livestock

Eligible only for 50-percent inclusion factor (as under existing law).

Sale of a patent

To the extent considered to be capital gains under existing law, under the committee decision gains would be eligible for the 30-percent inclusion factor when held for more than 3 years.

Installment sales of assets without adequate interest

The committee tentatively adopted the administration proposal that where assets are sold on an installment basis without specific or adequate provision for interest payments on the installments, where any part of the payment is deferred to more than 1 year, certain proportions of the purchase price be designated as interest which would be treated as ordinary income to the seller and deductible by the purchaser. Under the committee decision, the Secretary of the Treasury would have the discretion to establish, annually, the going rate of interest to be applicable.

Life estates

Gains from sale of interest in life estate to be eligible for the 30-percent inclusion factor where held for more than 3 years.

The committee will meet at 10:00 a.m., Thursday, June 6, 1963, to consider the medical expense deduction.

RR 63-10

June 6, 1963.

The Committee on Ways and Means Today Made the Following Decisions With Respect to the President's 1963 Tax Recommendations

UNLIMITED CHARITABLE CONTRIBUTION DEDUCTION

The committee rejected the proposal to repeal the unlimited deduction of charitable contributions where contributions plus taxes equal 90 percent or more of income in last 8 out of 10 years.

TAXATION OF NATURAL RESOURCES

The proposals relating to the carryover of deductions for intangible drilling and development costs, aggregation of oil and gas properties, and foreign operations were rejected.

The committee will meet at 10:00 a.m. on Monday, June 10, 1963, to continue consideration of the President's 1963 tax recommendations (starting with a resumption of the consideration of the medical expense deduction proposal).

List of topics, President's 1963 tax recommendations, June 7, 1963

Topic number	Summary page number	Item	Hearing page number [1]	Release number
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		ITEMS WHICH INCREASE REVENUE		
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3	2, 33	Group-term insurance (+5-6m)	108	RR 63-4.
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7	2, 25	30 percent charitable deduction (— ngl)	99	RR 63-3.
8	2, 25	Unlimited charitable deduction (0)	106	RR 63-10.
9	2, 24	Casualty loss deduction (+60m)	105	RR 63-4.
10	4, 54	Personal holding companies (+10m)	121	RR 63-5.
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20	4, 57	30 percent exclusion and 1-year holding period	126, 127	RR 63-6.
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22	4, 60	Capital gains rate for corporations (—30m)	127	
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32	6, 74	Disposition of assets for deferred payments	152	RR 63-9.
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34	3, 45, 48	Multiple surtax exemptions and repeal of 2 percent tax on consolidated returns (+70m).	76	
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37	1, 10	Individual income tax rates (—11.0b)	75	

[1] Refers to technical implementation of the Secretary of the Treasury, pt. 1 of hearings. RR 63-6
[2] Sale of residence by taxpayer aged 65 or over.

RR 63-11

JUNE 10, 1963.

THE COMMITTEE ON WAYS AND MEANS TODAY MADE THE FOLLOWING DECISIONS WITH RESPECT TO THE PRESIDENT'S 1963 TAX RECOMMENDATIONS

DIVIDEND CREDIT AND EXCLUSION

The committee rejected the proposal to repeal the $50 exclusion and 4-percent credit for dividend income provided in existing law.

MEDICAL EXPENSE DEDUCTION

With respect to the administration proposal for revision of the medical expense deduction, the committee tentatively adopted an amendment which would remove the 1-percent floor on medicines and drugs in the case of a taxpayer or his spouse aged 65 or over or their dependent parents over age 65. Under the committee's tentative decision, all other provisions regarding the medical expense deduction would remain as in present law.

Treasury Department estimate of annual revenue loss: Somewhat over $10 million.

The committee will meet at 2 p.m. this afternoon, resuming with a continuation of consideration of the child-care expense deduction.

RR 63-12

June 10, 1963.

The Committee on Ways and Means Today Made the Following Tentative Decisions for the Purpose of Drafting Language

CHILD-CARE EXPENSE DEDUCTION

The committee today tentatively adopted, for the purpose of drafting legislative language and further consideration by the committee, the following modifications in the provisions relating to the deduction of child-care expenses:

(1) Under the committee's tentative decision, the age limit of children with respect to whom the deduction is available would be raised by 1 year, to include children under 13 years of age.

(2) Under the committee's tentative decision, the deduction for child-care expenses would be available to a man whose wife is in an institution in the same manner as if he were a widower.

(3) The maximum deduction would be increased, in the case of widows and widowers, to $900 where there are two or more children. The $600 maximum would continue to apply except where there are two or more children, and for taxpayers other than widows and widowers.

The committee will meet at 10 a.m. tomorrow (Tuesday), June 11, 1963, resuming with a continuation of consideration of the administration proposal relating to moving expenses.

RR 63-13

June 11, 1963.

The Committee on Ways and Means Today Made the Following Decisions With Respect to the President's 1963 Tax Recommendations

The committee today tentatively adopted, for the purpose of drafting legislative language and further consideration by the committee, the following provisions:

Moving expenses

Under the committee's tentative decision, moving expenses of new employees, and existing employees who are not reimbursed for such expenses, will be deductible in computing adjusted gross income. The deductible expenses will include the cost of transporting the employee's household furnishings and personal effects, the transportation charges for the employee and members of his family, and the cost of meals and lodging of the employee and his family while in transit. Existing employees, who are reimbursed, under present law are already permitted to exclude certain moving expenses and this treatment is continued by the committee without change.

Treasury Department estimate of annual revenue loss: $50 to $60 million.

Travel expenses

The committee decided not to include in the bill the administration's proposal relating to the deductibility of travel expenses.

Tax treatment of older persons

The committee decided not to include in the bill the proposals regarding the tax treatment of persons over age 65.

Research and development

The committee decided not to include in the bill the administration's proposal relating to additional deductions for research and development.

Stock options

The committee's earlier decision regarding the tax treatment of stock options (RR 63–7) did not specify the percentage of the capital gain to be included where the stock purchased had been held for 3 years. Today the committee decided this inclusion factor would be 30 percent and that the gain would be subject to the 19.5 maximum rate.

The committee also adopted a provision, with respect to the stock option treatment, that the 3-year holding period is not to apply where a sale takes place because of bankruptcy.

The committee will meet at 2 p.m. this afternoon, June 11, 1963, resuming with a continuation of consideration of capital gains in the case of sales of mineral interests.

RR 63–14

June 12, 1963.

The Committee on Ways and Means Today Made the Following Tentative Decisions for the Purpose of Drafting Language

The committee today tentatively adopted, for the purpose of drafting legislative language and further consideration by the committee, the following provisions:

Multiple surtax exemptions

Under the committee's tentative decision, a special 3-percent penalty tax would apply to certain types of affiliated corporations unless they file consolidated returns or forgo multiple surtax exemptions in certain cases. Separate surtax exemptions would still be available to these affiliated corporations, but a 3-percent additional tax will apply to the taxable income to which the normal tax applies. Affiliated corporations to which this 3-percent tax will apply are parent and subsidiary corporations, where there is 80-percent common ownership, and two or more corporations where a single individual owns 80 percent of the stock of the corporations (directly or with certain attribution rules, including stock held by a wife or minor child).

The committee also tentatively adopted an amendment to section 1551 of the Internal Revenue Code of 1954 to provide that there will be a disallowance of a surtax exemption in certain cases where a corporation transfers property in the form of money to another controlled corporation (as well as, as under present law, where it transfers property other than money in such a case). Under the committee's decision, the provision would also be expanded to make it applicable to transfers by individuals (present law applies only to corporations).

Two-percent tax on consolidated returns

The committee tentatively adopted the recommendation of the administration that the 2-percent tax on consolidated returns be repealed. Under the committee's tentative decision, there would be no change in the intercorporate dividends-received deduction provided by existing law.

Corporate rates on capital gains

The committee decided that the capital gains tax rate for corporations will remain at 25 percent.

No revenue estimate available.

The committee will meet at 10 a.m. on Monday, June 17, 1963, to resume consideration of the President's 1963 tax recommendations. (Other committee business will be considered in executive session on Friday, June 14.)

RR 63–15

June 17, 1963.

The Committee on Ways and Means Today Made the Following Tentative Decisions for the Purpose of Drafting Language

The Committee today tentatively approved, for the purpose of drafting legislative language and further consideration by the committee, the following additional provisions relating to employees' moving expenses (see also RR 63–13):

Moving expenses

Under the committee's tentative decision, where an "old" (existing) employee sells his residence for less than its fair market value

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at the time of the move, because of the necessity to go to the new location without delay, and is reimbursed by his employer, the difference between the selling price and the fair market value will be excludable from income for tax purposes, up to a maximum of 10 percent of the gross sales price and only to the extent reimbursed.

Treasury Department estimate of annual revenue loss, $30 million.

The committee will meet at 2:30 this afternoon, June 17, resuming with a continuation of consideration of tax treatment of gain from sale or exchange of mineral interests.

RR 63–16

June 17, 1963.

The Committee on Ways and Means Today Made the Following Tentative Decisions for the Purpose of Drafting Language

The committee today tentatively approved, for the purpose of drafting legislative language and further consideration by the committee, the following provisions:

Gain on sale or exchange of mineral properties

Under the committee's tentative decision, gain on the sale or exchange of mineral interests would be treated as ordinary income to the extent that intangible drilling and development costs which have been expensed are attributable to that portion of the property still remaining in the ground. (That is, the amount of such expensed costs would be prorated between the amount of the property sold and that still in the ground, and to the extent such costs are attributable to the property still in the ground, gain would be treated as ordinary income, but only to the extent of the gain.) The provision would apply in the case of intangible drilling and development costs in the case of oil and gas and development costs in respect of hard minerals. This does not apply to depletion taken or deductible exploration costs. Remaining gain would be treated as capital gain, and eligible for the 30-percent inclusion factor where the property has been held for 3 years or more.

Treasury Department estimate of annual revenue gain, $20 million.

Aggregation of oil and gas property

The committee reconsidered its earlier decision (RR 63–10) with respect to the proposal relating to the aggregation of oil and gas property, and today tentatively approved the recommendation of the administration. Under this provision, the "operating unit" rule of present law in the case of oil and gas properties would be eliminated, and instead of this, the taxpayer could either maintain separate deposits as separate properties or could elect to combine all deposits falling within a single lease or acquisition, but could not combine different leases or acquisitions. An exception would be permitted to the lease rule where an oil or gas producer enters into a so-called unitization agreement. Under such an agreement the producer transfers his leasehold interest, or interests, in exchange for an undivided interest in a larger area. In

this case the undivided interest would be treated as one property even though it covered more than one lease. This would also be true where a producer owning a number of leases enters a unitization agreement with various royalty owners to determine the share of production allocable to each of these owners.

The provision would apply to all oil and gas properties for taxable years beginning after December 31, 1963, whether or not previously aggregated.

Treasury Department estimate of annual revenue gain, $30 million.

The committee will meet at 10 a.m. tomorrow, June 18, 1963, resuming with consideration of alternatives to the 5-percent floor proposal.

RR 63-17

June 18, 1963.

The Committee on Ways and Means Today Made the Following Tentative Decisions for the Purpose of Drafting Language

The committee today tentatively approved, for the purpose of drafting legislative language and further consideration by the committee, the following provisions:

Deductibility of State and local taxes

The committee tentatively agreed that in the future certain State and local taxes will not be deductible for Federal income tax purposes. Under the committee's decision, only the following State or local taxes would be deductible from the Federal income tax base:

Real property taxes;
General personal property taxes;
Income taxes; and
General sales and use taxes.

Items which, under this provision, would not be deductible include State and local taxes on gasoline, cigarettes, and alcoholic beverages, license fees on motor vehicles and operators' permits, poll taxes, and miscellaneous selective sales taxes (such as admissions taxes, occupancy or transfer taxes).

Treasury Department estimate of annual revenue gain, $500 million.

Investment Credit

The committee today also instructed the chairman to introduce a bill today providing that regulatory agencies of the Federal Government shall not, without the consent of the taxpayer: (1) use the investment credit to reduce the taxpayer's Federal income taxes for the purpose of establishing the cost of service of the taxpayer and reducing the rates to be charged by the taxpayer, or (2) allow a lower rate of return on such taxpayer's plant investments made with funds made available by the investment credit, than it allows on other plant investments of such taxpayer.

The committee will meet at 10 a.m. Wednesday, June 19, 1963, to resume consideration of the President's 1963 tax recommendations.

COMPILATION OF PRESS RELEASES

ISSUED BY THE

COMMITTEE ON WAYS AND MEANS HOUSE OF REPRESENTATIVES

DURING THE COURSE OF CONSIDERATION OF THE PRESIDENT'S 1963 TAX RECOMMENDATIONS

AND

CONTAINING BRIEF DESCRIPTION OF PROVISIONS AGREED UPON FOR INCLUSION IN BILL TO BE INTRODUCED

AUGUST 19, 1963

NOTE.—It should be understood that this constitutes simply a compilation of the press releases which have heretofore been issued and does not represent an analysis of the language, since language has not been completed on all of these items. As indicated above, no bill as of this date has been introduced.

U.S. GOVERNMENT PRINTING OFFICE
WASHINGTON : 1963

22-401

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NOTE.—There will be no provision in the bill to be introduced with respect to the recommendations made by the President in the following areas:

Travel expenses.
Research and development deduction.
Tax treatment of the aged.
Split dollar insurance.
Unlimited charitable deduction.
Sale or exchange of mineral properties (RR 63-22).
Life estates.
Five percent floor on itemized deductions.
Lump-sum pension, profit-sharing, and stock-bonus payments.
Income from timber.
Income from property used in the trade or business of farming.
Coal leases.
Sale of patents (RR 63-26).

RR 63–18

July 31, 1963.

Group term insurance—Prior tentative decision agreed to with an amendment

Amendment.—The amendment to the prior tentative decision adopted today provides that where the employee makes a payment with respect to his coverage over $30,000 which is in excess of the actual cost of his own insurance, a deduction will be available to the employee for the amount of the excess.

Prior tentative decision.—It will be recalled that under that decision an employee must include in income for tax purposes the premiums paid by the employer with respect to group term insurance furnished to the employee to the extent this protection exceeds $30,000. Retired persons will be exempt from the provision, whether presently retired or retiring in the future. Where the employee also makes contributions toward the insurance, these payments will be attributed to such insurance protection above the $30,000 exclusion. The provision would apply to protection furnished by the employer in taxable years beginning after December 31, 1963. The amount to be included in income can be on the basis of either the actual premiums paid by the employer or according to a table setting forth one premium for each 5-year age bracket (the average premium cost for that bracket) for each $1,000 in excess of the $30,000 ceiling.

Revenue effect.—$5 million gain.

Sick pay exclusion—Prior tentative decision agreed to without amendment

The committee agreed to the provision previously tentatively adopted amending the "sick pay exclusion" of existing law to provide that the exclusion will be available only where the employee is absent from work for more than 30 days, whether or not he was hospitalized and whether or not because of sickness or injury. The exclusion will be available only for absence from work in excess of 30 continuous days. As under present law, the exclusion cannot exceed $100 a week.

Revenue effect.—$110 million gain.

Sale of residence by taxpayer aged 65 or over—Prior tentative decision agreed to without amendment

The committee agreed to include in the bill the provision previously adopted to the effect that in the case of the sale of a personal residence by a taxpayer aged 65 and over, where the residence has been held for 5 out of the last 8 years, the taxpayer can, once in his lifetime, exclude the portion of gain on the sale attributable to the first $20,000 of the sales price.

Revenue effect.—$10 million loss.

1

Deductibility of certain State and local taxes—Prior tentative decision agreed to with minor and technical amendments

Amendments.—The amendments to this provision agreed to today will deny the deduction of foreign personal property taxes, and repeal the provision of present law providing, under very limited circumstances, a deduction for local improvement taxes.

Prior tentative decision.—The committee agreed, with minor and technical amendments, to the provision previously adopted which provides that only certain State and local taxes will be deductible for Federal income tax purposes. Under this provision, only the following State or local taxes will be deductible: Real and personal property taxes; income taxes; and general sales and use taxes.

Revenue effect.—$500 million gain.

RR 63-19

JULY 31, 1963.

Casualty loss deduction—Prior tentative decision agreed to without amendment

Prior tentative decision.—Deductions for casualty and theft losses will be limited to the amount of each loss in excess of $100. (That is, each loss will be deductible only to the extent that it exceeds $100.)

Revenue effect.—Sixty-million-dollar gain.

Charitable contribution deduction—Prior tentative decision agreed to with an amendment

Amendment.—The committee adopted a provision allowing, for corporations, a 5-year carryover of excess charitable contributions. (At present there is a 2-year carryover.)

Prior tentative decision.—The earlier tentative decision of the committee amended the charitable contribution deduction provision by (1) extending the 30-percent limitation (now available to individual income taxpayers in the case of contributions to churches, schools, hospitals, certain medical research organizations, and certain organizations affiliated with State colleges or universities) to include contributions to organizations which are publicly supported and controlled (but not to private foundations and trust funds); and (2) denying the charitable contribution deduction in the case of gifts of future interests in the case of tangible personal property.

Revenue effect.—No appreciable revenue effect.

Medical expense deduction—Prior tentative decision agreed to without amendment

Prior tentative decision.—The 1-percent floor on medicines and drugs will be removed in the case of a taxpayer or his spouse aged 65 or over or dependent parents aged 65 or over.

Revenue effect.—Ten-million-dollar loss.

3

AUGUST 1, 1963.

Reimbursed medical expenses—No prior tentative decision

The committee adopted a provision which will require that where a taxpayer has more than one health or accident insurance policy and receives reimbursement for the same medical expenses more than once, the taxpayer must include in gross income for income tax purposes the amount by which the total reimbursement exceeds the actual expenses.

Revenue effect.—Negligible.

Child-care deduction—Prior tentative decision agreed to with an amendment

Amendment.—The deduction for child-care expenses will be available to a husband whose wife is mentally or physically defective and incapable of caring for herself. The deduction in this case would be subject to the maximum of $600 where there is one child and $900 where there are two or more children. The income limitation provided in existing law in the case of working wives would also be applicable.

Prior tentative decision.—The earlier decision of the committee modified the child-care deduction provision by: (1) Raising the age limit of children with respect to whom the deduction is available by 1 year, to include children under 13 years of age; (2) providing that the deduction would be available to a man whose wife is in an institution in the same manner as if he were a widower; and (3) providing a maximum deduction, in the case of widows and widowers, of $900 (instead of $600) where there are two or more children.

Revenue effect.—$10 million loss.

Moving expenses—Prior tentative decision agreed to without amendment

Prior tentative decision.—Moving expenses of new employees, and existing employees who are not reimbursed for such expenses, will be deductible in computing adjusted gross income. The deductible expenses will include the cost of transporting the employee's household furnishings and personal effects, the transportation charges for the employee and members of his family, and the cost of meals and lodging of the employee and his family while in transit. Existing employees, who are reimbursed, under present law are already permitted to exclude certain moving expenses and this treatment is continued by the committee without change.

Revenue effect.—$60 million loss.

4

RR 63–21

AUGUST 2, 1963.

Stock options—Prior tentative decision agreed to with a series of amendments (see also RR 63–26)

Amendments.—With respect to qualified stock options: (1) The amount to be included in ordinary income where the stock has been held less than 3 years will be the difference between the price of the stock at the time the option is exercised and the option price, but not to exceed the amount of actual gain on the sale or exchange of the stock. (2) The earlier tentative decision of the committee with respect to the amount of time that can elapse between adoption of the plan and granting of the option was modified to provide that the option must be granted within 10 years. (The option, however, must be exercised within a 5-year period from the time it is granted as under the earlier tentative decision.) (3) The new rules for qualified stock options will be effective with respect to qualified stock options granted after June 11, 1963, other than an option granted pursuant to a written contract entered into before June 12, 1963.

With respect to employee stock purchase plans: (1) It will be provided that most of the requirements can be met in terms of an "offering" as well as a plan itself. (A "plan" is the proposal adopted by the shareholders; an "offering" is the offer of the option to the employees.) (2) A provision previously tentatively adopted (not previously announced) requiring that the plan by its terms must terminate within 5 years of the date of approval by the stockholders or adoption was deleted from the bill. (3) The revised provisions with regard to employee stock purchase plans will be effective with respect to options granted after June 11, 1963, other than an option granted pursuant to the terms of a written plan adopted before June 12, 1963.

Prior tentative decision.—

1. Extension of the required holding period for stock acquired pursuant to an option from the present 6 months to 3 years (not to apply where a sale takes place because of bankruptcy). (See amendments above.)

2. Reduction of the permissible period for an option to be outstanding from the present 10 years to 5 years.

3. Denial of stock option tax treatment to "substantial" shareholders of the corporation. In the case of major corporations, a substantial shareholder would be a 5-percent or more shareholder. The committee will explore the possibility of developing a somewhat more liberal rule for smaller corporations.

4. Requirement that options be issued at 100 percent of the market price of the stock. Any differential below 100 percent would be included in ordinary income 1½ times for tax purposes, at the time of exercise.

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5. Elimination of provisions permitting resetting of the option price when the value of the stock declines after the initial issuance of the option. In this connection, new options could not be exercised until after earlier options had been exercised or the time for their exercise had expired (this modification adopted subsequent to earlier announcement).

6. Elimination of variable pricing provisions (which permit options to be issued to purchase stock at a specified percentage of the price of the stock at the time stock option is exercised).

7. Requirement that shareholders' approval of option plans must be secured, and that options pursuant thereto must be made available within 12 months of such approval (subsequently modified to 5 years). (See amendments above.)

8. Employee stock purchase plans will be provided a separate rule so that the treatment of present law will be preserved for nondiscriminatory plans.

9. Where 3-year holding period is met, gains from sales of qualified stock will be eligible for 30-percent inclusion factor and 19.5-percent maximum alternative rate.

Revenue effect.—None.

Interest on deferred payments—Prior tentative decision agreed to with amendments

Amendments.—An amendment was adopted to insure that the purchase of annuities will in no event be brought under this provision. Also, a provision was adopted providing that a deduction, in the case of carrying charges, is available not only in the case of a sale of personal property but also in the case of sales of services under contract.

Prior tentative decision.—Where assets are sold on an installment basis without specific or adequate provision for interest payments on the installments, where any part of the payment is deferred to more than 1 year, certain proportions of the purchase price will be designated as interest which will be treated as ordinary income to the seller and deductible by the purchaser. The Secretary of the Treasury will have the discretion to establish, annually, the going rate of interest to be applicable.

Revenue effect.—Negligible.

RR 63–22

AUGUST 5, 1963.

Aggregation of oil and gas property—Prior tentative decision agreed to with amendments (see also RR 63–30)

Amendments.—The limitations set forth with respect to unitization agreements will not apply in the case of compulsory (under State law) unitization agreements. Where State law requires aggregation the unitization agreements will qualify; voluntary unitization agreements will be subject to the limitations. These will require that the aggregated lease interests must be in the same deposit or two or more deposits the joint development or production of which is logical from the standpoint of geology, convenience, economy, or conservation, and in addition they must be in tracts or parcels of land which are contiguous or in close proximity.

Prior tentative decision.—The "operating unit" rule of present law is eliminated, and instead of this, the taxpayer can either maintain separate deposits as separate properties or can elect to combine all deposits falling within a single lease or acquisition, but cannot combine different leases or acquisitions. An exception will be permitted to the lease rule where an oil or gas producer enters into a so-called unitization agreement. Under such an agreement the producer transfers his leasehold interest, or interests, in exchange for an undivided interest in a larger area. In this case the undivided interest will be treated as one property even though it covers more than one lease. This will also be true where a producer owning a number of leases enters into a unitization agreement with various royalty owners to determine the share of production allocable to each of these owners. The provision is to apply to all oil and gas properties for taxable years beginning after December 31, 1963, whether or not previously aggregated.

Revenue effect.—$40 million gain.

Gain on sale or exchange of mineral properties—Prior tentative decision rejected

The committee struck from the bill the provision previously tentatively agreed to which would have treated as ordinary income gain on the sale or exchange of mineral interests to the extent that intangible drilling and development costs which have been expensed are attributable to that portion of the property still remaining in the ground.

Iron ore royalties—No prior tentative decision

The committee adopted an amendment which will provide that capital gains treatment will be available for income from iron ore royalties (50 percent inclusion factor, 25 percent maximum alternative rate).

Revenue effect.—$5 million loss.

RR 63-23

AUGUST 6, 1963.

Moving expenses (sale of residence)—Prior tentative decision rejected

The committee struck from the bill the provision previously tentatively agreed to which would have treated as part of the sales price, to the extent reimbursed by the employer and up to a maximum of 10 percent of the gross sales price, the difference between the selling price and the fair market value of the employee's residence where the employee sells his residence for less than its fair market value at the time of the sale because of the necessity to go to the new location without delay.

Sale or exchange of depreciable real estate—Prior tentative decision agreed to with amendments

Amendments.—The proportion of depreciation taken in excess (to be known as "additional" depreciation) over straight-line depreciation which is to be treated as ordinary income will diminish by 1 percent per month, beginning with the 21st month after purchase or acquisition of the property. (The treatment in the first year after acquisition, and for the first 8 months of the second year, remains as under the prior tentative decision as below.) (As under the prior tentative decision, the provision would "wash out" at the end of 10 years and there would be no ordinary income treatment on the gain.)

A new 10-year period will start, in the case of "major improvements," as defined, from the date of acquisition of the major improvement. An improvement is a "major improvement" if it meets all of the following three tests: it represents at least a $5,000 investment, at least 25 percent of the adjusted basis of the property, and at least 10 percent of the unadjusted basis of the property. Improvements are to be measured over a 3-year period in determining whether or not there is a major improvement; however, if in any single year the improvements amounted to less than $2,000 or if in any single year improvements amounted to no more than 1 percent of the unadjusted basis, such years can be excluded.

The committee deleted from the bill a provision permitting taxpayers an option to change from rapid depreciation to straight-line depreciation.

The provision is effective with respect to depreciation taken after December 31, 1963.

Prior tentative decision.—In the case of real estate sold in the first year after acquisition, gain is to be treated as ordinary income to the extent of 100 percent of the depreciation that has been taken. If sold in the second year (see amendments above), gain is to be treated as ordinary income to the extent of 100 percent of the excess of depreciation ("additional depreciation") taken over straight-line depreciation. For real estate held for longer periods, gain would be treated as ordinary income in decreasing proportion to the excess of the depreciation taken over straight-line depreciation, and after 10 years, there would be no ordinary income treatment on the gain.

Revenue effect.—$15 million gain.

8

Income averaging—Prior tentative decision agreed to with an amendment

Amendment.—The committee adopted an amendment providing that this provision will not apply in the case of wagering gains. (Capital gains and income from gifts or bequests are not eligible for averaging treatment as under prior tentative decision.)

Prior tentative decision.—Individuals whose income in the fifth year exceeds their average income in the four preceding years by at least one-third (the excess over 133⅓ percent of the 4-year average being an amount not less than $3,000) may, with certain limitations, average the income in excess of 133⅓ percent of the average income for the immediately preceding 4 years by paying tax in an amount equal to five times the tax payable on the first one-fifth of the excess amount. Existing special averaging provisions (secs. 1301 through 1306 of the Internal Revenue Code of 1954) will be repealed.

Revenue effect.—$40 million loss.

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RR 63–24

August 6, 1963.

Bank loan insurance—No prior tentative decision

The committee today adopted a provision providing that no interest deduction is to be available (with exceptions as noted below) for interest on debt incurred to purchase or continue life insurance, endowment, or annuity contracts (other than single premium contracts or contracts treated as single premium contracts, for which no interest deduction is available under present law) pursuant to a plan of purchase which contemplates the systematic borrowing of part or all of the increases in cash value of these contracts. This provision will apply whether the borrowing is directly from the insurance company, a bank, or otherwise, but will not apply to contracts purchased on or before August 6, 1963.

The following four exceptions are provided to the general rule stated above: The interest deduction will not be denied (1) if no part of four of the annual premiums due during the first 7 years is paid with borrowed funds; (2) if the interest payment in a year does not exceed $100; (3) if the debt was incurred because of an unforeseen substantial loss of income or unforeseen substantial increases in financial obligations; or (4) if the indebtedness was incurred in connection with the taxpayer's trade or business. An exception to (1) is made where the premiums for a period of years are minimal and then increase substantially; in that situation, the 7-year period starts from the time the premiums increase.

The provision is effective with respect to amounts paid in taxable years beginning after December 31, 1963 (but only in respect to contracts purchased after August 6, 1963).

Revenue effect.—$10 million gain.

10

RR 63-25

August 7, 1963.

Basis of assets transferred at death—Prior tentative decision agreed to with amendments

Amendments.—The committee adopted a series of modifications in this provision as previously tentatively agreed to, as follows:

(1) *Adjustment of basis for death taxes.*—The adjustment to basis for death taxes will be limited to the death taxes (*both Federal and State*) *attributable to the appreciation* included in the estate. (The adjusted basis not to exceed the fair market value of the property.)

(2) *Exception for assets acquired before January 1, 1951.*—Assets which the decedent acquired before January 1, 1951, will be deemed to have a basis equal to fair market value at death.

(3) *$60,000 minimum basis exception.*—The first $60,000 of assets in *all* estates will be deemed to have a basis equal to the fair market value at death (as under present law). (Thus, only estates required to file an estate tax return would be affected by the new carryover of basis provisions.)

(4) *$15,000 minimum gain exception.*—In any case where the increase in basis under the $60,000 minimum basis exception ((3) above) is less than $15,000, the increase in basis for estate tax paid would be deemed to be no less than $15,000. This $15,000 will be allocated to appreciated assets so that at least $15,000 of potential gain will be excepted in all cases.

(5) *Average basis.*—The total amount of the decedent's basis for the properties in the estate will be assigned to assets on a pro rata basis in relationship to the value of the individual properties so that in effect the properties will receive an average basis resulting in all of the decedent's transferees being treated the same from the standpoint of future liability for the tax on the appreciation in the assets. Cash, insurance proceeds, and assets such as personal and household effects or pre-1951 property ((2) above) are excepted from the average basis provision.

(6) *Increase in basis for discharge of certain obligations.*—In certain situations where a person acquires a decedent's real property subject to paying an amount of money solely to equalize shares of the estate among children or to discharge debts for which the estate has no other means of payment available, the real property will receive an increase in basis to the extent of the required payment. (Thus, decedents whose estate consists mainly of a large piece of real property, such as a farm, will be able to leave the farm to an heir while making adequate provision for other heirs (or debts), and will not be required to divide or sell such property to accomplish this.)

(7) *Effective date.*—The new carryover basis rules will be effective with respect to estates of decedents dying after December 31, 1964.

11

Prior tentative decision.—With respect to capital assets transferred at death, the committee adopted a provision known as the "carryover basis rule," under which an asset transferred at death will have a basis to the heir equal to the basis in the hands of the decedent plus any estate tax attributable to the asset (amendment (1) above), but not to exceed the fair market value of the asset at the time of death.

Revenue effect.—Short run (1964), $150 million gain; long run, $130 million gain.

RR 63-26

AUGUST 9, 1963.

Stock options—Prior decision (RR 63-21) amended

In connection with the provision setting out new rules with respect to qualified stock options, the committee today adopted a modification relating to the elimination of provisions of existing law permitting resetting of the option price when the value of the stock declines after the initial issuance of the option. Under the amendment agreed to today, an individual would not be precluded from exercising a new stock option because of the fact that there is an outstanding restricted stock option (presently in existence) which is available to him only on an installment basis over an extended period of time.

Capital gains—Prior tentative decision agreed to with amendments

Amendments.—In addition to minor technical amendments, the committee agreed to revise the previous tentative decision relating to the inclusion factor and maximum alternative rate in the case of certain long-term capital gains (to be known as class A capital gains). Under the provision adopted today, class A gains will be subject to a 40-percent inclusion factor and 21-percent maximum alternative rate, and will be subject to a 2-year holding period.

Prior tentative decision.—A taxpayer could include 30 percent (now 40 percent) of net long-term gains in excess of net short-term losses in his ordinary income tax base in the case of certain long-term capital gains where the asset has been held for 3 (now 2) years or more. These gains would have been subject to a maximum alternative tax rate of 19.5 (now 21) percent. The 50-percent inclusion factor and the 25-percent maximum tax rate of existing law would have continued to apply in the case of assets held for more than 6 months and less than 3 (now 2) years, or in the case of capital gains not eligible for class A treatment.

An indefinite loss carryforward will be allowed in the case of net capital losses, and any net loss carryforward to a succeeding year is to be included in the category (either short- or long-term) for that year which it was in the year in which it originated.

These provisions relate to capital gains for individuals. There is no change in existing law as to corporate capital gains rate.

Revenue effect

[In millions]

	Short run (1964)	Long run
Direct effect:		
Inclusion factor	−$230	−$230
Holding period		
Induced effect:		
Inclusion factor	+650	+150
Holding period	−80	−10
Unlimited loss carryforward	−30	−30
Net effect	+310	−120

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Income from sale of patents—Prior tentative decision rejected.

The committee reversed its earlier decision to give class A treatment to income from the sale of patents, and such income will thus be considered class B gains and therefore eligible only for the 50 percent inclusion factor and 25 percent maximum alternative rate.

Personal holding companies—Prior tentative decision agreed to with amendments (*See also RR 63–30.*)

Amendments.—Companies which are not personal holding companies under existing provisions of law but which in at least 1 of the last 2 years would have been had the new rules applied will be able, at any time between now and January 1, 1966, to liquidate and receive capital gains treatment (50 percent inclusion factor) on the earnings and profits accumulated up to that time (but not subsequent to that time). Any property distributed at the time of liquidation will have a carryover basis from the corporation.

Companies which are not personal holding companies under existing provisions of law but which would in the last 2 years have been had the new rules applied will receive a deduction, for purposes of determining the personal holding company tax, of any amount that it pays on debt to the extent of its debt outstanding as of August 6, 1963. (The deduction will take into account amounts applied to both interest and principal.) Additional time beyond the January 1, 1966, cutoff date for liquidation will be allowed for payment of debt provided all earnings are devoted to payment of debt.

A number of restrictive provisions were adopted in connection with the above amendments which are designed to prevent avoidance possibilities in these areas.

The personal holding company penalty tax will be at the rate of the highest rate in the individual income tax rate schedule.

Prior tentative decision.—The "gross income test," in determining whether or not a company is a personal holding company, will provide that if 60 percent of a company's gross income is personal holding company income, the company will be classified as a personal holding company. Depreciation, interest, and property taxes are to be subtracted from rental income in determining whether rental income constitutes 50 percent or more of total gross income and therefore not to be classified as personal holding company income. In order for rental income to escape classification as personal holding company income, the personal holding company income other than rental income must not represent more than 10 percent of the gross income of the company. Payments received from the exhibition and distribution of film are to be treated as copyright royalties, and all copyright royalties paid would be excluded for purposes of determining whether the "business expense" test is met, the required percentage of business expenses to be reduced from 50 to 20 percent. With respect to film rentals still in the hands of those producing the films, the 10 percent test above will not apply to "produced film rentals" and the 50 percent test will apply as under present law. Gross income from an oil or gas interest is to be reduced by depletion, interest, and royalties paid out in computing the gross-income test.

In determining whether mineral royalty income represents 50 percent or more of gross income, both the mineral royalty income and the total gross income are to be reduced for any depletion deduction

and interest deduction, and in determining whether or not the 15 percent test (relating to deductions for trade or business expenses) is met, those deductions attributable to the mineral royalties would be taken into account.

All capital gains are to be excluded from both gross income and personal holding company income in determining whether 60 percent or more of the gross income of a company is personal holding company income.

No dividends-paid deduction is to be allowed with respect to undistributed personal holding company income in the case of a liquidating distribution except to the extent that the liquidating corporation elects to treat this distribution as an ordinary dividend distribution to its shareholders, and then only to the extent of current earings and profits.

Revenue effect.—$15 million gain.

RR 63–27

AUGUST 14, 1963.

Individual income tax rates—No prior tentative decision

The committee today adopted an individual income tax rate schedule which, when fully effective, will range from 14 percent on the first $500 of taxable income to 70 percent on income above $100,000. Two-thirds of the rate reduction provided would take effect on January 1, 1964, and the remaining one-third on January 1, 1965. The schedule adopted by the committee is as follows:

Taxable income brackets		Present rates	1964 rates	1965 rates
Single person	Married (joint)			
		Percent	*Percent*	*Percent*
0 to $500	0 to $1,000	20	16.0	14
$500 to $1,000	$1,000 to $2,000	20	16.5	15
$1,000 to $1,500	$2,000 to $3,000	20	17.5	16
$1,500 to $2,000	$3,000 to $4,000	20	18.0	17
$2,000 to $4,000	$4,000 to $8,000	22	20.0	19
$4,000 to $6,000	$8,000 to $12,000	26	23.5	22
$6,000 to $8,000	$12,000 to $16,000	30	27.0	25
$8,000 to $10,000	$16,000 to $20,000	34	30.5	28
$10,000 to $12,000	$20,000 to $24,000	38	34.0	32
$12,000 to $14,000	$24,000 to $28,000	43	37.5	36
$14,000 to $16,000	$28,000 to $32,000	47	41.0	39
$16,000 to $18,000	$32,000 to $36,000	50	44.5	42
$18,000 to $20,000	$36,000 to $40,000	53	47.5	45
$20,000 to $22,000	$40,000 to $44,000	56	50.5	48
$22,000 to $26,000	$44,000 to $52,000	59	53.5	50
$26,000 to $32,000	$52,000 to $64,000	62	56.0	53
$32,000 to $38,000	$64,000 to $76,000	65	58.5	55
$38,000 to $44,000	$76,000 to $88,000	69	61.0	58
$44,000 to $50,000	$88,000 to $100,000	72	63.5	60
$50,000 to $60,000	$100,000 to $120,000	75	66.0	62
$60,000 to $70,000	$120,000 to $140,000	78	68.5	64
$70,000 to $80,000	$140,000 to $160,000	81	71.0	66
$80,000 to $90,000	$160,000 to $180,000	84	73.5	68
$90,000 to $100,000	$180,000 to $200,000	87	75.0	69
$100,000 to $150,000	$200,000 to $300,000	89	76.5	70
$150,000 to $200,000	$300,000 to $400,000	90	76.5	70
$200,000 to $300,000	$400,000 to $600,000	91	77.0	70
$300,000 to $400,000	$600,000 to $800,000	91	77.0	70
$400,000 and over	$800,000 and over	91	77.0	70

Revenue effect.—$6.32 billion loss in 1964; $9.48 billion loss when fully effective (1965).

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RR 63–28

August 14, 1963.

Minimum standard deduction—No prior tentative decision (see also RR 63–30)

The committee adopted a provision under which taxpayers will be entitled to a minimum standard deduction of $300 plus $100 for each dependent (including the spouse) up to a maximum of $1,000. In the case of married persons filing separately, the minimum standard deduction would be split between them; i.e., each would have a minimum standard deduction of $200. It is estimated that this provision would remove 1½ million persons from the tax rolls.

Revenue effect.—$310 million loss.

Corporate income tax rates—No prior tentative decision

The committee adopted a provision which will provide, when fully effective, a total (combined) corporate tax rate of 48 percent (instead of the present 52 percent). The reduction will be in two steps, the first to be effective January 1, 1964 (prorated for fiscal year taxpayers) and the second January 1, 1965. Under the new rates, the normal tax rate (applicable to all taxable corporate income) will be 22 percent beginning January 1, 1964, and thereafter, and the surtax rate (applicable to corporate income in excess of $25,000) will be 28 percent for 1964 and 26 percent for 1965 and thereafter. (The present normal tax rate is 30 percent and the surtax rate is 22 percent.) Thus the combined effective rate for 1964 would be 50 percent, and for 1965 and thereafter, 48 percent.

Revenue effect.—$1.32 billion loss in 1964; $2.2 billion loss when fully effective (1965).

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RR 63–29

August 15, 1963.

Current tax payment for corporations—No prior tentative decision

The committee today approved a provision which will, beginning in 1964, gradually speed up payment of corporate income tax. It provides for payment, in April and June of each year, of increasing percentages of estimated tax for that year, reaching the full speedup in 1970. The speedup applies only to income tax liability in excess of $100,000. The percentages of estimated tax to be paid in April and June (for calendar year taxpayers) of each year are shown below:

Year	Percent
1964	1
1965	4
1966	9
1967	14
1968	19
1969	22
1970	25

(Payments would be made in corresponding months of the tax year by taxpayers on other than a calendar year basis.)

No change would be made in the provision of present law providing a penalty where the estimated tax is less than 70 percent of actual liability.

Revenue effect.—

Year	Revenue gain (millions)
1964	$260
1965	900
1966	1, 500
1967	1, 500
1968	$1, 500
1969	900
1970	900
1971	40

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RR 63-30

AUGUST 15, 1963.

Multiple surtax exemptions—Prior tentative decision agreed to with amendments

Amendments.—In addition to minor technical amendments, the committee modified the provision previously agreed to providing a 3 percent penalty tax in certain cases. Under the modification agreed to, the penalty tax will be 5 percent on the first $25,000 of income and, on the excess over $25,000, 2 percent for the calendar year 1964 and 3 percent for subsequent years.

Prior tentative decision.—A special penalty tax will apply to certain types of affiliated corporations unless they file consolidated returns or forgo multiple surtax exemptions in certain cases. Separate surtax exemptions would still be available to these affiliated corporations with application of the penalty tax to the tax base. Affiliated corporations to which it will apply are parent and subsidiary corporations, where there is 80-percent common ownership, and two or more corporations where a single individual owns 80 percent of the stock of the corporations (directly or with certain attribution rules, including stock held by a wife or minor child.)

Provision is made for disallowance of a surtax exemption in certain cases where a corporation transfers property in the form of money to another controlled corporation (as well as, as under present law, where it transfers property other than money in such a case). This provision is also expanded to make it applicable to transfers by individuals.

Revenue effect.—$50 million gain.

Two-percent tax on consolidated returns—Prior tentative decision agreed to without amendment

Prior tentative decision.—The 2-percent tax on consolidated returns is repealed, and there is no change in the intercorporate dividends-received deduction provided by existing law.

Revenue effect.—$50 million loss.

Dividend credit and exclusion—Prior tentative decision rejected

The committee adopted a provision increasing the exclusion from gross income in the case of dividend income from $50 to $100, to be effective with respect to taxable years beginning after December 31, 1963. (In the case of married couples, where both own stock—either jointly or separately—the exclusion would be $200.)

Effective January 1, 1964, the credit against tax for dividend income is to be reduced to 2 percent, and effective January 1, 1965, the credit is to be repealed.

Revenue effect.—$120 million gain in 1964; $300 million gain in 1965 and thereafter.

Investment credit—no prior tentative decision

The committee adopted a number of modifications in the investment credit provision enacted in the Revenue Act of 1962, as follows:

(1) Effective July 1, 1963, the depreciation base for property eligible for investment credit will not be reduced by the amount of the credit. In the case of property, the base for which has already been so reduced, the taxpayer will be able to increase the base by this amount and depreciate it in the future; no refunds will result from this provision.

Revenue effect.—Fiscal 1964, $15 million loss; fiscal 1965, $145 million loss; fiscal 1966, $165 million loss.

(2) A provision designed to insure that (1) in the case of utilities eligible for the 7-percent credit (generally, transportation companies), agencies or instrumentalities of the United States having jurisdiction with respect to their regulation are not, at any time, without the consent of the taxpayer to treat any reduction in taxes arising from the investment credit as a reduction in service costs for the purpose of ratemaking—and the same result is not to be achieved by any other method; and (2) in the case of utilities eligible for the 3-percent credit (communications, electric power, etc.), such agencies are not to make a reduction in the base because of reduction in taxes arising from investment credit, for ratemaking purposes, to the full extent of the amount of the investment credit, but they can "flow through" to the consumer, if the ratemaking body so determines, the amount of the investment credit over the useful life of the asset.

(3) The investment credit provision is extended to include new escalators and elevators installed after July 1, 1963.

Revenue effect.—$10 million loss.

(4) An amendment to the investment credit provision was adopted to insure that, in the case of leased property, the distributor will receive treatment comparable to that of the manufacturer.

Minimum standard deduction—Prior decision (RR 63–28) amended

Amendment.—The minimum standard deduction will be taken on the basis of number of exemptions, rather than for the taxpayer and each dependent. (That is, $300 for the first exemption and $100 for each additional exemption, up to a maximum of $1,000.)

Prior tentative decision.—Taxpayers will be entitled to a minimum standard deduction of $300 plus $100 for each dependent (see amendments above) up to a maximum of $1,000.

Revenue effect.—$20 million loss (total of $330 million loss from provision as amended).

Retirement income credit—No prior tentative decision

The retirement income credit provision of existing law is amended to provide that the credit will be at the rate of 15 percent.

Aggregation of oil and gas properties—Prior decision (RR 63–22) amended

A provision was adopted designed to insure that, in the case of the unitization agreements as previously provided for, no effect is to result in respect of cases in the courts or which may, in the future, be in litigation in respect to matters arising before adoption of this provision.

Savings and loan organizations—No prior tentative decision

In connection with the provision enacted in the Revenue Act of 1962 relating to the tax treatment of savings and loan organizations, the committee adopted an amendment providing that in the case of certain of these organizations which do not meet the technical definition of a savings and loan institution, this fact is not to result in their being treated as personal holding companies.

Foreign personal holding companies—Prior decision (RR 63-26) amended

An amendment to the provision previously adopted was agreed to giving foreign personal holding companies a limited period (6 months after enactment) in which to liquidate without adverse tax consequences at the time of liquidation, but subject to the proviso that if the individuals involved should die in 1963 or 1964, the property will receive a basis under the new provisions otherwise generally applicable in 1965.

Net revenue effect of bill

[In billions of dollars]

	Calendar year	Fiscal year
1964:		
Individuals	−5.515	−2.430
Corporations	−1.410	+.240
Total	−6.925	−2.190
1965:		
Individuals	−8.650	−6.735
Corporations	−2.320	−.510
Total	−10.970	−7.245

NOTE.—The source of all revenue estimates in these releases, including the net effect of the bill, is the Department of the Treasury.

SECTION 7

BILL AS INTRODUCED IN THE HOUSE

88TH CONGRESS
1ST SESSION

H. R. 8363

IN THE HOUSE OF REPRESENTATIVES

SEPTEMBER 10, 1963

Mr. MILLS introduced the following bill; which was referred to the Committee on Ways and Means

A BILL

To amend the Internal Revenue Code of 1954 to reduce individual and corporate income taxes, to make certain structural changes with respect to the income tax, and for other purposes.

1 *Be it enacted by the Senate and House of Representa-*
2 *tives of the United States of America in Congress assembled,*
3 **SECTION 1. DECLARATION BY CONGRESS.**
4 It is the sense of Congress that the tax reduction pro-
5 vided by this Act through stimulation of the economy, will,
6 after a brief transitional period, raise (rather than lower)
7 revenues and that such revenue increases should first be
8 used to eliminate the deficits in the administrative budgets
9 and then to reduce the public debt. To further the objective

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1 of obtaining balanced budgets in the near future, Congress
2 by this action, recognizes the importance of taking all reason-
3 able means to restrain Government spending and urges the
4 President to declare his accord with this objective.

5 **SEC. 2. SHORT TITLE, ETC.**

6 (a) SHORT TITLE.—This Act may be cited as the
7 "Revenue Act of 1963".

8 (b) AMENDMENT OF 1954 CODE.—Except as otherwise
9 expressly provided, whenever in this Act an amendment or
10 repeal is expressed in terms of an amendment to, or repeal
11 of, a section or other provision, the reference shall be con-
12 sidered to be made to a section or other provision of the
13 Internal Revenue Code of 1954.

14 Title I—Reduction Of Income Tax Rates 15 And Related Amendments

16 PART I—INDIVIDUALS

17 **SEC. 111. REDUCTION OF TAX ON INDIVIDUALS.**

18 (a) INDIVIDUALS OTHER THAN HEADS OF HOUSE-
19 HOLDS.—Subsection (a) of section 1 (relating to rates of tax
20 on individuals other than heads of households) is amended
21 to read as follows:

22 "(a) RATES OF TAX ON INDIVIDUALS.—

23 "(1) TAXABLE YEARS BEGINNING IN 1964.—In
24 the case of a taxable year beginning on or after January
25 1, 1964, and before January 1, 1965, there is hereby im-

1 posed on the taxable income of every individual (other
2 than a head of a household to whom subsection (b) ap-
3 plies) a tax determined in accordance with the follow-
4 ing table:

"If the taxable income is:	The tax is:
Not over $500	16% of the taxable income.
Over $500 but not over $1,000	$80, plus 16.5% of excess over $500.
Over $1,000 but not over $1,500	$162.50, plus 17.5% of excess over $1,000.
Over $1,500 but not over $2,000	$250, plus 18% of excess over $1,500.
Over $2,000 but not over $4,000	$340, plus 20% of excess over $2,000.
Over $4,000 but not over $6,000	$740, plus 23.5% of excess over $4,000.
Over $6,000 but not over $8,000	$1,210, plus 27% of excess over $6,000.
Over $8,000 but not over $10,000	$1,750, plus 30.5% of excess over $8,000.
Over $10,000 but not over $12,000	$2,360, plus 34% of excess over $10,000.
Over $12,000 but not over $14,000	$3,040, plus 37.5% of excess over $12,000.
Over $14,000 but not over $16,000	$3,790, plus 41% of excess over $14,000.
Over $16,000 but not over $18,000	$4,610, plus 44.5% of excess over $16,000.
Over $18,000 but not over $20,000	$5,500, plus 47.5% of excess over $18,000.
Over $20,000 but not over $22,000	$6,450, plus 50.5% of excess over $20,000.
Over $22,000 but not over $26,000	$7,460, plus 53.5% of excess over $22,000.
Over $26,000 but not over $32,000	$9,600, plus 56% of excess over $26,000.
Over $32,000 but not over $38,000	$12,960, plus 58.5% of excess over $32,000.
Over $38,000 but not over $44,000	$16,470, plus 61% of excess over $38,000.
Over $44,000 but not over $50,000	$20,130, plus 63.5% of excess over $44,000.
Over $50,000 but not over $60,000	$23,940, plus 66% of excess over $50,000.
Over $60,000 but not over $70,000	$30,540, plus 68.5% of excess over $60,000.
Over $70,000 but not over $80,000	$37,390, plus 71% of excess over $70,000.
Over $80,000 but not over $90,000	$44,490, plus 73.5% of excess over $80,000.

"If the taxable income is:	The tax is:
Over $90,000 but not over $100,000	$51,840, plus 75% of excess over $90,000.
Over $100,000 but not over $200,000	$59,340, plus 76.5% of excess over $100,000.
Over $200,000	$135,840, plus 77% of excess over $200,000.

1 "(2) TAXABLE YEARS BEGINNING AFTER DECEM-
2 BER 31, 1964.—In the case of a taxable year beginning
3 after December 31, 1964, there is hereby imposed on
4 the taxable income of every individual (other than a
5 head of a household to whom subsection (b) applies) a
6 tax determined in accordance with the following table:

"If the taxable income is:	The tax is:
Not over $500	14% of the taxable income.
Over $500 but not over $1,000	$70, plus 15% of excess over $500.
Over $1,000 but not over $1,500	$145, plus 16% of excess over $1,000.
Over $1,500 but not over $2,000	$225, plus 17% of excess over $1,500.
Over $2,000 but not over $4,000	$310, plus 19% of excess over $2,000.
Over $4,000 but not over $6,000	$690, plus 22% of excess over $4,000.
Over $6,000 but not over $8,000	$1,130, plus 25% of excess over $6,000.
Over $8,000 but not over $10,000	$1,630, plus 28% of excess over $8,000.
Over $10,000 but not over $12,000	$2,190, plus 32% of excess over $10,000.
Over $12,000 but not over $14,000	$2,830, plus 36% of excess over $12,000.
Over $14,000 but not over $16,000	$3,550, plus 39% of excess over $14,000.
Over $16,000 but not over $18,000	$4,330, plus 42% of excess over $16,000.
Over $18,000 but not over $20,000	$5,170, plus 45% of excess over $18,000.
Over $20,000 but not over $22,000	$6,070, plus 48% of excess over $20,000.
Over $22,000 but not over $26,000	$7,030, plus 50% of excess over $22,000.
Over $26,000 but not over $32,000	$9,030, plus 53% of excess over $26,000.
Over $32,000 but not over $38,000	$12,210, plus 55% of excess over $32,000.
Over $38,000 but not over $44,000	$15,510, plus 58% of excess over $38,000.

"If the taxable income is:	The tax is:
Over $44,000 but not over $50,000	$18,990, plus 60% of excess over $44,000.
Over $50,000 but not over $60,000	$22,590, plus 62% of excess over $50,000.
Over $60,000 but not over $70,000	$28,790, plus 64% of excess over $60,000.
Over $70,000 but not over $80,000	$35,190, plus 66% of excess over $70,000.
Over $80,000 but not over $90,000	$41,790, plus 68% of excess over $80,000.
Over $90,000 but not over $100,000	$48,590, plus 69% of excess over $90,000.
Over $100,000	$55,490, plus 70% of excess over $100,000."

1 (b) HEADS OF HOUSEHOLDS.—Paragraph (1) of sec-
2 tion 1(b) (relating to rates of tax on heads of households)
3 is amended to read as follows:

4 "(1) RATES OF TAX.—

5 "(A) TAXABLE YEARS BEGINNING IN 1964.—
6 In the case of a taxable year beginning on or after
7 January 1, 1964, and before January 1, 1965,
8 there is hereby imposed on the taxable income of
9 every individual who is the head of a household a
10 tax determined in accordance with the following
11 table:

"If the taxable income is:	The tax is:
Not over $1,000	16% of the taxable income.
Over $1,000 but not over $2,000	$160, plus 17.5% of excess over $1,000.
Over $2,000 but not over $4,000	$335, plus 19% of excess over $2,000.
Over $4,000 but not over $6,000	$715, plus 22% of excess over $4,000.
Over $6,000 but not over $8,000	$1,155, plus 23% of excess over $6,000.
Over $8,000 but not over $10,000	$1,615, plus 27% of excess over $8,000.
Over $10,000 but not over $12,000	$2,155, plus 29% of excess over $10,000.
Over $12,000 but not over $14,000	$2,735, plus 32% of excess over $12,000.

"If the taxable income is:	The tax is:
Over $14,000 but not over $16,000	$3,375, plus 34% of excess over $14,000.
Over $16,000 but not over $18,000	$4,055, plus 37.5% of excess over $16,000.
Over $18,000 but not over $20,000	$4,805, plus 39% of excess over $18,000.
Over $20,000 but not over $22,000	$5,585, plus 42.5% of excess over $20,000.
Over $22,000 but not over $24,000	$6,435, plus 43.5% of excess over $22,000.
Over $24,000 but not over $26,000	$7,305, plus 45.5% of excess over $24,000.
Over $26,000 but not over $28,000	$8,215, plus 47% of excess over $26,000.
Over $28,000 but not over $32,000	$9,155, plus 48.5% of excess over $28,000.
Over $32,000 but not over $36,000	$11,095, plus 51.5% of excess over $32,000.
Over $36,000 but not over $38,000	$13,155, plus 53% of excess over $36,000.
Over $38,000 but not over $40,000	$14,215, plus 54% of excess over $38,000.
Over $40,000 but not over $44,000	$15,295, plus 56% of excess over $40,000.
Over $44,000 but not over $50,000	$17,535, plus 58.5% of excess over $44,000.
Over $50,000 but not over $52,000	$21,045, plus 59.5% of excess over $50,000.
Over $52,000 but not over $60,000	$22,235, plus 61% of excess over $52,000.
Over $60,000 but not over $64,000	$27,115, plus 62% of excess over $60,000.
Over $64,000 but not over $70,000	$29,595, plus 63.5% of excess over $64,000.
Over $70,000 but not over $76,000	$33,405, plus 65% of excess over $70,000.
Over $76,000 but not over $80,000	$37,305, plus 66% of excess over $76,000.
Over $80,000 but not over $88,000	$39,945, plus 67% of excess over $80,000.
Over $88,000 but not over $90,000	$45,305, plus 69% of excess over $88,000.
Over $90,000 but not over $100,000	$46,685, plus 69.5% of excess over $90,000.
Over $100,000 but not over $120,000	$53,635, plus 71% of excess over $100,000.
Over $120,000 but not over $140,000	$67,835, plus 72.5% of excess over $120,000.
Over $140,000 but not over $160,000	$82,335, plus 74% of excess over $140,000.
Over $160,000 but not over $180,000	$97,135, plus 75% of excess over $160,000.
Over $180,000 but not over $200,000	$112,135, plus 75.5% of excess over $180,000.
Over $200,000	$127,235, plus 77% of excess over $200,000.

1 "(B) TAXABLE YEARS BEGINNING AFTER
2 DECEMBER 31, 1964.—In the case of a taxable year
3 beginning after December 31, 1964, there is hereby
4 imposed on the taxable income of every individual
5 who is the head of a household a tax determined in
6 accordance with the following table:

"If the taxable income is:	The tax is:
Not over $1,000	14% of the taxable income.
Over $1,000 but not over $2,000	$140, plus 16% of excess over $1,000.
Over $2,000 but not over $4,000	$300, plus 18% of excess over $2,000.
Over $4,000 but not over $6,000	$660, plus 20% of excess over $4,000.
Over $6,000 but not over $8,000	$1,060, plus 22% of excess over $6,000.
Over $8,000 but not over $10,000	$1,500, plus 25% of excess over $8,000.
Over $10,000 but not over $12,000	$2,000, plus 27% of excess over $10,000.
Over $12,000 but not over $14,000	$2,540, plus 31% of excess over $12,000.
Over $14,000 but not over $16,000	$3,160, plus 32% of excess over $14,000.
Over $16,000 but not over $18,000	$3,800, plus 35% of excess over $16,000.
Over $18,000 but not over $20,000	$4,500, plus 36% of excess over $18,000.
Over $20,000 but not over $22,000	$5,220, plus 40% of excess over $20,000.
Over $22,000 but not over $24,000	$6,020, plus 41% of excess over $22,000.
Over $24,000 but not over $26,000	$6,840, plus 43% of excess over $24,000.
Over $26,000 but not over $28,000	$7,700, plus 45% of excess over $26,000.
Over $28,000 but not over $32,000	$8,600, plus 46% of excess over $28,000.
Over $32,000 but not over $36,000	$10,440, plus 48% of excess over $32,000.
Over $36,000 but not over $38,000	$12,360, plus 50% of excess over $36,000.
Over $38,000 but not over $40,000	$13,360, plus 52% of excess over $38,000.
Over $40,000 but not over $44,000	$14,400, plus 53% of excess over $40,000.
Over $44,000 but not over $50,000	$16,520, plus 55% of excess over $44,000.
Over $50,000 but not over $52,000	$19,820, plus 56% of excess over $50,000.

"If the taxable income is:	The tax is:
Over $52,000 but not over $64,000	$20,940, plus 58% of excess over $52,000.
Over $64,000 but not over $70,000	$27,900, plus 59% of excess over $64,000.
Over $70,000 but not over $76,000	$31,440, plus 61% of excess over $70,000.
Over $76,000 but not over $80,000	$35,100, plus 62% of excess over $76,000.
Over $80,000 but not over $88,000	$37,580, plus 63% of excess over $80,000.
Over $88,000 but not over $100,000	$42,620, plus 64% of excess over $88,000.
Over $100,000 but not over $120,000	$50,300, plus 66% of excess over $100,000.
Over $120,000 but not over $140,000	$63,500, plus 67% of excess over $120,000.
Over $140,000 but not over $160,000	$76,900, plus 68% of excess over $140,000.
Over $160,000 but not over $180,000	$90,500, plus 69% of excess over $160,000.
Over $180,000	$104,300, plus 70% of excess over $180,000."

1 **SEC. 112. MINIMUM STANDARD DEDUCTION.**

2 (a) General Rule.—Section 141 (relating to standard
3 deduction) is amended to read as follows:

4 **"SEC. 141. STANDARD DEDUCTION.**

5 "(a) Standard Deduction.—Except as otherwise
6 provided in this section, the standard deduction referred to
7 in this title is the larger of the 10-percent standard deduction
8 or the minimum standard deduction. The standard deduc-
9 tion shall not exceed $1,000, except that in the case of a
10 separate return by a married individual the standard deduc-
11 tion shall not exceed $500.

12 "(b) Ten-percent Standard Deduction.—The 10-
13 percent standard deduction is an amount equal to 10 percent
14 of the adjusted gross income.

1 "(c) MINIMUM STANDARD DEDUCTION.—The mini-
2 mum standard deduction is an amount equal to the sum of—
3 "(1) $100, multiplied by the number of exemptions
4 allowed for the taxable year as a deduction under section
5 151, plus
6 "(2) (A) $200, in the case of a joint return of a
7 husband and wife under section 6013,
8 "(B) $200, in the case of a return of an individual
9 who is not married, or
10 "(C) $100, in the case of a separate return by a
11 married individual.
12 "(d) MARRIED INDIVIDUALS FILING SEPARATE RE-
13 TURNS.—Notwithstanding subsection (a)—
14 "(1) The minimum standard deduction shall not
15 apply in the case of a separate return by a married in-
16 dividual if the tax of the other spouse is determined with
17 regard to the 10-percent standard deduction.
18 "(2) A married individual filing a separate return
19 may, if the minimum standard deduction is less than the
20 10-percent standard deduction, and if the minimum
21 standard deduction of his spouse is greater than the
22 10-percent standard deduction of such spouse, elect
23 (under regulations prescribed by the Secretary or his
24 delegate) to have his tax determined with regard to

1 the minimum standard deduction in lieu of being de-
2 termined with regard to the 10-percent standard de-
3 duction."
4 (b) AMENDMENT OF SECTION 2.—The second sentence
5 of section 2 (a) (relating to tax in case of joint return or re-
6 turn of surviving spouse) is amended by striking out "and
7 section 3" and inserting in lieu thereof ", section 3, and sec-
8 tion 141".
9 (c) AMENDMENTS OF SECTION 144.—
10 (1) The first sentence of section 144 (b) (relating
11 to change of election of standard deduction) is amended
12 to read as follows: "Under regulations prescribed by
13 the Secretary or his delegate, a change of election
14 with respect to the standard deduction for any taxable
15 year may be made after the filing of the return for such
16 year."
17 (2) Section 144 is amended by adding at the end
18 thereof the following new subsection:
19 "(c) CHANGE OF ELECTION DEFINED.—For purposes
20 of this title, the term 'change of election with respect to the
21 standard deduction' means—
22 "(1) a change of an election to take (or not to
23 take) the standard deduction;

1 "(2) a change of an election to pay (or not to
2 pay) the tax under section 3; or
3 "(3) a change of an election under section
4 141 (d) (2)."
5 (d) CONFORMING AMENDMENTS.—
6 (1) Subparagraph (A) of section 6212 (c) (2)
7 (relating to cross references) is amended by striking out
8 "**to take**" and inserting in lieu thereof "**with respect to**
9 **the**".
10 (2) Paragraph (3) of section 6504 (relating to
11 cross references) is amended by striking out "**to take**"
12 and inserting in lieu thereof "**with respect to the**".
13 **SEC. 113. RELATED AMENDMENTS.**
14 (a) RETIREMENT INCOME CREDIT.—Section 37 (a)
15 (relating to credit against tax for retirement income) is
16 amended by striking out "an amount equal to the amount
17 received by such individual as retirement income (as defined
18 in subsection (c) and as limited by subsection (d)), multi-
19 plied by the rate provided in section 1 for the first $2,000
20 of taxable income;" and inserting in lieu thereof "an amount
21 equal to 15 percent of the amount received by such individual

1 as retirement income (as defined in subsection (c) and as
2 limited by subsection (d));".
3 (b) TAX ON NONRESIDENT ALIEN INDIVIDUALS.—
4 Section 871 (relating to tax on nonresident alien individuals)
5 is amended—
6 (1) By striking out "is more than $15,400, except
7 that—" in subsection (b) and inserting in lieu thereof
8 "is more than $19,000 in the case of a taxable year
9 beginning in 1964 or more than $21,200 in the case of
10 a taxable year beginning after 1964, except that—".
11 (2) By striking out the heading to subsection (a)
12 and inserting in lieu thereof the following:
13 "(a) NO UNITED STATES BUSINESS—30 PERCENT
14 TAX.—".
15 (3) By striking out the heading to subsection (b)
16 and inserting in lieu thereof the following:
17 "(b) NO UNITED STATES BUSINESS—REGULAR
18 TAX.—".
19 **SEC. 114. CROSS REFERENCES TO TAX TABLES, ETC.**

(1) For optional tax if adjusted gross income is less than $5,000, see section 301 of this Act.

(2) For income tax collected at source, see section 302 of this Act.

1 PART II—CORPORATIONS

2 SEC. 121. REDUCTION OF TAX ON CORPORATIONS.

3 Section 11 (relating to tax on corporations) is amended
4 to read as follows:

5 "SEC. 11. TAX IMPOSED.

6 "(a) CORPORATIONS IN GENERAL.—A tax is hereby
7 imposed for each taxable year on the taxable income of
8 every corporation. The tax shall consist of a normal tax
9 computed under subsection (b) and a surtax computed under
10 subsection (c).

11 "(b) NORMAL TAX.—The normal tax is equal to the
12 following percentage of the taxable income:

13 "(1) 30 percent, in the case of a taxable year
14 beginning before January 1, 1964, and

15 "(2) 22 percent, in the case of a taxable year
16 beginning after December 31, 1963.

17 "(c) SURTAX.—The surtax is equal to the following
18 percentage of the amount by which the taxable income
19 exceeds the surtax exemption for the taxable year:

20 "(1) 22 percent, in the case of a taxable year
21 beginning before January 1, 1964,

"(2) 28 percent, in the case of a taxable year beginning after December 31, 1963, and before January 1, 1965, and

"(3) 26 percent, in the case of a taxable year beginning after December 31, 1964.

"(d) SURTAX EXEMPTION.—For purposes of this subtitle, the surtax exemption for any taxable year is $25,000 or the amount determined under section 1561 (relating to surtax exemptions in case of certain controlled corporations).

"(e) EXCEPTIONS.—Subsection (a) shall not apply to a corporation subject to a tax imposed by—

"(1) section 594 (relating to mutual savings banks conducting life insurance business),

"(2) subchapter L (sec. 801 and following, relating to insurance companies),

"(3) subchapter M (sec. 851 and following, relating to regulated investment companies and real estate investment trusts), or

"(4) section 881(a) (relating to foreign corporations not engaged in business in United States)."

SEC. 122. CURRENT TAX PAYMENTS BY CORPORATIONS.

(a) INSTALLMENT PAYMENTS OF ESTIMATED INCOME TAX BY CORPORATIONS.—Section 6154 (relating to install-

1 ment payments of estimated income tax by corporations)
2 is amended to read as follows:

3 "SEC. 6154. INSTALLMENT PAYMENTS OF ESTIMATED IN-
4 COME TAX BY CORPORATIONS.

5 "(a) AMOUNT AND TIME FOR PAYMENT OF EACH
6 INSTALLMENT.—The amount of estimated tax (as defined
7 in section 6016 (b)) with respect to which a declaration is
8 required under section 6016 shall be paid as follows:

9 "(1) PAYMENT IN 4 INSTALLMENTS.—If the
10 declaration is filed on or before the 15th day of the
11 4th month of the taxable year, the estimated tax shall
12 be paid in 4 installments. The amount and time for
13 payment of each installment shall be determined in
14 accordance with the following table:

"If the taxable year begins in—	The following percentages of the estimated tax shall be paid on the 15th day of the—			
	4th month	6th month	9th month	12th month
1964	1	1	25	25
1965	4	4	25	25
1966	9	9	25	25
1967	14	14	25	25
1968	19	19	25	25
1969	22	22	25	25
1970 or any subsequent year	25	25	25	25

1 "(2) PAYMENT IN 3 INSTALLMENTS.—If the dec-
2 laration is filed after the 15th day of the 4th month and
3 not after the 15th day of the 6th month of the taxable
4 year, and is not required by section 6074 (a) to be
5 filed on or before the 15th day of such 4th month, the
6 estimated tax shall be paid in 3 installments. The
7 amount and time for payment of each installment shall
8 be determined in accordance with the following table:

"If the taxable year begins in—	The following percentages of the estimated tax shall be paid on the 15th day of the—		
	6th month	9th month	12th month
1964	1⅓	25⅓	25⅓
1965	5⅓	26⅓	26⅓
1966	12	28	28
1967	18⅔	29⅔	29⅔
1968	25⅓	31⅓	31⅓
1969	29⅓	32⅓	32⅓
1970 or any subsequent year	33⅓	33⅓	33⅓

9 "(3) PAYMENT IN 2 INSTALLMENTS.—If the
10 declaration of estimated tax is filed after the 15th day
11 of the 6th month and not after the 15th day of the 9th
12 month of the taxable year, and is not required by section
13 6074 (a) to be filed on or before the 15th day of such
14 6th month, the estimated tax shall be paid in 2 install-
15 ments. The amount and time for payment of each

1 installment shall be determined in accordance with the
2 following table:

"If the taxable year begins in—	The following percentages of the estimated tax shall be paid on the 15th day of the—	
	9th month	12th month
1964	26	26
1965	29	29
1966	34	34
1967	39	39
1968	44	44
1969	47	47
1970 or any subsequent year	50	50

3 "(4) PAYMENT IN 1 INSTALLMENT.—If the
4 declaration of estimated tax is filed after the 15th day
5 of the 9th month of the taxable year, and is not required
6 by section 6074(a) to be filed on or before the 15th
7 day of such 9th month, the estimated tax shall be paid
8 in 1 installment. The amount and time for payment of
9 the installment shall be determined in accordance with
10 the following table:

"If the taxable year begins in—	The following percentages of the estimated tax shall be paid on the 15th day of the 12th month
1964	52
1965	58
1966	68
1967	78
1968	88
1969	94
1970 or any subsequent year	100

1 "(5) LATE FILING.—If the declaration is filed after
2 the time prescribed in section 6074 (a) (determined
3 without regard to any extension of time for filing the
4 declaration under section 6081), paragraphs (2), (3),
5 and (4) of this subsection shall not apply, and there
6 shall be paid at the time of such filing all installments
7 of estimated tax which would have been payable on or
8 before such time if the declaration had been filed within
9 the time prescribed in section 6074 (a), and the remain-
10 ing installments shall be paid at the times at which,
11 and in the amounts in which, they would have been pay-
12 able if the declaration had been so filed.
13 "(b) AMENDMENT OF DECLARATION.—If any amend-
14 ment of a declaration is filed, the amount of each remaining
15 installment (if any) shall be the amount which would have
16 been payable if the new estimate had been made when the
17 first estimate for the taxable year was made, increased or de-
18 creased (as the case may be), by the amount computed by
19 dividing—

1 "(1) the difference between (A) the amount of
2 estimated tax required to be paid before the date on
3 which the amendment is made, and (B) the amount of
4 estimated tax which would have been required to be paid
5 before such date if the new estimate had been made
6 when the first estimate was made, by
7 "(2) the number of installments remaining to be
8 paid on or after the date on which the amendment is
9 made.
10 "(c) APPLICATION TO SHORT TAXABLE YEAR.—The
11 application of this section to taxable years of less than 12
12 months shall be in accordance with regulations prescribed by
13 the Secretary or his delegate.
14 "(d) INSTALLMENTS PAID IN ADVANCE.—At the elec-
15 tion of the corporation, any installment of the estimated tax
16 may be paid before the date prescribed for its payment."
17 (b) TIME FOR FILING DECLARATIONS OF ESTIMATED
18 INCOME TAX BY CORPORATIONS.—Section 6074 (relating

1 to time for filing declarations of estimated income tax by cor-
2 porations) is amended to read as follows:

3 "SEC. 6074. TIME FOR FILING DECLARATIONS OF ESTI-
4 MATED INCOME TAX BY CORPORATIONS.

5 "(a) GENERAL RULE.—The declaration of estimated tax
6 required of corporations by section 6016 shall be filed as
7 follows:

"If the requirements of section 6016 are first met—	The declaration shall be filed on or before—
before the 1st day of the 4th month of the taxable year	the 15th day of the 4th month of the taxable year
after the last day of the 3d month and before the 1st day of the 6th month of the taxable year	the 15th day of the 6th month of the taxable year
after the last day of the 5th month and before the 1st day of the 9th month of the taxable year	the 15th day of the 9th month of the taxable year
after the last day of the 8th month and before the 1st day of the 12th month of the taxable year	the 15th day of the 12th month of the taxable year

8 "(b) AMENDMENT.—An amendment of a declaration
9 may be filed in any interval between installment dates
10 prescribed for the taxable year, but only one amendment
11 may be filed in each such interval.

12 "(c) SHORT TAXABLE YEAR.—The application of this
13 section to taxable years of less than 12 months shall be in
14 accordance with regulations prescribed by the Secretary or
15 his delegate."

1 (c) FAILURE BY CORPORATIONS TO PAY ESTIMATED
2 INCOME TAX.—
3 (1) The last sentence of section 6655 (c) (2) (re-
4 lating to period of underpayment) is amended to read
5 as follows: "For purposes of this paragraph, a payment
6 of estimated tax on any installment date shall be con-
7 sidered a payment of any previous underpayment only to
8 the extent such payment exceeds the amount of the in-
9 stallment determined under subsection (b) (1) for such
10 installment date."
11 (2) Paragraph (3) of section 6655 (d) (relating
12 to exception) is amended to read as follows:
13 "(3) (A) An amount equal to 70 percent of the
14 tax for the taxable year computed by placing on an
15 annualized basis the taxable income:
16 "(i) for the first 3 months of the taxable year,
17 in the case of the installment required to be paid in
18 the 4th month,
19 "(ii) for the first 3 months or for the first 5
20 months of the taxable year, in the case of the in-
21 stallment required to be paid in the 6th month,
22 "(iii) for the first 6 months or for the first 8
23 months of the taxable year in the case of the install-
24 ment required to be paid in the 9th month, and

1 "(iv) for the first 9 months or for the first 11
2 months of the taxable year, in the case of the in-
3 stallment required to be paid in the 12th month of
4 the taxable year.
5 "(B) For purposes of this paragraph, the taxable
6 income shall be placed on an annualized basis by—
7 "(i) multiplying by 12 the taxable income re-
8 ferred to in subparagraph (A), and
9 "(ii) dividing the resulting amount by the num-
10 ber of months in the taxable year (3, 5, 6, 8, 9, or
11 11, as the case may be) referred to in subparagraph
12 (A)."
13 (d) TECHNICAL AMENDMENT.—Section 6016(f) (re-
14 lating to declarations of estimated income tax by corpora-
15 tions) is amended to read as follows:
16 "(f) CROSS REFERENCE.—

"For provisions relating to the number of amendments which may be filed, see section 6074(b)."

17 **SEC. 123. RELATED AMENDMENTS.**
18 (a) TAX ON MUTUAL INSURANCE COMPANIES
19 (OTHER THAN LIFE, ETC.)—
20 (1) Subsection (a) of section 821 (relating to
21 imposition of tax) is amended to read as follows:
22 "(a) IMPOSITION OF TAX.—A tax is hereby imposed
23 for each taxable year beginning after December 31, 1963,

1 on the mutual insurance company taxable income of every
2 mutual insurance company (other than a life insurance com-
3 pany and other than a fire, flood, or marine insurance com-
4 pany subject to the tax imposed by section 831). Such
5 tax shall consist of—
6 "(1) NORMAL TAX.—A normal tax of 22 percent
7 of the mutual insurance company taxable income, or 44
8 percent of the amount by which such taxable income
9 exceeds $6,000, whichever is the lesser; plus
10 "(2) SURTAX.—A surtax on the mutual insurance
11 company taxable income computed as provided in sec-
12 tion 11 (c) as though the mutual insurance company
13 taxable income were the taxable income referred to in
14 section 11 (c)."
15 (2) Paragraph (1) of section 821 (c) (relating to
16 alternative tax for certain small companies) is amended
17 to read as follows:
18 "(1) IMPOSITION OF TAX.—In the case of taxable
19 years beginning after December 31, 1963, there is here-
20 by imposed for each taxable year on the income of each
21 mutual insurance company to which this subsection
22 applies a tax (which shall be in lieu of the tax im-
23 posed by subsection (a)) computed as follows:
24 "(A) NORMAL TAX.—A normal tax of 22 per-
25 cent of the taxable investment income, or 44 per-

1 cent of the amount by which such taxable income
2 exceeds $3,000, whichever is the lesser; plus
3 "(B) SURTAX.—A surtax on the taxable in-
4 vestment income computed as provided in section
5 11(c) as though the taxable investment income
6 were the taxable income referred to in section
7 11(c)."
8 (b) RECEIPT OF MINIMUM DISTRIBUTIONS BY DOMES-
9 TIC CORPORATIONS.—Subsection (b) of section 963 (relat-
10 ing to receipt of minimum distributions by domestic cor-
11 porations) is amended to read as follows:
12 "(b) MINIMUM DISTRIBUTION.—For purposes of this
13 section, a minimum distribution with respect to the earnings
14 and profits for the taxable year of any controlled foreign cor-
15 poration or corporations shall, in the case of any United
16 States shareholder, be its pro rata share of an amount deter-
17 mined in accordance with whichever of the following tables
18 applies to the taxable year:
19 "(1) TAXABLE YEARS BEGINNING IN 1963.—

"If the effective foreign tax rate is (percentage)—	The required minimum distribution of earnings and profits is (percentage)—
Under 10	90
10 or over but less than 20	86
20 or over but less than 28	82
28 or over but less than 34	75
34 or over but less than 39	68
39 or over but less than 42	55
42 or over but less than 44	40
44 or over but less than 46	27
46 or over but less than 47	14
47 or over	0

1 "(2) TAXABLE YEARS BEGINNING IN 1964.—

"If the effective foreign tax rate is (percentage)—	The required minimum distribution of earnings and profits is (percentage)—
Under 10	87
10 or over but less than 19	83
19 or over but less than 27	79
27 or over but less than 33	72
33 or over but less than 37	65
37 or over but less than 40	53
40 or over but less than 42	38
42 or over but less than 44	26
44 or over but less than 45	13
45 or over	0

2 "(3) TAXABLE YEARS BEGINNING AFTER DECEM-
3 BER 31, 1964.—

"If the effective foreign tax rate is (percentage)—	The required minimum distribution of earnings and profits is (percentage)—
Under 9	83
9 or over but less than 18	79
18 or over but less than 26	76
26 or over but less than 32	69
32 or over but less than 36	63
36 or over but less than 39	51
39 or over but less than 41	37
41 or over but less than 42	25
42 or over but less than 43	13
43 or over	0"

4 (c) AMENDMENT OF SECTION 242.—Section 242(a)
5 (relating to deduction for partially tax-exempt interest) is
6 amended by adding at the end thereof the following new
7 sentence: "No deduction shall be allowed under this section
8 for purposes of any surtax imposed by this subtitle."

1 PART III—EFFECTIVE DATES

2 SEC. 131. GENERAL RULE.

3 Except for purposes of section 21 of the Internal Reve-
4 nue Code of 1954 (relating to effect of changes in rates
5 during a taxable year), the amendments made by parts
6 I and II of this title shall apply with respect to taxable
7 years beginning after December 31, 1963.

8 SEC. 132. FISCAL YEAR TAXPAYERS.

9 Effective with respect to taxable years ending after
10 December 31, 1963, subsection (d) of section 21 (relating
11 to effect of changes in rates during a taxable year) is
12 amended to read as follows:

13 "(d) CHANGES MADE BY REVENUE ACT OF 1963.—
14 "(1) INDIVIDUALS.—In applying subsection (a)
15 to the taxable year of an individual beginning in 1963
16 and ending in 1964—
17 "(A) the rate of tax for the period on and after
18 January 1, 1964, shall be applied to the tax-
19 able income determined as if part IV of subchapter
20 B (relating to standard deduction for individuals),
21 as amended by the Revenue Act of 1963, applied
22 to taxable years ending after December 31, 1963,
23 and
24 "(B) section 4 (relating to rules for optional

1 tax), as amended by such Act, shall be applied to
2 taxable years ending after December 31, 1963.
3 In applying subsection (a) to a taxable year of an
4 individual beginning in 1963 and ending in 1964, or
5 beginning in 1964 and ending in 1965, the change in
6 the tax imposed under section 3 shall be treated as a
7 change in a rate of tax.
8 "(2) CORPORATIONS.—In applying subsection (a)
9 to a taxable year of a corporation beginning in 1963
10 and ending in 1964, if—
11 "(A) the surtax exemption of such corpora-
12 tion for such taxable year is less than $25,000 by
13 reason of the application of section 1561 (relating
14 to surtax exemptions in case of certain controlled
15 corporations), or
16 "(B) an additional tax is imposed on the tax-
17 able income of such corporation for such taxable
18 year by section 1562 (b) (relating to additional tax
19 in case of component members of controlled groups
20 which elect multiple surtax exemptions),
21 the change in the surtax exemption, or the imposition
22 of such additional tax, shall be treated as a change in a
23 rate of tax taking effect on January 1, 1964."

1 # Title II—Structural Changes

2 SEC. 201. DIVIDENDS RECEIVED BY INDIVIDUALS.

3 (a) REDUCTION OF 4 PERCENT CREDIT TO 2 PERCENT
4 CREDIT FOR CALENDAR YEAR 1964.—

5 (1) GENERAL RULE.—Section 34(a) (relating to
6 general rule for credit for dividends received) is amended
7 by striking out "an amount equal to 4 percent of the
8 dividends which are received after July 31, 1954, from
9 domestic corporations and are included in gross income"
10 and inserting in lieu thereof:

11 "an amount equal to the following percentage of the divi-
12 dends which are received from domestic corporations and are
13 included in gross income:

14 "(1) 4 percent of the amount of such dividends
15 which are received before January 1, 1964, and

16 "(2) 2 percent of the amount of such dividends
17 which are received during the calendar year 1964."

18 (2) LIMITATIONS.—Section 34(b)(2) (relating
19 to limitations on amount of credit) is amended—

20 (A) by inserting ", or beginning after Decem-
21 ber 31, 1963" after "1955" at the end of sub-
22 paragraph (A), and

23 (B) by inserting ", and beginning before Jan-
24 uary 1, 1964" after "1954" at the end of subpara-
25 graph (B).

1 (b) Repeal of Credit for Dividends Received by
2 Individuals.—Effective with respect to dividends received
3 after December 31, 1964, section 34 (relating to dividends
4 received by individuals) is hereby repealed.
5 (c) Doubling of Amount of Partial Exclusion
6 From Gross Income of Dividends Received by Individ-
7 uals.—Section 116(a) (relating to partial exclusion from
8 gross income of dividends received by individuals) is
9 amended by striking out "$50" each place it appears and
10 inserting in lieu thereof "$100".
11 (d) Conforming Amendments.—
12 (1) The table of sections for subpart A of part IV
13 of subchapter A of chapter 1 is amended by striking
14 out

"Sec. 34. Dividends received by individuals."

15 (2) Section 35(b)(1) is amended by striking out
16 "the sum of the credits allowable under sections 33 and
17 34" and inserting in lieu thereof "the credit allowable
18 under section 33".
19 (3) Section 37(a) is amended by striking out
20 "section 34 (relating to credit for dividends received
21 by individuals),".
22 (4) Section 46(a)(3) is amended by striking out
23 subparagraph (B), and by redesignating subparagraphs
24 (C) and (D) as "(B)" and "(C)", respectively.

1 (5) Section 584 (c) (2) is amended by striking
2 out "section 34 or".
3 (6) (A) Section 642 (a) is amended by striking
4 out paragraph (3);
5 (B) Section 642 (i) is amended to read as follows:
6 "(i) CROSS REFERENCES.—

"(1) For disallowance of standard deduction in case of estates and trusts, see section 142(b)(4).

"(2) For special rule for determining the time of receipt of dividends by a beneficiary under section 652 or 662, see section 116(c)(3)."

7 (C) Section 116 (c) is amended by adding at the
8 end thereof the following new paragraph:
9 "(3) The amount of dividends properly allocable
10 to a beneficiary under section 652 or 662 shall be deemed
11 to have been received by the beneficiary ratably on the
12 same date that the dividends were received by the
13 estate or trust."
14 (7) Section 702 (a) (5) is amended by striking out
15 "a credit under section 34," and the comma after "sec-
16 tion 116".
17 (8) Section 854 (a) is amended by striking out
18 "section 34 (a) (relating to credit for dividends re-
19 ceived by individuals)," and the comma after "section
20 116 (relating to an exclusion for dividends received by
21 individuals)".

1 (9) Section 854 (b) (1) is amended by striking out
2 "the credit under section 34 (a)," and the comma after
3 "section 116".
4 (10) Section 854 (b) (2) is amended by striking
5 out "the credit under section 34," and the comma after
6 "section 116".
7 (11) Section 857 (c) is amended by striking out
8 "section 34 (a) (relating to credit for dividends received
9 by individuals)," and the comma after "section 116
10 (relating to an exclusion for dividends received by
11 individuals)".
12 (12) Section 871 (b) is amended by striking out
13 "the sum of the credits under sections 34 and 35" and
14 inserting in lieu thereof "the credit under section 35".
15 (13) Section 1375 (b) is amended by striking out
16 "section 34," and the comma after "section 37".
17 (14) Section 6014 (a) is amended by striking out
18 "34 or".
19 (e) EFFECTIVE DATES.—The amendments made by
20 subsection (a) shall apply with respect to taxable years end-
21 ing after December 31, 1963. The amendment made by sub-
22 section (b) shall apply with respect to taxable years ending
23 after December 31, 1964. The amendment made by sub-
24 section (c) shall apply with respect to taxable years begin-

1 ning after December 31, 1963. The amendments made
2 by subsection (d) shall apply with respect to dividends
3 received after December 31, 1964, in taxable years ending
4 after such date.

5 **SEC. 202. REPEAL OF REQUIREMENT THAT BASIS OF SEC-**
6 **TION 38 PROPERTY BE REDUCED BY 7 PER-**
7 **CENT; OTHER PROVISIONS RELATING TO IN-**
8 **VESTMENT CREDIT.**

9 (a) REPEAL OF REQUIREMENT THAT BASIS BE RE-
10 DUCED.—
11 (1) IN GENERAL.—Subsection (g) of section 48
12 (requiring that the basis of section 38 property be re-
13 duced by 7 percent of the qualified investment) is here-
14 by repealed.
15 (2) INCREASE IN BASIS OF PROPERTY PLACED IN
16 SERVICE BEFORE JULY 1, 1963.—
17 (A) The basis of any section 38 property (as
18 defined in section 48(a) of the Internal Revenue
19 Code of 1954) placed in service before July 1,
20 1963, shall be increased, under regulations pre-
21 scribed by the Secretary of the Treasury or his dele-
22 gate, by an amount equal to 7 percent of the quali-
23 fied investment with respect to such property un-
24 der section 46(c) of the Internal Revenue Code
25 of 1954. If there has been any increase with respect

1 to such property under section 48 (g) (2) of such
2 Code, the increase under the preceding sentence
3 shall be appropriately reduced therefor.
4 (B) If a lessor made the election provided by
5 section 48 (d) of the Internal Revenue Code of 1954
6 with respect to property placed in service before
7 July 1, 1963—
8 (i) subparagraph (A) shall not apply
9 with respect to such property, but
10 (ii) under regulations prescribed by the
11 Secretary of the Treasury or his delegate, the
12 deductions otherwise allowable under section
13 162 of such Code to the lessee for amounts
14 paid to the lessor under the lease (or, if such
15 lessee has purchased such property, the basis
16 of such property) shall be adjusted in a manner
17 consistent with subparagraph (A).
18 (C) The adjustments under this paragraph
19 shall be made as of the first day of the taxpayer's
20 first taxable year which begins after June 30, 1963.
21 (3) CONFORMING AMENDMENTS.—
22 (A) The last sentence of section 48 (d) (re-
23 lating to certain leased property) is hereby repealed.
24 (B) Section 181 (relating to deduction for cer-

1 tain unused investment credit) is hereby repealed.
2 (C) Section 1016 (a) (19) (relating to adjust-
3 ments to basis) is amended to read as follows:
4 "(19) to the extent provided in section 48 (g) and
5 in section 202 (a) (2) of the Revenue Act of 1963, in
6 the case of property which is or has been section 38
7 property (as defined in section 48 (a));"
8 (D) The table of sections for part VI of sub-
9 chapter B of chapter 1 is amended by striking out
10 the following:

"Sec. 181. Deduction for certain unused investment credit."

11 (4) EFFECTIVE DATE.—Paragraphs (1) and (3)
12 of this subsection shall apply—
13 (A) in the case of property placed in service
14 after June 30, 1963, with respect to taxable years
15 ending after such date, and
16 (B) in the case of property placed in service
17 before July 1, 1963, with respect to taxable years
18 beginning after June 30, 1963.
19 (b) BASIS OF CERTAIN LEASED PROPERTY TO
20 LESSEE.—Paragraphs (1) and (2) of section 48 (d) (relat-
21 ing to certain leased property) are amended to read as
22 follows:
23 "(1) except as provided in paragraph (2), the
24 fair market value of such property, or

1 "(2) if such property is leased by a corporation
2 which is a member of an affiliated group (within the
3 meaning of section 46(a)(5)) to another corporation
4 which is a member of the same affiliated group, the
5 basis of such property to the lessor."
6 (c) TREATMENT OF ELEVATORS AND ESCALATORS
7 FOR PURPOSES OF THE INVESTMENT CREDIT.—Section 48
8 (a)(1) (relating to section 38 property) is amended—
9 (1) by striking out the period at the end of sub-
10 paragraph (B) and inserting in lieu thereof ", or"; and
11 (2) by adding after subparagraph (B) the follow-
12 ing new subparagraph:
13 "(C) elevators and escalators, but only if—
14 "(i) the construction, reconstruction, or
15 erection of the elevator or escalator is completed
16 by the taxpayer after June 30, 1963, or
17 "(ii) the elevator or escalator is acquired
18 after June 30, 1963, and the original use of
19 such elevator or escalator commences with the
20 taxpayer and commences after such date."
21 (d) TREATMENT OF ELEVATORS AND ESCALATORS
22 FOR PURPOSES OF SECTION 1245.—Section 1245(a) (re-
23 lating to gain from dispositions of certain depreciable prop-
24 erty) is amended—
25 (1) by striking out so much of paragraph (2) as

1 precedes the second sentence thereof and inserting in
2 lieu thereof the following:
3 "(2) RECOMPUTED BASIS.—For purposes of this
4 section, the term 'recomputed basis' means—
5 "(A) with respect to any property referred
6 to in paragraph (3) (A) or (B), its adjusted
7 basis recomputed by adding thereto all adjustments,
8 attributable to periods after December 31, 1961, or
9 "(B) with respect to any property referred to
10 in paragraph (3) (C), its adjusted basis recomputed
11 by adding thereto all adjustments, attributable to
12 periods after June 30, 1963,
13 reflected in such adjusted basis on account of deductions
14 (whether in respect of the same or other property)
15 allowed or allowable to the taxpayer or to any other
16 person for depreciation, or for amortization under section
17 168.";
18 (2) by striking out the period at the end of para-
19 graph (3) (B) and inserting in lieu thereof ", or";
20 and
21 (3) by adding at the end of paragraph (3) the
22 following new subparagraph:
23 "(C) an elevator or an escalator."

1 (e) TREATMENT OF INVESTMENT CREDIT BY FED-
2 ERAL REGULATORY AGENCIES.—It was the intent of the
3 Congress in providing an investment credit under section 38
4 of the Internal Revenue Code of 1954, and it is the intent
5 of the Congress in repealing the reduction in basis required
6 by section 48 (g) of such Code, to provide an incentive for
7 modernization and growth of private industry (including that
8 portion thereof which is regulated). Accordingly, Congress
9 does not intend that any agency or instrumentality of the
10 United States having jurisdiction with respect to a taxpayer
11 shall, without the consent of the taxpayer, use—
12 (1) in the case of public utility property (as de-
13 fined in section 46 (c) (3) (B) of the Internal Revenue
14 Code of 1954), more than a proportionate part (deter-
15 mined with reference to the average useful life of the
16 property with respect to which the credit was allowed)
17 of the credit against tax allowed for any taxable year by
18 section 38 of such Code, or
19 (2) in the case of any other property, any credit
20 against tax allowed by section 38 of such Code,
21 to reduce such taxpayer's Federal income taxes for the pur-
22 pose of establishing the cost of service of the taxpayer or to
23 accomplish a similar result by any other method.

1 (f) EFFECTIVE DATES.—

2 (1) The amendments made by subsection (b) shall
3 apply with respect to property possession of which is
4 transferred to a lessee on or after the date of enactment
5 of this Act.

6 (2) The amendments made by subsection (c) shall
7 apply with respect to taxable years ending after June
8 30, 1963.

9 (3) The amendments made by subsection (d) shall
10 apply with respect to dispositions after December 31,
11 1963, in taxable years ending after such date.

12 **SEC. 203. GROUP-TERM LIFE INSURANCE PURCHASED FOR**
13 **EMPLOYEES.**

14 (a) INCLUSION IN INCOME.—

15 (1) Part II of subchapter B of chapter 1 (relating
16 to items specifically included in gross income) is
17 amended by adding at the end thereof the following new
18 section:

19 **"SEC. 79. GROUP-TERM LIFE INSURANCE PURCHASED**
20 **FOR EMPLOYEES.**

21 "(a) GENERAL RULE.—There shall be included in the
22 gross income of an employee for the taxable year an amount
23 equal to the cost of group-term life insurance on his life
24 provided for part or all of such year under a policy (or

1 policies) carried directly or indirectly by his employer (or
2 employers); but only to the extent that such cost exceeds
3 the sum of—
4 "(1) the cost of so much of such insurance as ex-
5 ceeds $30,000 of protection, and
6 "(2) the amount (if any) paid by the employee
7 toward the purchase of such insurance.
8 "(b) EXCEPTIONS.—Subsection (a) shall not apply
9 to—
10 "(1) the cost of group-term life insurance on the
11 life of an individual which is provided under a policy
12 carried directly or indirectly by an employer after such
13 individual has terminated his employment with such
14 employer and either has reached the retirement age with
15 respect to such employer or is disabled (within the
16 meaning of paragraph (3) of section 213(g), deter-
17 mined without regard to paragraph (4) thereof),
18 "(2) the cost of any portion of the group-term life
19 insurance on the life of an employee provided during
20 part or all of the taxable year of the employee under
21 which—
22 "(A) the employer is directly or indirectly
23 the beneficiary, or

1 "(B) a person described in section 170(c) is
2 the sole beneficiary,
3 for the entire period during such taxable year for
4 which the employee receives such insurance, and
5 "(3) the cost of any group-term life insurance
6 which is provided under a contract to which section
7 72(m)(3) applies.
8 "(c) DETERMINATION OF COST OF INSURANCE.—
9 "(1) UNIFORM PREMIUM TABLE METHOD.—For
10 purposes of this section and chapter 24, the cost of
11 group-term life insurance on the life of an employee
12 provided during any period shall be determined on the
13 basis of uniform premiums (computed on the basis of
14 5-year age brackets) prescribed by regulations by the
15 Secretary or his delegate.
16 "(2) POLICY COST METHOD.—If the employer so
17 elects (at such time and in such manner as the Secretary
18 or his delegate prescribes) with respect to any employee
19 for any period, the cost of group-term life insurance on
20 the life of such employee shall (in lieu of being deter-
21 mined under paragraph (1)) be determined on the basis
22 of the average premium cost under the policy for the
23 ages included within the age bracket which would be
24 applicable to such employee under paragraph (1). The
25 preceding sentence shall not apply for purposes of deter-

1 mining the cost of insurance provided under a policy if
2 the premium on such policy is not computed on the
3 basis of the cost of such insurance at the ages (or at the
4 age brackets applicable under paragraph (1)) of the
5 individuals comprising the group.
6 "(3) EMPLOYED INDIVIDUALS OVER AGE 64.—In
7 the case of an employee who has attained age 64, the
8 cost determined under paragraph (1) or (2), as the
9 case may be, shall not exceed the cost which would be
10 determined under such paragraph with respect to such
11 individual if he were age 63."
12 (2) The table of sections for part II of subchapter
13 B of chapter 1 is amended by adding at the end thereof
14 the following:

"Sec. 79. Group-term life insurance purchased for employees."

15 (3) Section 7701(a)(20) (defining employee)
16 is amended by striking out "For the purpose of apply-
17 ing the provisions of sections 104" and inserting in lieu
18 thereof "For the purpose of applying the provisions of
19 sections 79 and 218 with respect to group-term life
20 insurance purchased for employees, for the purpose of
21 applying the provisions of sections 104".
22 (b) CERTAIN CONTRIBUTIONS BY EMPLOYEES FOR

1 GROUP-TERM LIFE INSURANCE.—Part VII of subchapter
2 B of chapter 1 (relating to additional itemized deductions
3 for individuals) is amended by inserting after section 217
4 the following new section:

5 **"SEC. 218. CERTAIN CONTRIBUTIONS BY EMPLOYEES FOR**
6 **GROUP-TERM LIFE INSURANCE.**

7 "In the case of an employee on whose life group-term
8 life insurance in excess of $30,000 is provided for part or
9 all of the taxable year under a policy (or policies) carried
10 directly or indirectly by his employer (or employers), there
11 shall be allowed as a deduction for such taxable year an
12 amount equal to the excess (if any) of —

13 "(1) the amount paid by the employee toward
14 the purchase of such insurance in excess of $30,000,
15 over

16 "(2) the cost (determined in the manner provided
17 by paragraph (1) of section 79(c), without regard to
18 paragraph (3) thereof) of such insurance in excess of
19 $30,000.

20 For purposes of this section, there shall not be taken into
21 account any insurance the cost of which is excepted from
22 the application of subsection (a) of section 79 by subsection
23 (b) thereof."

1 (c) WITHHOLDING.—Section 3401 (a) (relating to
2 definition of wages) is amended by striking out the period
3 at the end of paragraph (13) and inserting in lieu thereof
4 "; or", and by adding at the end thereof the following new
5 paragraph:
6 "(14) in the form of group-term life insurance on
7 the life of an employee, but only to the extent the cost
8 of such insurance is not includible in the employee's
9 gross income under section 79 (a). For purposes of
10 this paragraph, the extent to which the cost of group-
11 term life insurance is includible in the employee's gross
12 income under section 79 (a) shall be determined as if
13 the employer were the only employer paying such
14 employee remuneration in the form of such insurance;
15 or".
16 (d) EFFECTIVE DATES.—The amendments made by
17 subsections (a) and (b) shall apply with respect to group-
18 term life insurance provided after December 31, 1963, in
19 taxable years ending after such date. The amendments made
20 by subsection (c) shall apply with respect to remuneration
21 paid after December 31, 1963, in the form of group-term
22 life insurance provided after such date.

1 **SEC. 204. INCLUSION IN GROSS INCOME OF REIMBURSED**
2 **MEDICAL EXPENSES TO THE EXTENT THAT**
3 **THE REIMBURSEMENT EXCEEDS THE EX-**
4 **PENSES.**

5 (a) GENERAL RULE.—Part II of subchapter B of chap-
6 ter 1 (relating to items specifically included in gross income)
7 is amended by adding at the end thereof the following new
8 section:

9 **"SEC. 80. REIMBURSEMENT OF MEDICAL EXPENSES IN**
10 **EXCESS OF SUCH EXPENSES.**

11 "Notwithstanding any other provision of this subchapter,
12 amounts received through accident or health insurance for
13 medical expenses shall be included in gross income to the
14 extent the aggregate of such amounts received for any per-
15 sonal injury or sickness exceeds the aggregate amount of the
16 medical expenses incurred by the taxpayer for such
17 personal injury or sickness. For purposes of this section,
18 the term 'medical expenses' means expenses for medical care
19 as defined in section 213 (e), except that it does not include
20 amounts paid for accident or health insurance."

1 (b) CLERICAL AMENDMENT.—The table of sections for
2 such part II is amended by adding at the end thereof the
3 following:

"Sec. 80. Reimbursement of medical expenses in excess of such expenses."

4 (c) TECHNICAL AMENDMENT.—Subsection (e) of sec-
5 tion 105 (relating to the definition of accident and health
6 plans) is amended by striking out "this section" and insert-
7 ing in lieu thereof "this section, section 80,".
8 (d) EFFECTIVE DATE.—The amendments made by this
9 section shall apply to taxable years beginning after Decem-
10 ber 31, 1963.

11 **SEC. 205. AMOUNTS RECEIVED UNDER WAGE CONTINUA-**
12 **TION PLANS.**

13 (a) WAGE CONTINUATION PLANS.—The second sen-
14 tence of section 105(d) (relating to wage continuation
15 plans) is amended to read as follows: "The preceding sen-
16 tence shall not apply to amounts attributable to the first 30
17 calendar days in such period."
18 (b) EFFECTIVE DATE.—The amendment made by sub-
19 section (a) shall apply to amounts attributable to periods of
20 absence commencing after December 31, 1963.

1 **SEC. 206. EXCLUSION FROM GROSS INCOME OF GAIN ON
2 SALE OR EXCHANGE OF RESIDENCE OF INDI-
3 VIDUAL WHO HAS ATTAINED AGE 65.**

4 (a) IN GENERAL.—Part III of subchapter B of chapter
5 1 (relating to items specifically excluded from gross income)
6 is amended by redesignating section 121 as section 122 and
7 by inserting before such section the following new section:

8 **"SEC. 121. GAIN FROM SALE OR EXCHANGE OF RESIDENCE
9 OF INDIVIDUAL WHO HAS ATTAINED AGE 65.**

10 "(a) GENERAL RULE.—At the election of the taxpayer,
11 gross income does not include gain from the sale or exchange
12 of property if—
13 "(1) the taxpayer has attained the age of 65 before
14 the date of such sale or exchange, and
15 "(2) during the 8-year period ending on the date
16 of the sale or exchange, such property has been owned
17 and used by the taxpayer as his principal residence for
18 periods aggregating 5 years or more.
19 "(b) LIMITATIONS.—
20 "(1) WHERE ADJUSTED SALES PRICE EXCEEDS
21 $20,000.—If the adjusted sales price of the property
22 sold or exchanged exceeds $20,000, subsection (a)
23 shall apply to that portion of the gain which bears the
24 same ratio to the total amount of such gain as $20,000
25 bears to such adjusted sales price. For purposes of the

1 preceding sentence, the term 'adjusted sales price' has
2 the meaning assigned to such term by section 1034
3 (b) (1) (determined without regard to subsection
4 (d) (7) of this section).

5 "(2) APPLICATION TO ONLY ONE SALE OR EX-
6 CHANGE.—Subsection (a) shall not apply to any sale
7 or exchange by the taxpayer if an election by the
8 taxpayer or his spouse under subsection (a) with
9 respect to any other sale or exchange is in effect.

10 "(c) ELECTION.—An election under subsection (a)
11 may be made or revoked at any time before the expiration
12 of the period for making a claim for credit or refund of the
13 tax imposed by this chapter for the taxable year in which
14 the sale or exchange occurred, and shall be made or revoked
15 in such manner as the Secretary or his delegate shall by
16 regulations prescribe. In the case of a taxpayer who is
17 married, an election under subsection (a) or a revocation
18 thereof may be made only if his spouse joins in such election
19 or revocation.

20 "(d) SPECIAL RULES.—

21 "(1) PROPERTY HELD JOINTLY BY HUSBAND AND
22 WIFE.—For purposes of this section, if—

23 "(A) property is held by a husband and wife
24 as joint tenants, tenants by the entirety, or com-
25 munity property,

1 "(B) such husband and wife make a joint re-
2 turn under section 6013 for the taxable year of the
3 sale or exchange, and
4 "(C) one spouse satisfies the age, holding, and
5 use requirements of subsection (a) with respect to
6 such property,
7 then both husband and wife shall be treated as satisfying
8 the age, holding, and use requirements of subsection (a)
9 with respect to such property.
10 "(2) PROPERTY OF DECEASED SPOUSE.—For pur-
11 poses of this section, in the case of an unmarried in-
12 dividual whose spouse is deceased on the date of the sale
13 or exchange of property, if—
14 "(A) the deceased spouse (during the 8-year
15 period ending on the date of the sale or exchange)
16 satisfied the holding and use requirements of sub-
17 section (a) (2) with respect to such property, and
18 "(B) no election by the deceased spouse under
19 subsection (a) is in effect with respect to a prior
20 sale or exchange,
21 then such individual shall be treated as satisfying the
22 holding and use requirements of subsection (a) (2) with
23 respect to such property.
24 "(3) TENANT-STOCKHOLDER IN COOPERATIVE
25 HOUSING CORPORATION.—For purposes of this section,

1 if the taxpayer holds stock as a tenant-stockholder (as
2 defined in section 216) in a cooperative housing corpora-
3 tion (as defined in such section), then—

4 "(A) the holding requirements of subsection
5 (a) (2) shall be applied to the holding of such
6 stock, and

7 "(B) the use requirements of subsection (a)
8 (2) shall be applied to the house or apartment
9 which the taxpayer was entitled to occupy as such
10 stockholder.

11 "(4) INVOLUNTARY CONVERSIONS.—For purposes
12 of this section, the destruction, theft, seizure, requisition,
13 or condemnation of property shall be treated as the sale
14 of such property.

15 "(5) PROPERTY USED IN PART AS PRINCIPAL RESI-
16 DENCE.—In the case of property only a portion of which,
17 during the 8-year period ending on the date of the sale
18 or exchange, has been owned and used by the taxpayer
19 as his principal residence for periods aggregating 5 years
20 or more, this section shall apply with respect to so much
21 of the gain from the sale or exchange of such property
22 as is determined, under regulations prescribed by the
23 Secretary or his delegate, to be attributable to the por-
24 tion of the property so owned and used by the taxpayer.

1 "(6) DETERMINATION OF MARITAL STATUS.—In
2 the case of any sale or exchange, for purposes of this
3 section—
4 "(A) the determination of whether an indi-
5 vidual is married shall be made as of the date of
6 the sale or exchange; and
7 "(B) an individual legally separated from his
8 spouse under a decree of divorce or of separate
9 maintenance shall not be considered as married.
10 "(7) APPLICATION OF SECTIONS 1033 AND
11 1034.—In applying sections 1033 (relating to involun-
12 tary conversions) and 1034 (relating to sale or exchange
13 of residence), the amount realized from the sale or ex-
14 change of property shall be treated as being the amount
15 determined without regard to this section, reduced by the
16 amount of gain not included in gross income pursuant
17 to an election under this section."
18 (b) TECHNICAL AND CLERICAL AMENDMENTS.—
19 (1) Section 6012(c) (relating to persons required
20 to make returns of income) is amended to read as
21 follows:
22 "(c) CERTAIN INCOME EARNED ABROAD OR FROM
23 SALE OF RESIDENCE.—For purposes of this section, gross
24 income shall be computed without regard to the exclusion

1 provided for in section 121 (relating to sale of residence by
2 individual who has attained age 65) and without regard to
3 the exclusion provided for in section 911 (relating to earned
4 income from sources without the United States)."

5 (2) The table of sections for part III of subchapter
6 B of chapter 1 is amended by striking out

"Sec. 121. Cross references to other Acts."

7 and inserting in lieu thereof

"Sec. 121. Gain from sale or exchange of residence of individual who has attained age 65.
"Sec. 122. Cross references to other Acts."

8 (3) Section 1033 (h) (relating to involuntary con-
9 versions) is amended by adding at the end thereof the
10 following new paragraph:

"(3) For exclusion from gross income of certain gain from involuntary conversion of residence of taxpayer who has attained age 65, see section 121."

11 (4) Section 1034 (relating to sale or exchange of
12 residence) is amended by adding at the end thereof the
13 following new subsection:

14 "(k) CROSS REFERENCE.—

"For exclusion from gross income of certain gain from sale or exchange of residence of taxpayer who has attained age 65, see section 121."

15 (c) EFFECTIVE DATE.—The amendments made by this
16 section shall apply to dispositions after December 31, 1963,
17 in taxable years ending after such date.

1 SEC. 207. DENIAL OF DEDUCTION FOR CERTAIN STATE,
2 LOCAL, AND FOREIGN TAXES.
3 (a) IN GENERAL.—Subsections (a), (b), and (c) of
4 section 164 (relating to deduction for taxes) are amended to
5 read as follows:
6 "(a) GENERAL RULE.—Except as otherwise provided
7 in this section, the following taxes shall be allowed as a de-
8 duction for the taxable year within which paid or accrued:
9 "(1) State and local, and foreign, real property
10 taxes.
11 "(2) State and local personal property taxes.
12 "(3) State and local, and foreign, income, war
13 profits, and excess profits taxes.
14 "(4) State and local general sales taxes.
15 In addition, there shall be allowed as a deduction State and
16 local, and foreign, taxes not described in the preceding sen-
17 tence which are paid or accrued within the taxable year in
18 carrying on a trade or business or an activity described in
19 section 212 (relating to expenses for production of income).
20 "(b) DEFINITIONS AND SPECIAL RULES.—For pur-
21 poses of this section—
22 "(1) PERSONAL PROPERTY TAXES.—The term
23 'personal property tax' means an ad valorem tax which
24 is imposed on an annual basis in respect of personal
25 property.

1 "(2) General sales taxes.—

2 "(A) In general.—The term 'general sales
3 tax' means a tax imposed at one rate in respect of
4 the sale at retail of a broad range of classes of items.

5 "(B) Special rules for food, etc.—In the
6 case of items of food, clothing, medical supplies, and
7 motor vehicles—

8 "(i) the fact that the tax does not apply
9 in respect of some or all of such items shall not
10 be taken into account in determining whether
11 the tax applies in respect of a broad range of
12 classes of items, and

13 "(ii) the fact that the rate of tax ap-
14 plicable in respect of some or all of such items
15 is lower than the general rate of tax shall not
16 be taken into account in determining whether
17 the tax is imposed at one rate.

18 "(C) Items taxed at different rates.—
19 Except in the case of a lower rate of tax applicable
20 in respect of an item described in subparagraph (B),
21 no deduction shall be allowed under this section for
22 any general sales tax imposed in respect of an item
23 at a rate other than the general rate of tax.

24 "(D) Compensating use taxes.—A com-
25 pensating use tax in respect of an item shall be

1 treated as a general sales tax. For purposes of the
2 preceding sentence, the term 'compensating use tax'
3 means, in respect of any item, a tax which—

4 "(i) is imposed on the use, storage, or
5 consumption of such item, and

6 "(ii) is complementary to a general sales
7 tax, but only if a deduction is allowable under
8 subsection (a) (4) in respect of items sold at
9 retail in the taxing jurisdiction which are similar
10 to such item.

11 "(E) SEPARATELY STATED GENERAL SALES
12 TAXES.—If the amount of any general sales tax is
13 separately stated, then, to the extent that the
14 amount so stated is paid by the consumer (other-
15 wise than in connection with the consumer's trade
16 or business) to his seller, such amount shall be
17 treated as a tax imposed on, and paid by, such
18 consumer.

19 "(3) STATE OR LOCAL TAXES.—A State or local
20 tax includes only a tax imposed by a State, a possession

1 of the United States, or a political subdivision of any of
2 the foregoing, or by the District of Columbia.
3 "(4) Foreign taxes.—A foreign tax includes only
4 a tax imposed by the authority of a foreign country.
5 "(c) Deduction Denied in Case of Certain
6 Taxes.—No deduction shall be allowed for the following
7 taxes:
8 "(1) Taxes assessed against local benefits of a kind
9 tending to increase the value of the property assessed;
10 but this paragraph shall not prevent the deduction of so
11 much of such taxes as is properly allocable to mainte-
12 nance or interest charges.
13 "(2) Taxes on real property, to the extent that
14 subsection (d) requires such taxes to be treated as
15 imposed on another taxpayer."
16 (b) Technical Amendments.—
17 (1) The first sentence of section 164 (f) (relating
18 to payments for municipal services in atomic energy
19 communities) is amended by inserting "State" before
20 "real property taxes".

1 (2) Section 164 (g) (relating to cross references)
2 is amended to read as follows:
3 "(g) CROSS REFERENCES.—

"(1) For provisions disallowing any deduction for the payment of the tax imposed by subchapter B of chapter 3 (relating to tax-free covenant bonds), see section 1451.

"(2) For provisions disallowing any deduction for certain taxes, see section 275."

4 (3) (A) Part IX of subchapter B of chapter 1
5 (relating to items not deductible) is amended by adding
6 at the end thereof the following new section:

7 **"SEC. 275. CERTAIN TAXES.**

8 "(a) GENERAL RULE.—No deduction shall be allowed
9 for the following taxes:
10 "(1) Federal income taxes, including—
11 "(A) the tax imposed by section 3101 (re-
12 lating to the tax on employees under the Federal
13 Insurance Contributions Act);
14 "(B) the taxes imposed by sections 3201 and
15 3211 (relating to the taxes on railroad employees
16 and railroad employee representatives); and
17 "(C) the tax withheld at source on wages
18 under section 3402, and corresponding provisions of
19 prior revenue laws.
20 "(2) Federal war profits and excess profits taxes.
21 "(3) Estate, inheritance, legacy, succession, and
22 gift taxes.

1 "(4) Income, war profits, and excess profits taxes
2 imposed by the authority of any foreign country or pos-
3 session of the United States, if the taxpayer chooses to
4 take to any extent the benefits of section 901 (relating
5 to the foreign tax credit).

6 "(5) Taxes on real property, to the extent that sec-
7 tion 164 (d) requires such taxes to be treated as imposed
8 on another taxpayer.

9 "(b) CROSS REFERENCE.—

"For disallowance of certain other taxes, see section 164(c)."

10 (B) The table of sections for such part IX is
11 amended by adding at the end thereof the following:

"Sec. 275. Certain taxes."

12 (4) Paragraph (1) of section 535 (b) (relating to
13 adjustments to accumulated taxable income) is amended
14 by striking out "section 164 (b) (6)" and inserting in
15 lieu thereof "section 275 (a) (4)".

16 (5) The first sentence of paragraph (1) of section
17 545 (b) (relating to adjustments to personal holding
18 company taxable income) is amended by striking out
19 "section 164 (b) (6)" and inserting in lieu thereof
20 "section 275 (a) (4)".

21 (6) The first sentence of paragraph (1) of section
22 556 (b) (relating to adjustments to foreign personal
23 holding company taxable income) is amended by strik-

1 ing out "section 164 (b) (6)" and inserting in lieu
2 thereof "section 275 (a) (4)".
3 (7) Paragraph (1) of section 901 (d) (relating
4 to credit for taxes imposed by foreign countries) is
5 amended by striking out "section 164" and inserting
6 in lieu thereof "sections 164 and 275".
7 (8) Section 903 (relating to credit for taxes
8 imposed by a foreign country in lieu of income, etc.,
9 taxes) is amended by striking out "section 164 (b)"
10 and inserting in lieu thereof "sections 164 (a) and 275
11 (a)".
12 (c) Effective Date.—The amendments made by this
13 section shall apply to taxable years beginning after Decem-
14 ber 31, 1963.
15 **SEC. 208. PERSONAL CASUALTY AND THEFT LOSSES.**
16 (a) Limitation on Amount of Casualty or
17 Theft Loss Deduction.—Section 165 (c) (3) (relating
18 to losses of property not connected with trade or business)
19 is amended to read as follows:
20 "(3) losses of property not connected with a trade
21 or business, if such losses arise from fire, storm, ship-
22 wreck, or other casualty, or from theft. A loss de-
23 scribed in this paragraph shall be allowed only to the
24 extent that the amount of loss to such individual arising
25 from each casualty, or from each theft, exceeds $100.

1 For purposes of the $100 limitation of the preceding
2 sentence, a husband and wife making a joint return
3 under section 6013 for the taxable year in which the
4 loss is allowed as a deduction shall be treated as one
5 individual. No loss described in this paragraph shall
6 be allowed if, at the time of filing the return, such
7 loss has been claimed for estate tax purposes in the
8 estate tax return."
9 (b) EFFECTIVE DATE.—The amendment made by sub-
10 section (a) shall apply to losses sustained after December
11 31, 1963, in taxable years ending after such date.
12 **SEC. 209. CHARITABLE, ETC., CONTRIBUTIONS AND GIFTS.**
13 (a) CERTAIN ORGANIZATIONS ADDED TO ADDITIONAL
14 10-PERCENT CHARITABLE LIMITATION.—Section 170(b)
15 (1)(A) (relating to limitation on amount of deduction for
16 charitable contributions by individuals) is amended by strik-
17 ing out "or" at the end of clause (iii), and by inserting after
18 clause (iv) the following new clauses:
19 "(v) a governmental unit referred to in
20 subsection (c)(1), or
21 "(vi) an organization referred to in sub-
22 section (c)(2) which normally receives a sub-
23 stantial part of its support (exclusive of income
24 received in the exercise or performance by such
25 organization of its charitable, educational, or

1 other purpose or function constituting the basis
2 for its exemption under section 501 (a)) from a
3 governmental unit referred to in subsection (c)
4 (1) or from direct or indirect contributions from
5 the general public,".

6 (b) 5-YEAR CARRYOVER OF CERTAIN CHARITABLE
7 CONTRIBUTIONS MADE BY CORPORATIONS.—

8 (1) IN GENERAL.—Section 170 (b) (2) (relating
9 to limitation on amount of deduction for charitable con-
10 tributions by corporations) is amended by striking out
11 the sentence following subparagraph (D) and inserting
12 in lieu thereof the following:
13 "Any contribution made by a corporation in a taxable
14 year (hereinafter in this sentence referred to as the
15 'contribution year') in excess of the amount deductible
16 for such year under the preceding sentence shall be
17 deductible for each of the 5 succeeding taxable years
18 in order of time, but only to the extent of the lesser of
19 the two following amounts: (i) the excess of the maxi-
20 mum amount deductible for such succeeding taxable year
21 under the preceding sentence over the sum of the con-
22 tributions made in such year plus the aggregate of the
23 excess contributions which were made in taxable years
24 before the contribution year and which are deductible un-
25 der this sentence for such succeeding taxable year; or
26 (ii) in the case of the first succeeding taxable year, the

1 amount of such excess contribution, and in the case of
2 the second, third, fourth, or fifth succeeding taxable
3 years, the portion of such excess contribution not de-
4 ductible under this sentence for any taxable year inter-
5 vening between the contribution year and such succeed-
6 ing taxable year."
7 (2) CARRYOVERS IN CERTAIN CORPORATE ACQUI-
8 SITIONS.—Paragraph (19) of section 381 (c) (relating
9 to items of distributor or transferor corporation) is
10 amended to read as follows:
11 "(19) CHARITABLE CONTRIBUTIONS IN EXCESS
12 OF PRIOR YEARS' LIMITATIONS.—Contributions made
13 in the taxable year ending on the date of distribution or
14 transfer and the 4 prior taxable years by the distributor
15 or transferor corporation in excess of the amount de-
16 ductible under section 170 (b) (2) for such taxable
17 years shall be deductible by the acquiring corporation
18 for its taxable years which begin after the date of dis-
19 tribution or transfer, subject to the limitations imposed
20 in section 170 (b) (2). In applying the preceding
21 sentence, each taxable year of the distributor or trans-
22 feror corporation beginning on or before the date of
23 distribution or transfer shall be treated as a prior taxable
24 year with reference to the acquiring corporation's tax-
25 able years beginning after such date."
26 (c) FUTURE INTERESTS IN TANGIBLE PERSONAL

1 PROPERTY.—Section 170 (relating to charitable, etc., con-
2 tributions and gifts) is amended by redesignating subsections
3 (f) and (g) as subsections (g) and (h), respectively, and
4 by inserting after subsection (e) the following new sub-
5 section:
6 "(f) FUTURE INTERESTS IN TANGIBLE PERSONAL
7 PROPERTY.—For purposes of this section, payment of a
8 charitable contribution which consists of a future interest in
9 tangible personal property shall be treated as made only
10 when all intervening interests in, and rights to the actual
11 possession or enjoyment of, the property have expired or are
12 held by persons other than the taxpayer or those standing
13 in a relationship to the taxpayer described in section 267
14 (b). For purposes of the preceding sentence, a fixture
15 which is intended to be severed from the real property shall
16 be treated as tangible personal property. This subsection
17 shall not apply to any charitable contribution where—
18 "(1) the sole intervening interest or right is a non-
19 transferable life interest reserved by the donor, or
20 "(2) in the case of a joint gift by husband and
21 wife, the sole intervening interest or right is a non-
22 transferable life interest reserved by the donors which
23 expires not later than the death of whichever of such
24 donors dies later.
25 For purposes of the preceding sentence, a right to make an
26 earlier transfer of the reserved life interest to the donee of

1 the future interest shall not be treated as making a life inter-
2 est transferable."
3 (d) EFFECTIVE DATES.—The amendments made by
4 subsections (a) and (b) shall apply with respect to con-
5 tributions which are paid (or treated as paid under section
6 170(a)(2) of the Internal Revenue Code of 1954) in tax-
7 able years beginning after December 31, 1963. The amend-
8 ments made by subsection (c) shall apply to transfers of
9 future interests made after December 31, 1963, in taxable
10 years ending after such date.

11 **SEC. 210. ONE-PERCENT LIMITATION ON MEDICINE AND**
12 **DRUGS.**

13 (a) GENERAL RULE.—Subsection (b) of section 213
14 (relating to medical, dental, etc., expenses) is amended by
15 adding at the end thereof the following new sentence: "The
16 preceding sentence shall not apply to amounts paid for the
17 care of—
18 "(1) the taxpayer and his spouse, if either of them
19 has attained the age of 65 before the close of the taxa-
20 ble year, or
21 "(2) any dependent described in subsection (a)
22 (1)(A)."
23 (b) EFFECTIVE DATE.—The amendment made by sub-
24 section (a) shall apply to taxable years beginning after
25 December 31, 1963.

1 SEC. 211. CARE OF DEPENDENTS.

2 (a) CHILD CARE ALLOWANCE.—Section 214 (relating
3 to expenses for care of certain dependents) is amended to
4 read as follows:

5 "SEC. 214. EXPENSES FOR CARE OF CERTAIN DEPENDENTS.

6 "(a) GENERAL RULE.—There shall be allowed as a
7 deduction expenses paid during the taxable year by a tax-
8 payer who is a woman or widower, or is a husband whose
9 wife is incapacitated or is institutionalized, for the care of one
10 or more dependents (as defined in subsection (d) (1)), but
11 only if such care is for the purpose of enabling the taxpayer
12 to be gainfully employed.

13 "(b) LIMITATIONS.—

14 "(1) DOLLAR LIMIT.—

15 "(A) Except as provided in subparagraph
16 (B), the deduction under subsection (a) shall not
17 exceed $600 for any taxable year.

18 "(B) The $600 limit of subparagraph (A)
19 shall be increased (to an amount not above $900)
20 by the amount of expenses incurred by the taxpayer
21 for any period during which—

22 "(i) the taxpayer had 2 or more depend-
23 ents, and

24 "(ii) paragraph (2) does not apply.

25 "(2) WORKING WIVES.—In the case of a woman

1 who is married, the deduction under subsection (a)—

2 "(A) shall not be allowed unless she files a

3 joint return with her husband for the taxable year,

4 and

5 "(B) shall be reduced by the amount (if any)

6 by which the adjusted gross income of the taxpayer

7 and her spouse exceeds $4,500.

8 This paragraph shall not apply to expenses incurred

9 while the taxpayer's husband is incapable of self-support

10 because mentally or physically defective.

11 "(3) HUSBANDS WITH INCAPACITATED WIVES.—

12 In the case of a husband whose wife is incapacitated,

13 the deduction under subsection (a)—

14 "(A) shall not be allowed unless he files a

15 joint return with his wife for the taxable year, and

16 "(B) shall be reduced by the amount (if any)

17 by which the adjusted gross income of the taxpayer

18 and his spouse exceeds $4,500.

19 This paragraph shall not apply to expenses incurred

20 while the taxpayer's wife is institutionalized if such in-

21 stitutionalization is for a period of at least 90 consecutive

22 days (whether or not within one taxable year) or a

23 shorter period if terminated by her death.

24 "(4) CERTAIN PAYMENTS NOT TAKEN INTO

1 ACCOUNT.—Subsection (a) shall not apply to any
2 amount paid to an individual with respect to whom the
3 taxpayer is allowed for his taxable year a deduction un-
4 der section 151 (relating to deductions for personal
5 exemptions).

6 "(c) SPECIAL RULE WHERE WIFE IS INCAPACI-
7 TATED OR INSTITUTIONALIZED.—In the case of a husband
8 whose wife is incapacitated or is institutionalized, the deduc-
9 tion under subsection (a) shall be allowed only for expenses
10 incurred while the wife was incapacitated or institutionalized
11 (as the case may be) for a period of at least 90 consecutive
12 days (whether or not within one taxable year) or a shorter
13 period if terminated by her death.

14 "(d) DEFINITIONS.—For purposes of this section—

15 "(1) DEPENDENT.—The term 'dependent' means a
16 person with respect to whom the taxpayer is entitled to
17 an exemption under section 151 (e) (1)—

18 "(A) who has not attained the age of 13 years
19 and who (within the meaning of section 152) is a
20 son, stepson, daughter, or stepdaughter of the tax-
21 payer; or

22 "(B) who is physically or mentally incapable
23 of caring for himself.

24 "(2) WIDOWER.—The term 'widower' includes an
25 unmarried individual who is legally separated from his

1 spouse under a decree of divorce or of separate mainte-
2 nance.

3 "(3) INCAPACITATED WIFE.—A wife shall be con-
4 sidered incapacitated only (A) while she is incapable of
5 caring for herself because mentally or physically defec-
6 tive, or (B) while she is institutionalized.

7 "(4) INSTITUTIONALIZED WIFE.—A wife shall be
8 considered institutionalized only while she is, for the
9 purpose of receiving medical care or treatment, an
10 inpatient, resident, or inmate of a public or private hos-
11 pital, sanitarium, or other similar institution.

12 "(5) DETERMINATION OF STATUS.—A woman
13 shall not be considered as married if—

14 "(A) she is legally separated from her spouse
15 under a decree of divorce or of separate maintenance
16 at the close of the taxable year, or

17 "(B) she has been deserted by her spouse, does
18 not know his whereabouts (and has not known his
19 whereabouts at any time during the taxable year),
20 and has applied to a court of competent jurisdiction
21 for appropriate process to compel him to pay support
22 or otherwise to comply with the law or a judicial
23 order, as determined under regulations prescribed by
24 the Secretary or his delegate."

1 (b) Effective Date.—The amendment made by sub-
2 section (a) shall apply to taxable years beginning after
3 December 31, 1963.

4 SEC. 212. MOVING EXPENSES.

5 (a) Deduction Allowed for Moving Expenses.—
6 (1) Part VII of subchapter B of chapter 1 (relat-
7 ing to additional itemized deductions for individuals) is
8 amended by redesignating section 217 as section 219 and
9 by inserting after section 216 the following new section:

10 "SEC. 217. MOVING EXPENSES.

11 "(a) Deduction Allowed.—There shall be allowed
12 as a deduction moving expenses paid or incurred during the
13 taxable year in connection with the commencement of work
14 by the taxpayer as an employee at a new principal place of
15 work.

16 "(b) Definition of Moving Expenses.—
17 "(1) In general.—For purposes of this section,
18 the term 'moving expenses' means only the reasonable
19 expenses—
20 "(A) of moving household goods and personal
21 effects from the former residence to the new resi-
22 dence, and
23 "(B) of traveling (including meals and lodg-

1 ing) from the former residence to the new place
2 of residence.
3 "(2) INDIVIDUALS OTHER THAN TAXPAYER.—In
4 the case of any individual other than the taxpayer, ex-
5 penses referred to in paragraph (1) shall be taken into
6 account only if such individual has both the former resi-
7 dence and the new residence as his principal place of
8 abode and is a member of the taxpayer's household.
9 "(c) CONDITIONS FOR ALLOWANCE.—No deduction
10 shall be allowed under this section unless—
11 "(1) the taxpayer's new principal place of work—
12 "(A) is at least 20 miles farther from his for-
13 mer residence than was his former principal place
14 of work, or
15 "(B) if he had no former principal place of
16 work, is at least 20 miles from his former residence,
17 and
18 "(2) during the 12-month period immediately fol-
19 lowing his arrival in the general location of his new
20 principal place of work, the taxpayer is a full-time em-
21 ployee, in such general location, during at least 39
22 weeks.

1 "(d) RULES FOR APPLICATION OF SUBSECTION
2 (c) (2).—
3 "(1) Subsection (c) (2) shall not apply to any
4 item to the extent that the taxpayer receives reim-
5 bursement or other expense allowance from his employer
6 for such item.
7 "(2) If a taxpayer has not satisfied the condition
8 of subsection (c) (2) before the time prescribed by law
9 (including extensions thereof) for filing the return for
10 the taxable year during which he paid or incurred mov-
11 ing expenses which would otherwise be deductible under
12 this section, but may still satisfy such condition, then
13 such expenses may (at the election of the taxpayer) be
14 deducted for such taxable year notwithstanding subsec-
15 tion (c) (2).
16 "(3) If—
17 "(A) for any taxable year moving expenses
18 have been deducted in accordance with the rule
19 provided in paragraph (2), and
20 "(B) the condition of subsection (c) (2) is
21 not satisfied by the close of the subsequent taxable
22 year,
23 then an amount equal to the expenses which were so

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1 deducted shall be included in gross income for such sub-
2 sequent taxable year.
3 "(e) DISALLOWANCE OF DEDUCTION WITH RESPECT
4 TO REIMBURSEMENTS NOT INCLUDED IN GROSS INCOME.—
5 No deduction shall be allowed under this section for any item
6 to the extent that the taxpayer receives reimbursement or
7 other expense allowance for such item which is not in-
8 cluded in his gross income.
9 "(f) REGULATIONS.—The Secretary or his delegate
10 shall prescribe such regulations as may be necessary to carry
11 out the purposes of this section."
12 (2) The table of sections for part VII of subchapter
13 B of chapter 1 is amended by striking out—

"Sec. 217. Cross references."

14 and inserting in lieu thereof the following:

"Sec. 217. Moving expenses.
"Sec. 218. Certain contributions by employees for group-term life insurance.
"Sec. 219. Cross references."

15 (b) ADJUSTED GROSS INCOME.—Section 62 (defining
16 adjusted gross income) is amended by inserting after para-
17 graph (7) the following new paragraph:
18 "(8) MOVING EXPENSE DEDUCTION.—The deduc-
19 tion allowed by section 217."

1 (c) WITHHOLDING.—Section 3401 (a) (relating to
2 definition of "wages") is amended by adding after paragraph
3 (14) (added by section 203 (c) of this Act) the following
4 new paragraph:

5 "(15) to or on behalf of an employee if (and to the
6 extent that) at the time of the payment of such remuner-
7 ation it is reasonable to believe that a corresponding
8 deduction is allowable under section 217."

9 (d) EFFECTIVE DATES.—The amendments made by
10 subsections (a) and (b) shall apply to expenses incurred
11 after December 31, 1963, in taxable years ending after such
12 date. The amendment made by subsection (c) shall apply
13 with respect to remuneration paid after December 31, 1963.

14 **SEC. 213. INTEREST ON LOANS INCURRED TO PURCHASE**
15 **CERTAIN INSURANCE AND ANNUITY CON-**
16 **TRACTS.**

17 (a) DISALLOWANCE OF INTEREST DEDUCTION.—
18 Section 264 (a) (relating to certain amounts paid in connec-
19 tion with insurance contracts) is amended—

20 (1) by inserting after paragraph (2) the follow-
21 ing new paragraph:

22 "(3) Except as provided in subsection (c), any
23 amount paid or accrued on indebtedness incurred or
24 continued to purchase or carry a life insurance, endow-
25 ment, or annuity contract (other than a single premium

1 contract or a contract treated as a single premium con-
2 tract) pursuant to a plan of purchase which contem-
3 plates the systematic direct or indirect borrowing of
4 part or all of the increases in the cash value of such
5 contract (either from the insurer or otherwise)."

6 (2) by adding at the end thereof the following
7 new sentence: "Paragraph (3) shall apply only in
8 respect of contracts purchased after August 6, 1963."

9 (b) EXCEPTIONS.—Section 264 is amended by adding
10 at the end thereof the following new subsection:

11 "(c) EXCEPTIONS.—Subsection (a) (3) shall not ap-
12 ply to any amount paid or accrued by a person during a
13 taxable year on indebtedness incurred or continued as part
14 of a plan referred to in subsection (a) (3)—

15 "(1) if no part of 4 of the annual premiums due
16 during the 7-year period (beginning with the date the
17 first premium on the contract to which such plan relates
18 was paid) is paid under such plan by means of indebted-
19 ness,

20 "(2) if the total of the amounts paid or accrued by
21 such person during such taxable year for which (with-
22 out regard to this paragraph) no deduction would be
23 allowable by reason of subsection (a) (3) does not
24 exceed $100,

25 "(3) if such amount was paid or accrued on in-

1 debtedness incurred because of an unforeseen substantial
2 loss of income or unforeseen substantial increase in his
3 financial obligations, or

4 "(4) if such indebtedness was incurred in con-
5 nection with his trade or business.

6 For purposes of applying paragraph (1), if there is a sub-
7 stantial increase in the premiums on a contract, a new 7-
8 year period described in such paragraph with respect to such
9 contract shall commence on the date the first such increased
10 premium is paid."

11 (c) EFFECTIVE DATE.—The amendments made by this
12 section shall apply with respect to amounts paid or accrued
13 in taxable years beginning after December 31, 1963.

14 **SEC. 214. EMPLOYEE STOCK OPTIONS AND PURCHASE**
15 **PLANS.**

16 (a) IN GENERAL.—Part II of subchapter D of chapter
17 1 is amended to read as follows:

18 **"PART II—CERTAIN STOCK OPTIONS**

"Sec. 421. General rules.
"Sec. 422. Qualified stock options.
"Sec. 423. Employee stock purchase plans.
"Sec. 424. Restricted stock options.
"Sec. 425. Definitions and special rules.

1 "SEC. 421. GENERAL RULES.

2 "(a) EFFECT OF QUALIFYING TRANSFER.—If a share
3 of stock is transferred to an individual in a transfer in
4 respect of which the requirements of section 422 (a),
5 423 (a), or 424 (a) are met—

6 "(1) except as provided in section 422 (c) (1),
7 no income shall result at the time of the transfer of
8 such share to the individual upon his exercise of the
9 option with respect to such share;

10 "(2) no deduction under section 162 (relating
11 to trade or business expenses) shall be allowable at
12 any time to the employer corporation, a parent or
13 subsidiary corporation of such corporation, or a corpora-
14 tion issuing or assuming a stock option in a transaction
15 to which section 425 (a) applies, with respect to the
16 share so transferred; and

17 "(3) no amount other than the price paid under
18 the option shall be considered as received by any of
19 such corporations for the share so transferred.

20 "(b) EFFECT OF DISQUALIFYING DISPOSITION.—If

1 the transfer of a share of stock to an individual pursuant to
2 his exercise of an option would otherwise meet the require-
3 ments of section 422 (a), 423 (a), or 424 (a) except that
4 there is a failure to meet any of the holding period require-
5 ments of section 422 (a) (1), 423 (a) (1), or 424 (a) (1),
6 then any increase in the income of such individual or deduc-
7 tion from the income of his employer corporation for the
8 taxable year in which such exercise occurred attributable to
9 such disposition, shall be treated as an increase in income or
10 a deduction from income in the taxable year of such in-
11 dividual or of such employer corporation in which such dis-
12 position occurred.
13 "(c) EXERCISE BY ESTATE.—
14 "(1) IN GENERAL.—If an option to which this part
15 applies is exercised after the death of the employee by
16 the estate of the decedent, or by a person who acquired
17 the right to exercise such option by bequest or in-
18 heritance or by reason of the death of the decedent,
19 the provisions of subsection (a) shall apply to the same
20 extent as if the option had been exercised by the dece-
21 dent, except that—
22 "(A) the holding period and employment
23 requirements of sections 422 (a), 423 (a), and 424
24 (a) shall not apply, and
25 "(B) any transfer by the estate of stock ac-

1 quired shall be considered a disposition of such stock
2 for purposes of sections 423 (c) and 424 (c) (1).
3 "(2) DEDUCTION FOR ESTATE TAX.—If an amount
4 is required to be included under section 422 (c) (1),
5 423 (c), or 424 (c) (1) in gross income of the estate
6 of the deceased employee or of a person described in
7 paragraph (1), there shall be allowed to the estate or
8 such person a deduction with respect to the estate tax
9 attributable to the inclusion in the taxable estate of
10 the deceased employee of the net value for estate tax
11 purposes of the option. For this purpose, the deduction
12 shall be determined under section 691 (c) as if the
13 option acquired from the deceased employee were an
14 item of gross income in respect of the decedent under
15 section 691 and as if the amount includible in gross
16 income under section 422 (c) (1), 423 (c), or 424 (c)
17 (1) were an amount included in gross income under
18 section 691 in respect of such item of gross income.
19 "(3) BASIS OF SHARES ACQUIRED.—In the case of
20 a share of stock acquired by the exercise of an option
21 to which paragraph (1) applies—
22 "(A) the basis of such share shall include
23 so much of the basis of the option as is attributable
24 to such share; except that the basis of such share
25 shall be reduced by the excess (if any) of (i) the

1 amount, which would have been includible in gross
2 income under section 422 (c) (1), 423 (c), or 424
3 (c) (1) if the employee had exercised the option
4 on the date of his death and had held the share
5 acquired pursuant to such exercise at the time
6 of his death, over (ii) the amount which is in-
7 cludible in gross income under such section; and
8 "(B) the last sentence of sections 422 (c) (1),
9 423 (c), and 424 (c) (1) shall apply only to the
10 extent that the amount includible in gross income
11 under such sections exceeds so much of the basis
12 of the option as is attributable to such share.
13 **"SEC. 422. QUALIFIED STOCK OPTIONS.**
14 "(a) In General.—Subject to the provisions of sub-
15 section (c) (1), section 421 (a) shall apply with respect to
16 the transfer of a share of stock to an individual pursuant to his
17 exercise of a qualified stock option if—
18 "(1) no disposition of such share is made by such
19 individual within the 3-year period beginning on the day
20 after the day of the transfer of such share, and
21 "(2) at all times during the period beginning with
22 the date of the granting of the option and ending on
23 the day 3 months before the date of such exercise, such
24 individual was an employee of either the corporation

1 granting such option, a parent or subsidiary corporation
2 of such corporation, or a corporation or a parent or sub-
3 sidiary corporation of such corporation issuing or assum-
4 ing a stock option in a transaction to which section
5 425 (a) applies.
6 "(b) QUALIFIED STOCK OPTION.—For purposes of this
7 part, the term 'qualified stock option' means an option
8 granted to an individual after June 11, 1963 (other than
9 a restricted stock option granted pursuant to a contract
10 described in section 424 (c) (4) (A)), for any reason con-
11 nected with his employment by a corporation, if granted
12 by the employer corporation or its parent or subsidiary cor-
13 poration, to purchase stock of any of such corporations, but
14 only if—
15 "(1) the option is granted pursuant to a plan
16 which includes the aggregate number of shares which
17 may be issued under options, and the employees (or
18 class of employees) eligible to receive options, and
19 which is approved by the stockholders of the granting
20 corporation within 12 months before or after the date
21 such plan is adopted;
22 "(2) such option is granted within 10 years from
23 the date such plan is adopted, or the date such plan
24 is approved by the stockholders, whichever is earlier;

1 "(3) such option by its terms is not exercisable
2 after the expiration of 5 years from the date such
3 option is granted;
4 "(4) except as provided in subsection (c) (1),
5 the option price is not less than the fair market value
6 of the stock at the time such option is granted;
7 "(5) such option by its terms is not exercisable
8 while there is outstanding (within the meaning of sub-
9 section (c) (2)) any qualified stock option (or re-
10 stricted stock option) which was granted, before the
11 granting of such option, to such individual to purchase
12 stock in his employer corporation or in a corporation
13 which (at the time of the granting of such option) is a
14 parent or subsidiary corporation of the employer corpora-
15 tion, or in a predecessor corporation of any of such
16 corporations;
17 "(6) such option by its terms is not transferable
18 by such individual otherwise than by will or the laws
19 of descent and distribution, and is exercisable, during
20 his lifetime, only by him; and
21 "(7) such individual, immediately after such option
22 is granted, does not own stock possessing more than 5
23 percent of the total combined voting power or value of
24 all classes of stock of the employer corporation or of its
25 parent or subsidiary corporation; except that if the

1 equity capital of such corporation or corporations (de-
2 termined at the time the option is granted) is less than
3 $2,000,000, then, for purposes of applying the limita-
4 tion of this paragraph, there shall be added to such
5 5 percent the percentage (not higher than 5 percent)
6 which bears the same ratio to 5 percent as the difference
7 between such equity capital and $2,000,000 bears to
8 $1,000,000.
9 "(c) SPECIAL RULES.—
10 "(1) EXERCISE OF OPTION WHEN PRICE IS LESS
11 THAN VALUE OF STOCK.—If a share of stock is trans-
12 ferred pursuant to the exercise by an individual of an
13 option which fails to qualify as a qualified stock option
14 under subsection (b) because there was a failure in an
15 attempt, made in good faith, to meet the requirement of
16 subsection (b)(4), the requirement of subsection (b)
17 (4) shall be considered to have been met, but there
18 shall be included as compensation (and not as gain upon
19 the sale or exchange of a capital asset) in his gross in-
20 come for the taxable year in which such option is ex-
21 ercised, an amount equal to the lesser of—
22 "(A) 150 percent of the difference between
23 the option price and the fair market value of the
24 share at the time the option was granted, or

1 "(B) the difference between the option price
2 and the fair market value of the share at the time
3 of such exercise.
4 The basis of the share acquired shall be increased by an
5 amount equal to the amount included in his gross income
6 under this paragraph in the taxable year in which the
7 exercise occurred.
8 "(2) CERTAIN OPTIONS TREATED AS OUTSTAND-
9 ING.—For purposes of subsection (b) (5)—
10 "(A) any restricted stock option which is not
11 terminated before January 1, 1965, and
12 "(B) any qualified stock option granted after
13 June 11, 1963,
14 shall be treated as outstanding until such option is exer-
15 cised in full or expires by reason of the lapse of time.
16 For purposes of the preceding sentence, a restricted stock
17 option granted before June 12, 1963, shall not be treated
18 as outstanding for any period before the first day on
19 which (under the terms of such option) it may be
20 exercised.
21 "(3) OPTIONS GRANTED TO CERTAIN SHARE-
22 HOLDERS.—For purposes of subsection (b) (7)—
23 "(A) the term 'equity capital' means—
24 "(i) in the case of one corporation, the
25 sum of its money and other property (in an

1 amount equal to the adjusted basis of such
2 property for determining gain), less the amount
3 of its indebtedness (other than indebtedness to
4 shareholders), and

5 "(ii) in the case of a group of corporations
6 consisting of a parent and its subsidiary cor-
7 porations, the sum of the equity capital of each
8 of such corporations adjusted, under regulations
9 prescribed by the Secretary or his delegate, to
10 eliminate the effect of intercorporate ownership
11 or transactions among such corporations;

12 "(B) the rules of section 425(d) shall apply
13 in determining the stock ownership of the indi-
14 vidual; and

15 "(C) stock which the individual may purchase
16 under outstanding options shall be treated as stock
17 owned by such individual.

18 If an individual is granted an option which permits
19 him to purchase stock in excess of the limitation of
20 subsection (b)(7) (determined by applying the rules
21 of this paragraph), such option shall be treated as
22 meeting the requirement of subsection (b)(7) to the
23 extent that such individual could, if the option were fully
24 exercised at the time of grant, purchase stock under
25 such option without exceeding such limitation. The

1 portion of such option which is treated as meeting the
2 requirement of subsection (b)(7) shall be deemed
3 to be that portion of the option which is first exercised.
4 "(4) CERTAIN DISQUALIFYING DISPOSITIONS
5 WHERE AMOUNT REALIZED IS LESS THAN VALUE AT
6 EXERCISE.—If—
7 "(A) an individual who has acquired a share
8 of stock by the exercise of a qualified stock option
9 makes a disposition of such share within the 3-year
10 period described in subsection (a)(1), and
11 "(B) such disposition is a sale or exchange
12 with respect to which a loss (if sustained) would
13 be recognized to such individual,
14 then the amount which is includible in the gross income
15 of such individual, and the amount which is deductible
16 from the income of his employer corporation, as com-
17 pensation attributable to the exercise of such option shall
18 not exceed the excess (if any) of the amount realized
19 on such sale or exchange over the amount paid for
20 such share.
21 "(5) CERTAIN TRANSFERS BY INSOLVENT INDI-
22 VIDUALS.—If an insolvent individual holds a share of
23 stock acquired pursuant to his exercise of a qualified
24 stock option, and if such share is transferred to a trustee,
25 receiver, or other similar fiduciary, in any proceeding

1 under the Bankruptcy Act or any other similar insol-
2 vency proceeding, neither such transfer, nor any other
3 transfer of such share for the benefit of his creditors
4 in such proceeding, shall constitute a 'disposition of
5 such share' for purposes of subsection (a) (1).

6 "SEC. 423. EMPLOYEE STOCK PURCHASE PLANS.

7 "(a) GENERAL RULE.—Section 421 (a) shall apply
8 with respect to the transfer of a share of stock to an individ-
9 ual pursuant to his exercise of an option granted after June
10 11, 1963 (other than a restricted stock option granted pur-
11 suant to a plan described in section 424 (c) (4) (B)), under
12 an employee stock purchase plan (as defined in subsection
13 (b)) if—

14 "(1) no disposition of such share is made by him
15 within 2 years after the date of the granting of the
16 option nor within 6 months after the transfer of such
17 share to him; and

18 "(2) at all times during the period beginning with
19 the date of the granting of the option and ending on
20 the day 3 months before the date of such exercise, he
21 is an employee of the corporation granting such option,
22 a parent or subsidiary corporation of such corporation,
23 or a corporation or a parent or subsidiary corporation
24 of such corporation issuing or assuming a stock option
25 in a transaction to which section 425 (a) applies.

1 "(b) EMPLOYEE STOCK PURCHASE PLAN.—For pur-
2 poses of this part, the term 'employee stock purchase plan'
3 means a plan which meets the following requirements:
4 "(1) the plan provides that options are to be
5 granted only to employees of the employer corporation
6 or of its parent or subsidiary corporation to purchase
7 stock in any such corporations;
8 "(2) such plan is approved by the stockholders
9 of the granting corporation within 12 months before or
10 after the date such plan is adopted;
11 "(3) under the terms of the plan, no employee can
12 be granted an option if such employee, immediately
13 after the option is granted, owns stock possessing 5 per-
14 cent or more of the total combined voting power or value
15 of all classes of stock of the employer corporation or of
16 its parent or subsidiary corporation. For purposes of
17 this paragraph, the rules of section 425(d) shall apply
18 in determining the stock ownership of an individual, and
19 stock which the employee may purchase under outstand-
20 ing options shall be treated as stock owned by the em-
21 ployee;
22 "(4) under the terms of the plan, options are to be
23 granted to all employees of any corporation whose em-
24 ployees are granted any of such options by reason of

1 their employment by such corporation, except that there
2 may be excluded—
3 "(A) employees who have been employed less
4 than 2 years,
5 "(B) employees whose customary employment
6 is 20 hours or less per week,
7 "(C) employees whose customary employment
8 is for not more than 5 months in any calendar year,
9 and
10 "(D) officers, persons whose principal duties
11 consist of supervising the work of other employees,
12 or highly compensated employees;
13 "(5) under the terms of the plan, all employees
14 granted such options shall have the same rights and
15 privileges, except that the amount of stock which may
16 be purchased by any employee under such option may
17 bear a uniform relationship to the total compensation,
18 or the basic or regular rate of compensation, of em-
19 ployees, and the plan may provide that no employee
20 may purchase more than a maximum amount of stock
21 fixed under the plan;
22 "(6) under the terms of the plan, the option price
23 is not less than the lesser of—
24 "(A) an amount equal to 85 percent of the

1 fair market value of the stock at the time such option
2 is granted, or
3 "(B) an amount which under the terms of the
4 option may not be less than 85 percent of the fair
5 market value of the stock at the time such option is
6 exercised;
7 "(7) under the terms of the plan, such option can-
8 not be exercised after the expiration of—
9 "(A) 5 years from the date such option is
10 granted if, under the terms of such plan, the option
11 price is to be not less than 85 percent of the fair
12 market value of such stock at the time of the exer-
13 cise of the option, or
14 "(B) 27 months from the date such option is
15 granted, if the option price is not determinable in
16 the manner described in subparagraph (A);
17 "(8) under the terms of the plan, no employee
18 may be granted an option which permits his rights to
19 purchase stock under all such plans of his employer
20 corporation and its parent and subsidiary corporations
21 to accrue at a rate which exceeds $25,000 of fair mar-
22 ket value of such stock (determined at the time such
23 option is granted) for each calendar year in which such
24 option is outstanding at any time. For purposes of this
25 paragraph—

1 "(A) the right to purchase stock under an
2 option accrues when the option (or any portion
3 thereof) first becomes exercisable during the
4 calendar year;
5 "(B) the right to purchase stock under an
6 option accrues at the rate provided in the option,
7 but in no case may such rate exceed $25,000 of
8 fair market value of such stock (determined at the
9 time such option is granted) for any one calendar
10 year; and
11 "(C) a right to purchase stock which has
12 accrued under one option granted pursuant to the
13 plan may not be carried over to any other option;
14 and
15 "(9) under the terms of the plan, such option is
16 not transferable by such individual otherwise than by
17 will or the laws of descent and distribution, and is exer-
18 cisable, during his lifetime, only by him.
19 For purposes of paragraphs (3) to (9), inclusive, where
20 additional terms are contained in an offering made under a
21 plan, such additional terms shall, with respect to options
22 exercised under such offering, be treated as a part of the
23 terms of such plan.
24 "(c) SPECIAL RULE WHERE OPTION PRICE IS BETWEEN
25 85 PERCENT AND 100 PERCENT OF VALUE OF STOCK.—If the

1 option price of a share of stock acquired by an individual pursu-
2 ant to a transfer to which subsection (a) applies was less than
3 100 percent of the fair market value of such share at the
4 time such option was granted, then, in the event of any
5 disposition of such share by him which meets the holding
6 period requirements of subsection (a), or in the event of
7 his death (whenever occurring) while owning such share,
8 there shall be included as compensation (and not as gain
9 upon the sale or exchange of a capital asset) in his gross
10 income, for the taxable year in which falls the date of
11 such disposition or for the taxable year closing with his
12 death, whichever applies, an amount equal to the lesser of—
13 "(1) the excess of the fair market value of the
14 share at the time of such disposition or death over
15 the amount paid for the share under the option, or
16 "(2) the excess of the fair market value of the
17 share at the time the option was granted over the option
18 price.
19 If the option price is not fixed or determinable at the time
20 the option is granted, then for purposes of this subsection,
21 the option price shall be determined as if the option were
22 exercised at such time. In the case of the disposition of
23 such share by the individual, the basis of the share in his
24 hands at the time of such disposition shall be increased by an

1 amount equal to the amount so includible in his gross income.

2 "SEC. 424. RESTRICTED STOCK OPTIONS.

3 "(a) IN GENERAL.—Section 421(a) shall apply with
4 respect to the transfer of a share of stock to an individual
5 pursuant to his exercise after 1949 of a restricted stock
6 option, if—

7 "(1) no disposition of such share is made by him
8 within 2 years from the date of the granting of the
9 option nor within 6 months after the transfer of such
10 share to him, and

11 "(2) at the time he exercises such option—

12 "(A) he is an employee of either the corpora-
13 tion granting such option, a parent or subsidiary
14 corporation of such corporation, or a corporation or
15 a parent or subsidiary corporation of such corpora-
16 tion issuing or assuming a stock option in a trans-
17 action to which section 425(a) applies, or

18 "(B) he ceased to be an employee of such
19 corporations within the 3-month period preceding
20 the time of exercise.

21 "(b) RESTRICTED STOCK OPTION.—For purposes of
22 this part, the term 'restricted stock option' means an option
23 granted after February 26, 1945, and before June 12, 1963

1 (or, if it meets the requirements of subsection (c) (4), an
2 option granted after June 11, 1963), to an individual,
3 for any reason connected with his employment by a corpo-
4 ration, if granted by the employer corporation or its parent
5 or subsidiary corporation, to purchase stock of any of such
6 corporations, but only if—

7 "(1) at the time such option is granted—

8 "(A) the option price is at least 85 percent of
9 the fair market value at such time of the stock sub-
10 ject to the option, or

11 "(B) in the case of a variable price option, the
12 option price (computed as if the option had been
13 exercised when granted) is at least 85 percent of
14 the fair market value of the stock at the time such
15 option is granted;

16 "(2) such option by its terms is not transferable by
17 such individual otherwise than by will or the laws of
18 descent and distribution, and is exercisable, during his
19 lifetime, only by him;

20 "(3) such individual, at the time the option is
21 granted, does not own stock possessing more than 10
22 percent of the total combined voting power of all classes
23 of stock of the employer corporation or of its parent
24 or subsidiary corporation. This paragraph shall not
25 apply if at the time such option is granted, the option

1 price is at least 110 percent of the fair market value
2 of the stock subject to the option, and such option either
3 by its terms is not exercisable after the expiration of 5
4 years from the date such option is granted or is exer-
5 cised within one year after August 16, 1954. For
6 purposes of this paragraph, the provisions of section 425
7 (d) shall apply in determining the stock ownership of an
8 individual; and

9 "(4) such option by its terms is not exercisable
10 after the expiration of 10 years from the date such
11 option is granted, if such option has been granted on or
12 after June 22, 1954.

13 "(c) SPECIAL RULES.—

14 "(1) OPTIONS UNDER WHICH OPTION PRICE IS
15 BETWEEN 85 PERCENT AND 95 PERCENT OF VALUE OF
16 STOCK.—If no disposition of a share of stock acquired by
17 an individual on his exercise after 1949 of a restricted
18 stock option is made by him within 2 years from the date
19 of the granting of the option nor within 6 months after
20 the transfer of such share to him, but, at the time the
21 restricted stock option was granted, the option price
22 (computed under subsection (b)(1)) was less than
23 95 percent of the fair market value at such time of such
24 share, then, in the event of any disposition of such share
25 by him, or in the event of his death (whenever occur-

1 ring) while owning such share, there shall be included
2 as compensation (and not as gain upon the sale or ex-
3 change of a capital asset) in his gross income, for the
4 taxable year in which falls the date of such disposition
5 or for the taxable year closing with his death, whichever
6 applies—
7 "(A) in the case of a share of stock acquired
8 under an option qualifying under subsection (b)
9 (1) (A), an amount equal to the amount (if any)
10 by which the option price is exceeded by the lesser
11 of—
12 "(i) the fair market value of the share at
13 the time of such disposition or death, or
14 "(ii) the fair market value of the share
15 at the time the option was granted; or
16 "(B) in the case of stock acquired under an
17 option qualifying under subsection (b) (1) (B), an
18 amount equal to the lesser of—
19 "(i) the excess of the fair market value of
20 the share at the time of such disposition or
21 death over the price paid under the option, or
22 "(ii) the excess of the fair market value of
23 the share at the time the option was granted
24 over the option price (computed as if the option
25 had been exercised at such time).

1 In the case of a disposition of such share by the indi-
2 vidual, the basis of the share in his hands at the time
3 of such disposition shall be increased by an amount
4 equal to the amount so includible in his gross income.
5 "(2) STOCKHOLDER APPROVAL.—For purposes of
6 this section, if the grant of an option is subject to ap-
7 proval by stockholders, the date of grant of the option
8 shall be determined as if the option had not been subject
9 to such approval.
10 "(3) VARIABLE PRICE OPTION.—For purposes of
11 subsection (b) (1), the term 'variable price option'
12 means an option under which the purchase price of the
13 stock is fixed or determinable under a formula in which
14 the only variable is the fair market value of the stock
15 at any time during a period of 6 months which includes
16 the time the option is exercised; except that in the case
17 of options granted after September 30, 1958, such term
18 does not include any such option in which such formula
19 provides for determining such price by reference to the
20 fair market value of the stock at any time before the
21 option is exercised if such value may be greater than the
22 average fair market value of the stock during the calen-
23 dar month in which the option is exercised.
24 "(4) CERTAIN OPTIONS GRANTED AFTER JUNE
25 11, 1963.—For purposes of subsection (b), an option

1 granted after June 11, 1963, meets the requirements
2 of this paragraph if granted pursuant to—
3 "(A) a binding written contract entered into
4 before June 12, 1963, or
5 "(B) a written plan adopted and approved
6 before June 12, 1963, which (as of June 12, 1963,
7 and as of the date of the granting of the option)—
8 "(i) met the requirements of paragraphs
9 (4) and (5) of section 423 (b), or
10 "(ii) was being administered in a way
11 which did not discriminate in favor of officers,
12 persons whose principal duties consist of super-
13 vising the work of other employees, or highly
14 compensated employees.
15 "**SEC. 425. DEFINITIONS AND SPECIAL RULES.**
16 "(a) CORPORATE REORGANIZATIONS, LIQUIDATIONS,
17 ETC.—For purposes of this part, the term 'issuing or assum-
18 ing a stock option in a transaction to which section 425 (a)
19 applies' means a substitution of a new option for the old
20 option, or an assumption of the old option, by an employer
21 corporation, or a parent or subsidiary of such corporation,
22 by reason of a corporate merger, consolidation, acquisition of
23 property or stock, separation, reorganization, or liquidation,
24 if—
25 "(1) the excess of the aggregate fair market value

1 of the shares subject to the option immediately after the
2 substitution or assumption over the aggregate option
3 price of such shares is not more than the excess of the
4 aggregate fair market value of all shares subject to the
5 option immediately before such substitution or assump-
6 tion over the aggregate option price of such shares, and
7 "(2) the new option or the assumption of the old
8 option does not give the employee additional benefits
9 which he did not have under the old option.
10 For purposes of this subsection, the parent-subsidiary rela-
11 tionship shall be determined at the time of any such trans-
12 action under this subsection.
13 "(b) ACQUISITION OF NEW STOCK.—For purposes of
14 this part, if stock is received by an individual in a distribu-
15 tion to which section 305, 354, 355, 356, or 1036 (or so
16 much of section 1031 as relates to section 1036) applies, and
17 such distribution was made with respect to stock transferred
18 to him upon his exercise of the option, such stock shall be
19 considered as having been transferred to him on his exercise
20 of such option. A similar rule shall be applied in the case of a
21 series of such distributions.
22 "(c) DISPOSITION.—
23 "(1) IN GENERAL.—Except as provided in para-
24 graph (2), for purposes of this part, the term 'disposi-

1 tion' includes a sale, exchange, gift, or a transfer of legal
2 title, but does not include—
3 "(A) a transfer from a decedent to an estate
4 or a transfer by bequest or inheritance;
5 "(B) an exchange to which section 354, 355,
6 356, or 1036 (or so much of section 1031 as relates
7 to section 1036) applies; or
8 "(C) a mere pledge or hypothecation.
9 "(2) JOINT TENANCY.—The acquisition of a share
10 of stock in the name of the employee and another jointly
11 with the right of survivorship or a subsequent transfer
12 of a share of stock into such joint ownership shall not
13 be deemed a disposition, but a termination of such joint
14 tenancy (except to the extent such employee acquires
15 ownership of such stock) shall be treated as a disposition
16 by him occurring at the time such joint tenancy is
17 terminated.
18 "(d) ATTRIBUTION OF STOCK OWNERSHIP.—For pur-
19 poses of this part, in applying the percentage limitations of
20 sections 422(b)(7), 423(b)(3), and 424(b)(3)—
21 "(1) the individual with respect to whom such
22 limitation is being determined shall be considered as
23 owning the stock owned, directly or indirectly, by or
24 for his brothers and sisters (whether by the whole or

1 half blood), spouse, ancestors, and lineal descendants;
2 and
3 "(2) stock owned, directly or indirectly, by or for
4 a corporation, partnership, estate, or trust, shall be con-
5 sidered as being owned proportionately by or for its
6 shareholders, partners, or beneficiaries.
7 "(e) PARENT CORPORATION.—For purposes of this
8 part, the term 'parent corporation' means any corporation
9 (other than the employer corporation) in an unbroken chain
10 of corporations ending with the employer corporation if, at
11 the time of the granting of the option, each of the corpora-
12 tions other than the employer corporation owns stock pos-
13 sessing 50 percent or more of the total combined voting
14 power of all classes of stock in one of the other corporations
15 in such chain.
16 "(f) SUBSIDIARY CORPORATION.—For purposes of this
17 part, the term 'subsidiary corporation' means any corporation
18 (other than the employer corporation) in an unbroken chain
19 of corporations beginning with the employer corporation
20 if, at the time of the granting of the option, each of the cor-
21 porations other than the last corporation in the unbroken
22 chain owns stock possessing 50 percent or more of the total
23 combined voting power of all classes of stock in one of the
24 other corporations in such chain.

1 "(g) SPECIAL RULE FOR APPLYING SUBSECTIONS
2 (e) AND (f).—In applying subsections (e) and (f) for
3 purposes of section 422(a)(2), 423(a)(2), and 424(a)
4 (2), there shall be substituted for the term 'employer cor-
5 poration' wherever it appears in subsections (e) and (f) the
6 term 'grantor corporation', or the term 'corporation issuing
7 or assuming a stock option in a transaction to which section
8 425(a) applies', as the case may be.
9 "(h) MODIFICATION, EXTENSION, OR RENEWAL OF
10 OPTION.—
11 "(1) IN GENERAL.—For purposes of this part, if
12 the terms of any option to purchase stock are modified,
13 extended, or renewed, such modification, extension, or
14 renewal shall be considered as the granting of a new
15 option.
16 "(2) SPECIAL RULES FOR SECTIONS 423 AND 424
17 OPTIONS.—
18 "(A) In the case of the transfer of stock pur-
19 suant to the exercise of an option to which section
20 423 or 424 applies and which has been so modified,
21 extended, or renewed, then, except as provided in
22 subparagraph (B), the fair market value of such
23 stock at the time of the granting of such option shall
24 be considered as whichever of the following is the
25 highest:

1 "(i) the fair market value of such stock
2 on the date of the original granting of the
3 option,
4 "(ii) the fair market value of such stock
5 on the date of the making of such modifica-
6 tion, extension, or renewal, or
7 "(iii) the fair market value of such stock
8 at the time of the making of any intervening
9 modification, extension, or renewal.
10 "(B) Subparagraph (A) shall not apply with
11 respect to a modification, extension, or renewal of
12 a restricted stock option before June 12, 1963 (or
13 after June 11, 1963, if made pursuant to a bind-
14 ing written contract entered into before June 12,
15 1963), if the aggregate of the monthly average fair
16 market values of the stock subject to the option
17 for the 12 consecutive calendar months before the
18 date of the modification, extension, or renewal,
19 divided by 12, is an amount less than 80 percent
20 of the fair market value of such stock on the date
21 of the original granting of the option or the date
22 of the making of any intervening modification, ex-
23 tension, or renewal, whichever is the highest.
24 "(3) DEFINITION OF MODIFICATION.—The term
25 'modification' means any change in the terms of the

1 option which gives the employee additional benefits
2 under the option, but such term shall not include a
3 change in the terms of the option—
4 "(A) attributable to the issuance or assump-
5 tion of an option under subsection (a); or
6 "(B) to permit the option to qualify under
7 sections 422 (b) (6), 423 (b) (9), and 424 (b) (2).
8 If a restricted stock option is exercisable after the expira-
9 tion of 10 years from the date such option is granted, sub-
10 paragraph (B) shall not apply unless the terms of the
11 option are also changed to make it not exercisable after
12 the expiration of such period.
13 "(i) CROSS REFERENCES.—

"For provisions requiring the reporting of certain acts with respect to a qualified stock option, options granted under employer stock purchase plans, or a restricted stock option, see section 6039."

14 (b) ADMINISTRATIVE PROVISIONS.—
15 (1) REPORTING REQUIREMENT FOR CERTAIN
16 OPTIONS.—Subpart A of part III of subchapter A of
17 chapter 61 (relating to information returns) is amended
18 by renumbering section 6039 as 6040, and by inserting
19 after section 6038 the following new section:

1 **"SEC. 6039. INFORMATION REQUIRED IN CONNECTION**
2 **WITH CERTAIN OPTIONS.**

3 "(a) REQUIREMENT OF REPORTING.—Every corpora-
4 tion—

5 "(1) which in any calendar year transfers a share
6 of stock to any person pursuant to such person's exer-
7 cise of a qualified stock option or a restricted stock
8 option, or

9 "(2) which in any calendar year records (or has
10 by its agent recorded) a transfer of the legal title of a
11 share of stock—

12 "(A) acquired by the transferor pursuant to his
13 exercise of an option described in section 423(c)
14 (relating to special rule where option price is be-
15 tween 85 percent and 100 percent of value of
16 stock), or

17 "(B) acquired by the transferor pursuant to
18 his exercise of a restricted stock option described in
19 section 424(c)(1) (relating to options under
20 which option price is between 85 percent and 95
21 percent of value of stock),

1 shall, for such calendar year, make a return at such time
2 and in such manner, and setting forth such information, as
3 the Secretary or his delegate may by regulations prescribe.
4 For purposes of the preceding sentence, any option which a
5 corporation treats as a qualified stock option, a restricted
6 stock option, or an option granted under an employee stock
7 purchase plan, shall be deemed to be such an option. A
8 return is required by reason of a transfer described in para-
9 graph (2) of a share only with respect to the first transfer
10 of such share by the person who exercised the option.
11 "(b) STATEMENTS TO BE FURNISHED TO PERSONS
12 WITH RESPECT TO WHOM INFORMATION IS FURNISHED.—
13 Every corporation making a return under subsection
14 (a) shall furnish to each person whose name is set forth
15 in such return a written statement setting forth such informa-
16 tion as the Secretary or his delegate may by regulations
17 prescribe. The written statement required under the preced-
18 ing sentence shall be furnished to the person on or before
19 January 31 of the year following the calendar year for which
20 the return under subsection (a) was made.
21 "(c) IDENTIFICATION OF STOCK.—Any corporation
22 which transfers any share of stock pursuant to the exercise
23 of an option described in subsection (a) (2) shall identify
24 such stock in a manner adequate to carry out the purposes
25 of this section.

1 "(d) CROSS REFERENCES.—

"For definition of—
"(1) The term 'qualified stock option', see section 422(b).
"(2) The term 'employee stock purchase plan', see section 423(b).
"(3) The term 'restricted stock option', see section 424(b)."

2 (2) PENALTIES FOR FAILURE TO FILE INFORMA-
3 TION RETURNS.—Section 6652 (a) (relating to failure
4 to file certain information returns) is amended to read
5 as follows:
6 "(a) RETURNS RELATING TO PAYMENTS OF DIVI-
7 DENDS, ETC., AND CERTAIN TRANSFERS OF STOCK.—In
8 the case of each failure to file a statement of—
9 "(1) the aggregate amount of payments to another
10 person required by section 6042 (a) (1) (relating to
11 payments of dividends aggregating $10 or more), sec-
12 tion 6044 (a) (1) (relating to payments of patronage
13 dividends aggregating $10 or more), or section 6049
14 (a) (1) (relating to payments of interest aggregating
15 $10 or more), or
16 "(2) the transfer of stock or the transfer of legal
17 title of stock required by section 6039 (relating to
18 information in connection with certain options),
19 on the date prescribed therefor (determined with regard to
20 any extension of time for filing), unless it is shown that such

1 failure is due to reasonable cause and not to willful neglect,
2 there shall be paid (upon notice and demand by the Secre-
3 tary or his delegate and in the same manner as tax), by the
4 person failing to so file the statement, $10 for each such
5 statement not so filed, but the total amount imposed on the
6 delinquent person for all such failures during any calendar
7 year shall not exceed $25,000."

8 (3) PENALTIES FOR FAILURE TO FURNISH
9 STATEMENTS TO PERSONS WITH RESPECT TO WHOM
10 RETURNS ARE FILED.—Section 6678 (relating to failure
11 to furnish certain statements) is amended—

12 (A) by striking out "section 6042(c)," and
13 inserting in lieu thereof "section 6039(b), 6042
14 (c),"; and

15 (B) by striking out "section 6042(a)(1),"
16 and inserting in lieu thereof "section 6039(a),
17 6042(a)(1),".

18 (c) TECHNICAL AMENDMENTS.—

19 (1) Section 402(a)(3)(B) (relating to tax-
20 ability of beneficiary of employees' trust) is amended
21 by striking out "section 421(d)(2) and (3)" and in-
22 serting in lieu thereof "subsections (e) and (f) of
23 section 425".

24 (2) The last sentence of subparagraph (B) of

1 section 691 (c) (2) (relating to allowance of deduction
2 for estate tax in case of items constituting income in
3 respect of a decedent) is amended to read as follows:
4 "Such net value shall be determined with respect to the
5 provisions of section 421 (c) (2), relating to the deduc-
6 tion for estate tax with respect to stock options to which
7 part II of subchapter D apply."
8 (d) CLERICAL AMENDMENTS.—
9 (1) The table of parts for subchapter D of chapter
10 1 is amended by striking out

"Part II. Miscellaneous provisions."

11 and inserting in lieu thereof the following:

"Part II. Certain stock options."

12 (2) The table of sections for subpart A of part
13 III of subchapter A of chapter 61 is amended by
14 striking out

"Sec. 6039. Cross references."

15 and inserting in lieu thereof:

"Sec. 6039. Information required in connection with certain options.
"Sec. 6040. Cross references."

16 (e) EFFECTIVE DATE.—
17 (1) Except as provided in paragraph (2),
18 the amendments made by this section shall apply to
19 taxable years ending after June 11, 1963.

1 (2) The amendments made by subsection (b) shall
2 apply to stock transferred pursuant to options exercised
3 on or after January 1, 1964.

4 **SEC. 215. INTEREST ON CERTAIN DEFERRED PAYMENTS.**

5 (a) In General.—Part III of subchapter E of chapter
6 1 (relating to accounting periods and methods of account-
7 ing) is amended by adding at the end thereof the following
8 new section:

9 **"SEC. 483. INTEREST ON CERTAIN DEFERRED PAYMENTS.**

10 "(a) Amount Constituting Interest.—For pur-
11 poses of this title, in the case of any contract for the sale
12 or exchange of property there shall be treated as interest
13 that part of a payment to which this section applies which
14 bears the same ratio to the amount of such payment as the
15 total unstated interest under such contract bears to the total
16 of the payments to which this section applies which are due
17 under such contract.

18 "(b) Total Unstated Interest.—For purposes of
19 this section, the term 'total unstated interest' means, with
20 respect to a contract for the sale or exchange of property,
21 an amount equal to the excess of—

22 "(1) the sum of the payments to which this sec-
23 tion applies which are due under the contract, over

1 "(2) the sum of the present values of such pay-
2 ments and the present values of any interest payments
3 due under the contract.
4 For purposes of paragraph (2), the present value of a pay-
5 ment shall be determined, as of the date of the sale or ex-
6 change, by discounting such payment at the rate, and in the
7 manner, provided in regulations prescribed by the Secretary
8 or his delegate. Such regulations shall provide for discount-
9 ing on the basis of 6-month brackets and shall provide that
10 the present value of any interest payment due not more than
11 6 months after the date of the sale or exchange is an amount
12 equal to 100 percent of such payment.
13 "(c) PAYMENTS TO WHICH SECTION APPLIES.—
14 "(1) IN GENERAL.—Except as provided in sub-
15 section (f), this section shall apply to any payment on
16 account of the sale or exchange of property which con-
17 stitutes part or all of the sales price and which is due
18 more than 6 months after the date of such sale or ex-
19 change under a contract—
20 "(A) under which some or all of the payments
21 are due more than one year after the date of such
22 sale or exchange, and
23 "(B) under which, using a rate provided by

1 regulations prescribed by the Secretary or his dele-
2 gate for purposes of this subparagraph, there is total
3 unstated interest.

4 Any rate prescribed for determining whether there is
5 total unstated interest for purposes of subparagraph (B)
6 shall be at least one percentage point lower than the
7 rate prescribed for purposes of subsection (b) (2).

8 "(2) TREATMENT OF EVIDENCE OF INDEBTED-
9 NESS.—For purposes of this section, an evidence of in-
10 debtedness of the purchaser given in consideration for
11 the sale or exchange of property shall not be considered
12 a payment, and any payment due under such evidence
13 of indebtedness shall be treated as due under the contract
14 for the sale or exchange.

15 "(d) PAYMENTS THAT ARE INDEFINITE AS TO TIME,
16 LIABILITY, OR AMOUNT.—In the case of a contract for the
17 sale or exchange of property under which the liability for,
18 or the amount or due date of, any portion of a payment can-
19 not be determined at the time of the sale or exchange, this
20 section shall be separately applied to such portion as if it
21 (and any amount of interest attributable to such portion)
22 were the only payments due under the contract; and such
23 determinations of liability, amount, and due date shall be
24 made at the time payment of such portion is made.

25 "(e) CHANGE IN TERMS OF CONTRACT.—If the lia-

1 bility for, or the amount or due date of, any payment (includ-
2 ing interest) under a contract for the sale or exchange of
3 property is changed, the 'total unstated interest' under the
4 contract shall be recomputed and allocated (with adjustment
5 for prior interest (including unstated interest) payments)
6 under regulations prescribed by the Secretary or his delegate.
7 "(f) EXCEPTIONS AND LIMITATIONS.—
8 "(1) SALES PRICE OF $3,000 OR LESS.—This sec-
9 tion shall not apply to any payment on account of the
10 sale or exchange of property if it can be determined at
11 the time of such sale or exchange that the sales price
12 cannot exceed $3,000.
13 "(2) CARRYING CHARGES.—In the case of the pur-
14 chaser, the tax treatment of amounts paid on account
15 of the sale or exchange of property shall be made with-
16 out regard to this section if any such amounts are treated
17 under section 163 (b) as if they included interest.
18 "(3) TREATMENT OF SELLER.—In the case of the
19 seller, the tax treatment of any amounts received on
20 account of the sale or exchange of property shall be
21 made without regard to this section if no part of any
22 gain on such sale or exchange would be considered as
23 gain from the sale or exchange of a capital asset or prop-
24 erty described in section 1231.
25 "(4) SALES OR EXCHANGES OF PATENTS.—This

1 section shall not apply to any payments made pursuant
2 to a transfer described in section 1235 (a) (relating to
3 sale or exchange of patents).

4 "(5) ANNUITIES.—This section shall not apply to
5 any amount the liability for which depends in whole or
6 in part on the life expectancy of one or more individ-
7 uals and which constitutes an amount received as an
8 annuity to which section 72 applies."

9 (b) CLERICAL AMENDMENT.—The table of sections for
10 such part is amended by adding at the end thereof the fol-
11 lowing new item:

"Sec. 483. Interest on certain deferred payments."

12 (c) CERTAIN CARRYING CHARGES.—The first sentence
13 of section 163 (b) (1) (relating to installment purchases
14 where interest charge is not separately stated) is amended
15 by striking out "personal property is purchased" and inserting
16 in lieu thereof "personal property or services are purchased".

17 (d) EFFECTIVE DATES.—The amendments made by
18 subsections (a) and (b) shall apply to payments made after
19 December 31, 1963, on account of sales or exchanges of
20 property occurring after June 30, 1963. The amendment
21 made by subsection (c) shall apply to payments made dur-
22 ing taxable years beginning after December 31, 1963.

1 SEC. 216. PERSONAL HOLDING COMPANIES.

2 (a) PERSONAL HOLDING COMPANY TAX RATE.—
3 Section 541 (relating to imposition of personal holding
4 company tax) is amended by striking out "tax equal to"
5 and all that follows and inserting in lieu thereof: "tax equal
6 to 70 percent of the undistributed personal holding company
7 income."

8 (b) DEFINITION OF PERSONAL HOLDING COMPANY.—
9 Paragraph (1) of section 542(a) (relating to the gross
10 income requirement for personal holding company purposes)
11 is amended to read as follows:

12 "(1) ADJUSTED ORDINARY GROSS INCOME RE-
13 QUIREMENT.—At least 60 percent of its adjusted
14 ordinary gross income (as defined in section 543(b)
15 (2)) for the taxable year is personal holding company
16 income (as defined in section 543(a)), and".

17 (c) EXCLUDED CORPORATIONS.—

18 (1) DOMESTIC BUILDING AND LOAN ASSOCIA-
19 TIONS.—Paragraph (2) of section 542(c) (relating to
20 corporations excepted from the definition of personal
21 holding company) is amended to read as follows:

22 "(2) a bank as defined in section 581, or a do-

1 mestic building and loan association within the meaning
2 of section 7701 (a) (19) without regard to subpara-
3 graphs (D) and (E) thereof;".
4 (2) LENDING AND FINANCE COMPANIES.—Sec-
5 tion 542 (c) is amended by striking out paragraphs (6),
6 (7), (8), and (9), by renumbering paragraphs (10)
7 and (11) as paragraphs (7) and (8), and by insert-
8 ing after paragraph (5) the following new paragraph:
9 "(6) a lending or finance company if—
10 "(A) 60 percent or more of its ordinary gross
11 income (as defined in section 543 (b) (1)) is de-
12 rived directly from the active and regular conduct
13 of a lending or finance business;
14 "(B) the personal holding company income for
15 the taxable year (computed without regard to in-
16 come described in subsection (d) (3) and in-
17 come derived directly from the active and regular
18 conduct of a lending or finance business, and com-
19 puted by including as personal holding company
20 income the entire amount of the gross income from
21 rents, royalties, produced film rents, and compen-
22 sation for use of corporate property by sharehold-
23 ers), plus the interest described in section 543
24 (b) (2) (C), is not more than 20 percent of the
25 ordinary gross income;

1 "(C) the sum of the deductions which are
2 directly allocable to the active and regular con-
3 duct of its lending or finance business equals or
4 exceeds the sum of—
5 "(i) 15 percent of so much of the ordinary
6 gross income derived therefrom as does not
7 exceed $500,000, plus
8 "(ii) 5 percent of so much of the ordinary
9 gross income derived therefrom as exceeds
10 $500,000 but not $1,000,000; and
11 "(D) the loans to a person who is a share-
12 holder in such company during the taxable year
13 by or for whom 10 percent or more in value of
14 its outstanding stock is owned directly or indirectly
15 (including, in the case of an individual, stock owned
16 by members of his family as defined in section 544
17 (a)(2)), outstanding at any time during such year
18 do not exceed $5,000 in principal amount;".
19 (3) SPECIAL RULES FOR SECTION 542(c)(6).—Sec-
20 tion 542 is amended by adding at the end thereof the
21 following new subsection:
22 "(d) SPECIAL RULES FOR APPLYING SUBSECTION
23 (c)(6).—
24 "(1) LENDING OR FINANCE BUSINESS DEFINED.—
25 "(A) IN GENERAL.—Except as provided in

1 subparagraph (B), for purposes of subsection (c)
2 (6), the term 'lending or finance business' means
3 a business of—
4 "(i) making loans, or
5 "(ii) purchasing or discounting accounts
6 receivable, notes, or installment obligations.
7 "(B) EXCEPTIONS.—For purposes of subpara-
8 graph (A), the term 'lending or finance business'
9 does not include the business of—
10 "(i) making loans, or purchasing or dis-
11 counting accounts receivable, notes, or install-
12 ment obligations, if (at the time of the loan,
13 purchase, or discount) the remaining maturity
14 exceeds 60 months, or
15 "(ii) making loans evidenced by, or pur-
16 chasing, certificates of indebtedness issued in a
17 series, under a trust indenture, and in registered
18 form or with interest coupons attached.
19 For purposes of clause (i), the remaining maturity
20 shall be treated as including any period for which
21 there may be a renewal or extension under the terms
22 of an option exercisable by the borrower.
23 "(2) BUSINESS DEDUCTIONS.—For purposes of
24 subsection (c) (6) (C), the deductions which may be
25 taken into account shall include only—

1 "(A) deductions which are allowable only by
2 reason of section 162 or section 404, except there
3 shall not be included any such deduction in respect
4 of compensation for personal services rendered by
5 shareholders (including members of the share-
6 holder's family as described in section 544 (a) (2)),
7 and
8 "(B) deductions allowable under section 167,
9 and deductions allowable under section 164 for
10 real property taxes, but in either case only to the
11 extent that the property with respect to which such
12 deductions are allowable is used directly in the
13 active and regular conduct of the lending or finance
14 business.
15 "(3) INCOME RECEIVED FROM CERTAIN DOMESTIC
16 SUBSIDIARIES.—For purposes of subsection (c) (6)
17 (B), in the case of a lending company which is author-
18 ized to engage in and is actively and regularly engaged
19 in the small loan business (consumer finance business)
20 under one or more State statutes providing for the direct
21 regulation of such business, and which meets the require-
22 ments of subsection (c) (6) (A), there shall not be
23 treated as personal holding company income the law-
24 ful income received from domestic subsidiary corpora-
25 tions (of which stock possessing at least 80 percent of

1 the voting power of all classes of stock and of which at
2 least 80 percent of each class of nonvoting stock is
3 owned directly by such lending company) which are
4 themselves excepted under subsection (c) (6)."

5 (d) PERSONAL HOLDING COMPANY INCOME.—Subsec-
6 tions (a) and (b) of section 543 (relating to personal
7 holding company income) are amended to read as follows:

8 "(a) GENERAL RULE.—For purposes of this subtitle,
9 the term 'personal holding company income' means the
10 portion of the adjusted ordinary gross income which consists
11 of:

12 "(1) DIVIDENDS, ETC.—Dividends, interest, royal-
13 ties (other than mineral, oil, or gas royalties or copy-
14 right royalties), and annuities. This paragraph shall
15 not apply to—

16 "(A) interest constituting rent (as defined in
17 subsection (b) (3)),

18 "(B) interest on amounts set aside in a re-
19 serve fund under section 511 or 607 of the Mer-
20 chant Marine Act, 1936, and

21 "(C) a dividend distribution of divested stock
22 (as defined in subsection (e) of section 1111), but
23 only if the stock with respect to which the distribu-
24 tion is made was owned by the distributee on Sep-
25 tember 6, 1961, or was owned by the distributee

1 for at least 2 years before the date on which the
2 antitrust order (as defined in subsection (d) of sec-
3 tion 1111) was entered.
4 "(2) RENTS.—The adjusted income from rents;
5 except that such adjusted income shall not be included
6 if—
7 "(A) such adjusted income constitutes 50 per-
8 cent or more of the adjusted ordinary gross income,
9 and
10 "(B) the personal holding company income for
11 the taxable year (computed without regard to this
12 paragraph and paragraph (6), and computed by
13 including as personal holding company income
14 copyright royalties and the adjusted income from
15 mineral, oil, and gas royalties) is not more than
16 10 percent of the ordinary gross income.
17 "(3) MINERAL, OIL, AND GAS ROYALTIES.—The
18 adjusted income from mineral, oil, and gas royalties;
19 except that such adjusted income shall not be included
20 if—
21 "(A) such adjusted income constitutes 50 per-
22 cent or more of the adjusted ordinary gross income,
23 "(B) the personal holding company income for
24 the taxable year (computed without regard to this
25 paragraph, and computed by including as personal

1 holding company income copyright royalties and
2 the adjusted income from rents) is not more than
3 10 percent of the ordinary gross income, and
4 "(C) the sum of the deductions which are al-
5 lowable under section 162 (relating to trade or busi-
6 ness expenses) other than—
7 "(i) deductions for compensation for per-
8 sonal services rendered by the shareholders,
9 and
10 "(ii) deductions which are specifically al-
11 lowable under sections other than section 162,
12 equals or exceeds 15 percent of the adjusted ordi-
13 nary gross income.
14 "(4) COPYRIGHT ROYALTIES.—Copyright royalties;
15 except that copyright royalties shall not be included if—
16 "(A) such royalties (exclusive of royalties
17 received for the use of, or right to use, copyrights
18 or interests in copyrights on works created in whole,
19 or in part, by any shareholder) constitute 50 per-
20 cent or more of the ordinary gross income,
21 "(B) the personal holding company income
22 for the taxable year computed—
23 "(i) without regard to copyright royalties,
24 other than royalties received for the use of, or
25 right to use, copyrights or interests in copyrights

1 in works created in whole, or in part, by any
2 shareholder owning more than 10 percent of
3 the total outstanding capital stock of the cor-
4 poration,
5 "(ii) without regard to dividends from any
6 corporation in which the taxpayer owns at least
7 50 percent of all classes of stock entitled to
8 vote and at least 50 percent of the total value
9 of all classes of stock and which corporation
10 meets the requirements of this subparagraph
11 and subparagraphs (A) and (C), and
12 "(iii) by including as personal holding
13 company income the adjusted income from
14 rents and the adjusted income from mineral,
15 oil, and gas royalties,
16 is not more than 10 percent of the ordinary gross
17 income, and
18 "(C) the sum of the deductions which are
19 properly allocable to such royalties and which are
20 allowable under section 162, other than—
21 "(i) deductions for compensation for per-
22 sonal services rendered by the shareholders,
23 "(ii) deductions for royalties paid or ac-
24 crued, and

1 "(iii) deductions which are specifically
2 allowable under sections other than section 162,
3 equals or exceeds 25 percent of the amount by
4 which the ordinary gross income exceeds the sum
5 of the royalties paid or accrued and the amounts
6 allowable as deductions under section 167 (relating
7 to depreciation) with respect to copyright royalties.
8 For purposes of this subsection, the term 'copyright
9 royalties' means compensation, however designated, for
10 the use of, or the right to use, copyrights in works pro-
11 tected by copyright issued under title 17 of the United
12 States Code (other than by reason of section 2 or 6
13 thereof) and to which copyright protection is also
14 extended by the laws of any country other than the
15 United States of America by virtue of any international
16 treaty, convention, or agreement, or interests in any
17 such copyrighted works, and includes payments from
18 any person for performing rights in any such copy-
19 righted work and payments (other than produced film
20 rents as defined in paragraph (5)(B)) received for
21 the use of, or right to use, films. For purposes of this
22 paragraph, the term 'shareholder' shall include any per-
23 son who owns stock within the meaning of section 544.

1 "(5) PRODUCED FILM RENTS.—

2 "(A) Produced film rents; except that such
3 rents shall not be included if such rents constitute
4 50 percent or more of the ordinary gross income.

5 "(B) For purposes of this section, the term
6 'produced film rents' means payments received with
7 respect to an interest in a film for the use of, or
8 right to use, such film, but only to the extent that
9 such interest was acquired before substantial com-
10 pletion of production of such film.

11 "(6) USE OF CORPORATION PROPERTY BY SHARE-
12 HOLDER.—Amounts received as compensation (however
13 designated and from whomsoever received) for the use
14 of, or right to use, property of the corporation in any
15 case where, at any time during the taxable year, 25
16 percent or more in value of the outstanding stock of the
17 corporation is owned, directly or indirectly, by or for an
18 individual entitled to the use of the property; whether
19 such right is obtained directly from the corporation or
20 by means of a sublease or other arrangement. This
21 paragraph shall apply only to a corporation which has
22 personal holding company income for the taxable year

1 (computed without regard to this paragraph and para-
2 graph (2), and computed by including as personal
3 holding company income copyright royalties and the
4 adjusted income from mineral, oil, and gas royalties)
5 in excess of 10 percent of its ordinary gross income.

6 "(7) PERSONAL SERVICE CONTRACTS.—

7 "(A) Amounts received under a contract un-
8 der which the corporation is to furnish personal
9 services; if some person other than the corporation
10 has the right to designate (by name or by descrip-
11 tion) the individual who is to perform the services,
12 or if the individual who is to perform the services
13 is designated (by name or by description) in the
14 contract; and

15 "(B) amounts received from the sale or other
16 disposition of such a contract.

17 This paragraph shall apply with respect to amounts
18 received for services under a particular contract only if
19 at some time during the taxable year 25 percent or more
20 in value of the outstanding stock of the corporation is
21 owned, directly or indirectly, by or for the individual who
22 has performed, is to perform, or may be designated (by
23 name or by description) as the one to perform, such
24 services.

25 "(8) ESTATES AND TRUSTS.—Amounts includible

1 in computing the taxable income of the corporation un-
2 der part I of subchapter J (sec. 641 and following,
3 relating to estates, trusts, and beneficiaries).
4 "(b) DEFINITIONS.—For purposes of this part—
5 "(1) ORDINARY GROSS INCOME.—The term 'ordi-
6 nary gross income' means the gross income determined
7 by excluding—
8 "(A) all gains from the sale or other disposi-
9 tion of capital assets, and
10 "(B) all gains (other than those referred to in
11 subparagraph (A)) from the sale or other disposi-
12 tion of property described in section 1231(b).
13 "(2) ADJUSTED ORDINARY GROSS INCOME.—The
14 term 'adjusted ordinary gross income' means the ordinary
15 gross income adjusted as follows:
16 "(A) RENTS.—From the gross income from
17 rents (as defined in the second sentence of para-
18 graph (3) of this subsection) subtract the amount
19 allowable as deductions for—
20 "(i) exhaustion, wear and tear, obsoles-
21 cence, and amortization,
22 "(ii) property taxes,
23 "(iii) interest, and
24 "(iv) rent,
25 to the extent allocable, under regulations prescribed

1 by the Secretary or his delegate, to such gross in-
2 come from rents. The amount subtracted under
3 this subparagraph shall not exceed such gross in-
4 come from rents.

5 "(B) MINERAL ROYALTIES, ETC.—From the
6 gross income from mineral, oil, and gas royalties
7 described in subsection (a) (3), and from the gross
8 income from working interests in an oil or gas well,
9 subtract the amount allowable as deductions for—

10 "(i) exhaustion, wear and tear, obsoles-
11 cence, amortization, and depletion,

12 "(ii) property and severance taxes,

13 "(iii) interest, and

14 "(iv) rent,

15 to the extent allocable, under regulations prescribed
16 by the Secretary or his delegate, to such gross in-
17 come from royalties or such gross income from work-
18 ing interests in oil or gas wells. The amount sub-
19 tracted under this subparagraph with respect to
20 royalties shall not exceed the gross income from such
21 royalties, and the amount subtracted under this
22 subparagraph with respect to working interests
23 shall not exceed the gross income from such working
24 interests.

25 "(C) INTEREST.—There shall be excluded—

1 "(i) interest received on a direct obliga-
2 tion of the United States held for sale to
3 customers in the ordinary course of trade or
4 business by a regular dealer who is making a
5 primary market in such obligations, and
6 "(ii) interest on a condemnation award, a
7 judgment, and a tax refund.
8 "(3) ADJUSTED INCOME FROM RENTS.—The term
9 'adjusted income from rents' means the gross income
10 from rents, reduced by the amount subtracted under
11 paragraph (2)(A) of this subsection. For purposes
12 of the preceding sentence, the term 'rents' means com-
13 pensation, however designated, for the use of, or right
14 to use, property, and the interest on debts owed to the
15 corporation, to the extent such debts represent the
16 price for which real property held primarily for sale
17 to customers in the ordinary course of its trade or
18 business was sold or exchanged by the corporation;
19 but does not include amounts constituting personal hold-
20 ing company income under subsection (a)(6), nor
21 copyright royalties (as defined in subsection (a)(4)),
22 nor produced film rents (as defined in subsection
23 (a)(5)(B)).
24 "(4) ADJUSTED INCOME FROM MINERAL, OIL,
25 AND GAS ROYALTIES.—The term 'adjusted income from

1 mineral, oil, and gas royalties' means the gross income
2 from such royalties, reduced by the amount subtracted
3 under paragraph (2)(B) of this subsection in respect
4 of such royalties."
5 (e) FOREIGN PERSONAL HOLDING COMPANY IN-
6 COME AND STOCK OWNERSHIP.—Section 553 (relating to
7 foreign personal holding company income) and section 554
8 (relating to stock ownership) are amended to read as
9 follows:
10 **"SEC. 553. FOREIGN PERSONAL HOLDING COMPANY IN-**
11 **COME.**
12 "(a) FOREIGN PERSONAL HOLDING COMPANY IN-
13 COME.—For purposes of this subtitle, the term 'foreign per-
14 sonal holding company income' means that portion of the
15 gross income, determined for purposes of section 552, which
16 consists of:
17 "(1) DIVIDENDS, ETC.—Dividends, interest, royal-
18 ties, and annuities. This paragraph shall not apply to
19 a dividend distribution of divested stock (as defined in
20 subsection (e) of section 1111) but only if the stock
21 with respect to which the distribution is made was
22 owned by the distributee on September 6, 1961, or was
23 owned by the distributee for at least 2 years before
24 the date on which the antitrust order (as defined in
25 subsection (d) of section 1111) was entered.

1 "(2) STOCK AND SECURITIES TRANSACTIONS.—
2 Except in the case of regular dealers in stock or secu-
3 rities, gains from the sale or exchange of stock or
4 securities.

5 "(3) COMMODITIES TRANSACTIONS.—Gains from
6 futures transactions in any commodity on or subject to
7 the rules of a board of trade or commodity exchange.
8 This paragraph shall not apply to gains by a producer,
9 processor, merchant, or handler of the commodity which
10 arise out of bona fide hedging transactions reasonably
11 necessary to the conduct of its business in the manner in
12 which such business is customarily and usually con-
13 ducted by others.

14 "(4) ESTATES AND TRUSTS.—Amounts includible
15 in computing the taxable income of the corporation
16 under part I of subchapter J (sec. 641 and following,
17 relating to estates, trusts, and beneficiaries); and gains
18 from the sale or other disposition of any interest in an
19 estate or trust.

20 "(5) PERSONAL SERVICE CONTRACTS.—
21 "(A) Amounts received under a contract
22 under which the corporation is to furnish personal
23 services; if some person other than the corporation
24 has the right to designate (by name or by descrip-

1 tion) the individual who is to perform the services,
2 or if the individual who is to perform the services
3 is designated (by name or by description) in the
4 contract; and

5 "(B) amounts received from the sale or other
6 disposition of such a contract.

7 This paragraph shall apply with respect to amounts
8 received for services under a particular contract only if
9 at some time during the taxable year 25 percent or more
10 in value of the outstanding stock of the corporation is
11 owned, directly or indirectly, by or for the individual
12 who has performed, is to perform, or may be designated
13 (by name or by description) as the one to perform, such
14 services.

15 "(6) USE OF CORPORATION PROPERTY BY SHARE-
16 HOLDER.—Amounts received as compensation (however
17 designated and from whomsoever received) for the use of,
18 or right to use, property of the corporation in any case
19 where, at any time during the taxable year, 25 percent
20 or more in value of the outstanding stock of the corpora-
21 tion is owned, directly or indirectly, by or for an indi-
22 vidual entitled to the use of the property; whether such
23 right is obtained directly from the corporation or by

1 means of a sublease or other arrangement. This para-
2 graph shall apply only to a corporation which has foreign
3 personal holding company income for the taxable year,
4 computed without regard to this paragraph and para-
5 graph (7), in excess of 10 percent of its gross income.
6 "(7) RENTS.—Rents, unless constituting 50 per-
7 cent or more of the gross income. For purposes of this
8 paragraph, the term 'rents' means compensation, how-
9 ever designated, for the use of, or right to use, property;
10 but does not include amounts constituting foreign per-
11 sonal holding company income under paragraph (6).
12 "(b) LIMITATION ON GROSS INCOME IN CERTAIN
13 TRANSACTIONS.—For purposes of this part—
14 "(1) gross income and foreign personal holding
15 company income determined with respect to transactions
16 described in subsection (a) (2) (relating to gains from
17 stock and security transactions) shall include only the
18 excess of gains over losses from such transactions, and
19 "(2) gross income and foreign personal holding
20 company income determined with respect to transactions
21 described in subsection (a) (3) (relating to gains from
22 commodity transactions) shall include only the excess of
23 gains over losses from such transactions.

1 "SEC. 554. STOCK OWNERSHIP.

2 "(a) CONSTRUCTIVE OWNERSHIP.—For purposes of de-
3 termining whether a corporation is a foreign personal holding
4 company, insofar as such determination is based on stock
5 ownership under section 552 (a) (2), section 553 (a) (5),
6 or section 553 (a) (6)—

7 "(1) STOCK NOT OWNED BY INDIVIDUAL.—Stock
8 owned, directly or indirectly, by or for a corporation,
9 partnership, estate, or trust shall be considered as being
10 owned proportionately by its shareholders, partners, or
11 beneficiaries.

12 "(2) FAMILY AND PARTNERSHIP OWNERSHIP.—
13 An individual shall be considered as owning the stock
14 owned, directly or indirectly, by or for his family or by
15 or for his partner. For purposes of this paragraph, the
16 family of an individual includes only his brothers and
17 sisters (whether by the whole or half blood), spouse,
18 ancestors, and lineal descendants.

19 "(3) OPTIONS.—If any person has an option to
20 acquire stock, such stock shall be considered as owned by
21 such person. For purposes of this paragraph, an option
22 to acquire such an option, and each one of a series of
23 such options, shall be considered as an option to acquire
24 such stock.

25 "(4) APPLICATION OF FAMILY-PARTNERSHIP AND

1 OPTION RULES.—Paragraphs (2) and (3) shall be
2 applied—
3 "(A) for purposes of the stock ownership
4 requirement provided in section 552 (a) (2), if, but
5 only if, the effect is to make the corporation a foreign
6 personal holding company;
7 "(B) for purposes of section 553 (a) (5)
8 (relating to personal service contracts) or of section
9 553 (a) (6) (relating to the use of property by
10 shareholders), if, but only if, the effect is to make
11 the amounts therein referred to includible under
12 such paragraph as foreign personal holding com-
13 pany income.
14 "(5) CONSTRUCTIVE OWNERSHIP AS ACTUAL
15 OWNERSHIP.—Stock constructively owned by a person
16 by reason of the application of paragraph (1) or (3)
17 shall, for purposes of applying paragraph (1) or (2),
18 be treated as actually owned by such person; but stock
19 constructively owned by an individual by reason of the
20 application of paragraph (2) shall not be treated as
21 owned by him for purposes of again applying such
22 paragraph in order to make another the constructive
23 owner of such stock.
24 "(6) OPTION RULE IN LIEU OF FAMILY AND
25 PARTNERSHIP RULE.—If stock may be considered as

1 owned by an individual under either paragraph (2)
2 or (3) it shall be considered as owned by him under
3 paragraph (3).

4 "(b) CONVERTIBLE SECURITIES.—Outstanding securi-
5 ties convertible into stock (whether or not convertible during
6 the taxable year) shall be considered as outstanding stock—

7 "(1) for purposes of the stock ownership require-
8 ment provided in section 552 (a) (2), but only if the
9 effect of the inclusion of all such securities is to make
10 the corporation a foreign personal holding company;

11 "(2) for purposes of section 553 (a) (5) (relating
12 to personal service contracts), but only if the effect of
13 the inclusion of all such securities is to make the amounts
14 therein referred to includible under such paragraph as
15 foreign personal holding company income; and

16 "(3) for purposes of section 553 (a) (6) (relating
17 to the use of property by shareholders), but only if the
18 effect of the inclusion of all such securities is to make the
19 amounts therein referred to includible under such para-
20 graph as foreign personal holding company income.

21 The requirement in paragraphs (1), (2), and (3) that all
22 convertible securities must be included if any are to be in-
23 cluded shall be subject to the exception that, where some of
24 the outstanding securities are convertible only after a later
25 date than in the case of others, the class having the earlier

1 conversion date may be included although the others are not
2 included, but no convertible securities shall be included unless
3 all outstanding securities having a prior conversion date are
4 also included."

5 (f) DIVIDENDS-PAID DEDUCTION.—

6 (1) Paragraph (2) of section 316 (b) (relating to
7 special rules for dividend defined) is amended to read
8 as follows:

9 "(2) DISTRIBUTIONS BY PERSONAL HOLDING COM-
10 PANIES.—

11 "(A) In the case of a corporation which—

12 "(i) under the law applicable to the tax-
13 able year in which the distribution is made, is a
14 personal holding company (as defined in section
15 542), or

16 "(ii) for the taxable year in respect of
17 which the distribution is made under section 563
18 (b) (relating to dividends paid after the close
19 of the taxable year), or section 547 (relating
20 to deficiency dividends), or the corresponding
21 provisions of prior law, is a personal holding
22 company under the law applicable to such tax-
23 able year,

24 the term 'dividend' also means any distribution of
25 property (whether or not a dividend as defined in

1 subsection (a)) made by the corporation to its
2 shareholders, to the extent of its undistributed per-
3 sonal holding company income (determined under
4 section 545 without regard to distributions under
5 this paragraph) for such year.
6 "(B) For purposes of subparagraph (A), the
7 term 'distribution of property' includes a distribu-
8 tion in complete liquidation occurring within 24
9 months after the adoption of a plan of liquidation,
10 but—
11 "(i) only to the extent of the amounts dis-
12 tributed to distributees other than corporate
13 shareholders, and
14 "(ii) only to the extent that the corpora-
15 tion designates such amounts as a dividend dis-
16 tribution and duly notifies such distributees of
17 such designation, under regulations prescribed
18 by the Secretary or his delegate, but
19 "(iii) not in excess of the sum of such
20 distributees' allocable share of the undistributed
21 personal holding company income for such
22 year, computed without regard to this subpara-
23 graph or section 562 (b)."
24 (2) Section 331 (b) (relating to nonapplication
25 of section 301) is amended by inserting after "any

1 distribution of property" the phrase "(other than a
2 distribution referred to in paragraph (2) (B) of section
3 316 (b))".

4 (3) Section 562 (b) (relating to distributions in
5 liquidation) is amended to read as follows:

6 "(b) DISTRIBUTIONS IN LIQUIDATION.—

7 "(1) Except in the case of a personal holding com-
8 pany described in section 542 or a foreign personal
9 holding company described in section 552,—

10 "(A) in the case of amounts distributed in
11 liquidation, the part of such distribution which is
12 properly chargeable to earnings and profits ac-
13 cumulated after February 28, 1913, shall be treated
14 as a dividend for purposes of computing the divi-
15 dends paid deduction, and

16 "(B) in the case of a complete liquidation
17 occurring within 24 months after the adoption of
18 a plan of liquidation, any distribution within such
19 period pursuant to such plan shall, to the extent of
20 the earnings and profits (computed without regard
21 to capital losses) of the corporation for the taxable
22 year in which such distribution is made, be treated
23 as a dividend for purposes of computing the divi-
24 dends paid deduction.

25 "(2) In the case of a complete liquidation of a per-

1 sonal holding company, occurring within 24 months
2 after the adoption of a plan of liquidation, the amount
3 of any distribution within such period pursuant to such
4 plan shall be treated as a dividend for purposes of com-
5 puting the dividends paid deduction, to the extent that
6 such amount is distributed to corporate distributees and
7 represents such corporate distributees' allocable share of
8 the undistributed personal holding company income for
9 the taxable year of such distribution computed without
10 regard to this paragraph and without regard to sub-
11 paragraph (B) of section 316(b) (2)."
12 (4) Section 551(b) (relating to amount included
13 in gross income) is amended by striking out "received
14 as a dividend" and inserting in lieu thereof "received as
15 a dividend (determined as if any distribution in liquida-
16 tion actually made in such taxable year had not been
17 made)".
18 (g) ONE-MONTH LIQUIDATIONS.—Section 333 (relat-
19 ing to election as to recognition of gain in certain liquida-
20 tions) is amended by adding at the end thereof the following
21 new subsection:
22 "(g) SPECIAL RULE.—
23 "(1) LIQUIDATIONS BEFORE JANUARY 1, 1966.—
24 In the case of a liquidation occurring before January 1,
25 1966, of a corporation referred to in paragraph (3)—

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1 "(A) the date 'December 31, 1953' referred to
2 in subsections (e) (2) and (f) (1) shall be treated
3 as if such date were 'December 31, 1962', and
4 "(B) in the case of stock in such corporation
5 held for more than 6 months, the term 'a dividend'
6 as used in subsection (e) (1) shall be treated as
7 if such term were 'class B capital gain'.
8 Subparagraph (B) shall not apply to any earnings and
9 profits to which the corporation succeeds after August 1,
10 1963, pursuant to any corporate reorganization or pur-
11 suant to any liquidation to which section 332 applies,
12 except earnings and profits which on August 1, 1963,
13 constituted earnings and profits of a corporation referred
14 to in paragraph (3), and except earnings and profits
15 which were earned after such date by a corporation
16 referred to in paragraph (3).
17 "(2) LIQUIDATIONS AFTER DECEMBER 31,
18 1965.—
19 "(A) IN GENERAL.—In the case of a liquida-
20 tion occurring after December 31, 1965, of a corpo-
21 ration to which this subparagraph applies—
22 "(i) the date 'December 31, 1953' re-
23 ferred to in subsections (e) (2) and (f) (1)
24 shall be treated as if such date were 'December
25 31, 1962', and

1 "(ii) so much of the gain recognized under
2 subsection (e)(1) as is attributable to the
3 earnings and profits accumulated after Febru-
4 ary 28, 1913, and before January 1, 1966, shall,
5 in the case of stock in such corporation held for
6 more than 6 months, be treated as class B
7 capital gain, and only the remainder of such
8 gain shall be treated as a dividend.
9 Clause (ii) shall not apply to any earnings and
10 profits to which the corporation succeeds after
11 August 1, 1963, pursuant to any corporate reorgani-
12 zation or pursuant to any liquidation to which sec-
13 tion 332 applies, except earnings and profits which
14 on August 1, 1963, constituted earnings and profits
15 of a corporation referred to in paragraph (3), and
16 except earnings and profits which were earned after
17 such date by a corporation referred to in para-
18 graph (3).
19 "(B) CORPORATIONS TO WHICH APPLI-
20 CABLE.—Subparagraph (A) shall apply only with
21 respect to a corporation which is referred to in para-
22 graph (3) and which—
23 "(i) on August 1, 1963, owes qualified
24 indebtedness (as defined in section 545(c)),
25 "(ii) before January 1, 1967, notifies the
26 Secretary or his delegate that it may wish to

1 have subparagraph (A) apply to it and submits
2 such information as may be required by regu-
3 lations prescribed by the Secretary or his dele-
4 gate, and
5 "(iii) liquidates before the close of the tax-
6 able year in which such corporation ceases to
7 owe such qualified indebtedness or (if earlier)
8 the taxable year referred to in subparagraph
9 (C).
10 "(C) ADJUSTED POST-1963 EARNINGS AND
11 PROFITS EXCEED QUALIFIED INDEBTEDNESS.—In
12 the case of any corporation, the taxable year re-
13 ferred to in this subparagraph is the first taxable
14 year at the close of which its adjusted post-1963
15 earnings and profits equal or exceed the amount of
16 such corporation's qualified indebtedness on August
17 1, 1963. For purposes of the preceding sentence,
18 the term 'adjusted post-1963 earnings and profits'
19 means the sum of—
20 "(i) the earnings and profits of such cor-
21 poration for taxable years beginning after De-
22 cember 31, 1963, without diminution by reason
23 of any distributions made out of such earnings
24 and profits, and
25 "(ii) the deductions allowed for taxable
26 years beginning after December 31, 1963, for

1 exhaustion, wear and tear, obsolescence, or
2 amortization.
3 "(3) CORPORATIONS REFERRED TO.—For purposes
4 of paragraphs (1) and (2), a corporation referred to in
5 this paragraph is a corporation which for at least one of
6 the two most recent taxable years ending before the date
7 of the enactment of this subsection was not a personal
8 holding company under section 542, but would have been
9 a personal holding company under section 542 for such
10 taxable year if the law applicable for the first taxable
11 year beginning after December 31, 1963, had been
12 applicable to such taxable year."
13 (h) EXCEPTION FOR CERTAIN CORPORATIONS.—
14 (1) GENERAL RULE.—Except as provided in para-
15 graph (2), in the case of a corporation referred to in
16 section 333(g)(3) of the Internal Revenue Code of
17 1954 (as added by subsection (g) of this section), the
18 amendments made by this section (other than subsec-
19 tions (f) and (g)) shall not apply if there is a com-
20 plete liquidation of such corporation and if the distri-
21 bution of all the property under such liquidation occurs
22 before January 1, 1966.
23 (2) EXCEPTION.—Paragraph (1) shall not apply
24 to any liquidation to which section 332 of the Internal
25 Revenue Code of 1954 applies unless—
26 (A) the corporate distributee (referred to in

1 subsection (b) (1) of such section 332) in such
2 liquidation is liquidated in a complete liquidation to
3 which such section 332 does not apply, and
4 (B) the distribution of all the property under
5 such liquidation occurs before the 91st day after the
6 last distribution referred to in paragraph (1) and
7 before January 1, 1966.
8 (i) DEDUCTION FOR AMORTIZATION OF INDEBTED-
9 NESS.—
10 (1) Section 545 (a) (relating to definition of un-
11 distributed personal holding company income) is
12 amended by striking out "subsection (b)" and inserting
13 in lieu thereof "subsections (b) and (c)".
14 (2) Section 545 is amended by adding at the end
15 thereof the following new subsection:
16 "(c) SPECIAL ADJUSTMENT TO TAXABLE INCOME.—
17 "(1) IN GENERAL.—Except as otherwise provided
18 in this subsection, for purposes of subsection (a) there
19 shall be allowed as a deduction amounts used, or amounts
20 irrevocably set aside (to the extent reasonable with
21 reference to the size and terms of the indebtedness), to
22 pay or retire qualified indebtedness.
23 "(2) CORPORATIONS TO WHICH APPLICABLE.—
24 This subsection shall apply only with respect to a corpo-
25 ration—
26 "(A) which for at least one of the two most

1 recent taxable years ending before the date of
2 the enactment of this subsection was not a per-
3 sonal holding company under section 542, but would
4 have been a personal holding company under sec-
5 tion 542 for such taxable year if the law applicable
6 for the first taxable year beginning after December
7 31, 1963, had been applicable to such taxable year,
8 or

9 "(B) to the extent that it succeeds to the de-
10 duction referred to in paragraph (1) by reason of
11 section 381(c)(15).

12 "(3) QUALIFIED INDEBTEDNESS.—

13 "(A) IN GENERAL.—Except as otherwise pro-
14 vided in this paragraph, for purposes of this sub-
15 section the term 'qualified indebtedness' means—

16 "(i) the outstanding indebtedness incurred
17 by the taxpayer after December 31, 1933, and
18 before August 1, 1963, and

19 "(ii) the outstanding indebtedness incurred
20 after July 31, 1963, for the purpose of making
21 a payment or set-aside referred to in paragraph
22 (1) in the same taxable year, but, in the case
23 of such a payment or set-aside which is made on
24 or after the first day of the first taxable year
25 beginning after December 31, 1963, only to the
26 extent the deduction otherwise allowed in para-

1 graph (1) with respect to such payment or
2 set-aside is treated as nondeductible by reason
3 of the election provided in paragraph (4).
4 "(B) EXCEPTION.—For purposes of subpara-
5 graph (A), qualified indebtedness does not include
6 any amounts which were, at any time after July 31,
7 1963, and before the payment or set-aside, owed to
8 a person who at such time owned (or was con-
9 sidered as owning within the meaning of section
10 318(a)) more than 10 percent in value of the tax-
11 payer's outstanding stock.
12 "(C) REDUCTION FOR AMOUNTS IRREVO-
13 CABLY SET ASIDE.—For purposes of subparagraph
14 (A), the qualified indebtedness with respect to a
15 contract shall be reduced by amounts irrevocably
16 set aside before the taxable year to pay or retire
17 such indebtedness; and no deduction shall be al-
18 lowed under paragraph (1) for payments out of
19 amounts so set aside.
20 "(4) ELECTION NOT TO DEDUCT.—A taxpayer
21 may elect, under regulations prescribed by the Secre-
22 tary or his delegate, to treat as nondeductible an amount
23 otherwise deductible under paragraph (1); but only
24 if the taxpayer files such election on or before the 15th
25 day of the third month following the close of the taxable

1 year with respect to which such election applies, desig-
2 nating therein the amounts which are to be treated as
3 nondeductible and specifying the indebtedness (referred
4 to in paragraph (3) (A) (ii)) incurred for the purpose
5 of making the payment or set-aside.

6 "(5) LIMITATIONS.—The deduction otherwise al-
7 lowed by this subsection for the taxable year shall be
8 reduced by the sum of—

9 "(A) the amount, if any, by which—

10 "(i) the deductions allowed for the taxable
11 year and all preceding taxable years beginning
12 after December 31, 1963, for exhaustion, wear
13 and tear, obsolescence, or amortization (other
14 than such deductions which are disallowed in
15 computing undistributed personal holding com-
16 pany income under subsection (b) (8)), exceed

17 "(ii) any reduction, by reason of this
18 subparagraph, of the deductions otherwise al-
19 lowed by this subsection for such preceding
20 taxable years, and

21 "(B) the amount, if any, by which—

22 "(i) the deductions allowed under sub-
23 section (b) (5) in computing undistributed per-
24 sonal holding company income for the taxable
25 year and all preceding taxable years beginning
26 after December 31, 1963, exceed

1 "(ii) any reduction, by reason of this sub-
2 paragraph, of the deductions otherwise allowed
3 by this subsection for such preceding taxable
4 years.
5 "(6) PRO-RATA REDUCTION IN CERTAIN CASES.—
6 For purposes of paragraph (3) (A), if property (of a
7 character which is subject to the allowance for ex-
8 haustion, wear and tear, obsolescence, or amortization)
9 is disposed of after July 31, 1963, the total amounts of
10 qualified indebtedness of the taxpayer shall be reduced
11 pro-rata in the taxable year of such disposition by the
12 amount, if any, by which—
13 "(A) the adjusted basis of such property at the
14 time of such disposition, exceeds
15 "(B) the amount of qualified indebtedness
16 which ceased to be qualified indebtedness with
17 respect to the taxpayer by reason of the assump-
18 tion of the indebtedness by the transferee."
19 (3) Paragraph (15) of section 381 (c) (relating
20 to carryovers in certain corporate acquisitions) is
21 amended to read as follows:
22 "(15) INDEBTEDNESS OF CERTAIN PERSONAL
23 HOLDING COMPANIES.—The acquiring corporation shall
24 be considered to be the distributor or transferor corpora-
25 tion for the purpose of determining the applicability of
26 subsections (b) (7) and (c) of section 545, relating to

1 deduction with respect to payment of certain indebted-
2 ness."
3 (j) INCREASE IN BASIS WITH RESPECT TO CERTAIN
4 FOREIGN PERSONAL HOLDING COMPANY HOLDINGS.—
5 (1) IN GENERAL.—Part II of subchapter O of
6 chapter 1 (relating to basis rules of general application)
7 is amended by redesignating section 1022 as section
8 1023 and by inserting after section 1021 the following
9 new section:
10 **"SEC. 1022. INCREASE IN BASIS WITH RESPECT TO CER-**
11 **TAIN FOREIGN PERSONAL HOLDING COM-**
12 **PANY HOLDINGS.**
13 "(a) GENERAL RULE.—The basis (determined under
14 section 1014(b)(5), relating to basis of stock or securities
15 in a foreign personal holding company) of a share of stock
16 or a security, acquired from a decedent dying after August
17 15, 1963, of a corporation which was a foreign personal
18 holding company for its most recent taxable year ending
19 before the date of the enactment of this section shall be in-
20 creased by its proportionate share of any Federal estate tax
21 attributable to the net appreciation in value of all of such
22 shares and securities determined as provided in this section.
23 "(b) PROPORTIONATE SHARE.—For purposes of sub-
24 section (a), the proportionate share of a share of stock or of
25 a security is that amount which bears the same ratio to the
26 aggregate increase determined under subsection (c)(2) as

1 the appreciation in value of such share or security bears to
2 the aggregate appreciation in value of all such shares and
3 securities having appreciation in value.
4 "(c) SPECIAL RULES AND DEFINITIONS.—For pur-
5 poses of this section—
6 "(1) FEDERAL ESTATE TAX.—The term 'Federal
7 estate tax' means only the tax imposed by section 2001
8 or 2101, reduced by any credit allowable with respect
9 to a tax on prior transfers by section 2013 or 2102.
10 "(2) FEDERAL ESTATE TAX ATTRIBUTABLE TO
11 NET APPRECIATION IN VALUE.—The Federal estate tax
12 attributable to the net appreciation in value of all shares
13 of stock and securities to which subsection (a) applies
14 is that amount which bears the same ratio to the Federal
15 estate tax as the net appreciation in value of all of such
16 shares and securities bears to the value of the gross estate
17 as determined under chapter 11 (including section 2032,
18 relating to alternative valuation).
19 "(3) NET APPRECIATION.—The net appreciation in
20 value of all shares and securities to which subsection (a)
21 applies is the amount by which the fair market value of
22 all such shares and securities exceeds the basis of such
23 property in the hands of the decedent.
24 "(4) FAIR MARKET VALUE.—For purposes of this
25 section, the term 'fair market value' means fair market

1 value determined under chapter 11 (including section
2 2032, relating to alternate valuation).
3 "(d) LIMITATIONS.—This section shall not apply to
4 any foreign personal holding company referred to in section
5 342(a)(2)."
6 (2) AMENDMENT OF SECTION 1016(a).—Section
7 1016(a) (relating to adjustments to basis) is amended
8 by striking out the period at the end thereof and by
9 inserting in lieu thereof a semicolon and by adding at
10 the end thereof the following new paragraph:
11 "(21) to the extent provided in section 1022, re-
12 lating to increase in basis for certain foreign personal
13 holding company holdings, or in section 216(j)(4) of
14 the Revenue Act of 1963."
15 (3) CLERICAL AMENDMENTS.—
16 (A) The table of sections for part II of sub-
17 chapter O of chapter 1 is amended by striking
18 out

"Sec. 1022. Cross references."

19 and inserting in lieu thereof the following:

"Sec. 1022. Increase in basis with respect to certain foreign personal holding company holdings.
"Sec. 1023. Cross references."

20 (4) ONE-MONTH LIQUIDATIONS.—If—
21 (A) a corporation was a foreign personal
22 holding company for its most recent taxable year

1 ending before the date of the enactment of this
2 Act,
3 (B) all of the stock of such corporation is
4 owned on August 15, 1963, and at the time of
5 liquidation, by individuals and estates, and
6 (C) the transfer of all the property under the
7 liquidation occurs within one of the first 4 calendar
8 months ending after such date of enactment,
9 then such corporation shall be treated as a domestic
10 corporation for purposes of section 333 of the Internal
11 Revenue Code of 1954 (relating to 1-month liquida-
12 tions), and shall be treated as a foreign corporation for
13 purposes of section 367 of such Code (relating to foreign
14 corporations). In applying such section 367 for pur-
15 poses of this paragraph, references in the first sentence of
16 such section 367 to other sections of such Code shall be
17 treated as including a reference to such section 333.
18 (5) BASIS OF CERTAIN PROPERTY ACQUIRED FROM
19 A DECEDENT.—
20 (A) In the case of property described in sub-
21 paragraph (B) acquired from a decedent or passing
22 from a decedent (within the meaning of section
23 1014(b) of the Internal Revenue Code of 1954),
24 the basis shall (in lieu of being the basis provided
25 by section 1014 of such Code) be the basis immedi-

1 ately before the death of the decedent, increased
2 by the amount of any Federal estate tax attributable
3 to the net appreciation in value of such property
4 (determined in accordance with section 1022 of such
5 Code as if such property were stock and securities
6 referred to in such section).
7 (B) Subparagraph (A) shall apply to—
8 (i) property which the decedent received
9 as a qualified electing shareholder, and
10 (ii) property the basis of which (without
11 the application of this paragraph) is a sub-
12 stituted basis (as defined in section 1016(b)
13 of the Internal Revenue Code of 1954) deter-
14 mined by reference to the basis of such property
15 or other property received by any individual or
16 estate as a qualified electing shareholder.
17 For purposes of this subparagraph, property shall
18 be treated as property received as a qualified elect-
19 ing shareholder if, with respect to such property, the
20 recipient was a qualified electing shareholder (within
21 the meaning of section 333(c) of such Code) in
22 a corporate liquidation to which section 333 of
23 such Code applied by reason of paragraph (4) of
24 this subsection.
25 (C) In the case of property acquired from the

1 decedent by gift, the increase in basis under this
2 paragraph shall not exceed the amount by which
3 the increase under this paragraph is greater than
4 the increase allowable under section 1015 (d) of the
5 Internal Revenue Code of 1954.

6 (6) LIMITATIONS.—The provisions of paragraphs
7 (4) and (5) of this subsection shall not apply to any
8 foreign corporation referred to in section 342 (a) (2)
9 of the Internal Revenue Code of 1954.

10 (7) MEANING OF TERMS.—Terms used in para-
11 graphs (4) through (6) of this subsection shall have
12 the same meaning as when used in chapter 1 of the
13 Internal Revenue Code of 1954.

14 (k) TECHNICAL AMENDMENTS.—

15 (1) Section 542 (b) (relating to corporations filing
16 consolidated returns) is amended by striking out "gross
17 income" each place it appears and inserting in lieu
18 thereof "adjusted ordinary gross income".

19 (2) Section 543 (relating to personal holding com-
20 pany income) is amended by striking out subsection
21 (d) (relating to special adjustment on disposition of
22 antitrust stock received as a dividend).

23 (3) Section 544 (relating to rules for determining
24 stock ownership) is amended—

25 (A) by striking out "section 543 (a) (5)" each

1 place it appears and inserting in lieu thereof "section
2 543 (a) (7)", and
3 (B) by striking out "section 543 (a) (9)" each
4 place it appears and inserting in lieu thereof "section
5 543 (a) (4)".
6 (4) REAL ESTATE INVESTMENT TRUSTS.—Para-
7 graph (6) of section 856 (a) (relating to definition of
8 real estate investment trust) is amended by striking out
9 "gross income" and inserting in lieu thereof "adjusted
10 ordinary gross income (as defined in section 543
11 (b) (2))".
12 (5) UNINCORPORATED BUSINESS ENTERPRISES
13 ELECTING TO BE TAXED AS DOMESTIC CORPORATIONS.—
14 Section 1361 (i) (relating to personal holding company
15 income) is amended to read as follows:
16 "(i) PERSONAL HOLDING COMPANY INCOME.—
17 "(1) EXCLUDED FROM INCOME OF ENTERPRISE.—
18 There shall be excluded from the gross income of the
19 enterprise as to which an election has been made under
20 subsection (a) any item of gross income (computed
21 without regard to the adjustments provided in section
22 543 (b) (3) or (4)) if, but for this paragraph, such
23 item (adjusted, where applicable, as provided in section
24 543 (b) (3) or (4)) would constitute personal holding

1 company income (as defined in section 543 (a)) of such
2 enterprise.
3 "(2) INCOME AND DEDUCTIONS OF OWNERS.—
4 Items excluded from the gross income of the enter-
5 prise under paragraph (1), and the expenses attribut-
6 able thereto, shall be treated as the income and deduc-
7 tions of the proprietor or partners (in accordance with
8 their distributive shares of partnership income) of such
9 enterprise.
10 "(3) DISTRIBUTIONS.—If—
11 "(A) the amount excluded from gross income
12 under paragraph (2) exceeds the expenses at-
13 tributable thereto, and
14 "(B) any portion of such excess is distributed
15 to the proprietor or partner during the year earned,
16 such portion shall not be taxed as a corporate distribu-
17 tion. The portion of such excess not distributed during
18 such year shall be considered as paid-in surplus or as
19 a contribution to capital as of the close of such year."
20 (6) ASSESSMENT AND COLLECTION OF PERSONAL
21 HOLDING COMPANY TAX.—Section 6501 (f) (relating
22 to personal holding company tax) is amended by
23 striking out "gross income, described in section
24 543 (a)," and inserting in lieu thereof "gross income

1 and adjusted ordinary gross income, described in section
2 543,".
3 (l) Effective Dates.—
4 (1) The amendments made by this section (other
5 than by subsections (c)(1), (f), (g), and (j)) shall
6 apply to taxable years beginning after December 31,
7 1963.
8 (2) The amendment made by subsection (c)(1)
9 shall apply to taxable years beginning after October 16,
10 1962.
11 (3) The amendments made by subsections (f) and
12 (g) shall apply to distributions made in any taxable
13 year of the distributing corporation beginning after De-
14 cember 31, 1963.
15 (4) The amendments made by paragraphs (1),
16 (2), and (3) of subsection (j) shall apply in respect
17 of decedents dying after August 15, 1963.
18 (5) Subsection (h) shall apply to taxable years
19 beginning after December 31, 1963.

1 **SEC. 217. TREATMENT OF PROPERTY IN CASE OF OIL AND**
2 **GAS WELLS.**
3 (a) IN GENERAL.—Section 614(b) (relating to special
4 rule as to operating mineral interests) is amended to read as
5 follows:
6 "(b) SPECIAL RULES AS TO OPERATING MINERAL
7 INTERESTS IN OIL AND GAS WELLS.—In the case of oil
8 and gas wells—
9 "(1) IN GENERAL.—Except as otherwise provided
10 in this subsection—
11 "(A) all of the taxpayer's operating mineral
12 interests in a separate tract or parcel of land shall
13 be combined and treated as one property, and
14 "(B) the taxpayer may not combine an operat-
15 ing mineral interest in one tract or parcel of land
16 with an operating mineral interest in another tract
17 or parcel of land.
18 "(2) ELECTION TO TREAT OPERATING MINERAL
19 INTERESTS AS SEPARATE PROPERTIES.—If the tax-

1 payer has more than one operating mineral interest in
2 a single tract or parcel of land, he may elect to treat
3 one or more of such operating mineral interests as
4 separate properties. The taxpayer may not have more
5 than one combination of operating mineral interests in
6 a single tract or parcel of land. If the taxpayer makes
7 the election provided in this paragraph with respect to
8 any interest in a tract or parcel of land, each operating
9 mineral interest which is discovered or acquired by the
10 taxpayer in such tract or parcel of land after the taxable
11 year for which the election is made shall be treated—
12 "(A) if there is no combination of interests in
13 such tract or parcel, as a separate property unless
14 the taxpayer elects to combine it with another in-
15 terest, or
16 "(B) if there is a combination of interests in
17 such tract or parcel, as part of such combination
18 unless the taxpayer elects to treat it as a separate
19 property.
20 "(3) CERTAIN UNITIZATION OR POOLING AR-
21 RANGEMENTS.—
22 "(A) IN GENERAL.—Under regulations pre-
23 scribed by the Secretary or his delegate, if one or
24 more of the taxpayer's operating mineral interests
25 participate, under a voluntary or compulsory

1 unitization or pooling agreement, in a single co-
2 operative or unit plan of operation, then for the
3 period of such participation—
4 "(i) they shall be treated for all purposes
5 of this subtitle as one property, and
6 "(ii) the application of paragraphs (1),
7 (2), and (4) in respect of such interests shall
8 be suspended.
9 "(B) LIMITATION.—Subparagraph (A) shall
10 apply to a voluntary agreement only if all the
11 operating mineral interests covered by such agree-
12 ment—
13 "(i) are in the same deposit, or are in 2
14 or more deposits the joint development or pro-
15 duction of which is logical from the standpoint
16 of geology, convenience, economy, or conser-
17 vation, and
18 "(ii) are in tracts or parcels of land which
19 are contiguous or in close proximity.
20 "(C) SPECIAL RULE IN THE CASE OF AR-
21 RANGEMENTS ENTERED INTO IN TAXABLE YEARS
22 BEGINNING BEFORE JANUARY 1, 1964.—If—
23 "(i) two or more of the taxpayer's op-
24 erating mineral interests participate under a
25 voluntary or compulsory unitization or pooling

1 agreement entered into in any taxable year
2 beginning before January 1, 1964, in a single
3 cooperative or unit plan of operation,
4 "(ii) the taxpayer, for the last taxable
5 year beginning before January 1, 1964, treated
6 such interests as two or more separate prop-
7 erties, and
8 "(iii) it is determined that such treatment
9 was proper under the law applicable to such
10 taxable year,
11 such taxpayer may continue to treat such interests
12 in a consistent manner for the period of such par-
13 ticipation.
14 "(4) MANNER, TIME, AND SCOPE OF ELECTION.—
15 "(A) MANNER AND TIME.—Any election pro-
16 vided in paragraph (2) shall be made for each
17 operating mineral interest, in the manner prescribed
18 by the Secretary or his delegate by regulations, not
19 later than the time prescribed by law for filing the
20 return (including extensions thereof) for whichever
21 of the following taxable years is the later: The first
22 taxable year beginning after December 31, 1963,
23 or the first taxable year in which any expenditure

1 for development or operation in respect of such oper-
2 ating mineral interest is made by the taxpayer after
3 the acquisition of such interest.
4 "(B) SCOPE.—Any election under paragraph
5 (2) shall be for all purposes of this subtitle and
6 shall be binding on the taxpayer for all subsequent
7 taxable years.
8 "(5) TREATMENT OF CERTAIN PROPERTIES.—If,
9 on the day preceding the first day of the first taxable
10 year beginning after December 31, 1963, the taxpayer
11 has any operating mineral interests which he treats
12 under subsection (d) of this section (as in effect before
13 the amendments made by the Revenue Act of 1963),
14 such treatment shall be continued and shall be deemed
15 to have been adopted pursuant to paragraphs (1) and
16 (2) of this subsection (as amended by such Act)."
17 (b) TECHNICAL AMENDMENTS.—
18 (1) The heading of section 614(c) is amended to
19 read as follows:
20 "(c) SPECIAL RULES AS TO OPERATING MINERAL
21 INTERESTS IN MINES.—"
22 (2) Paragraph (5) of section 614(c) is hereby
23 repealed.

1 (3) Section 614 (d) is amended to read as follows:
2 "(d) OPERATING MINERAL INTERESTS DEFINED.—
3 For purposes of this section, the term 'operating mineral in-
4 terest' includes only an interest in respect of which the costs
5 of production of the mineral are required to be taken into
6 account by the taxpayer for purposes of computing the 50
7 percent limitation provided for in section 613, or would be
8 so required if the mine, well, or other natural deposit were in
9 the production stage."
10 (4) Section 614 (e) (2) is amended by striking
11 out "within the meaning of subsection (b) (3)".
12 (c) ALLOCATION OF BASIS IN CERTAIN CASES.—For
13 purposes of the Internal Revenue Code of 1954—
14 (1) FAIR MARKET VALUE RULE.—Except as pro-
15 vided in paragraph (2), if a taxpayer has a section
16 614 (b) aggregation, then the adjusted basis (as of the
17 first day of the first taxable year beginning after Decem-
18 ber 31, 1963) of each property included in such aggre-
19 gation shall be determined by multiplying the adjusted
20 basis of the aggregation by a fraction—
21 (A) the numerator of which is the fair market
22 value of such property, and
23 (B) the denominator of which is the fair mar-
24 ket value of such aggregation.
25 For purposes of this paragraph, the adjusted basis and

1 the fair market value of the aggregation, and the fair
2 market value of each property included therein, shall
3 be determined as of the day preceding the first day of
4 the first taxable year which begins after December
5 31, 1963.

6 (2) Allocation of adjustments, etc.—If the
7 taxpayer makes an election under this paragraph with
8 respect to any section 614 (b) aggregation, then the
9 adjusted basis (as of the first day of the first taxable year
10 beginning after December 31, 1963) of each property
11 included in such aggregation shall be the adjusted basis
12 of such property at the time it was first included in the
13 aggregation by the taxpayer, adjusted for that portion of
14 those adjustments to the basis of the aggregation which
15 are reasonably attributable to such property. If, under
16 the preceding sentence, the total of the adjusted bases of
17 the interests included in the aggregation exceeds the
18 adjusted basis of the aggregation (as of the day preced-
19 ing the first day of the first taxable year which begins
20 after December 31, 1963), the adjusted bases of the
21 properties which include such interests shall be adjusted,
22 under regulations prescribed by the Secretary of the
23 Treasury or his delegate, so that the total of the ad-
24 justed bases of such interests equals the adjusted basis
25 of the aggregation. An election under this paragraph

1 shall be made at such time and in such manner as the
2 Secretary of the Treasury or his delegate shall by regu-
3 lations prescribe.
4 (3) DEFINITIONS.—For purposes of this subsec-
5 tion—
6 (A) SECTION 614(b) AGGREGATION.—The
7 term "section 614 (b) aggregation" means any ag-
8 gregation to which section 614 (b) (1) (A) of the
9 Internal Revenue Code of 1954 (as in effect before
10 the amendments made by subsection (a) of this
11 section) applied for the day preceding the first day
12 of the first taxable year beginning after December
13 31, 1963.
14 (B) PROPERTY.—The term "property" has the
15 same meaning as is applicable, under section 614
16 of the Internal Revenue Code of 1954, to the tax-
17 payer for the first taxable year beginning after
18 December 31, 1963.
19 (d) EFFECTIVE DATE.—The amendments made by sub-
20 sections (a) and (b) shall apply to taxable years beginning
21 after December 31, 1963.

1 **SEC. 218. TREATMENT OF CERTAIN IRON ORE ROYALTIES.**

2 (a) IN GENERAL.—

3 (1) AMENDMENT OF SECTION 631(c).—Section
4 631 (c) (relating to disposal of coal with a retained eco-
5 nomic interest) is amended—

6 (A) by striking out the heading and inserting
7 in lieu thereof the following:

8 "(c) DISPOSAL OF COAL OR IRON ORE WITH A RE-
9 TAINED ECONOMIC INTEREST.—";

10 (B) by inserting "or iron ore" after "coal (in-
11 cluding lignite)"; and

12 (C) by inserting "or iron ore" after "coal"
13 each other place it appears in section 631 (c).

14 (2) AMENDMENT OF SECTION 1231(b).—Section
15 1231 (b) (2) (defining property used in the trade or
16 business) is amended to read as follows:

17 "(2) TIMBER, COAL, OR IRON ORE.—Such term in-
18 cludes timber, coal, and iron ore with respect to which
19 section 631 applies."

20 (3) AMENDMENT OF SECTION 272.—The text of

1 section 272 (relating to disposal of coal) is amended by
2 inserting "or iron ore" after "coal" each place it appears.
3 (b) CLERICAL AMENDMENTS.—
4 (1) the heading of section 631 is amended to read
5 as follows:

6 **"SEC. 631. GAIN OR LOSS IN THE CASE OF TIMBER, COAL,**
7 **OR IRON ORE."**

8 (2) The table of sections for part III of subchapter
9 I of chapter 1 is amended by striking out

"Sec. 631. Gain or loss in the case of timber or coal."

10 and inserting in lieu thereof the following:

"Sec. 631. Gain or loss in the case of timber, coal, or iron ore."

11 (3) The heading of section 272 is amended to read
12 as follows:

13 **"SEC. 272. DISPOSAL OF COAL OR IRON ORE."**

14 (4) The table of sections for part IX of subchapter
15 B of chapter 1 is amended by striking out

"Sec. 272. Disposal of coal."

16 and inserting in lieu thereof the following:

"Sec. 272. Disposal of coal or iron ore."

17 (5) Section 1016 (a) (15) is amended by inserting
18 "or iron ore" after "coal".
19 (6) Section 1402 (a) (3) (B) is amended to read
20 as follows:

1 "(B) from the cutting of timber, or the dis-
2 posal of timber, coal, or iron ore, if section 631
3 applies to such gain or loss, or"
4 (c) EFFECTIVE DATE.—The amendments made by this
5 section shall apply to iron ore mined in taxable years begin-
6 ning after December 31, 1963.
7 **SEC. 219. CAPITAL GAINS AND LOSSES.**
8 (a) ALTERNATIVE TAX, ETC.—
9 (1) IN GENERAL.—
10 (A) ALTERNATIVE TAX.—Subsection (b) of
11 section 1201 (relating to alternative tax on tax-
12 payers other than corporations) is amended to read
13 as follows:
14 "(b) OTHER TAXPAYERS.—If, for any taxable year, a
15 taxpayer (other than a corporation) is allowed a deduc-
16 tion under section 1202, then, in lieu of the tax imposed
17 by sections 1 and 511 (b), there is hereby imposed a tax (if
18 such a tax is less than the tax imposed by such sections)
19 which shall consist of the sum of—
20 "(1) a partial tax computed on the taxable income
21 reduced by an amount equal to the sum of—
22 "(A) 40 percent of the adjusted class A capital
23 gain, and

1 "(B) 50 percent of the adjusted class B capital
2 gain,
3 plus
4 "(2) an amount equal to the sum of—
5 "(A) 21 percent of the adjusted class A
6 capital gain, and
7 "(B) 25 percent of the adjusted class B capital
8 gain."
9 (B) DEDUCTION FOR CAPITAL GAINS.—Sec-
10 tion 1202 (relating to deduction for capital gains)
11 is amended to read as follows:
12 **"SEC. 1202. DEDUCTION FOR CAPITAL GAINS.**
13 "(a) GENERAL RULE.—In the case of a taxpayer other
14 than a corporation, a deduction from gross income shall
15 be allowed equal to the sum of—
16 "(1) 60 percent of the adjusted class A capital
17 gain, and
18 "(2) 50 percent of the adjusted class B capital
19 gain.
20 "(b) SPECIAL RULE.—In the case of an estate or trust,
21 the deduction allowable under subsection (a) shall be com-
22 puted by excluding the portion (if any), of the gains for
23 the taxable year from sales or exchanges of capital assets,
24 which, under sections 652 and 662 (relating to inclusions
25 of amounts in gross income of beneficiaries of trusts), is

1 includible by the income beneficiaries as gain derived from
2 the sale or exchange of capital assets."
3 (C) DEFINITIONS.—Section 1222 (relating to
4 other terms relating to capital gains and losses) is
5 amended to read as follows:

6 **"SEC. 1222. OTHER TERMS RELATING TO CAPITAL GAINS**
7 **AND LOSSES.**

8 "(a) TERMS APPLICABLE TO ALL TAXPAYERS.—For
9 purposes of this subtitle—
10 "(1) SHORT-TERM CAPITAL GAIN.—The term
11 'short-term capital gain' means gain from the sale or
12 exchange of a capital asset held for not more than 6
13 months, if and to the extent such gain is taken into ac-
14 count in computing gross income.
15 "(2) SHORT-TERM CAPITAL LOSS.—The term
16 'short-term capital loss' means loss from the sale or
17 exchange of a capital asset held for not more than 6
18 months, if and to the extent that such loss is taken into
19 account in computing taxable income.
20 "(3) NET SHORT-TERM CAPITAL GAIN.—The term
21 'net short-term capital gain' means the excess of short-
22 term capital gains for the taxable year over the short-
23 term capital losses for such year.
24 "(4) NET SHORT-TERM CAPITAL LOSS.—The term
25 'net short-term capital loss' means the excess of short-

1 term capital losses for the taxable year over the short-
2 term capital gains for such year.
3 "(b) TERMS APPLICABLE TO CORPORATIONS.—For
4 purposes of this subtitle, in the case of a corporation—
5 "(1) LONG-TERM CAPITAL GAIN.—The term 'long-
6 term capital gain' means gain from the sale or exchange
7 of a capital asset held for more than 6 months, if and to
8 the extent such gain is taken into account in computing
9 gross income.
10 "(2) LONG-TERM CAPITAL LOSS.—The term 'long-
11 term capital loss' means loss from the sale or exchange
12 of a capital asset held for more than 6 months, if and to
13 the extent that such loss is taken into account in com-
14 puting taxable income.
15 "(3) NET LONG-TERM CAPITAL GAIN.—The term
16 'net long-term capital gain' means the excess of long-
17 term capital gains for the taxable year over the long-
18 term capital losses for such year.
19 "(4) NET LONG-TERM CAPITAL LOSS.—The term
20 'net long-term capital loss' means the excess of long-
21 term capital losses for the taxable year over the long-
22 term capital gains for such year.
23 "(5) NET CAPITAL GAIN.—The term 'net capital
24 gain' means the excess of the gains from sales or ex-

1 changes of capital assets over the losses from such sales
2 or exchanges.
3 "(6) NET CAPITAL LOSS.—The term 'net capital
4 loss' means the excess of the losses from sales or ex-
5 changes of capital assets over the sum allowed under
6 section 1211 (a). For purposes of determining losses
7 under this paragraph, amounts which are short-term
8 capital losses under section 1212 shall be excluded.
9 "(c) TERMS APPLICABLE TO TAXPAYERS OTHER
10 THAN CORPORATIONS.—For purposes of this subtitle, in the
11 case of a taxpayer other than a corporation—
12 "(1) CLASS B CAPITAL GAIN.—The term 'class
13 B capital gain' means gain from the sale or exchange of
14 a capital asset held for more than 6 months but not
15 more than 2 years, if and to the extent such gain is
16 taken into account in computing gross income.
17 "(2) CLASS B CAPITAL LOSS.—The term 'class B
18 capital loss' means loss from the sale or exchange of a
19 capital asset held for more than 6 months but not more
20 than 2 years, if and to the extent that such loss is taken
21 into account in computing taxable income.
22 "(3) CLASS A CAPITAL GAIN.—The term 'class A
23 capital gain' means gain from the sale or exchange of a
24 capital asset held for more than 2 years, if and to the

1 extent such gain is taken into account in computing
2 gross income.
3 "(4) CLASS A CAPITAL LOSS.—The term 'class A
4 capital loss' means loss from the sale or exchange of
5 a capital asset held for more than 2 years, if and to
6 the extent that such loss is taken into account in com-
7 puting taxable income.
8 "(5) NET CLASS B CAPITAL GAIN.—The term 'net
9 class B capital gain' means the excess of class B capital
10 gains for the taxable year over the class B capital losses
11 for such year.
12 "(6) NET CLASS B CAPITAL LOSS.—The term 'net
13 class B capital loss' means the excess of class B capital
14 losses for the taxable year over the class B capital gains
15 for such year.
16 "(7) NET CLASS A CAPITAL GAIN.—The term
17 'net class A capital gain' means the excess of class A
18 capital gains for the taxable year over the class A capital
19 losses for such year.
20 "(8) NET CLASS A CAPITAL LOSS.—The term 'net
21 class A capital loss' means the excess of class A capital
22 losses for the taxable year over the class A capital gains
23 for such year.
24 "(9) ADJUSTED CLASS B CAPITAL GAIN.—The

1 term 'adjusted class B capital gain' means the net class
2 B capital gain for the taxable year reduced by losses
3 which reduce such net gain as provided in subsection
4 (d).

5 "(10) ADJUSTED CLASS A CAPITAL GAIN.—The
6 term 'adjusted class A capital gain' means the net class
7 A capital gain for the taxable year reduced by losses
8 which reduce such net gain as provided in subsection
9 (d).

10 "(d) RULES FOR REDUCING NET CAPITAL GAINS BY
11 CAPITAL LOSSES.—For purposes of paragraphs (9) and
12 (10) of subsection (c) and for purposes of reducing any net
13 short-term capital gain, if for a taxable year a taxpayer
14 (other than a corporation) has a net short-term, net class
15 B, or net class A capital loss, such loss shall reduce any net
16 short-term, net class B, or net class A capital gain for such
17 year by applying paragraph (1), then paragraph (2), and
18 then paragraph (3):

19 "(1) A net class A capital loss shall reduce first
20 any net class B capital gain and then any net short-
21 term capital gain.

22 "(2) A net class B capital loss shall reduce first
23 any net class A capital gain and then any net short-term
24 capital gain.

1 "(3) A net short-term capital loss shall reduce
2 first any net class B capital gain and then any net class
3 A capital gain."
4 (2) PROPERTY USED IN THE TRADE OR BUSINESS
5 AND INVOLUNTARY CONVERSIONS.—
6 (A) Subsection (a) of section 1231 (relating
7 to property used in a trade or business) is amended
8 to read as follows:
9 "(a) GENERAL RULE.—If, during the taxable year—
10 "(1) the recognized gains from sales or exchanges
11 of property used in the trade or business, plus
12 "(2) the recognized gains from the compulsory or
13 involuntary conversion (as a result of destruction, in
14 whole or in part, theft or seizure, or an exercise of
15 the power of requisition or condemnation or the threat
16 or imminence thereof) of property used in the trade or
17 business and of capital assets held for more than 6
18 months into other property or money,
19 exceed the recognized losses from such sales, exchanges, and
20 conversions, each such gain or loss shall be considered as gain
21 or loss from the sale or exchange of a capital asset. If such
22 gains do not exceed such losses, such gains and losses shall
23 not be considered as gains and losses from sales or exchanges
24 of capital assets."

1 (B) Section 1231 is amended by adding at the
2 end thereof the following new subsection:
3 "(c) SPECIAL RULES.—
4 "(1) GAINS AND LOSSES TAKEN INTO ACCOUNT.—
5 For purposes of subsection (a)—
6 "(A) Any gain described in subsection (a)
7 shall be included—
8 "(i) only if and to the extent taken into
9 account in computing gross income, and
10 "(ii) only to the extent not required (by
11 any provision of this subtitle other than this
12 section) to be treated as gain from the sale or
13 exchange of property which is neither a capital
14 asset nor property described in this section.
15 "(B) Losses described in subsection (a) shall
16 be included only if and to the extent taken into
17 account in computing taxable income, except that
18 section 1211 shall not apply.
19 "(C) Losses upon the destruction, in whole or
20 in part, theft or seizure, or requisition or condem-
21 nation of property used in the trade or business and
22 held for more than 6 months, or of a capital asset
23 held for more than 6 months, shall be considered
24 losses from a compulsory or involuntary conversion.

1 "(2) CERTAIN LOSSES FROM CASUALTY OR
2 THEFT.—In the case of any property used in the trade
3 or business, and in the case of any capital asset held for
4 more than 6 months and held for the production of
5 income, subsection (a) shall not apply to any loss, in
6 respect of which the taxpayer is not compensated for
7 by insurance in any amount, arising from fire, storm,
8 shipwreck, or other casualty or from theft.
9 "(3) GAINS AND LOSSES TREATED AS CLASS B
10 GAINS AND LOSSES.—In the case of a taxpayer other
11 than a corporation, gain or loss—
12 "(A) from a sale, exchange, or conversion of
13 property to which subsection (b) (2), (3), or
14 (4) applies, and
15 "(B) which by reason of subsection (a) is
16 considered as gain or loss from the sale or exchange
17 of a capital asset,
18 shall be considered as class B capital gain or loss whether
19 or not such property was held for more than 2 years."
20 (3) CERTAIN DISTRIBUTIONS UNDER EMPLOYEES'
21 TRUSTS AND ANNUITY PLANS.—
22 (A) DISTRIBUTION UNDER EMPLOYEES'
23 TRUSTS.—Section 402 (a) (relating to taxability of
24 beneficiary of exempt trust) is amended—
25 (i) by adding at the end of paragraph (1)

1 the following new sentence: "Any gain on the
2 subsequent sale or other disposition of any
3 such security by the distributee (or by any
4 other person in whose hands the basis of such
5 security is determined by reference to the basis
6 of the security in the hands of the distributee)
7 shall, to the extent of the amount of such net
8 unrealized appreciation attributable to such
9 security, be considered a gain from the sale
10 or exchange of a capital asset held for more than
11 6 months but not more than 2 years.";
12 (ii) by adding immediately before the pe-
13 riod at the end of the first sentence of paragraph
14 (2) the words "but not more than 2 years";
15 and
16 (iii) by adding immediately before the last
17 sentence of paragraph (2) the following new
18 sentence: "Any gain on the subsequent sale
19 or other disposition of any such security by
20 the distributee (or by any other person in
21 whose hands the basis of such security is de-
22 termined by reference to the basis of the secu-
23 rity in the hands of the distributee) shall, to
24 the extent of the amount of such net unrealized

1 appreciation attributable to such security, be
2 considered a gain from the sale or exchange
3 of a capital asset held for more than 6 months
4 but not more than 2 years."

5 (B) DISTRIBUTIONS UNDER EMPLOYEE AN-
6 NUITIES.—Section 403(a)(2)(A) (relating to
7 capital gains treatment for certain distributions) is
8 amended by adding immediately before the period
9 at the end of the first sentence the words "but not
10 more than 2 years".

11 (C) EFFECTIVE DATE.—

12 (i) The amendments made by subpara-
13 graphs (A)(ii) and (B) shall apply with re-
14 spect to distributions or amounts paid in tax-
15 able years of the distributees beginning after
16 December 31, 1963.

17 (ii) The amendments made by subpara-
18 graphs (A)(i) and (iii) shall apply with re-
19 spect to securities which are sold or otherwise
20 disposed of in taxable years beginning after
21 December 31, 1963.

22 (4) SALE OR EXCHANGE OF PATENTS.—Subsec-
23 tion (a) of section 1235 (relating to the sale or ex-
24 change of patents) is amended by adding at the end
25 thereof the following new sentences:

1 "In the case of a holder described in subsection (b) (1),
2 any gain or loss on such a transfer shall be treated as class
3 B capital gain or loss. In the case of a holder described in
4 subsection (b) (2), any gain or loss on such a transfer shall
5 be treated as class A, or class B, capital gain or loss, depend-
6 ing on the period for which the property was held (or
7 deemed held)."

8 (5) EMPLOYEE TERMINATION PAYMENTS.—Sec-
9 tion 1240 (relating to taxability to employee of termina-
10 tion payments) is amended by striking out "6 months"
11 and inserting in lieu thereof "6 months but not more than
12 2 years".

13 (b) UNLIMITED CAPITAL LOSS CARRYOVER.—Section
14 1212 (relating to capital loss carryover) is amended—

15 (1) by striking out "If for any taxable year the tax-
16 payer" and inserting in lieu thereof:

17 "(a) CORPORATIONS.—If for any taxable year a
18 corporation"; and

19 (2) by adding the following new subsection:

20 "(b) OTHER TAXPAYERS.—

21 "(1) To the extent, for any taxable year, a tax-
22 payer, other than a corporation, has a net short-term,
23 net class B, or net class A capital loss which does not
24 reduce capital gains under the rules provided in section
25 1222 (d), such loss, reduced as provided in paragraph

1 (2), shall be carried forward and treated in the suc-
2 ceeding taxable year as a short-term, class B, or class A
3 capital loss, as the case may be, sustained in such suc-
4 ceeding year.

5 "(2) An amount equal to the excess of the sum
6 allowable under section 1211(b) over the gains from
7 sales or exchanges of capital assets for the taxable year
8 shall reduce, in order, any net short-term, class B, or
9 class A capital loss for the taxable year which does
10 not reduce capital gains for such year under the rules
11 provided in section 1222(d).

12 "(3) For purposes of this subsection, a net capital
13 loss for a taxable year beginning before January 1,
14 1964, shall be determined under the applicable law
15 relating to the computation of capital gains and losses
16 in effect before such date, and the amount of any such
17 capital loss so determined which such applicable law
18 allows to be carried over to the first taxable year of the
19 taxpayer beginning after December 31, 1963, shall be
20 treated as a short-term capital loss occurring in such
21 taxable year."

22 (c) TECHNICAL AMENDMENTS.—

23 (1) Section 172(d)(2)(B) (relating to net op-
24 erating loss deduction) is amended by striking out "long-
25 term".

1 (2) Section 333 (e) (2) (relating to noncorporate
2 shareholders of certain liquidating corporations) is
3 amended by striking out "short-term or long-term capital
4 gain," and inserting in lieu thereof "short-term, class
5 A, or class B capital gain,".
6 (3) Section 341 (a) (relating to collapsible cor-
7 porations) is amended by striking out "6 months" and
8 inserting in lieu thereof "6 months but not more than
9 2 years or held for more than 2 years, as the case may
10 be,".
11 (4) Section 584 (c) (1) (relating to common trust
12 funds) is amended—
13 (A) by striking out in subparagraph (B)
14 wherever it appears "6 months" and inserting in
15 lieu thereof "6 months but not more than 2 years",
16 and
17 (B) by redesignating subparagraph (C) as
18 subparagraph (D) and by inserting after sub-
19 paragraph (B) the following new subparagraph:
20 "(C) as part of its gains and losses from sales
21 or exchanges of capital assets held for more than 2
22 years, its proportionate share of the gains and losses
23 of the common trust fund from sales or exchanges of
24 capital assets held for more than 2 years;".
25 (5) Section 642 (c) (relating to special rules for

1 credits and deductions) is amended by striking out
2 "6 months," and inserting in lieu thereof "6 months but
3 not more than 2 years or held for more than 2 years,
4 as the case may be,".
5 (6) Section 702 (a) (2) (relating to income and
6 credits of partners) is amended by striking out "6
7 months," and inserting in lieu thereof "6 months but
8 not more than 2 years or held for more than 2 years, as
9 the case may be,".
10 (7) (A) Section 852 (relating to taxation of reg-
11 ulated investment companies and their shareholders)
12 is amended by striking out subparagraphs (B) and (C)
13 of subsection (b) (3) and inserting in lieu thereof the
14 following:
15 "(B) TREATMENT OF CAPITAL GAIN DIVI-
16 DENDS BY SHAREHOLDERS.—A capital gain dividend
17 shall be treated by shareholders, other than corpora-
18 tions, as a class A or class B capital gain to the
19 extent so designated by the company. Shareholders
20 which are corporations shall treat a capital gain
21 dividend as a long-term capital gain.
22 "(C) DEFINITION OF CAPITAL GAIN DIVI-
23 DEND.—For purposes of this part, a capital gain divi-
24 dend is any dividend, or part thereof, which is desig-
25 nated by the company in a written notice mailed to

1 its shareholders not later than 30 days after the close
2 of its taxable year, as a distribution of class A
3 or class B capital gain. In the case of a share-
4 holder which is a corporation, if the aggregate
5 amount designated as a capital gain dividend with
6 respect to a taxable year of the company (including
7 capital gains dividends paid after the close of the
8 taxable year described in section 855) is greater
9 than the excess of the net long-term capital gain over
10 the net short-term capital loss of the taxable year,
11 the portion of each distribution which shall be a
12 capital gain dividend shall be only that proportion
13 of the amount so designated which such excess of
14 the net long-term capital gain over the net short-
15 term capital loss bears to the aggregate amount so
16 designated. In the case of a shareholder other than
17 a corporation, if the aggregate amount desig-
18 nated as class A capital gain, or as class B capi-
19 tal gain with respect to a taxable year of the com-
20 pany (including capital gains dividends paid after
21 the close of the taxable year described in section
22 855) is greater than the adjusted class A, or ad-
23 justed class B capital gain, respectively—
24 "(i) the portion of each distribution which
25 shall be treated as a class A capital gain shall

1 be only that proportion of the amount so desig-
2 nated as class A capital gain which the ad-
3 justed class A capital gain bears to the aggre-
4 gate amount so designated, and

5 "(ii) the portion of each distribution which
6 shall be treated as a class B capital gain shall
7 be only that proportion of the amount so desig-
8 nated as class B capital gain which the
9 adjusted class B capital gain bears to the ag-
10 gregate amount so designated.

11 For purposes of the preceding sentence, the adjusted
12 class A or adjusted class B capital gain shall be
13 computed as though the company were a taxpayer
14 other than a corporation except that section
15 1212 (a) shall apply in lieu of section 1212 (b)."

16 (B) Section 852 (b) (3) (D) is amended by strik-
17 ing out clauses (i), (ii), and (iii) and inserting in lieu
18 thereof the following:

19 "(i) Every shareholder of a regulated
20 investment company at the close of the com-
21 pany's taxable year shall, in the case of a cor-
22 poration, in computing its long-term capital
23 gains, and, in the case of a shareholder other
24 than a corporation, in computing his class A and
25 class B capital gains, include in his return for his

1 taxable year in which the last day of the com-
2 pany's taxable year falls, such amounts as the
3 company shall designate in respect of such
4 shares in a written notice mailed to its share-
5 holders at any time prior to the expiration of
6 30 days after the close of its taxable year, but the
7 amount so includible by any shareholder shall
8 not exceed that part of the amount subjected to
9 tax in subparagraph (A) which he would have
10 received if all of such amount had been dis-
11 tributed as capital gain dividends by the com-
12 pany to the holders of such shares at the close
13 of its taxable year.

14 "(ii) For purposes of this title, every such
15 shareholder shall be deemed to have paid, for
16 his taxable year under clause (i), the tax of
17 25 percent imposed by subparagraph (A) on
18 the amounts required by this subparagraph to
19 be included in respect of such shares, in the case
20 of a corporation, in computing its long-term
21 capital gains, and, in the case of a shareholder
22 other than a corporation, in computing his class
23 A and class B capital gains, for that year; and
24 such shareholder shall be allowed credit or re-

1 fund, as the case may be, for the tax so deemed
2 to have been paid by him.
3 "(iii) The adjusted basis of such shares in
4 the hands of the shareholder shall be increased
5 by 75 percent of the amounts required by this
6 subparagraph to be included in computing his
7 capital gains."
8 (C) Section 852(b)(4) is amended to read as
9 follows:
10 "(4) LOSS ON SALE OR EXCHANGE OF STOCK HELD
11 LESS THAN 31 DAYS.—If, under subparagraph (B) or
12 (D) of paragraph (3) a shareholder of a regulated in-
13 vestment company is required, with respect to any share,
14 to treat any amount as a long-term, class A, or class B
15 capital gain, and such share is held by the taxpayer for
16 less than 31 days, then any loss on the sale or exchange
17 of such share shall—
18 "(A) in the case of a corporation, to the extent
19 of such long-term capital gain, be treated as loss
20 from the sale or exchange of a capital asset held for
21 more than 6 months, or
22 "(B) in the case of a shareholder other than a
23 corporation—
24 "(i) to the extent of such class A capital
25 gain, be treated as loss from the sale or ex-

1 change of a capital asset held for more than
2 2 years, and
3 "(ii) to the extent of such class B capital
4 gain, be treated as loss from the sale or ex-
5 change of a capital asset held for more than 6
6 months but not more than 2 years.
7 If there is a loss on the sale or exchange of such
8 share which is less than the sum of such class A and
9 class B capital gains, then a portion of such loss
10 equal to the proportion which such class A capital
11 gain bears to the sum of such class A and class B
12 capital gains shall be a class A capital loss; and
13 the remainder of such loss shall be a class B capital
14 loss.
15 For purposes of this paragraph, the rules of section
16 246(c)(3) shall apply in determining whether any
17 share of stock has been held for less than 31 days;
18 except that '30 days' shall be substituted for '15 days'
19 in subparagraph (B) of section 246(c)(3)."
20 (8)(A) Section 857 (relating to the taxation of
21 real estate investment trusts and their beneficiaries) is
22 amended by striking out subparagraphs (B) and (C)
23 of subsection (b)(3) and inserting in lieu thereof the
24 following:
25 "(B) TREATMENT OF CAPITAL GAIN DIVI-

1 DENDS BY SHAREHOLDERS.—A capital gain dividend
2 shall be treated by the shareholders or holders of
3 beneficial interests, other than corporations, as a
4 class A or class B capital gain to the extent so desig-
5 nated by the real estate investment trust. Share-
6 holders or holders of beneficial interests which are
7 corporations shall treat a capital gain dividend as a
8 long-term capital gain.

9 "(C) DEFINITION OF CAPITAL GAIN DIVI-
10 DEND.—For purposes of this part, a capital gain
11 dividend is any dividend, or part thereof, which
12 is designated by the real estate investment trust
13 in a written notice mailed to its shareholders or
14 holders of beneficial interests at any time before the
15 expiration of 30 days after the close of its taxable
16 year as a distribution of class A or class B capital
17 gain. In the case of a shareholder or holder of
18 beneficial interest which is a corporation, if the ag-
19 gregate amount designated as a capital gain divi-
20 dend with respect to a taxable year of the trust (in-
21 cluding capital gain dividends paid after the close
22 of the taxable year described in section 858) is
23 greater than the excess of the net long-term capital
24 gain over the net short-term capital loss of the tax-
25 able year, the portion of each distribution which

1 shall be a capital gain dividend shall be only that
2 proportion of the amount so designated which such
3 excess of the net long-term capital gain over the
4 net short-term capital loss bears to the aggregate
5 amount so designated. In the case of a shareholder
6 or holder of a beneficial interest other than a cor-
7 poration, if the aggregate amount designated as
8 class A or as class B capital gain with respect to a
9 taxable year of the trust (including capital gains
10 dividends paid after the close of the taxable year
11 described in section 858) is greater than the ad-
12 justed class A or adjusted class B capital gain, re-
13 spectively—
14 "(i) the portion of each distribution which
15 shall be treated as a class A capital gain shall
16 be only that proportion of the amount so desig-
17 nated as class A capital gain which the adjusted
18 class A capital gain bears to the aggregate
19 amount so designated, and
20 "(ii) the portion of each distribution which
21 shall be treated as a class B capital gain shall
22 be only that proportion of the amount so desig-
23 nated as class B capital gain which the ad-
24 justed class B capital gain bears to the aggre-
25 gate amount so designated.

1 For purposes of the preceding sentence, the adjusted
2 class A or class B capital gain shall be computed as
3 though the trust were a taxpayer other than a cor-
4 poration except that section 1212 (a) shall apply
5 in lieu of section 1212 (b)."

6 (B) Section 857 is amended by striking out para-
7 graph (4) of subsection (b) and inserting in lieu thereof
8 the following:

9 "(4) LOSS ON SALE OR EXCHANGE OF STOCK HELD
10 LESS THAN 31 DAYS.—If, under subparagraph (B) of
11 paragraph (3) a shareholder of, or a holder of a bene-
12 ficial interest in, a real estate investment trust is re-
13 quired, with respect to any share or beneficial interest,
14 to treat any amount as a long-term, class A, or class B
15 capital gain, and such share or interest is held by the
16 taxpayer for less than 31 days, then any loss on the
17 sale or exchange of such share or interest shall—

18 "(A) in the case of a corporation, to the ex-
19 tent of such long-term capital gain, be treated as
20 loss from the sale or exchange of a capital asset
21 held for more than 6 months, or

22 "(B) in the case of a shareholder other than
23 a corporation—

24 "(i) to the extent of such class A capital
25 gain, be treated as loss from the sale or exchange

1 of a capital asset held for more than 2 years,
2 and
3 "(ii) to the extent of such class B capital
4 gain, be treated as loss from the sale or ex-
5 change of a capital asset held for more than 6
6 months but not more than 2 years.
7 If there is a loss on the sale or exchange of such
8 share or interest which is less than the sum of such
9 class A and class B capital gains, then a portion of
10 such loss equal to the proportion which such class
11 A capital gain bears to the sum of such class A
12 and class B capital gains shall be a class A capital
13 loss; and the remainder of such loss shall be a class
14 B capital loss.
15 For purposes of this paragraph, the rules of section
16 246(c)(3) shall apply in determining whether any
17 share of stock or beneficial interest has been held
18 for less than 31 days; except that '30 days' shall be sub-
19 stituted for '15 days' in subparagraph (B) of section
20 246(c)(3)."
21 (9) The last sentence of section 1232(a)(2)(A)
22 (relating to bonds and other evidences of indebtedness)
23 is amended to read as follows: "Gain in excess of such
24 amount shall, in the case of a corporation, be considered
25 gain from the sale or exchange of a capital asset held

1 more than 6 months or in the case of a taxpayer other
2 than a corporation, be considered gain from the sale or
3 exchange of a capital asset held for more than 6 months
4 but not more than 2 years or held for more than 2 years,
5 as the case may be."

6 (10) (A) Subsection (b) of section 1233 (relating
7 to gains and losses from short sales) is amended to read
8 as follows:

9 "(b) SHORT-TERM AND CLASS B GAINS AND HOLD-
10 ING PERIODS.—If gain or loss from a short sale is considered
11 as gain or loss from the sale or exchange of a capital asset
12 under subsection (a) and if on the date of such short sale
13 substantially identical property has been held by the
14 taxpayer—

15 "(1) for not more than 6 months (determined
16 without regard to the effect, under the second sentence
17 of this subsection, of such short sale on the holding
18 period), or if substantially identical property is acquired
19 by the taxpayer after such short sale and on or before
20 the date of the closing thereof, any gain on the closing
21 of such short sale shall be considered as a gain on the
22 sale or exchange of a capital asset held for not more than
23 6 months (notwithstanding the period of time any
24 property used to close such short sale has been held); or

1 "(2) in the case of a taxpayer other than a cor-
2 poration, for more than 6 months but not more than 2
3 years (determined without regard to the effect, under
4 the second sentence of this subsection, of such short
5 sale on the holding period), any gain on the closing of
6 such short sale shall be considered as a gain on the sale
7 or exchange of a capital asset held for more than 6
8 months but not more than 2 years (notwithstanding
9 the period of time any property used to close such short
10 sale has been held).
11 The holding period of such substantially identical property
12 shall be considered to begin (notwithstanding section 1223,
13 relating to the holding period of property) on the date of the
14 closing of the short sale, or on the date of a sale, gift, or
15 other disposition of such property, whichever date occurs
16 first. The preceding sentence shall apply to such substantially
17 identical property in the order of the dates of the acquisition
18 of such property, but only to so much of such property as
19 does not exceed the quantity sold short. For purposes of this
20 subsection, the acquisition of an option to sell property at a
21 fixed price shall be considered as a short sale, and the exer-
22 cise or failure to exercise such option shall be considered as
23 a closing of such short sale."

1 (B) Subsection (d) of section 1233 is amended to
2 read as follows:
3 "(d) LONG-TERM, CLASS A, AND CLASS B LOSSES.—
4 If on the date of such short sale substantially identical prop-
5 erty has been held by the taxpayer—
6 "(1) In the case of a corporation, for more than 6
7 months, any loss on the closing of such short sale shall
8 be considered as a loss on the sale or exchange of a
9 capital asset held for more than 6 months (notwithstand-
10 ing the period of time any property used to close such
11 short sale has been held, and notwithstanding section
12 1234).
13 "(2) In the case of a taxpayer other than a corpo-
14 ration—
15 "(A) for more than 2 years, any loss on the
16 closing of such short sale shall be considered as a
17 loss on the sale or exchange of a capital asset held
18 for more than 2 years (notwithstanding the period
19 of time any property used to close such short sale
20 has been held, and notwithstanding section 1234),
21 or
22 "(B) for more than 6 months but not more
23 than 2 years, any loss on the closing of such short
24 sale shall be considered as a loss on the sale or ex-

1 change of a capital asset held for more than 6
2 months but not more than 2 years (notwithstanding
3 the period of time any property used to close such
4 short sale has been held, and notwithstanding
5 section 1234)."

6 (C) Paragraph (1) of section 1233(e) is amended
7 to read as follows:

8 "(1) Subsection (b) or (d) shall not apply to the
9 gain or loss, respectively, on any quantity of property
10 used to close such short sale which is in excess of the
11 quantity of the substantially identical property referred
12 to in the applicable subsection. In the case of a tax-
13 payer other than a corporation—

14 "(A) subsection (b)(1) or (d)(2)(A)
15 shall not apply to the gain or loss, respectively, on
16 any quantity of property used to close such short
17 sale which is in excess of the quantity of the
18 substantially identical property to which either sub-
19 section (b)(1) or (d)(2)(A) applies (deter-
20 mined without regard to this subparagraph), and

21 "(B) subsection (b)(2) or (d)(2)(B) shall
22 apply only to the gain or loss, respectively, on the
23 excess described in subparagraph (A), but only
24 to the extent of the quantity of the substantially

1 identical property to which either subsection (b)
2 (2) or (d) (2) (B) applies (determined without
3 regard to this subparagraph)."
4 (D) Section 1233 (e) (4) (A) is amended by strik-
5 ing out "for not more than 6 months," in clause (i)
6 and inserting in lieu thereof "in the case of a corporation,
7 for not more than 6 months, or in the case of a taxpayer
8 other than a corporation, for not more than 2 years,",
9 and by striking out "subsection (b) (2)" in the lan-
10 guage following clause (ii) and inserting in lieu thereof
11 "the second and third sentences of subsection (b)".
12 (E) Section 1233 (f) is amended by striking out
13 "subsection (b) (2)" each place it appears and inserting
14 in lieu thereof "the second and third sentences of sub-
15 section (b)".
16 (11) (A) Section 1247 (relating to election by
17 foreign investment companies to distribute income cur-
18 rently) is amended by striking out subparagraph (B)
19 of subsection (a) (1) and inserting in lieu thereof the
20 following:
21 "(B) designate in a written notice mailed to
22 its shareholders at any time before the expiration of
23 45 days after the close of its taxable year the pro
24 rata amount for the taxable year of the adjusted
25 class A and adjusted class B capital gain (deter-

1 mined as though such corporation were a taxpayer
2 other than a corporation except that section 1212
3 (a) shall apply in lieu of section 1212 (b)); and
4 the portions thereof which are being distributed;
5 and"
6 (B) Clause (i) of section 1247 (a) (2) (A) is
7 amended to read as follows:
8 "(i) the adjusted class A and adjusted
9 class B capital gain referred to in paragraph
10 (1) (B),"
11 (C) Subparagraph (C) of section 1247 (a) (2) is
12 amended to read as follows:
13 "(C) CARRYOVER OF CAPITAL LOSSES FROM
14 NONELECTION YEARS DENIED.—In computing the
15 adjusted class A and adjusted class B capital gains
16 referred to in paragraph (1) (B), section 1212 shall
17 not apply to losses incurred in or with respect to
18 taxable years before the first taxable year to which
19 the election applies."
20 (D) Section 1247 (c) (2) is amended by striking
21 out "his long-term capital gains" and inserting in lieu
22 thereof "in the case of a shareholder which is a corpora-
23 tion, its long-term capital gains, and in the case of a
24 shareholder other than a corporation, his class A and
25 class B capital gains";

1 (E) Subsection (d) of section 1247 is amended
2 to read as follows:
3 "(d) TREATMENT OF DISTRIBUTED AND UNDIS-
4 TRIBUTED CAPITAL GAINS BY A QUALIFIED SHARE-
5 HOLDER.—Every qualified shareholder of a foreign investment
6 company for any taxable year of such company with respect
7 to which an election pursuant to subsection (a) is in effect
8 shall—
9 "(1) if such shareholder is a taxpayer other than
10 a corporation—
11 "(A) include in computing his class A or class
12 B capital gain for his taxable year in which re-
13 ceived, his pro rata share of the distributed portion
14 of the adjusted class A or adjusted class B capital
15 gain, respectively, and
16 "(B) include in computing his class A or class
17 B capital gain for his taxable year in which or with
18 which the taxable year of such company ends, his
19 pro rata share of the undistributed portion of the
20 adjusted class A or adjusted class B capital gain,
21 respectively, or
22 "(2) if such shareholder is a corporation, include
23 in computing its long-term capital gains—
24 "(A) for its taxable year in which received,

1 its pro rata share of the distributed portion of the
2 sum of the adjusted class A and adjusted class B
3 capital gains, and
4 "(B) for its taxable year in which or with
5 which the taxable year of such company ends,
6 its pro rata share of the undistributed portion of the
7 sum of the adjusted class A and adjusted class B
8 capital gains.
9 For purposes of this subsection the adjusted class A and
10 adjusted class B capital gains shall be determined as pro-
11 vided in subsection (a) (1) (B)."
12 (F) Subsection (i) of section 1247 is amended
13 to read as follows:
14 "(i) LOSS ON SALE OR EXCHANGE OF CERTAIN
15 STOCK.—
16 "(1) SHAREHOLDERS OTHER THAN CORPORA-
17 TIONS.—If, under this section, any qualified shareholder
18 other than a corporation treats any amount designated
19 under subsection (a) (1) (B) with respect to a share
20 of stock as—
21 "(A) class B capital gain and such share is
22 held by the taxpayer for 6 months or less, then
23 any loss on the sale or exchange of such share shall,
24 to the extent of the amount treated as class B capital

1 gain, be treated as a loss from the sale or exchange
2 of a capital asset held for more than 6 months but
3 not more than 2 years,
4 "(B) class A capital gain and such share is
5 held by the taxpayer for 2 years or less, then any
6 loss on the sale or exchange of such share shall, to
7 the extent of the amount treated as class A capital
8 gain, be treated as a loss from the sale or exchange
9 of a capital asset held for more than 2 years, or
10 "(C) both class A and class B capital gains
11 and such share is held by the taxpayer for 6 months
12 or less and there is a loss on the sale or exchange of
13 such stock which is less than the sum of the amount
14 so designated, then an amount of such loss shall be
15 treated as a loss from the sale or exchange of a
16 capital asset held for more than 6 months but not
17 more than 2 years which bears the same relation
18 to such loss as the class B capital gain so designated
19 bears to the sum of such class B and the class A
20 capital gains so designated; and the remainder of
21 such loss shall be treated as a loss from the sale or
22 exchange of a capital asset held for more than
23 2 years.
24 "(2) CORPORATE SHAREHOLDERS.—If, under this
25 section, any qualified shareholder which is a corpora-

1 tion treats any amount designated under subsection (a)
2 (1) (B) with respect to a share of stock as long-term
3 capital gain and such share is held by the taxpayer for
4 6 months or less, then any loss on the sale or exchange
5 of such share shall, to the extent of the amount treated
6 as long-term capital gain, be treated as a loss from
7 the sale or exchange of a capital asset held for more than
8 6 months."
9 (12) Section 1248 (b) (relating to gain from cer-
10 tain sales or exchanges of stock in certain foreign corpo-
11 rations) is amended by striking out "6 months," each
12 place it appears and inserting in lieu thereof "6 months
13 but not more than 2 years or held for more than 2 years,
14 as the case may be,".
15 (13) Section 1375 (a) (relating to special rules
16 applicable to capital gains of electing small business cor-
17 porations) is amended to read as follows:
18 "(a) CAPITAL GAINS.—
19 "(1) TREATMENT IN HANDS OF SHAREHOLDERS.—
20 The amount includible in the gross income of a share-
21 holder as dividends (including amounts treated as divi-
22 dends under section 1373 (b)) from an electing small
23 business corporation during any taxable year of the cor-
24 poration, to the extent such amount is a distribution of
25 property out of earnings and profits of the taxable year

1 as specified in section 316 (a) (2), shall be treated (i)
2 as class A capital gain to the extent of the shareholder's
3 pro rata share of the adjusted class A capital gain
4 (computed by the corporation as though it were a
5 taxpayer other than a corporation except that section
6 1212 (b) (2) shall not apply) for such taxable year,
7 and (ii) as class B capital gain to the extent of the
8 shareholder's pro rata share of the adjusted class B
9 capital gain (computed by the corporation as though
10 it were a taxpayer other than a corporation except
11 that section 1212 (b) (2) shall not apply) for such
12 taxable year. For purposes of this paragraph, the
13 adjusted class A capital gain or the adjusted class B
14 capital gain shall be deemed not to exceed an amount
15 equal to that portion of the corporation's taxable income
16 (computed as provided in section 1373 (d)) for
17 the taxable year which bears the same ratio to such
18 taxable income as such adjusted class A capital gain or
19 such adjusted class B capital gain (determined without
20 regard to the provisions of this sentence) bears to the
21 sum of such adjusted class A and adjusted class B capital
22 gains.

23 "(2) DETERMINATION OF SHAREHOLDER'S PRO
24 RATA SHARE.—A shareholder's pro rata share of the
25 adjusted class A or adjusted class B capital gain (com-
26 puted as provided in paragraph (1)) for any taxable

1 year shall be an amount which bears the same ratio to
2 such adjusted class A capital gain or such adjusted class
3 B capital gain as the amount of dividends described in
4 paragraph (1) includible in the shareholder's gross
5 income bears to the entire amount of dividends described
6 in paragraph (1) includible in the gross income of all
7 shareholders."

8 (d) EFFECTIVE DATE.—

9 (1) GENERAL RULE.—Except as otherwise specifi-
10 cally provided, and except as provided by paragraph
11 (2), the amendments made by this section shall apply
12 to taxable years beginning after December 31, 1963.

13 (2) TRANSITION RULES.—

14 (A) DISTRIBUTIONS OF CAPITAL GAINS.—

15 (i) If a taxpayer, other than a corporation,
16 is required to include as capital gain in his gross
17 income for a taxable year beginning after
18 December 31, 1963, an amount attributable
19 to sales or exchanges of capital assets held
20 for more than 6 months and such gain was
21 realized in a taxable year beginning before
22 January 1, 1964, by a person described in
23 clause (iii), such amount shall be treated by
24 such taxpayer as class B capital gain.

25 (ii) If a taxpayer, other than a corpora-
26 tion, is required to include as capital gain in

1 his gross income for a taxable year beginning
2 before January 1, 1964, an amount attributable
3 to sales or exchanges of capital assets held for
4 more than 6 months and such gain was realized
5 in a taxable year beginning after December
6 31, 1963, by a person described in clause (iii),
7 such amount shall be treated by such taxpayer
8 as long-term capital gain.

9 (iii) This subparagraph applies in respect
10 of a regulated investment company or a real
11 estate investment trust to which subchapter M
12 of chapter 1 of the Internal Revenue Code of
13 1954 applies, a foreign investment company to
14 which section 1247 of such Code applies, an
15 electing small business corporation to which
16 subchapter S of chapter 1 of such Code applies,
17 a common trust fund to which section 584
18 applies, a partnership, an estate, and a trust.

19 (B) LOSS ON SALE OR EXCHANGE OF CER-
20 TAIN STOCK.—If a shareholder (or a holder of a
21 beneficial interest), other than a corporation, in a
22 regulated investment company, real estate invest-
23 ment trust, or foreign investment company is re-
24 quired for a taxable year beginning before January
25 1, 1964, under section 852(b)(3) (B) or (D),
26 section 857(b)(3)(B), or section 1247(d), to

1 treat an amount with respect to a share (or bene-
2 ficial interest), as a long-term capital gain, and
3 such share (or beneficial interest) is held by the
4 taxpayer for less than 31 days (6 months or less in
5 the case of a shareholder of a foreign investment
6 company), then a loss on the sale or exchange of
7 such share in a taxable year of such shareholder
8 beginning after December 31, 1963, shall to the
9 extent of such long-term capital gain, be treated as
10 loss from the sale or exchange or a capital asset
11 held for more than 6 months but not more than
12 2 years.

13 (C) REGULATORY AUTHORITY.—The Secre-
14 tary or his delegate shall prescribe such regulations
15 as may be necessary to carry out the purposes of
16 this subsection.

17 (D) MEANING OF TERMS.—Terms used in this
18 subsection shall have the same meaning as when
19 used in chapter 1 of the Internal Revenue Code of
20 1954.

21 **SEC. 220. GAIN FROM DISPOSITIONS OF CERTAIN DEPRE-**
22 **CIABLE REALTY.**

23 (a) GAIN FROM DISPOSITIONS OF CERTAIN DEPRE-
24 CIABLE REALTY.—Part IV of subchapter P of chapter 1
25 (relating to special rules for determining capital gains and

1 losses) is amended by adding at the end thereof the follow-
2 ing new section:
3 "SEC. 1250. GAIN FROM DISPOSITIONS OF CERTAIN DEPRE-
4 CIABLE REALTY.
5 "(a) GENERAL RULE.—
6 "(1) ORDINARY INCOME.—Except as otherwise
7 provided in this section, if section 1250 property is dis-
8 posed of after December 31, 1963, the applicable per-
9 centage of the lower of—
10 "(A) the additional depreciation (as defined in
11 subsection (b) (1)) in respect of the property, or
12 "(B) the excess of—
13 "(i) the amount realized (in the case of a
14 sale, exchange, or involuntary conversion), or
15 the fair market value of such property (in the
16 case of any other disposition), over
17 "(ii) the adjusted basis of such property,
18 shall be treated as gain from the sale or exchange of
19 property which is neither a capital asset nor property
20 described in section 1231. Such gain shall be recog-
21 nized notwithstanding any other provision of this
22 subtitle.
23 "(2) APPLICABLE PERCENTAGE.—For purposes of
24 paragraph (1), the term 'applicable percentage'
25 means 100 percent minus one percentage point for each

1 full month the property was held after the date on which
2 the property was held 20 full months.
3 "(b) ADDITIONAL DEPRECIATION DEFINED.—For
4 purposes of this section—
5 "(1) IN GENERAL.—The term 'additional deprecia-
6 tion' means, in the case of any property, the depreciation
7 adjustments in respect of such property; except that, in
8 the case of property held more than one year, it means
9 such adjustments only to the extent that they exceed the
10 amount of the depreciation adjustments which would
11 have resulted if such adjustments had been determined
12 for each taxable year under the straight line method of
13 adjustment. For purposes of the preceding sentence, if a
14 useful life (or salvage value) was used in determining
15 the amount allowed as a deduction for any taxable year,
16 such life (or value) shall be used in determining the
17 depreciation adjustments which would have resulted for
18 such year under the straight line method.
19 "(2) PROPERTY HELD BY LESSEE.—In the case
20 of a lessee, in determining the depreciation adjustments
21 which would have resulted in respect of any building
22 erected (or other improvement made) on the leased
23 property, or in respect of any cost of acquiring the lease,
24 the lease period shall be treated as including all renewal
25 periods. For purposes of the preceding sentence—

1 "(A) the term 'renewal period' means any
2 period for which the lease may be renewed, ex-
3 tended, or continued pursuant to an option exercis-
4 able by the lessee, but

5 "(B) the inclusion of renewal periods shall
6 not extend the period taken into account by more
7 than $\frac{2}{3}$ of the period on the basis of which the
8 depreciation adjustments were allowed.

9 "(3) DEPRECIATION ADJUSTMENTS.—The term
10 'depreciation adjustments' means, in respect of any
11 property, all adjustments attributable to periods after
12 December 31, 1963, reflected in the adjusted basis of
13 such property on account of deductions (whether in
14 respect of the same or other property) allowed or
15 allowable to the taxpayer or to any other person for
16 exhaustion, wear and tear, obsolescence, or amortization
17 (other than amortization under section 168). For pur-
18 poses of the preceding sentence, if the taxpayer can
19 establish by adequate records or other sufficient evidence
20 that the amount allowed as a deduction for any period
21 was less than the amount allowable, the amount taken
22 into account for such period shall be the amount allowed.

23 "(c) SECTION 1250 PROPERTY.—For purposes of this
24 section, the term 'section 1250 property' means any real
25 property (other than section 1245 property, as defined in
26 section 1245(a)(3)) which is or has been property of a

1 character subject to the allowance for depreciation provided
2 in section 167.
3 "(d) Exceptions and Limitations.—
4 "(1) Gifts.—Subsection (a) shall not apply to a
5 disposition by gift.
6 "(2) Transfers at death.—Except as provided
7 in section 691 (relating to income in respect of a de-
8 cedent), subsection (a) shall not apply to a transfer at
9 death.
10 "(3) Certain tax-free transactions.—If the
11 basis of property in the hands of a transferee is deter-
12 mined by reference to its basis in the hands of the trans-
13 feror by reason of the application of section 332, 351,
14 361, 371(a), 374(a), 721, or 731, then the amount
15 of gain taken into account by the transferor under sub-
16 section (a)(1) shall not exceed the amount of gain
17 recognized to the transferor on the transfer of such prop-
18 erty (determined without regard to this section).
19 This paragraph shall not apply to a disposition to an
20 organization (other than a cooperative described in sec-
21 tion 521) which is exempt from the tax imposed by this
22 chapter.
23 "(4) Like kind exchanges; involuntary
24 conversions, etc.—
25 "(A) Recognition limit.—If property is

1 disposed of and gain (determined without regard
2 to this section) is not recognized in whole or in
3 part under section 1031 or 1033, then the amount
4 of gain taken into account by the transferor under
5 subsection (a) (1) shall not exceed the greater of
6 the following:
7 "(i) the amount of gain recognized on the
8 disposition (determined without regard to this
9 section), increased as provided in subparagraph
10 (B), or
11 "(ii) the amount determined under sub-
12 paragraph (C).
13 "(B) INCREASE FOR CERTAIN STOCK.—With
14 respect to any transaction, the increase provided
15 by this subparagraph is the amount equal to the
16 fair market value of any stock purchased in a cor-
17 poration which (but for this paragraph) would
18 result in nonrecognition of gain under section
19 1033 (a) (3) (A).
20 "(C) ADJUSTMENT WHERE INSUFFICIENT
21 SECTION 1250 PROPERTY IS ACQUIRED.—With re-
22 spect to any transaction, the amount determined
23 under this subparagraph shall be the excess of—
24 "(i) the amount of gain which would (but
25 for this paragraph) be taken into account un-
26 der subsection (a) (1), over

1 "(ii) the fair market value (or cost in
2 the case of a transaction described in section
3 1033 (a) (3)) of the section 1250 property
4 acquired in the transaction.
5 "(D) BASIS OF PROPERTY ACQUIRED.—In the
6 case of property purchased by the taxpayer in a
7 transaction described in section 1033 (a) (3), in
8 applying the last sentence of section 1033 (c), such
9 sentence shall be applied—
10 "(i) first solely to section 1250 properties
11 and to the amount of gain not taken into ac-
12 count under subsection (a) (1) by reason of
13 this paragraph, and
14 "(ii) then to all purchased properties
15 to which such sentence applies and to the re-
16 maining gain not recognized on the transaction
17 as if the cost of the section 1250 properties were
18 the basis of such properties computed under
19 clause (i).
20 In the case of property acquired in any other trans-
21 action to which this paragraph applies, rules con-
22 sistent with the preceding sentence shall be applied
23 under regulations prescribed by the Secretary or his
24 delegate.
25 "(E) ADDITIONAL DEPRECIATION WITH RE-
26 SPECT TO PROPERTY DISPOSED OF.—In the case of

1 any transaction described in section 1031 or 1033,
2 the additional depreciation in respect of the section
3 1250 property acquired which is attributable to the
4 section 1250 property disposed of shall be an amount
5 equal to the amount of the gain which was not
6 taken into account under subsection (a) (1) by
7 reason of the application of this paragraph.

8 "(5) SECTION 1071 AND 1081 TRANSACTIONS.—
9 Under regulations prescribed by the Secretary or his
10 delegate, rules consistent with paragraphs (3) and (4)
11 of this subsection and with subsections (e) and (f)
12 shall apply in the case of transactions described in sec-
13 tion 1071 (relating to gain from sale or exchange to
14 effectuate policies of FCC) or section 1081 (relating to
15 exchanges in obedience to SEC orders).

16 "(6) PROPERTY DISTRIBUTED BY A PARTNERSHIP
17 TO A PARTNER.—

18 "(A) IN GENERAL.—For purposes of this sec-
19 tion, the basis of section 1250 property distributed
20 by a partnership to a partner shall be deemed to be
21 determined by reference to the adjusted basis of
22 such property to the partnership.

23 "(B) ADDITIONAL DEPRECIATION.—In respect
24 of any property described in subparagraph (A), the
25 additional depreciation attributable to periods before
26 the distribution by the partnership shall be—

1 "(i) the amount of the gain to which sub-
2 section (a) would have applied if such property
3 had been sold by the partnership immediately
4 before the distribution at its fair market value
5 at such time and the applicable percentage for
6 the property had been 100 percent, reduced by
7 "(ii) if section 751 (b) applied to any part
8 of such gain, the amount of such gain to which
9 section 751 (b) would have applied if the ap-
10 plicable percentage for the property had been
11 100 percent.
12 "(7) DISPOSITION OF PRINCIPAL RESIDENCE.—
13 Subsection (a) shall not apply to a disposition of—
14 "(A) property to the extent used by the tax-
15 payer as his principal residence (within the mean-
16 ing of section 1034, relating to sale or exchange
17 of residence), and
18 "(B) property in respect of which the taxpayer
19 meets the age and ownership requirements of section
20 121 (relating to gains from sale or exchange of
21 residence of individual who has attained the age of
22 65) but only to the extent that he meets the use
23 requirements of such section in respect of such
24 property.
25 "(c) HOLDING PERIOD.—For purposes of determining
26 the applicable percentage under this section, the provisions

1 of section 1223 shall not apply, and the holding period of
2 section 1250 property shall be determined under the follow-
3 ing rules:

4 "(1) BEGINNING OF HOLDING PERIOD.—The hold-
5 ing period of section 1250 property shall be deemed to
6 begin—

7 "(A) in the case of property acquired by the
8 taxpayer, on the day after the date of acquisition,
9 or

10 "(B) in the case of property constructed, re-
11 constructed, or erected by the taxpayer, on the
12 first day of the month during which the property
13 is placed in service.

14 "(2) PROPERTY WITH TRANSFERRED BASIS.—If
15 the basis of property acquired in a transaction described
16 in paragraph (1), (2), (3), or (5) of subsection (d)
17 is determined by reference to its basis in the hands of the
18 transferor, then the holding period of the property in
19 the hands of the transferee shall include the holding
20 period of the property in the hands of the transferor.

21 "(3) PRINCIPAL RESIDENCE.—If the basis of
22 property acquired in a transaction described in para-
23 graph (7) of subsection (d) is determined by reference
24 to the basis in the hands of the taxpayer of other prop-
25 erty, then the holding period of the property acquired
26 shall include the holding period of such other property.

1 "(f) SPECIAL RULES FOR PROPERTY WHICH IS SUB-
2 STANTIALLY IMPROVED.—
3 "(1) AMOUNT TREATED AS ORDINARY IN-
4 COME.—If, in the case of a disposition of section 1250
5 property, the property is treated as consisting of more
6 than one element by reason of paragraph (3), then the
7 amount taken into account under subsection (a)(1)
8 in respect of such section 1250 property as gain from
9 the sale or exchange of property which is neither a
10 capital asset nor property described in section 1231 shall
11 be the sum of the amounts determined under paragraph
12 (2).
13 "(2) ORDINARY INCOME ATTRIBUTABLE TO AN
14 ELEMENT.—For purposes of paragraph (1), the
15 amount taken into account for any element shall be the
16 amount determined by multiplying—
17 "(A) the amount which bears the same ratio
18 to the lower of the amounts specified in subpara-
19 graph (A) or (B) of subsection (a)(1) for the
20 section 1250 property as the additional depreciation
21 for such element bears to the sum of the additional
22 depreciation for all elements, by
23 "(B) the applicable percentage for such ele-
24 ment.
25 For purposes of this paragraph, determinations with

1 respect to any element shall be made as if it were a
2 separate property.
3 "(3) PROPERTY CONSISTING OF MORE THAN ONE
4 ELEMENT.—In applying this subsection in the case of
5 any section 1250 property, there shall be treated as a
6 separate element—
7 "(A) each separate improvement,
8 "(B) if, before completion of section 1250
9 property, units thereof (as distinguished from im-
10 provements) were placed in service, each such unit
11 of section 1250 property, and
12 "(C) the remaining property which is not
13 taken into account under subparagraphs (A) and
14 (B).
15 "(4) PROPERTY WHICH IS SUBSTANTIALLY IM-
16 PROVED.—For purposes of this subsection—
17 "(A) IN GENERAL.—The term 'separate im-
18 provement' means each improvement added during
19 the 36-month period ending on the last day of any
20 taxable year to the capital account for the prop-
21 erty, but only if the sum of the amounts added to
22 such account during such period exceeds the
23 greatest of—
24 "(i) 25 percent of the adjusted basis of
25 the property,
26 "(ii) 10 percent of the adjusted basis of

1 the property, determined without regard to the
2 adjustments provided in paragraphs (2) and
3 (3) of section 1016 (a), or
4 "(iii) $5,000.
5 For purposes of clauses (i) and (ii), the adjusted
6 basis of the property shall be determined as of the
7 beginning of the first day of such 36-month period,
8 or of the holding period of the property (within the
9 meaning of subsection (e)), whichever is the later.
10 "(B) EXCEPTION.—Improvements in any tax-
11 able year shall be taken into account for purposes of
12 subparagraph (A) only if the sum of the amounts
13 added to the capital account for the property for
14 such taxable year exceeds the greater of—
15 "(i) $2,000, or
16 "(ii) one percent of the adjusted basis re-
17 ferred to in subparagraph (A) (ii), determined,
18 however, as of the beginning of such taxable
19 year.
20 For purposes of this section, if the amount added to
21 the capital account for any separate improvement
22 does not exceed the greater of clause (i) or (ii),
23 such improvement shall be treated as placed in
24 service on the first day, of a calendar month, which
25 is closest to the middle of the taxable year.
26 "(C) IMPROVEMENT.—The term 'improve-

1 ment' means, in the case of any section 1250 prop-
2 erty, any addition to capital account for such prop-
3 erty after the initial acquisition or after completion
4 of the property.

5 "(g) ADJUSTMENTS TO BASIS.—The Secretary or his
6 delegate shall prescribe such regulations as he may deem nec-
7 essary to provide for adjustments to the basis of property to
8 reflect gain recognized under subsection (a).

9 "(h) APPLICATION OF SECTION.—This section shall
10 apply notwithstanding any other provision of this subtitle."

11 (b) TECHNICAL AMENDMENTS.—

12 (1) SPECIAL RULE FOR CHARITABLE CONTRIBU-
13 TIONS.—

14 (A) The heading of section 170(e) (relating
15 to special rule for charitable contributions of section
16 1245 property) is amended by striking out "SEC-
17 TION 1245 PROPERTY" and inserting in lieu thereof
18 "CERTAIN PROPERTY".

19 (B) The text of such section 170(e) is
20 amended by striking out "section 1245(a)" and in-
21 serting in lieu thereof "section 1245(a) or
22 1250(a)".

23 (2) CORPORATE DISTRIBUTIONS OF PROPERTY.—
24 Subsections (b) and (d) of section 301 (relating to
25 amount distributed) are each amended by striking out

1 "under section 1245 (a)" and inserting in lieu thereof
2 "under section 1245 (a) or 1250 (a)".
3 (3) EFFECT ON EARNINGS AND PROFITS.—Para-
4 graph (3) of section 312 (c) (relating to adjustments
5 of earnings and profits) is amended by striking out "or
6 under section 1245 (a)" and inserting in lieu thereof
7 "or under section 1245 (a) or 1250 (a)".
8 (4) COLLAPSIBLE CORPORATIONS.—Paragraph
9 (12) of section 341 (e) (relating to collapsible cor-
10 porations) is amended by striking out "section 1245
11 (a)" and inserting in lieu thereof "sections 1245 (a)
12 and 1250 (a)".
13 (5) INSTALLMENT OBLIGATIONS IN CERTAIN
14 LIQUIDATIONS.—Subparagraphs (A) and (B) of section
15 453 (d) (4) (relating to distribution of installment obli-
16 gations in certain corporate liquidations) are each
17 amended by striking out "section 1245 (a)" and insert-
18 ing in lieu thereof "section 1245 (a) or 1250 (a)".
19 (6) SPECIAL RULE FOR PARTNERSHIPS.—Section
20 751 (c) (relating to definition of "unrealized receiva-
21 bles" for purposes of subchapter K) is amended by
22 striking out "(as defined in section 1245 (a) (3))" and
23 inserting in lieu thereof "(as defined in section 1245
24 (a) (3)) and section 1250 property (as defined in sec-
25 tion 1250 (c))" and by striking out "to which section

1 1245 (a)" and inserting in lieu thereof "to which section
2 1245 (a) or 1250 (a)".
3 (7) The table of sections for part IV of subchapter
4 P of chapter 1 is amended by adding at the end thereof
5 the following:

"Sec. 1250. Gain from dispositions of certain depreciable realty."

6 (c) EFFECTIVE DATE.—The amendments made by this
7 section shall apply to dispositions after December 31, 1963,
8 in taxable years ending after such date.

9 **SEC. 221. AVERAGING.**

10 (a) GENERAL RULE.—Part I of subchapter Q of chap-
11 ter 1 is amended to read as follows:

12 **"PART I—INCOME AVERAGING**

"Sec. 1301. Limitation on tax.
"Sec. 1302. Definition of averagable income; related definitions.
"Sec. 1303. Eligible individuals.
"Sec. 1304. Special rules.
"Sec. 1305. Regulations.

13 **"SEC. 1301. LIMITATION ON TAX.**

14 "If an eligible individual has averagable income for the
15 computation year, and if the amount of such income exceeds
16 $3,000, then the tax imposed by section 1 for the computa-
17 tion year which is attributable to averagable income shall
18 be 5 times the increase in tax under such section which would
19 result from adding 20 percent of such income to the sum of—
20 "(1) $133\frac{1}{3}$ percent of average base period income,
21 and

1 "(2) the amount (if any) of the average base
2 period capital gain net income.
3 **"SEC. 1302. DEFINITION OF AVERAGABLE INCOME; RE-**
4 **LATED DEFINITIONS.**
5 "(a) AVERAGABLE INCOME.—For purposes of this
6 part—
7 "(1) IN GENERAL.—The term 'averagable income'
8 means the amount (if any) by which adjusted tax-
9 able income exceeds $133\frac{1}{3}$ percent of average base period
10 income.
11 "(2) ADJUSTMENT IN CERTAIN CASES FOR CAPI-
12 TAL GAINS.—If—
13 "(A) the average base period capital gain net
14 income, exceeds
15 "(B) the capital gain net income for the com-
16 putation year,
17 then the term 'averagable income' means the amount de-
18 termined under paragraph (1), reduced by an amount
19 equal to such excess.
20 "(b) ADJUSTED TAXABLE INCOME.—For purposes of
21 this part, the term 'adjusted taxable income' means the tax-
22 able income for the computation year, decreased by the sum
23 of the following amounts:
24 "(1) CAPITAL GAIN NET INCOME FOR THE COM-

1 PUTATION YEAR.—The amount (if any) of the capital
2 gain net income for the computation year.
3 "(2) INCOME ATTRIBUTABLE TO GIFTS, BEQUESTS,
4 ETC.—
5 "(A) IN GENERAL.—The amount of net in-
6 come attributable to an interest in property where
7 such interest was received by the taxpayer as a gift,
8 bequest, devise, or inheritance during the computa-
9 tion year or any base period year. This para-
10 graph shall not apply to gifts, bequests, devises,
11 or inheritances between husband and wife if they
12 make a joint return, or if one of them makes a re-
13 turn as a surviving spouse (as defined in section
14 2 (b)), for the computation year.
15 "(B) AMOUNT OF NET INCOME.—Unless the
16 taxpayer otherwise establishes to the satisfaction of
17 the Secretary or his delegate, the amount of net
18 income for any taxable year attributable to an
19 interest described in subparagraph (A) shall be
20 deemed to be 6 percent of the fair market value of
21 such interest (as determined in accordance with
22 the provisions of chapter 11 or chapter 12, as the
23 case may be).
24 "(C) LIMITATION.—This paragraph shall ap-
25 ply only if the sum of the net incomes attributable

1 to interests described in subparagraph (A) exceeds
2 $3,000.
3 "(D) NET INCOME.—For purposes of this
4 paragraph, the term 'net income' means, with re-
5 spect to any interest, the excess of—
6 "(i) items of gross income attributable to
7 such interest, over
8 "(ii) the deductions properly allocable to
9 or chargeable against such items.
10 For purposes of computing such net income, capital
11 gains and losses shall not be taken into account.
12 "(3) WAGERING INCOME.—The amount (if any)
13 by which the gains from wagering transactions for the
14 computation year exceed the losses from such trans-
15 actions.
16 "(4) CERTAIN AMOUNTS RECEIVED BY OWNER-
17 EMPLOYEES.—The amount (if any) to which section
18 72(m)(5) (relating to penalties applicable to certain
19 amounts received by owner-employees) applies.
20 "(c) AVERAGE BASE PERIOD INCOME.—For purposes
21 of this part—
22 "(1) IN GENERAL.—The term 'average base period
23 income' means one-fourth of the sum of the base period
24 incomes for the base period.

1 "(2) BASE PERIOD INCOME.—The base period in-
2 come for any taxable year is the taxable income for such
3 year first increased and then decreased (but not below
4 zero) in the following order:
5 "(A) Taxable income shall be increased by an
6 amount equal to the excess of—
7 "(i) the amount excluded from gross in-
8 come under section 911 (relating to earned in-
9 come from sources without the United States)
10 and subpart D of part III of subchapter N (sec.
11 931 and following, relating to income from
12 sources within possessions of the United States),
13 over
14 "(ii) the deductions which would have
15 been properly allocable to or chargeable against
16 such amount but for the exclusion of such
17 amount from gross income.
18 "(B) Taxable income shall be decreased by
19 the capital gain net income.
20 "(C) If the decrease provided by paragraph
21 (2) of subsection (b) applies to the computation
22 year, the taxable income shall be decreased under
23 the rules of such paragraph (2) (other than the
24 limitation contained in subparagraph (C) thereof).
25 "(d) CAPITAL GAIN NET INCOME, ETC.—For pur-
26 poses of this part—

1 "(1) CAPITAL GAIN NET INCOME.—The term
2 'capital gain net income' means, for any taxable year
3 beginning after December 31, 1963, the amount (if
4 any) by which—
5 "(A) the sum of the adjusted class A capital
6 gain and the adjusted class B capital gain, exceeds
7 "(B) the deduction allowable under section
8 1202 (a).
9 The term 'capital gain net income' means, for any
10 taxable year beginning before January 1, 1964, the
11 amount equal to 50 percent of the excess of the net
12 long-term capital gain over the net short-term capital
13 loss.
14 "(2) AVERAGE BASE PERIOD CAPITAL GAIN NET
15 INCOME.—The term 'average base period capital gain
16 net income' means one-fourth of the sum of the capital
17 gain net incomes for the base period. For purposes of
18 the preceding sentence, the capital gain net income for
19 any base period year shall not exceed the base period
20 income for such year computed without regard to sub-
21 section (c) (2) (B).
22 "(e) OTHER RELATED DEFINITIONS.—For purposes
23 of this part—
24 "(1) COMPUTATION YEAR.—The term 'computa-

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1 tion year' means the taxable year for which the taxpayer
2 chooses the benefits of this part.
3 "(2) BASE PERIOD.—The term 'base period' means
4 the 4 taxable years immediately preceding the compu-
5 tation year.
6 "(3) BASE PERIOD YEAR.—The term 'base period
7 year' means any of the 4 taxable years immediately
8 preceding the computation year.
9 "(4) JOINT RETURN.—The term 'joint return'
10 means the return of a husband and wife made under
11 section 6013.
12 "SEC. 1303. ELIGIBLE INDIVIDUALS.
13 "(a) GENERAL RULE.—Except as otherwise provided
14 in this section, for purposes of this part the term 'eligible
15 individual' means any individual who is a citizen or resi-
16 dent of the United States throughout the computation year.
17 "(b) NONRESIDENT ALIEN INDIVIDUALS.—For pur-
18 poses of this part, an individual shall not be an eligible in-
19 dividual for the computation year if, at any time during
20 such year or the base period, such individual was a nonresi-
21 dent alien.
22 "(c) INDIVIDUALS RECEIVING SUPPORT FROM
23 OTHERS.—
24 "(1) IN GENERAL.—For purposes of this part, an

1 individual shall not be an eligible individual for the com-
2 putation year if, for any base period year, such individ-
3 ual (and his spouse) furnished less than one-half of his
4 support.

5 "(2) EXCEPTIONS.—Paragraph (1) shall not ap-
6 ply to any computation year if—

7 "(A) such year ends after the individual at-
8 tained age 25 and, during at least 4 of his taxable
9 years beginning after he attained age 21 and end-
10 ing with his computation year, he was not a full-
11 time student,

12 "(B) more than one-half of the individual's
13 adjusted taxable income for the computation year
14 is attributable to work performed by him in sub-
15 stantial part during 2 or more of the base period
16 years, or

17 "(C) the individual makes a joint return for
18 the computation year and not more than 25 per-
19 cent of the aggregate adjusted gross income of such
20 individual and his spouse for the computation year
21 is attributable to such individual.

22 In applying subparagraph (C), amounts which consti-
23 tute earned income (within the meaning of section 911
24 (b)) and are community income under community

1 property laws applicable to such income shall be taken
2 into account as if such amounts did not constitute com-
3 munity income.
4 "(d) STUDENT DEFINED.—For purposes of this sec-
5 tion, the term 'student' means, with respect to a taxable year,
6 an individual who during each of 5 calendar months during
7 such taxable year—
8 "(1) was a full-time student at an educational in-
9 stitution (as defined in section 151 (e) (4)); or
10 "(2) was pursuing a full-time course of institu-
11 tional on-farm training under the supervision of an ac-
12 credited agent of an educational institution (as defined
13 in section 151 (e) (4)) or of a State or political sub-
14 division of a State.
15 **"SEC. 1304. SPECIAL RULES.**
16 "(a) TAXPAYER MUST CHOOSE BENEFITS.—This part
17 shall apply to the taxable year only if the taxpayer chooses
18 to have the benefits of this part for such taxable year. Such
19 choice may be made or changed at any time before the
20 expiration of the period prescribed for making a claim for
21 credit or refund of the tax imposed by this chapter for the
22 taxable year.
23 "(b) CERTAIN PROVISIONS INAPPLICABLE.—If the
24 taxpayer chooses the benefits of this part for the taxable
25 year, the following provisions shall not apply to him for
26 such year:

1 "(1) section 3 (relating to optional tax if adjusted
2 gross income is less than $5,000),
3 "(2) section 72(n)(2) (relating to limitation of
4 tax in case of certain distributions with respect to con-
5 tributions by self-employed individuals),
6 "(3) section 911 (relating to earned income from
7 sources without the United States), and
8 "(4) subpart D of part III of subchapter N (sec.
9 931 and following, relating to income from sources
10 within possessions of the United States).
11 "(c) FAILURE OF CERTAIN MARRIED INDIVIDUALS
12 TO MAKE JOINT RETURN, ETC.—
13 "(1) APPLICATION OF SUBSECTION.—Paragraphs
14 (2), (3), and (4) of this subsection shall apply in the
15 case of any individual who was married for any base
16 period year or the computation year; except that—
17 "(A) such paragraphs shall not apply in re-
18 spect of a base period year if—
19 "(i) such individual and his spouse make
20 a joint return, or such individual makes a re-
21 turn as a surviving spouse (as defined in section
22 2(b)), for the computation year, and
23 "(ii) such individual was not married to
24 any other spouse for such base period year, and
25 "(B) paragraph (4) shall not apply in respect

1 of the computation year if the individual and his
2 spouse make a joint return for such year.
3 "(2) MINIMUM BASE PERIOD INCOME.—For pur-
4 poses of this part, the base period income of an individual
5 for any base period year shall not be less than 50 percent
6 of the base period income which would result from com-
7 bining his income and deductions for such year—
8 "(A) with the income and deductions for such
9 year of the individual who is his spouse for the
10 computation year, or
11 "(B) if greater, with the income and deduc-
12 tions for such year of the individual who was his
13 spouse for such base period year.
14 "(3) MINIMUM BASE PERIOD CAPITAL GAIN NET
15 INCOME.—For purposes of this part, the capital gain
16 net income of any individual for any base period year
17 shall not be less than 50 percent of the capital gain net
18 income which would result from combining his capital
19 gain net income for such year (determined without re-
20 gard to this paragraph) with the capital gain net income
21 for such year (similarly determined) of the individual
22 with whom he is required by paragraph (2) to combine
23 his income and deductions for such year.
24 "(4) COMMUNITY INCOME ATTRIBUTABLE TO
25 SERVICES.—In the case of amounts which constitute
26 earned income (within the meaning of section 911 (b))

1 and are community income under community property
2 laws applicable to such income—
3 "(A) the amount taken into account for any
4 base period year for purposes of determining base
5 period income shall not be less than the amount
6 which would be taken into account if such amounts
7 did not constitute community income, and
8 "(B) the amount taken into account for pur-
9 poses of determining adjusted taxable income for
10 the computation year shall not exceed the amount
11 which would be taken into account if such amounts
12 did not constitute community income.
13 "(5) MARITAL STATUS.—For purposes of this
14 subsection, section 143 shall apply in determining
15 whether an individual is married for any taxable year.
16 "(d) DOLLAR LIMITATIONS IN CASE OF JOINT RE-
17 TURNS.—In the case of a joint return, the $3,000 figure con-
18 tained in section 1301 shall be applied to the aggregate
19 averagable income, and the $3,000 figure contained in sec-
20 tion 1302(b)(2)(C) shall be applied to the aggregate net
21 incomes.
22 "(e) SPECIAL RULES WHERE THERE ARE CAPITAL
23 GAINS.—
24 "(1) TREATMENT OF CAPITAL GAINS IN COMPU-
25 TATION YEAR.—In the case of any taxpayer who has
26 capital gain net income for the computation year, the

1 tax imposed by section 1 for the computation year
2 which is attributable to the amount of such net income
3 shall be computed—
4 "(A) by adding so much of the amount thereof
5 as does not exceed average base period capital
6 gain net income above 133⅓ percent of average base
7 period income, and
8 "(B) by adding the remainder (if any) of
9 such net income above the 20 percent of the aver-
10 agable income as taken into account for purposes
11 of computing the tax imposed by section 1 (and
12 above the amounts (if any) referred to in subsec-
13 tion (f) (1)).
14 "(2) COMPUTATION OF ALTERNATIVE TAX.—In
15 the case of any taxpayer who has capital gain net in-
16 come for the computation year, section 1201 (b) shall
17 be treated as imposing a tax equal to the tax imposed
18 by section 1, reduced by the amount (if any) by
19 which—
20 "(A) the tax imposed by section 1 and at-
21 tributable to the capital gain net income for the
22 computation year (determined under paragraph
23 (1)), exceeds
24 "(B) the sum of—
25 "(i) 21 percent of the adjusted class A
26 capital gain, and

1 "(ii) 25 percent of the adjusted class B
2 capital gain.
3 "(f) TREATMENT OF CERTAIN OTHER ITEMS.—
4 "(1) GIFT OR WAGERING INCOME.—The tax im-
5 posed by section 1 for the computation year which is
6 attributable to the amounts subtracted from taxable in-
7 come under paragraphs (2) and (3) of section
8 1302(b) shall equal the increase in tax under section
9 1 which results from adding such amounts above the 20
10 percent of the averagable income as taken into account
11 for purposes of computing the tax imposed thereon by
12 section 1.
13 "(2) SECTION 72(m)(5).—Section 72(m)(5)
14 (relating to penalties applicable to certain amounts
15 received by owner-employees) shall be applied as if this
16 part had not been enacted.
17 "(3) OTHER ITEMS.—Except as otherwise provided
18 in this part, the order and manner in which items of in-
19 come shall be taken into account in computing the tax
20 imposed by this chapter on the income of any eligible
21 individual to whom section 1301 applies for any compu-
22 tation year shall be determined under regulations pre-
23 scribed by the Secretary or his delegate.
24 "(g) SHORT TAXABLE YEARS.—In the case of any
25 computation year or base period year which is a short tax-

1 able year, this part shall be applied in the manner provided
2 in regulations prescribed by the Secretary or his delegate.
3 "SEC. 1305. REGULATIONS.
4 "The Secretary or his delegate shall prescribe such regu-
5 lations as may be necessary to carry out the purposes of this
6 part."
7 (b) REPEAL OF SECTION 72(e)(3).—Section 72
8 (e)(3) (relating to limit on tax attributable to receipt of
9 lump sum) is hereby repealed.
10 (c) STATUTE OF LIMITATIONS.—Section 6511(d)(2)
11 (B) (relating to special period of limitation with respect to
12 net operating loss carrybacks) is amended to read as follows:
13 "(B) APPLICABLE RULES.—
14 "(i) If the allowance of a credit or refund
15 of an overpayment of tax attributable to a net
16 operating loss carryback is otherwise prevented
17 by the operation of any law or rule of law other
18 than section 7122, relating to compromises,
19 such credit or refund may be allowed or made,
20 if claim therefor is filed within the period pro-
21 vided in subparagraph (A) of this paragraph.
22 If the allowance of an application, credit, or re-
23 fund of a decrease in tax determined under sec-
24 tion 6411(b) is otherwise prevented by the
25 operation of any law or rule of law other than
26 section 7122, such application, credit, or refund

1 may be allowed or made if application for a tentative carryback adjustment is made within the period provided in section 6411(a). In the case of any such claim for credit or refund or any such application for a tentative carryback adjustment, the determination by any court, including the Tax Court, in any proceeding in which the decision of the court has become final, shall be conclusive except with respect to the net operating loss deduction, and the effect of such deduction, to the extent that such deduction is affected by a carryback which was not in issue in such proceeding.

"(ii) A claim for credit or refund for a computation year (as defined in section 1302 (e) (1)) shall be determined to relate to an overpayment attributable to a net operating loss carryback when such carryback relates to any base period year (as defined in section 1302(e)(3))."

(d) TECHNICAL AMENDMENTS.—The following provisions are amended by striking out "except that section 72(e)(3) shall not apply":

(1) The first sentence of section 402(a)(1) (relating to general rule for taxability of beneficiary of exempt trust).

1 (2) The second sentence of section 402(b) (re-
2 lating to taxability of beneficiary of non-exempt trust).
3 (3) The second sentence of section 402(d) (re-
4 lating to certain employees' annuities).
5 (4) Section 403(a)(1) (relating to the general
6 rule for taxability of a beneficiary under a qualified
7 annuity plan).
8 (5) The second sentence of section 403(b)(1)
9 (relating to general rule for taxability of beneficiary,
10 etc.).
11 (6) The second sentence of section 403(c) (re-
12 lating to taxability of beneficiary under a nonqualified
13 annuity).
14 (c) Clerical Amendments.—
15 (1) Subsection (f) of section 4 (relating to cross
16 references to rules for optional tax) is amended by
17 adding at the end thereof the following new paragraph:

"(3) For rule that optional tax is not to apply if individual chooses the benefits of income averaging, see section 1304(b)."

18 (2) Subsection (b) of section 5 (relating to cross
19 references to special limitations on tax) is amended to
20 read as follows:

1 "(b) SPECIAL LIMITATIONS ON TAX.—

"(1) For limitation on surtax attributable to sales of oil or gas properties, see section 632.

"(2) For limitation on tax in case of income of members of Armed Forces on death, see section 692.

"(3) For limitation on tax where an individual chooses the benefits of income averaging, see section 1301.

"(4) For computation of tax where taxpayer restores substantial amount held under claim of right, see section 1341.

"(5) For limitation on surtax attributable to claims against the United States involving acquisitions of property, see section 1347."

2 (3) The table of parts for subchapter Q of chapter
3 1 is amended by striking out

"Part I. Income attributable to several taxable years."

4 and inserting in lieu thereof

"Part I. Income averaging."

5 (f) EFFECTIVE DATE.—
6 (1) GENERAL RULE.—Except as provided in para-
7 graph (2), the amendments made by this section shall
8 apply with respect to taxable years beginning after
9 December 31, 1963.
10 (2) INCOME FROM AN EMPLOYMENT.—If, in a
11 taxable year beginning after December 31, 1963, an in-
12 dividual or partnership receives or accrues compensa-
13 tion from an employment (as defined by section 1301
14 (b) of the Internal Revenue Code of 1954 as in effect

1 immediately before the enactment of this Act) and the
2 employment began before February 6, 1963, the tax
3 attributable to such compensation may, at the election of
4 the taxpayer, be computed under the provisions of sec-
5 tions 1301 and 1307 of such Code as in effect immedi-
6 ately before the enactment of this Act. If a taxpayer
7 so elects (at such time and in such manner as the Secre-
8 tary of the Treasury or his delegate by regulations pre-
9 scribes), he may not choose for such taxable year the
10 benefits provided by part I of subchapter Q of chapter 1
11 of such Code (relating to income averaging) as amended
12 by this Act.

13 **SEC. 222. REPEAL OF ADDITIONAL 2-PERCENT TAX FOR**
14 **CORPORATIONS FILING CONSOLDATED RE-**
15 **TURNS.**

16 (a) Repeal of Tax.—Subsection (a) of section 1503
17 (relating to computation and payment of tax in case of con-
18 solidated returns) is amended to read as follows:

19 "(a) General Rule.—In any case in which a con-
20 solidated return is made or is required to be made, the tax
21 shall be determined, computed, assessed, collected, and ad-
22 justed in accordance with the regulations under section 1502
23 prescribed before the last day prescribed by law for the filing
24 of such return."

25 (b) Technical and Conforming Amendments.—
26 (1) Section 1503 is amended by striking out sub-

1 sections (b) and (c) and by relettering subsection (d)
2 as subsection (b).
3 (2) Paragraph (3) of section 1503 (b) (as re-
4 lettered by paragraph (1)) is amended to read as
5 follows:
6 "(3) SPECIAL RULES.—
7 "(A) For purposes of paragraph (2), a cor-
8 poration is a regulated public utility only if it
9 is a regulated public utility within the meaning of
10 subparagraph (A) (other than clauses (ii) and
11 (iii) thereof) or (D) of section 7701 (a) (33).
12 For purposes of the preceding sentence, the limita-
13 tion contained in the last two sentences of section
14 7701 (a) (33) shall be applied as if subparagraphs
15 (A) through (F), inclusive, of section 7701 (a)
16 (33) were limited to subparagraphs (A) (i) and
17 (D) thereof.
18 "(B) For purposes of paragraph (2), the
19 foreign countries referred to in this subparagraph
20 include only any country from which any public
21 utility referred to in the first sentence of paragraph
22 (2) derives the principal part of its income.
23 "(C) For purposes of this subsection, the term
24 'consolidated taxable income' means the consolidated
25 taxable income computed without regard to the

1 deduction provided by section 242 for partially tax-
2 exempt interest."
3 (3) Section 7701(a) (relating to definitions) is
4 amended by adding at the end thereof the following
5 new paragraph:
6 "(33) REGULATED PUBLIC UTILITY.—The term
7 'regulated public utility' means—
8 "(A) A corporation engaged in the furnishing
9 or sale of—
10 "(i) electric energy, gas, water, or sewer-
11 age disposal services, or
12 "(ii) transportation (not included in sub-
13 paragraph (C)) on an intrastate, suburban,
14 municipal, or interurban electric railroad, on an
15 intrastate, municipal, or suburban trackless
16 trolley system, or on a municipal or suburban
17 bus system, or
18 "(iii) transportation (not included in
19 clause (ii)) by motor vehicle—
20 if the rates for such furnishing or sale, as the case
21 may be, have been established or approved by a
22 State or political subdivision thereof, by an agency
23 or instrumentality of the United States, by a public
24 service or public utility commission or other similar
25 body of the District of Columbia or of any State or
26 political subdivision thereof, or by a foreign country

1 or an agency or instrumentality or political sub-
2 division thereof.
3 "(B) A corporation engaged as a common car-
4 rier in the furnishing or sale of transportation of gas
5 by pipe line, if subject to the jurisdiction of the
6 Federal Power Commission.
7 "(C) A corporation engaged as a common car-
8 rier (i) in the furnishing or sale of transportation by
9 railroad, if subject to the jurisdiction of the Inter-
10 state Commerce Commission, or (ii) in the furnish-
11 ing or sale of transportation of oil or other petroleum
12 products (including shale oil) by pipe line, if sub-
13 ject to the jurisdiction of the Interstate Commerce
14 Commission or if the rates for such furnishing or sale
15 are subject to the jurisdiction of a public service or
16 public utility commission or other similar body of
17 the District of Columbia or of any State.
18 "(D) A corporation engaged in the furnishing
19 or sale of telephone or telegraph service, if the rates
20 for such furnishing or sale meet the requirements of
21 subparagraph (A).
22 "(E) A corporation engaged in the furnishing
23 or sale of transportation as a common carrier by air,
24 subject to the jurisdiction of the Civil Aeronautics
25 Board.

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1 "(F) A corporation engaged in the furnishing
2 or sale of transportation by common carrier by
3 water, subject to the jurisdiction of the Interstate
4 Commerce Commission under part III of the Inter-
5 state Commerce Act, or subject to the jurisdiction
6 of the Federal Maritime Board under the Inter-
7 coastal Shipping Act, 1933.
8 "(G) A railroad corporation subject to part I
9 of the Interstate Commerce Act, if (i) substan-
10 tially all of its railroad properties have been leased
11 to another such railroad corporation or corporations
12 by an agreement or agreements entered into before
13 January 1, 1954, (ii) each lease is for a term
14 of more than 20 years, and (iii) at least 80 per-
15 cent or more of its gross income (computed with-
16 out regard to dividends and capital gains and losses)
17 for the taxable year is derived from such leases
18 and from sources described in subparagraphs (A)
19 through (F), inclusive. For purposes of the pre-
20 ceding sentence, an agreement for lease of railroad
21 properties entered into before January 1, 1954,
22 shall be considered to be a lease including such term
23 as the total number of years of such agreement may,
24 unless sooner terminated, be renewed or continued
25 under the terms of the agreement, and any such
26 renewal or continuance under such agreement shall

1 be considered part of the lease entered into before
2 January 1, 1954.
3 "(H) A common parent corporation which is
4 a common carrier by railroad subject to part I of
5 the Interstate Commerce Act if at least 80 percent
6 of its gross income (computed without regard to
7 capital gains or losses) is derived directly or indi-
8 rectly from sources described in subparagraphs (A)
9 through (F), inclusive. For purposes of the pre-
10 ceding sentence, dividends and interest, and income
11 from leases described in subparagraph (G), received
12 from a regulated public utility shall be considered
13 as derived from sources described in subparagraphs
14 (A) through (F), inclusive, if the regulated public
15 utility is a member of an affiliated group (as defined
16 in section 1504) which includes the common parent
17 corporation.
18 The term 'regulated public utility' does not (except as
19 provided in subparagraphs (G) and (H)) include a
20 corporation described in subparagraphs (A) through
21 (F), inclusive, unless 80 percent or more of its gross
22 income (computed without regard to dividends and
23 capital gains and losses) for the taxable year is derived
24 from sources described in subparagraphs (A) through
25 (F), inclusive. If the taxpayer establishes to the satis-
26 faction of the Secretary or his delegate that (i) its

1 revenue from regulated rates described in subparagraph
2 (A) or (D) and its revenue derived from unregulated
3 rates are derived from the operation of a single inter-
4 connected and coordinated system or from the operation
5 of more than one such system, and (ii) the unregulated
6 rates have been and are substantially as favorable to
7 users and consumers as are the regulated rates, then such
8 revenue from such unregulated rates shall be considered,
9 for purposes of the preceding sentence, as income derived
10 from sources described in subparagraph (A) or (D)."

11 (4) Section 12(8) (relating to cross reference to
12 additional tax for corporations filing consolidated re-
13 turns) is hereby repealed.

14 (5) Paragraphs (1) and (2) of section 172(j)
15 (relating to carryover of net operating loss for certain
16 regulated transportation corporations) are amended to
17 read as follows:

18 "(1) DEFINITION.—For purposes of subsection
19 (b)(1)(C), the term 'regulated transportation corpo-
20 ration' means a corporation—

21 "(A) 80 percent or more of the gross income
22 of which (computed without regard to dividend
23 and capital gains and losses) for the taxable year
24 is derived from the furnishing or sale of transporta-
25 tion described in subparagraph (A), (C)(i),

1 (E), or (F) of section 7701 (a) (33) and taken
2 into account for purposes of the limitation contained
3 in the last two sentences of section 7701 (a) (33),
4 "(B) which is described in subparagraph (G)
5 or (H) of section 7701 (a) (33), or
6 "(C) which is a member of a regulated trans-
7 portation system.
8 "(2) REGULATED TRANSPORTATION SYSTEM.—
9 For purposes of this subsection, a corporation shall be
10 treated as a member of a regulated transportation system
11 for a taxable year if—
12 "(A) it is a member of an affiliated group of
13 corporations making a consolidated return for such
14 taxable year, and
15 "(B) 80 percent or more of the aggregate
16 gross income of the members of such affiliated group
17 (computed without regard to dividends and capital
18 gains and losses) for such taxable year is derived
19 from sources described in paragraph (1) (A).
20 For purposes of subparagraph (B), income derived by
21 a corporation described in subparagraph (G) or (H)
22 of section 7701 (a) (33) from leases described in sub-
23 paragraph (G) thereof shall be considered as derived
24 from sources described in paragraph (1) (A)."
25 (6) Section 904 (g) (2) (relating to cross refer-

1 ences for purposes of the limitation on the foreign tax
2 credit) is amended by striking out "**section 1503(d)**"
3 and inserting in lieu thereof "**section 1503(b)**".
4 (7) Section 1341 (b) (2) (relating to special
5 rules for the computation of tax where taxpayer restores
6 substantial amount held under claim of right) is amended
7 by striking out "(as defined in section 1503 (c) without
8 regard to paragraph (2) thereof)" and inserting in lieu
9 thereof "(as defined in section 7701 (a) (33) without
10 regard to the limitation contained in the last two sen-
11 tences thereof)".
12 (8) Section 1552 (a) (3) (relating to the alloca-
13 tion of tax liability among members of an affiliated group
14 of corporations filing consolidated returns) is amended
15 by striking out "(determined without regard to the 2
16 percent increase provided by section 1503 (a))".
17 (c) EFFECTIVE DATE.—The amendments made by
18 subsections (a) and (b) shall apply with respect to taxable
19 years beginning after December 31, 1963.
20 **SEC. 223. REDUCTION OF SURTAX EXEMPTION IN CASE OF**
21 **CERTAIN CONTROLLED CORPORATIONS, ETC.**
22 (a) IN GENERAL.—Subchapter B of chapter 6 (related
23 rules for consolidated returns) is amended by adding at the
24 end thereof the following new part:

1 "PART II—CERTAIN CONTROLLED CORPORATIONS

"Sec. 1561. Surtax exemptions in case of certain controlled corporations.
"Sec. 1562. Privilege of groups to elect multiple surtax exemptions.
"Sec. 1563. Definitions and special rules.

2 "SEC. 1561. SURTAX EXEMPTIONS IN CASE OF CERTAIN
3 CONTROLLED CORPORATIONS.

4 "(a) GENERAL RULE.—If a corporation is a component
5 member of a controlled group of corporations on a Decem-
6 ber 31, then for purposes of this subtitle the surtax exemp-
7 tion of such corporation for the taxable year which includes
8 such December 31 shall be an amount equal to—

9 "(1) $25,000 divided by the number of corpora-
10 tions which are component members of such group on
11 such December 31, or

12 "(2) if all such component members consent (at
13 such time and in such manner as the Secretary or his
14 delegate shall by regulations prescribe) to an apportion-
15 ment plan, such portion of $25,000 as is apportioned
16 to such member in accordance with such plan.

17 The sum of the amounts apportioned under paragraph (2)
18 among the component members of any controlled group
19 shall not exceed $25,000.

20 "(b) CERTAIN SHORT TAXABLE YEARS.—If a cor-
21 poration—

1 "(1) has a short taxable year which does not in-
2 clude a December 31, and
3 "(2) is a component member of a controlled group
4 of corporations with respect to such taxable year,
5 then for purposes of this subtitle the surtax exemption of
6 such corporation for such taxable year shall be an amount
7 equal to $25,000 divided by the number of corporations
8 which are component members of such group on the last
9 day of such taxable year. For purposes of the preceding
10 sentence, section 1563(b) shall be applied as if such last
11 day were substituted for December 31.

12 **"SEC. 1562. PRIVILEGE OF GROUPS TO ELECT MULTIPLE**
13 **SURTAX EXEMPTIONS.**

14 "(a) ELECTION OF MULTIPLE SURTAX EXEMP-
15 TIONS.—
16 "(1) IN GENERAL.—A controlled group of corpora-
17 tions shall (subject to the provisions of this section) have
18 the privilege of electing to have each of its component
19 members make its returns without regard to section 1561.
20 Such election shall be made with respect to a specified
21 December 31 and shall be valid only if—
22 "(A) each corporation which is a component
23 member of such group on such December 31, and
24 "(B) each other corporation which is a com-
25 ponent member of such group on any succeeding De-

1 cember 31 before the day on which the election is
2 filed,
3 consents to such election.
4 "(2) YEARS FOR WHICH EFFECTIVE.—An election
5 by a controlled group of corporations under paragraph
6 (1) shall be effective with respect to the taxable year of
7 each component member of such group which includes
8 the specified December 31, and each taxable year of each
9 corporation which is a component member of such group
10 (or a successor group) on a succeeding December 31 in-
11 cluded within such taxable year, unless the election is
12 terminated under subsection (c).
13 "(3) EFFECT OF ELECTION.—If an election by a
14 controlled group of corporations under paragraph (1) is
15 effective with respect to any taxable year of a corpora-
16 tion—
17 "(A) section 1561 shall not apply to such
18 corporation for such taxable year, but
19 "(B) the additional tax imposed by subsection
20 (b) shall apply to such corporation for such taxable
21 year.
22 "(b) ADDITIONAL TAX IMPOSED.—
23 "(1) GENERAL RULE.—If an election under sub-
24 section (a) (1) by a controlled group of corporations is
25 effective with respect to the taxable year of a corporation,

1 there is hereby imposed for such taxable year on the
2 taxable income of such corporation a tax equal to 6 per-
3 cent of so much of such corporation's taxable income
4 for such taxable year as does not exceed $25,000.
5 This paragraph shall not apply to the taxable year of a
6 corporation if no other corporation which is a com-
7 ponent member of such controlled group on the Decem-
8 ber 31 included in such corporation's taxable year has
9 taxable income for its taxable year including such
10 December 31.

11 "(2) TAX TREATED AS IMPOSED BY SECTION 11,
12 ETC.—If for the taxable year of a corporation a tax is
13 imposed by section 11 on the taxable income of such
14 corporation, the additional tax imposed by this sub-
15 section shall be treated for purposes of this title as a
16 tax imposed by section 11. If for the taxable year of
17 a corporation a tax is imposed on the taxable income
18 of such corporation which is computed under any other
19 section by reference to section 11, the additional tax
20 imposed by this subsection shall be treated for purposes
21 of this title as imposed by such other section.

22 "(3) TAXABLE INCOME DEFINED.—For purposes
23 of this subsection, the term 'taxable income' means—

24 "(A) in the case of a corporation subject to
25 tax under section 511, its unrelated business tax-
26 able income (within the meaning of section 512);

1 "(B) in the case of a life insurance company,
2 its life insurance company taxable income (within
3 the meaning of section 802 (b));
4 "(C) in the case of a regulated investment
5 company, its investment company taxable income
6 (within the meaning of section 852 (b) (2)); and
7 "(D) in the case of a real estate investment
8 trust, its real estate investment trust taxable income
9 (within the meaning of section 857 (b) (2)).
10 "(4) SPECIAL RULES.—If for the taxable year
11 an additional tax is imposed on the taxable income of a
12 corporation by this subsection, then sections 244 (re-
13 lating to dividends received on certain preferred stock),
14 247 (relating to dividends paid on certain preferred
15 stock of public utilities), 804 (a) (3) (relating to deduc-
16 tion for partially tax-exempt interest in the case of a
17 life insurance company), and 922 (relating to special
18 deduction for Western Hemisphere trade corporations)
19 shall be applied without regard to the additional tax
20 imposed by this subsection.
21 "(c) TERMINATION OF ELECTION.—An election by a
22 controlled group of corporations under subsection (a) shall
23 terminate with respect to such group—
24 "(1) CONSENT OF THE MEMBERS.—If such group
25 files a termination of such election with respect to a
26 specified December 31, and—

1 "(A) each corporation which is a component
2 member of such group on such December 31, and
3 "(B) each other corporation which is a com-
4 ponent member of such group on any succeeding
5 December 31 before the day on which the termi-
6 nation is filed,
7 consents to such termination.
8 "(2) REFUSAL BY NEW MEMBER TO CONSENT.—
9 If on December 31 of any year such group includes a
10 component member which—
11 "(A) on the immediately preceding January
12 1 was not a member of such group, and
13 "(B) within the time and in the manner pro-
14 vided by regulations prescribed by the Secretary
15 or his delegate, files a statement that it does not
16 consent to the election.
17 "(3) CONSOLIDATED RETURNS.—If—
18 "(A) a corporation is a component member
19 (determined without regard to section 1563(b)
20 (3)) of such group on a December 31 included
21 within a taxable year ending on or after January 1,
22 1964, and
23 "(B) such corporation is a member of an
24 affiliated group of corporations which makes a con-

1 solidated return under this chapter (sec. 1501 and
2 following) for such taxable year.
3 "(4) CONTROLLED GROUP NO LONGER IN EXIST-
4 ENCE.—If such group is considered as no longer in
5 existence with respect to any December 31.
6 Such termination shall be effective with respect to the
7 December 31 referred to in paragraph (1) (A), (2), (3),
8 or (4), as the case may be.
9 "(d) ELECTION AFTER TERMINATION.—If an election
10 by a controlled group of corporations is terminated under
11 subsection (c), such group (and any successor group) shall
12 not be eligible to make an election under subsection (a) with
13 respect to any December 31 before the sixth December 31
14 after the December 31 with respect to which such termina-
15 tion was effective.
16 "(e) MANNER AND TIME OF GIVING CONSENT AND
17 MAKING ELECTION, ETC.—An election under subsection
18 (a) (1) or a termination under subsection (c) (1) (and
19 the consent of each member of a controlled group of corpo-
20 rations which is required with respect to such election
21 or termination) shall be made in such manner as the Secre-
22 tary or his delegate shall by regulations prescribe, and shall
23 be made at any time before the expiration of 3 years after—

1 "(1) in the case of such an election, the
2 date when the income tax return for the tax-
3 able year of the component member of the controlled
4 group which has the taxable year ending first on or after
5 the specified December 31, is required to be filed (with-
6 out regard to any extensions of time), and
7 "(2) in the case of such a termination, the spec-
8 ified December 31 with respect to which such termina-
9 tion was made.
10 Any consent to such an election or termination, and a failure
11 by a component member to file a statement that it does not
12 consent to an election under this section, shall be deemed
13 to be a consent to the application of subsection (g) (1)
14 (relating to tolling of statute of limitations on assessment
15 of deficiencies).
16 "(f) SPECIAL RULES.—For purposes of this section—
17 "(1) CONTINUING AND SUCCESSOR CONTROLLED
18 GROUPS.—The determination of whether a controlled
19 group of corporations—
20 "(A) is considered as no longer in existence
21 with respect to any December 31, or
22 "(B) is a successor to another controlled
23 group of corporations (and the effect of such deter-
24 mination with respect to any election or termina-
25 tion),

1 shall be made under regulations prescribed by the Sec-
2 retary or his delegate. For purposes of subparagraph
3 (B), such regulations shall be based on the continuation
4 (or termination) of predominant equitable ownership.
5 "(2) CERTAIN SHORT TAXABLE YEARS.—If one or
6 more corporations have short taxable years which do not
7 include a December 31 and are component members of
8 a controlled group of corporations with respect to such
9 taxable years (determined by applying section 1563 (b)
10 as if the last day of each such taxable year were sub-
11 stituted for December 31), then an election by such
12 group under this section shall apply with respect to
13 such corporations with respect to such taxable years if—
14 "(A) such election is in effect with respect to
15 both the December 31 immediately preceding such
16 taxable years and the December 31 immediately
17 succeeding such taxable years, or
18 "(B) such election is in effect with respect to
19 the December 31 immediately preceding or succeed-
20 ing such taxable years and each such corporation
21 files a consent to the application of such election
22 to its short taxable year at such time and in such
23 manner as the Secretary or his delegate shall pre-
24 scribe by regulations.
25 "(g) TOLLING OF STATUTE OF LIMITATIONS.—In any

1 case in which a controlled group of corporations makes an
2 election or termination under this section—
3 "(1) the statutory period for assessment of any
4 deficiency against a corporation which is a component
5 member of such group for any taxable year, to the
6 extent such deficiency is attributable to the application
7 of this part, shall not expire before the expiration of
8 one year after the date such election or termination
9 is made; and
10 "(2) if credit or refund of any overpayment of tax
11 by a corporation which is a component member of such
12 group for any taxable year is prevented, at any time on
13 or before the expiration of one year after the date such
14 election or termination is made, by the operation of any
15 law or rule of law, credit or refund of such overpayment
16 may, nevertheless, be allowed or made, to the extent
17 such overpayment is attributable to the application of
18 this part, if claim therefor is filed on or before the ex-
19 piration of such one-year period.

20 **"SEC. 1563. DEFINITIONS AND SPECIAL RULES.**

21 "(a) CONTROLLED GROUP OF CORPORATIONS.—For
22 purposes of this part, the term 'controlled group of corpora-
23 tions' means any group of—

1 "(1) PARENT-SUBSIDIARY CONTROLLED GROUP.—
2 One or more chains of corporations connected through
3 stock ownership with a common parent corporation if—
4 "(A) stock possessing at least 80 percent of
5 the total combined voting power of all classes of
6 stock entitled to vote or at least 80 percent of the
7 total value of shares of all classes of stock of each of
8 the corporations, except the common parent cor-
9 poration, is owned (within the meaning of subsec-
10 tion (d) (1)) by one or more of the other corpora-
11 tions; and
12 "(B) the common parent corporation owns
13 (within the meaning of subsection (d) (1))
14 stock possessing at least 80 percent of the total com-
15 bined voting power of all classes of stock entitled to
16 vote or at least 80 percent of the total value of
17 shares of all classes of stock of at least one of the
18 other corporations, excluding, in computing such
19 voting power or value, stock owned directly by
20 such other corporations.
21 "(2) BROTHER-SISTER CONTROLLED GROUP.—
22 Two or more corporations if stock possessing at least
23 80 percent of the total combined voting power of all

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1 classes of stock entitled to vote or at least 80 percent of
2 the total value of shares of all classes of stock of each
3 of the corporations is owned (within the meaning of
4 subsection (d)(2)) by one person who is an individ-
5 ual, estate, or trust.
6 "(3) COMBINED GROUP.—Three or more corpora-
7 tions each of which is a member of a group of corpora-
8 tions described in paragraph (1) or (2), and one of
9 which—
10 "(A) is a common parent corporation included
11 in a group of corporations described in paragraph
12 (1), and also
13 "(B) is included in a group of corporations
14 described in paragraph (2).
15 "(4) CERTAIN INSURANCE COMPANIES.—Two
16 or more insurance companies subject to taxation under
17 section 802 which are members of a controlled group
18 of corporations described in paragraph (1), (2), or
19 (3). Such insurance companies shall be treated as a con-
20 trolled group of corporations separate from any other cor-
21 porations which are members of the controlled group of
22 corporations described in paragraph (1), (2), or (3).
23 "(b) COMPONENT MEMBER.—
24 "(1) GENERAL RULE.—For purposes of this part,
25 a corporation is a component member of a controlled

1 group of corporations on a December 31 of any taxable
2 year (and with respect to the taxable year which in-
3 cludes such December 31) if such corporation—
4 "(A) is a member of such controlled group of
5 corporations on the December 31 included in such
6 year and is not treated as an excluded member
7 under paragraph (2), or
8 "(B) is not a member of such controlled group
9 of corporations on the December 31 included in such
10 year but is treated as an additional member under
11 paragraph (3).
12 "(2) EXCLUDED MEMBERS.—A corporation which
13 is a member of a controlled group of corporations on
14 December 31 of any taxable year shall be treated as an
15 excluded member of such group for the taxable year
16 including such December 31 if such corporation—
17 "(A) is a member of such group for less than
18 one-half the number of days in such taxable year
19 which precede such December 31,
20 "(B) is exempt from taxation under section
21 501(a) (except a corporation which is subject to
22 tax on its unrelated business taxable income under
23 section 511) for such taxable year,
24 "(C) is a foreign corporation subject to tax
25 under section 881 for such taxable year,

1 "(D) is an insurance company subject to
2 taxation under section 802 or section 821 (other
3 than an insurance company which is a member of a
4 controlled group described in subsection (a)(4)),
5 or
6 "(E) is a franchised corporation, as defined
7 in subsection (f)(4).
8 "(3) ADDITIONAL MEMBERS.—A corporation
9 which—
10 "(A) was a member of a controlled group of
11 corporations at any time during a calendar year,
12 "(B) is not a member of such group on De-
13 cember 31 of such calendar year, and
14 "(C) is not described, with respect to such
15 group, in subparagraph (B), (C), (D), or (E)
16 of paragraph (2),
17 shall be treated as an additional member of such group
18 on December 31 for its taxable year including such
19 December 31 if it was a member of such group for
20 one-half (or more) of the number of days in such tax-
21 able year which precede such December 31.
22 "(4) OVERLAPPING GROUPS.—If a corporation is
23 a component member of more than one controlled group
24 of corporations with respect to any taxable year, such

1 corporation shall be treated as a component member of
2 only one controlled group. The determination as to the
3 group of which such corporation is a component member
4 shall be made under regulations prescribed by the Secre-
5 tary or his delegate which are consistent with the pur-
6 poses of this part.
7 "(c) CERTAIN STOCK EXCLUDED.—
8 "(1) GENERAL RULE.—For purposes of this part,
9 the term 'stock' does not include—
10 "(A) nonvoting stock which is limited and
11 preferred as to dividends,
12 "(B) treasury stock, and
13 "(C) stock which is treated as 'excluded stock'
14 under paragraph (2).
15 "(2) STOCK TREATED AS 'EXCLUDED STOCK'.—
16 "(A) PARENT-SUBSIDIARY CONTROLLED
17 GROUP.—For purposes of subsection (a) (1), if a
18 corporation (referred to in this paragraph as 'parent
19 corporation') owns (within the meaning of subsec-
20 tions (d) (1) and (e) (4)), 50 percent or more of
21 the total combined voting power of all classes of
22 stock entitled to vote or 50 percent or more of the
23 total value of shares of all classes of stock in another
24 corporation (referred to in this paragraph as 'sub-

1 sidiary corporation'), the following stock of the sub-
2 sidiary corporation shall be treated as excluded
3 stock—
4 "(i) stock in the subsidiary corporation
5 held by a trust which is part of a plan of de-
6 ferred compensation for the benefit of the em-
7 ployees of the parent corporation or the
8 subsidiary corporation,
9 "(ii) stock in the subsidiary corporation
10 owned by an individual (within the meaning
11 of subsection (d) (2), but not including stock
12 owned by the parent corporation which is con-
13 structively owned by such individual) who is
14 a principal stockholder or officer of the parent
15 corporation. For purposes of this clause, the
16 term 'principal stockholder' of a corporation
17 means an individual who owns (within the
18 meaning of subsection (d) (2)) 5 percent or
19 more of the total combined voting power of all
20 classes of stock entitled to vote or 5 percent
21 or more of the total value of shares of all
22 classes of stock in such corporation; or
23 "(iii) stock in the subsidiary corporation
24 owned (within the meaning of subsection (d)
25 (2)) by an employee of the subsidiary corpora-

1 tion if such stock is subject to conditions which
2 run in favor of such parent (or subsidiary) cor-
3 poration and which substantially restrict or limit
4 the employee's right (or if the employee con-
5 structively owns such stock, the direct owner's
6 right) to dispose of such stock.
7 "(B) BROTHER-SISTER CONTROLLED GROUP.—
8 For purposes of subsection (a) (2), if a person who
9 is an individual, estate, or trust (referred to in this
10 paragraph as 'common owner') owns (within the
11 meaning of subsection (d) (2)), 50 percent or
12 more of the total combined voting power of all
13 classes of stock entitled to vote or 50 percent or
14 more of the total value of shares of all classes of
15 stock in a corporation, the following stock of such
16 corporation shall be treated as excluded stock—
17 "(i) stock in such corporation held by
18 an employees' trust described in section 401 (a)
19 which is exempt from tax under section 501
20 (a), if such trust is for the benefit of the em-
21 ployees of such corporation, or
22 "(ii) stock in such corporation owned
23 (within the meaning of subsection (d) (2)) by
24 an employee of the corporation if such stock is
25 subject to conditions which run in favor of such

1 common owner (or such corporation) and
2 which substantially restrict or limit the em-
3 ployee's right (or if the employee construc-
4 tively owns such stock, the direct owner's
5 right) to dispose of such stock. If a condition
6 which limits or restricts the employee's right
7 (or the direct owner's right) to dispose of such
8 stock also applies to the stock held by the com-
9 mon owner pursuant to a bona fide reciprocal
10 stock purchase arrangement, such condition
11 shall not be treated as one which restricts or
12 limits the employee's right to dispose of such
13 stock.
14 "(d) Rules for Determining Stock Ownership.—
15 "(1) Parent-subsidiary controlled group.—
16 For purposes of determining whether a corporation
17 is a member of a parent-subsidiary controlled group
18 of corporations (within the meaning of subsection
19 (a)(1)), stock owned by a corporation means—
20 "(A) stock owned directly by such corpora-
21 tion, and
22 "(B) stock owned with the application of sub-
23 section (e)(1).
24 "(2) Brother-sister controlled group.—
25 For purposes of determining whether a corporation is

1 a member of a brother-sister controlled group of
2 corporations (within the meaning of subsection (a)
3 (2)), stock owned by a person who is an individual,
4 estate, or trust means—
5 "(A) stock owned directly by such person,
6 and
7 "(B) stock owned with the application of
8 subsection (e).
9 "(e) CONSTRUCTIVE OWNERSHIP.—
10 "(1) OPTIONS.—If any person has an option to
11 acquire stock, such stock shall be considered as owned by
12 such person. For purposes of this paragraph, an option
13 to acquire such an option, and each one of a series of
14 such options, shall be considered as an option to acquire
15 such stock.
16 "(2) ATTRIBUTION FROM PARTNERSHIPS.—Stock
17 owned, directly or indirectly, by or for a partnership
18 shall be considered as owned by any partner having an
19 interest of 5 percent or more in either the capital or
20 profits of the partnership in proportion to his interest in
21 capital or profits, whichever such proportion is the
22 greater.
23 "(3) ATTRIBUTION FROM ESTATES OR TRUSTS.—
24 "(A) Stock owned, directly or indirectly, by
25 or for an estate or trust shall be considered as owned

1 by any beneficiary who has an actuarial interest of 5
2 percent or more in such stock, to the extent of such
3 actuarial interest. For purposes of this clause, the
4 actuarial interest of each beneficiary shall be deter-
5 mined by assuming the maximum exercise of dis-
6 cretion by the fiduciary in favor of such beneficiary
7 and the maximum use of such stock to satisfy his
8 rights as a beneficiary.

9 "(B) Stock owned, directly or indirectly, by
10 or for any portion of a trust of which a person is
11 considered the owner under subpart E of part I of
12 subchapter J (relating to grantors and others treated
13 as substantial owners) shall be considered as owned
14 by such person.

15 "(C) This paragraph shall not apply to
16 stock owned by any employees' trust described in
17 section 401 (a) which is exempt from tax under
18 section 501 (a).

19 "(4) ATTRIBUTION FROM CORPORATIONS.—Stock
20 owned, directly or indirectly, by or for a corporation
21 shall be considered as owned by any person who owns
22 (within the meaning of subsection (d)) 5 percent
23 or more in value of its stock in that proportion which
24 the value of the stock which such person so owns bears
25 to the value of all the stock in such corporation.

1 "(5) SPOUSE.—An individual shall be considered
2 as owning stock in a corporation owned, directly or indi-
3 rectly, by or for his spouse (other than a spouse who is
4 legally separated from the individual under a decree of
5 divorce whether interlocutory or final, or a decree of
6 separate maintenance), except in the case of a corpora-
7 tion with respect to which each of the following condi-
8 tions is satisfied for its taxable year—
9 "(A) The individual does not, at any time
10 during such taxable year, own directly any stock
11 in such corporation;
12 "(B) The individual is not a director or em-
13 ployee and does not participate in the management
14 of such corporation at any time during such taxable
15 year;
16 "(C) Not more than 50 percent of such corpo-
17 ration's gross income for such taxable year was
18 derived from royalties, rents, dividends, interest,
19 and annuities; and
20 "(D) The stock in such corporation is not, at
21 any time during such taxable year, subject to con-
22 ditions which substantially restrict or limit the
23 spouse's right to dispose of such stock and which
24 run in favor of the individual or his children who
25 have not attained the age of 21 years.

1 "(6) CHILDREN, GRANDCHILDREN, PARENTS, AND
2 GRANDPARENTS.—
3 "(A) MINOR CHILDREN.—An individual shall
4 be considered as owning stock owned, directly or
5 indirectly, by or for his children who have not
6 attained the age of 21 years, and, if the individual
7 has not attained the age of 21 years, the stock
8 owned, directly or indirectly, by or for his parents.
9 "(B) ADULT CHILDREN AND GRANDCHIL-
10 DREN.—An individual who owns (within the mean-
11 ing of subsection (d)(2), but without regard to
12 this subparagraph) more than 50 percent of the
13 total combined voting power of all classes of stock
14 entitled to vote or more than 50 percent of the
15 total value of shares of all classes of stock in a cor-
16 poration shall be considered as owning the stock
17 in such corporation owned, directly or indirectly,
18 by or for his parents, grandparents, grandchildren,
19 and children who have attained the age of 21 years.
20 For purposes of this section, a legally adopted child of an
21 individual shall be treated as a child of such individual by
22 blood.

1 "(f) OTHER DEFINITIONS AND RULES.—
2 "(1) EMPLOYEE DEFINED.—For purposes of this
3 section the term 'employee' has the same meaning such
4 term is given in section 3306 (i).
5 "(2) OPERATING RULES.—
6 "(A) IN GENERAL.—Except as provided in
7 subparagraph (B), stock constructively owned by
8 a person by reason of the application of paragraph
9 (1), (2), (3), (4), (5), or (6) of subsection
10 (e) shall, for purposes of applying such paragraphs,
11 be treated as actually owned by such person.
12 "(B) MEMBERS OF FAMILY.—Stock construc-
13 tively owned by an individual by reason of the ap-
14 plication of paragraph (5) or (6) of subsection
15 (e) shall not be treated as owned by him for pur-
16 poses of again applying such paragraphs in order
17 to make another the constructive owner of such
18 stock.
19 "(3) SPECIAL RULES.—For purposes of this
20 section—
21 "(A) If stock may be considered as owned by
22 a person under subsection (e) (1) and under

any other paragraph of subsection (e), it shall be considered as owned by him under subsection (e) (1).

"(B) If stock is owned (within the meaning of subsection (d)) by two or more persons, such stock shall be considered as owned by the person whose ownership of such stock results in the corporation being a component member of a controlled group. If by reason of the preceding sentence, a corporation would (but for this sentence) become a component member of two controlled groups, it shall be treated as a component member of one controlled group. The determination as to the group of which such corporation is a component member shall be made under regulations prescribed by the Secretary or his delegate which are consistent with the purposes of this part.

"(4) Franchised corporation.—If—

"(A) a parent corporation (as defined in subsection (c) (2) (A)), or a common owner (as defined in subsection (c) (2) (B)), of a controlled group of corporations is under a duty (arising out of a written agreement) to sell stock of a corporation (referred to in this paragraph as 'franchised corporation') which is franchised to sell the

1 products of another member, or the common owner,
2 of such controlled group;
3 "(B) such stock is to be sold to an employee
4 (or employees) of such franchised corporation pur-
5 suant to a bona fide plan designed to eliminate the
6 stock ownership of the parent corporation or of the
7 common owner in the franchised corporation;
8 "(C) such plan—
9 "(i) provides a reasonable selling price for
10 such stock, and
11 "(ii) requires that a portion of the em-
12 ployee's share of the profits of such corporation
13 (whether received as compensation or as a
14 dividend) be applied to the purchase of such
15 stock (or the purchase of notes, bonds, de-
16 bentures or other similar evidence of indebted-
17 ness of such franchised corporation held by
18 such parent corporation or common owner);
19 "(D) such employee (or employees) owns
20 directly more than 20 percent of the total value
21 of shares of all classes of stock in such franchised
22 corporation;
23 "(E) more than 50 percent of the inventory
24 of such franchised corporation is acquired from

1 members of the controlled group, the common
2 owner, or both; and
3 "(F) all of the conditions contained in sub-
4 paragraphs (A), (B), (C), (D), and (E) have
5 been met for one-half (or more) of the number
6 of days preceding the December 31 included within
7 the taxable year (or if the taxable year does not
8 include December 31, the last day of such year)
9 of the franchised corporation,
10 then such franchised corporation shall be treated as an
11 excluded member of such group, under subsection (b)
12 (2), for such taxable year."
13 (b) DISALLOWANCE OF SURTAX EXEMPTION AND
14 ACCUMULATED EARNINGS CREDIT.—Section 1551 (relat-
15 ing to disallowance of surtax exemption and accumulated
16 earnings credit) is amended to read as follows:
17 **"SEC. 1551. DISALLOWANCE OF SURTAX EXEMPTION AND**
18 **ACCUMULATED EARNINGS CREDIT.**
19 "(a) IN GENERAL.—If—
20 "(1) any corporation transfers, on or after Janu-
21 ary 1, 1951, and on or before June 12, 1963, all or
22 part of its property (other than money) to a transferee
23 corporation,
24 "(2) any corporation transfers, directly or indi-

1 rectly, after June 12, 1963, all or part of its property
2 (other than money) to a transferee corporation, or
3 "(3) five or fewer individuals who are in control
4 of a corporation transfer, directly or indirectly, after
5 June 12, 1963, property (other than money) to a
6 transferee corporation,
7 and the transferee corporation was created for the purpose
8 of acquiring such property or was not actively engaged in
9 business at the time of such acquisition, and if after such
10 transfer the transferor or transferors are in control of such
11 transferee corporation during any part of the taxable year
12 of such transferee corporation, then for such taxable year of
13 such transferee corporation the Secretary or his delegate
14 may (except as may be otherwise determined under
15 subsection (d)) disallow the surtax exemption (as defined
16 in section 11(d)), or the $100,000 accumulated earnings
17 credit provided in paragraph (2) or (3) of section 535(c),
18 unless such transferee corporation shall establish by the clear
19 preponderance of the evidence that the securing of such
20 exemption or credit was not a major purpose of such
21 transfer.
22 "(b) CONTROL.—For purposes of subsection (a), the
23 term 'control' means—
24 "(1) With respect to a transferee corporation de-

1 scribed in subsection (a) (1) or (2), the ownership by
2 the transferor corporation, its shareholders, or both, of
3 stock possessing at least 80 percent of the total combined
4 voting power of all classes of stock entitled to vote or at
5 least 80 percent of the total value of shares of all classes
6 of the stock; or

7 "(2) With respect to each corporation described in
8 subsection (a) (3), the ownership by the five or fewer
9 individuals described in such subsection of stock possess-
10 ing—

11 "(A) at least 80 percent of the total combined
12 voting power of all classes of stock entitled to vote or
13 at least 80 percent of the total value of shares of all
14 classes of the stock of each corporation, and

15 "(B) more than 50 percent of the total combined
16 voting power of all classes of stock entitled to vote
17 or at least 50 percent of the total value of shares
18 of all classes of stock of each corporation, taking
19 into account the stock ownership of each such in-
20 dividual only to the extent such stock ownership is
21 identical with respect to each such corporation.

1 For purposes of this subsection, section 1563 (e) shall apply
2 in determining the ownership of stock.
3 "(c) CORPORATIONS ELECTING MULTIPLE SURTAX
4 EXEMPTIONS.—If the surtax exemption is disallowed to a
5 transferee corporation for any taxable year, section 1562 (b)
6 shall not apply with respect to such transferee corporation
7 for such taxable year.
8 "(d) AUTHORITY OF THE SECRETARY UNDER THIS
9 SECTION.—The provisions of section 269 (b), and the au-
10 thority of the Secretary under such section, shall, to the ex-
11 tent not inconsistent with the provisions of this section, be
12 applicable to this section."
13 (c) TECHNICAL AMENDMENTS.—
14 (1) AMENDMENT OF SECTION 802.—The second
15 sentence of section 802 (a) (1) (relating to tax on life
16 insurance companies) is amended to read as follows:
17 "Such tax shall consist of a normal tax and surtax com-
18 puted as provided in section 11 as though the life insur-
19 ance company taxable income were the taxable income
20 referred to in section 11."

1 (2) AMENDMENT OF SECTION 269.—Section 269
2 (a) (relating to acquisitions made to evade or avoid
3 income tax) is amended—
4 (A) by striking out "then such deduction,
5 credit, or other allowance shall not be allowed" at
6 the end of the first sentence and inserting in lieu
7 thereof "then the Secretary or his delegate may
8 disallow such deduction, credit, or other allow-
9 ance"; and
10 (B) by adding at the end thereof the follow-
11 ing new subsection:
12 "(d) CORPORATIONS ELECTING MULTIPLE SURTAX
13 EXEMPTIONS.—If the surtax exemption is disallowed to an
14 acquired corporation under subsection (a) for any taxable
15 year, section 1562(b) shall not apply with respect to such
16 acquired corporation for such taxable year."
17 (3) SPECIAL RULE FOR 52-53-WEEK YEAR.—Sec-
18 tion 441(f)(2)(A) (relating to effective date with
19 respect to special rules for 52-53-week year) is amended

1 by striking out "In any case in which the effective date
2 or the applicability of any provision of this title is ex-
3 pressed in terms of taxable years beginning or ending
4 with reference to a specified date" and inserting in lieu
5 thereof "In any case in which the effective date or the
6 applicability of any provision of this title is expressed
7 in terms of taxable years beginning, including, or ending
8 with reference to a specified date".
9 (4) Subchapter B of chapter 6 is amended by
10 inserting after the heading and before the table of
11 sections the following:

"Part I. In general.
"Part II. Certain controlled corporations.

12 **"PART I—IN GENERAL"**

13 (d) EFFECTIVE DATE.—The amendments made by sub-
14 sections (a) and (c) shall apply with respect to taxable
15 years ending after December 31, 1963. The amendment
16 made by subsection (b) shall apply with respect to transfers
17 made after June 12, 1963.

1 # Title III—Optional Tax On Individuals;
2 # Collection Of Income Tax At Source
3 # On Wages

4 **SEC. 301. OPTIONAL TAX IF ADJUSTED GROSS INCOME IS**
5 **LESS THAN $5,000.**

6 (a) OPTIONAL TAX.—Section 3 (relating to optional
7 tax if adjusted gross income is less than $5,000) is amended
8 to read as follows:

9 **"SEC. 3. OPTIONAL TAX IF ADJUSTED GROSS INCOME IS**
10 **LESS THAN $5,000.**

11 "(a) TAXABLE YEARS BEGINNING IN 1964.—In lieu
12 of the tax imposed by section 1, there is hereby imposed for
13 each taxable year beginning on or after January 1, 1964,
14 and before January 1, 1965, on the taxable income of every
15 individual whose adjusted gross income for such year is less
16 than $5,000 and who has elected for such year to pay the
17 tax imposed by this section, a tax as follows:

"Table I—Single Person—NOT Head of Household

"Taxable Years Beginning in 1964

If adjusted gross income is—		And the number of exemptions is—			
At least	But less than	1	2	3	4 or more
		The tax is—			
$0	$900	$0	$0	$0	$0
900	925	2	0	0	0
925	950	6	0	0	0
950	975	10	0	0	0
975	1,000	14	0	0	0
1,000	1,025	18	0	0	0
1,025	1,050	22	0	0	0
1,050	1,075	26	0	0	0
1,075	1,100	30	0	0	0
1,100	1,125	34	0	0	0
1,125	1,150	38	0	0	0
1,150	1,175	42	0	0	0
1,175	1,200	46	0	0	0
1,200	1,225	50	0	0	0
1,225	1,250	54	0	0	0
1,250	1,275	58	0	0	0
1,275	1,300	62	0	0	0
1,300	1,325	66	0	0	0
1,325	1,350	70	0	0	0
1,350	1,375	74	0	0	0
1,375	1,400	78	0	0	0
1,400	1,425	82	0	0	0
1,425	1,450	86	0	0	0
1,450	1,475	90	0	0	0
1,475	1,500	94	0	0	0
1,500	1,525	99	0	0	0
1,525	1,550	103	0	0	0
1,550	1,575	107	0	0	0
1,575	1,600	111	0	0	0
1,600	1,625	115	2	0	0
1,625	1,650	119	6	0	0
1,650	1,675	123	10	0	0
1,675	1,700	127	14	0	0
1,700	1,725	132	18	0	0
1,725	1,750	136	22	0	0
1,750	1,775	140	26	0	0
1,775	1,800	144	30	0	0
1,800	1,825	148	34	0	0
1,825	1,850	152	38	0	0
1,850	1,875	156	42	0	0
1,875	1,900	160	46	0	0
1,900	1,925	165	50	0	0
1,925	1,950	169	54	0	0
1,950	1,975	173	58	0	0
1,975	2,000	178	62	0	0
2,000	2,025	182	66	0	0
2,025	2,050	187	70	0	0
2,050	2,075	191	74	0	0
2,075	2,100	195	78	0	0
2,100	2,125	200	82	0	0
2,125	2,150	204	86	0	0
2,150	2,175	208	90	0	0
2,175	2,200	213	94	0	0
2,200	2,225	217	99	0	0
2,225	2,250	222	103	0	0
2,250	2,275	226	107	0	0
2,275	2,300	230	111	0	0
2,300	2,325	235	115	2	0
2,325	2,350	239	119	6	0
2,350	2,375	243	123	10	0
2,375	2,400	248	127	14	0
2,400	2,425	252	132	18	0
2,425	2,450	257	136	22	0

If adjusted gross income is—		And the number of exemptions is—						
At least	But less than	1	2	3	4	5	6	7 or more
		The tax is—						
$2,450	$2,475	$261	$140	$26	$0	$0	$0	$0
2,475	2,500	266	144	30	0	0	0	0
2,500	2,525	270	148	34	0	0	0	0
2,525	2,550	275	152	38	0	0	0	0
2,550	2,575	279	156	42	0	0	0	0
2,575	2,600	284	160	46	0	0	0	0
2,600	2,625	288	165	50	0	0	0	0
2,625	2,650	293	169	54	0	0	0	0
2,650	2,675	297	173	58	0	0	0	0
2,675	2,700	302	178	62	0	0	0	0
2,700	2,725	306	182	66	0	0	0	0
2,725	2,750	311	187	70	0	0	0	0
2,750	2,775	315	191	74	0	0	0	0
2,775	2,800	320	195	78	0	0	0	0
2,800	2,825	324	200	82	0	0	0	0
2,825	2,850	329	204	86	0	0	0	0
2,850	2,875	333	208	90	0	0	0	0
2,875	2,900	338	213	94	0	0	0	0
2,900	2,925	343	217	99	0	0	0	0
2,925	2,950	348	222	103	0	0	0	0
2,950	2,975	353	226	107	0	0	0	0
2,975	3,000	358	230	111	0	0	0	0
3,000	3,050	365	237	117	4	0	0	0
3,050	3,100	374	246	125	12	0	0	0
3,100	3,150	383	255	134	20	0	0	0
3,150	3,200	392	264	142	28	0	0	0
3,200	3,250	401	273	150	36	0	0	0
3,250	3,300	410	282	158	44	0	0	0
3,300	3,350	419	291	167	52	0	0	0
3,350	3,400	428	300	176	60	0	0	0
3,400	3,450	437	309	184	68	0	0	0
3,450	3,500	446	318	193	76	0	0	0
3,500	3,550	455	327	202	84	0	0	0
3,550	3,600	464	336	211	92	0	0	0
3,600	3,650	473	345	219	101	0	0	0
3,650	3,700	482	355	228	109	0	0	0
3,700	3,750	491	365	237	117	4	0	0
3,750	3,800	500	375	246	125	12	0	0
3,800	3,850	509	385	255	134	20	0	0
3,850	3,900	518	395	264	142	28	0	0
3,900	3,950	527	405	273	150	36	0	0
3,950	4,000	536	415	282	158	44	0	0
4,000	4,050	545	425	291	167	52	0	0
4,050	4,100	554	434	300	176	60	0	0
4,100	4,150	563	443	309	184	68	0	0
4,150	4,200	572	452	318	193	76	0	0
4,200	4,250	581	461	327	202	84	0	0
4,250	4,300	590	470	336	211	92	0	0
4,300	4,350	599	479	345	219	101	0	0
4,350	4,400	608	488	355	228	109	0	0
4,400	4,450	617	497	365	237	117	4	0
4,450	4,500	626	506	375	246	125	12	0
4,500	4,550	635	515	385	255	134	20	0
4,550	4,600	644	524	395	264	142	28	0
4,600	4,650	653	533	405	273	150	36	0
4,650	4,700	662	542	415	282	158	44	0
4,700	4,750	671	551	425	291	167	52	0
4,750	4,800	680	560	435	300	176	60	0
4,800	4,850	689	569	445	309	184	68	0
4,850	4,900	698	578	455	318	193	76	0
4,900	4,950	707	587	465	327	202	84	0
4,950	5,000	716	596	475	336	211	92	0

"Table II—Head of Household

"Taxable Years Beginning in 1964

If adjusted gross income is—		And the number of exemptions is—				If adjusted gross income is—		And the number of exemptions is—						
At least	But less than	1	2	3	4 or more	At least	But less than	1	2	3	4	5	6	7 or more
		The tax is—						The tax is—						
$0	$900	$0	$0	$0	$0	$2,450	$2,475	$258	$138	$26	$0	$0	$0	$0
900	925	2	0	0	0	2,475	2,500	263	142	30	0	0	0	0
925	950	6	0	0	0	2,500	2,525	267	146	34	0	0	0	0
950	975	10	0	0	0	2,525	2,550	272	150	38	0	0	0	0
975	1,000	14	0	0	0	2,550	2,575	276	154	42	0	0	0	0
1,000	1,025	18	0	0	0	2,575	2,600	280	158	46	0	0	0	0
1,025	1,050	22	0	0	0	2,600	2,625	285	162	50	0	0	0	0
1,050	1,075	26	0	0	0	2,625	2,650	289	167	54	0	0	0	0
1,075	1,100	30	0	0	0	2,650	2,675	293	171	58	0	0	0	0
1,100	1,125	34	0	0	0	2,675	2,700	298	175	62	0	0	0	0
1,125	1,150	38	0	0	0	2,700	2,725	302	180	66	0	0	0	0
1,150	1,175	42	0	0	0	2,725	2,750	307	184	70	0	0	0	0
1,175	1,200	46	0	0	0	2,750	2,775	311	188	74	0	0	0	0
1,200	1,225	50	0	0	0	2,775	2,800	315	193	78	0	0	0	0
1,225	1,250	54	0	0	0	2,800	2,825	320	197	82	0	0	0	0
1,250	1,275	58	0	0	0	2,825	2,850	324	202	86	0	0	0	0
1,275	1,300	62	0	0	0	2,850	2,875	328	206	90	0	0	0	0
1,300	1,325	66	0	0	0	2,875	2,900	333	210	94	0	0	0	0
1,325	1,350	70	0	0	0	2,900	2,925	337	215	98	0	0	0	0
1,350	1,375	74	0	0	0	2,925	2,950	342	219	102	0	0	0	0
1,375	1,400	78	0	0	0	2,950	2,975	347	223	106	0	0	0	0
1,400	1,425	82	0	0	0	2,975	3,000	352	228	110	0	0	0	0
1,425	1,450	86	0	0	0	3,000	3,050	358	234	116	4	0	0	0
1,450	1,475	90	0	0	0	3,050	3,100	367	243	124	12	0	0	0
1,475	1,500	94	0	0	0	3,100	3,150	375	252	132	20	0	0	0
1,500	1,525	98	0	0	0	3,150	3,200	384	261	140	28	0	0	0
1,525	1,550	102	0	0	0	3,200	3,250	392	269	148	36	0	0	0
1,550	1,575	106	0	0	0	3,250	3,300	401	278	156	44	0	0	0
1,575	1,600	110	0	0	0	3,300	3,350	410	287	164	52	0	0	0
1,600	1,625	114	2	0	0	3,350	3,400	418	296	173	60	0	0	0
1,625	1,650	118	6	0	0	3,400	3,450	427	304	182	68	0	0	0
1,650	1,675	122	10	0	0	3,450	3,500	435	313	191	76	0	0	0
1,675	1,700	126	14	0	0	3,500	3,550	444	322	199	84	0	0	0
1,700	1,725	130	18	0	0	3,550	3,600	452	331	208	92	0	0	0
1,725	1,750	134	22	0	0	3,600	3,650	461	340	217	100	0	0	0
1,750	1,775	138	26	0	0	3,650	3,700	469	349	226	108	0	0	0
1,775	1,800	142	30	0	0	3,700	3,750	478	359	234	116	4	0	0
1,800	1,825	146	34	0	0	3,750	3,800	487	368	243	124	12	0	0
1,825	1,850	150	38	0	0	3,800	3,850	495	378	252	132	20	0	0
1,850	1,875	154	42	0	0	3,850	3,900	504	387	261	140	28	0	0
1,875	1,900	158	46	0	0	3,900	3,950	512	397	269	148	36	0	0
1,900	1,925	162	50	0	0	3,950	4,000	521	406	278	156	44	0	0
1,925	1,950	167	54	0	0	4,000	4,050	529	415	287	164	52	0	0
1,950	1,975	171	58	0	0	4,050	4,100	538	424	296	173	60	0	0
1,975	2,000	175	62	0	0	4,100	4,150	546	432	304	182	68	0	0
2,000	2,025	180	66	0	0	4,150	4,200	555	441	313	191	76	0	0
2,025	2,050	184	70	0	0	4,200	4,250	563	449	322	199	84	0	0
2,050	2,075	188	74	0	0	4,250	4,300	572	458	331	208	92	0	0
2,075	2,100	193	78	0	0	4,300	4,350	581	467	340	217	100	0	0
2,100	2,125	197	82	0	0	4,350	4,400	589	475	349	226	108	0	0
2,125	2,150	202	86	0	0	4,400	4,450	598	484	359	234	116	4	0
2,150	2,175	206	90	0	0	4,450	4,500	606	492	368	243	124	12	0
2,175	2,200	210	94	0	0	4,500	4,550	615	501	378	252	132	20	0
2,200	2,225	215	98	0	0	4,550	4,600	623	509	387	261	140	28	0
2,225	2,250	219	102	0	0	4,600	4,650	632	518	397	269	148	36	0
2,250	2,275	223	106	0	0	4,650	4,700	640	526	406	278	156	44	0
2,275	2,300	228	110	0	0	4,700	4,750	649	535	416	287	164	52	0
2,300	2,325	232	114	2	0	4,750	4,800	658	544	425	296	173	60	0
2,325	2,350	237	118	6	0	4,800	4,850	666	552	435	304	182	68	0
2,350	2,375	241	122	10	0	4,850	4,900	675	561	444	313	191	76	0
2,375	2,400	245	126	14	0	4,900	4,950	683	569	454	322	199	84	0
2,400	2,425	250	130	18	0	4,950	5,000	692	578	463	331	208	92	0
2,425	2,450	254	134	22	0									

"Table III—Married Persons Filing JOINT Returns

"Taxable Years Beginning in 1964

If adjusted gross income is—		And the number of exemptions is—			If adjusted gross income is—		And the number of exemptions is—					
At least	But less than	2	3	4 or more	At least	But less than	2	3	4	5	6	7 or more
		The tax is—					The tax is—					
$0	$1,600	$0	$0	$0	$2,800	$2,825	$195	$82	$0	$0	$0	$0
1,600	1,625	2	0	0	2,825	2,850	199	86	0	0	0	0
1,625	1,650	6	0	0	2,850	2,875	203	90	0	0	0	0
1,650	1,675	10	0	0	2,875	2,900	207	94	0	0	0	0
1,675	1,700	14	0	0	2,900	2,925	212	98	0	0	0	0
1,700	1,725	18	0	0	2,925	2,950	216	102	0	0	0	0
1,725	1,750	22	0	0	2,950	2,975	220	106	0	0	0	0
1,750	1,775	26	0	0	2,975	3,000	224	110	0	0	0	0
1,775	1,800	30	0	0	3,000	3,050	230	116	4	0	0	0
1,800	1,825	34	0	0	3,050	3,100	238	124	12	0	0	0
1,825	1,850	38	0	0	3,100	3,150	247	132	20	0	0	0
1,850	1,875	42	0	0	3,150	3,200	255	140	28	0	0	0
1,875	1,900	46	0	0	3,200	3,250	263	148	36	0	0	0
1,900	1,925	50	0	0	3,250	3,300	271	156	44	0	0	0
1,925	1,950	54	0	0	3,300	3,350	280	164	52	0	0	0
,950	1,975	58	0	0	3,350	3,400	288	172	60	0	0	0
1,975	2,000	62	0	0	3,400	3,450	296	181	68	0	0	0
2,000	2,025	66	0	0	3,450	3,500	304	189	76	0	0	0
2,025	2,050	70	0	0	3,500	3,550	313	197	84	0	0	0
2,050	2,075	74	0	0	3,550	3,600	321	205	92	0	0	0
2,075	2,100	78	0	0	3,600	3,650	329	214	100	0	0	0
2,100	2,125	82	0	0	3,650	3,700	338	222	108	0	0	0
2,125	2,150	86	0	0	3,700	3,750	347	230	116	4	0	0
2,150	2,175	90	0	0	3,750	3,800	356	238	124	12	0	0
2,175	2,200	94	0	0	3,800	3,850	364	247	132	20	0	0
2,200	2,225	98	0	0	3,850	3,900	373	255	140	28	0	0
2,225	2,250	102	0	0	3,900	3,950	382	263	148	36	0	0
2,250	2,275	106	0	0	3,950	4,000	391	271	156	44	0	0
2,275	2,300	110	0	0	4,000	4,050	399	280	164	52	0	0
2,300	2,325	114	2	0	4,050	4,100	407	288	172	60	0	0
2,325	2,350	118	6	0	4,100	4,150	415	296	181	68	0	0
2,350	2,375	122	10	0	4,150	4,200	423	304	189	76	0	0
2,375	2,400	126	14	0	4,200	4,250	430	313	197	84	0	0
2,400	2,425	130	18	0	4,250	4,300	438	321	205	92	0	0
2,425	2,450	134	22	0	4,300	4,350	446	329	214	100	0	0
2,450	2,475	138	26	0	4,350	4,400	454	338	222	108	0	0
2,475	2,500	142	30	0	4,400	4,450	462	347	230	116	4	0
2,500	2,525	146	34	0	4,450	4,500	470	356	238	124	12	0
2,525	2,550	150	38	0	4,500	4,550	478	364	247	132	20	0
2,550	2,575	154	42	0	4,550	4,600	486	373	255	140	28	0
2,575	2,600	158	46	0	4,600	4,650	493	382	263	148	36	0
2,600	2,625	162	50	0	4,650	4,700	501	391	271	156	44	0
2,625	2,650	166	54	0	4,700	4,750	509	399	280	164	52	0
2,650	2,675	170	58	0	4,750	4,800	518	408	288	172	60	0
2,675	2,700	174	62	0	4,800	4,850	526	417	296	181	68	0
2,700	2,725	179	66	0	4,850	4,900	534	426	304	189	76	0
2,725	2,750	183	70	0	4,900	4,950	542	434	313	197	84	0
2,750	2,775	187	74	0	4,950	5,000	550	443	321	205	92	0
2,775	2,800	191	78	0								

"Table IV—Married Persons Filing SEPARATE Returns

"10 PERCENT STANDARD DEDUCTION

"Taxable Years Beginning in 1964

If adjusted gross income is—		And the number of exemptions is—				If adjusted gross income is—		And the number of exemptions is—							
At least	But less than	1	2	3	4 or more	At least	But less than	1	2	3	4	5	6	7	8 or more
		The tax is—						The tax is—							
$0	$675	$0	$0	$0	$0	$2,325	$2,350	$251	$147	$49	$0	$0	$0	$0	$0
675	700	3	0	0	0	2,350	2,375	255	150	52	0	0	0	0	0
700	725	7	0	0	0	2,375	2,400	259	154	56	0	0	0	0	0
725	750	10	0	0	0	2,400	2,425	263	158	59	0	0	0	0	0
750	775	14	0	0	0	2,425	2,450	267	161	63	0	0	0	0	0
775	800	17	0	0	0	2,450	2,475	271	165	67	0	0	0	0	0
800	825	21	0	0	0	2,475	2,500	275	169	70	0	0	0	0	0
825	850	25	0	0	0	2,500	2,525	279	173	74	0	0	0	0	0
850	875	28	0	0	0	2,525	2,550	283	177	77	0	0	0	0	0
875	900	32	0	0	0	2,550	2,575	287	181	81	0	0	0	0	0
900	925	35	0	0	0	2,575	2,600	291	185	85	0	0	0	0	0
925	950	39	0	0	0	2,600	2,625	295	189	88	0	0	0	0	0
950	975	43	0	0	0	2,625	2,650	299	193	92	0	0	0	0	0
975	1,000	46	0	0	0	2,650	2,675	303	197	96	0	0	0	0	0
1,000	1,025	50	0	0	0	2,675	2,700	307	201	100	3	0	0	0	0
1,025	1,050	53	0	0	0	2,700	2,725	311	205	103	7	0	0	0	0
1,050	1,075	57	0	0	0	2,725	2,750	315	209	107	10	0	0	0	0
1,075	1,100	61	0	0	0	2,750	2,775	320	213	111	14	0	0	0	0
1,100	1,125	64	0	0	0	2,775	2,800	324	217	114	17	0	0	0	0
1,125	1,150	68	0	0	0	2,800	2,825	328	220	118	21	0	0	0	0
1,150	1,175	71	0	0	0	2,825	2,850	332	224	122	25	0	0	0	0
1,175	1,200	75	0	0	0	2,850	2,875	336	228	126	28	0	0	0	0
1,200	1,225	79	0	0	0	2,875	2,900	340	232	129	32	0	0	0	0
1,225	1,250	82	0	0	0	2,900	2,925	344	236	133	35	0	0	0	0
1,250	1,275	86	0	0	0	2,925	2,950	349	240	137	39	0	0	0	0
1,275	1,300	90	0	0	0	2,950	2,975	353	244	140	43	0	0	0	0
1,300	1,325	93	0	0	0	2,975	3,000	358	248	144	46	0	0	0	0
1,325	1,350	97	1	0	0	3,000	3,050	365	254	150	52	0	0	0	0
1,350	1,375	101	4	0	0	3,050	3,100	374	262	157	59	0	0	0	0
1,375	1,400	105	8	0	0	3,100	3,150	383	270	165	66	0	0	0	0
1,400	1,425	108	11	0	0	3,150	3,200	392	278	173	73	0	0	0	0
1,425	1,450	112	15	0	0	3,200	3,250	401	286	180	80	0	0	0	0
1,450	1,475	116	19	0	0	3,250	3,300	410	295	188	88	0	0	0	0
1,475	1,500	119	22	0	0	3,300	3,350	419	303	196	95	0	0	0	0
1,500	1,525	123	26	0	0	3,350	3,400	428	311	204	103	6	0	0	0
1,525	1,550	127	29	0	0	3,400	3,450	437	319	212	110	13	0	0	0
1,550	1,575	131	33	0	0	3,450	3,500	446	327	220	118	20	0	0	0
1,575	1,600	134	37	0	0	3,500	3,550	455	335	228	125	28	0	0	0
1,600	1,625	138	40	0	0	3,550	3,600	464	344	236	132	35	0	0	0
1,625	1,650	142	44	0	0	3,600	3,650	473	353	243	140	42	0	0	0
1,650	1,675	145	47	0	0	3,650	3,700	482	362	251	147	49	0	0	0
1,675	1,700	149	51	0	0	3,700	3,750	491	371	259	155	56	0	0	0
1,700	1,725	153	55	0	0	3,750	3,800	500	380	268	162	64	0	0	0
1,725	1,750	157	58	0	0	3,800	3,850	509	389	276	170	71	0	0	0
1,750	1,775	160	62	0	0	3,850	3,900	518	398	284	178	78	0	0	0
1,775	1,800	164	65	0	0	3,900	3,950	527	407	292	186	85	0	0	0
1,800	1,825	168	69	0	0	3,950	4,000	536	416	300	194	93	0	0	0
1,825	1,850	172	73	0	0	4,000	4,050	545	425	308	201	100	4	0	0
1,850	1,875	176	76	0	0	4,050	4,100	554	434	316	209	108	11	0	0
1,875	1,900	180	80	0	0	4,100	4,150	563	443	324	217	115	18	0	0
1,900	1,925	184	84	0	0	4,150	4,200	572	452	332	225	122	25	0	0
1,925	1,950	188	87	0	0	4,200	4,250	581	461	341	233	130	32	0	0
1,950	1,975	192	91	0	0	4,250	4,300	590	470	350	241	137	40	0	0
1,975	2,000	196	95	0	0	4,300	4,350	599	479	359	249	145	47	0	0
2,000	2,025	199	98	2	0	4,350	4,400	608	488	368	257	152	54	0	0
2,025	2,050	203	102	5	0	4,400	4,450	617	497	377	265	160	61	0	0
2,050	2,075	207	106	9	0	4,450	4,500	626	506	386	273	167	68	0	0
2,075	2,100	211	109	13	0	4,500	4,550	635	515	395	281	175	76	0	0
2,100	2,125	215	113	16	0	4,550	4,600	644	524	404	289	183	83	0	0
2,125	2,150	219	117	20	0	4,600	4,650	653	533	413	297	191	90	0	0
2,150	2,175	223	121	23	0	4,650	4,700	662	542	422	305	199	98	1	0
2,175	2,200	227	124	27	0	4,700	4,750	671	551	431	313	207	105	8	0
2,200	2,225	231	128	31	0	4,750	4,800	680	560	440	322	215	113	16	0
2,225	2,250	235	132	34	0	4,800	4,850	689	569	449	330	222	120	23	0
2,250	2,275	239	135	38	0	4,850	4,900	698	578	458	338	230	127	30	0
2,275	2,300	243	139	41	0	4,900	4,950	707	587	467	347	238	135	37	0
2,300	2,325	247	143	45	0	4,950	5,000	716	596	476	356	246	142	44	0

"Table V—Married Persons Filing SEPARATE Returns

"MINIMUM STANDARD DEDUCTION

"Taxable Years Beginning in 1964

If adjusted gross income is—		And the number of exemptions is—			
At least	But less than	1	2	3	4 or more
		The tax is—			
$0	$800	$0	$0	$0	$0
800	825	2	0	0	0
825	850	6	0	0	0
850	875	10	0	0	0
875	900	14	0	0	0
900	925	18	0	0	0
925	950	22	0	0	0
950	975	26	0	0	0
975	1,000	30	0	0	0
1,000	1,025	34	0	0	0
1,025	1,050	38	0	0	0
1,050	1,075	42	0	0	0
1,075	1,100	46	0	0	0
1,100	1,125	50	0	0	0
1,125	1,150	54	0	0	0
1,150	1,175	58	0	0	0
1,175	1,200	62	0	0	0
1,200	1,225	66	0	0	0
1,225	1,250	70	0	0	0
1,250	1,275	74	0	0	0
1,275	1,300	78	0	0	0
1,300	1,325	82	0	0	0
1,325	1,350	86	0	0	0
1,350	1,375	90	0	0	0
1,375	1,400	94	0	0	0
1,400	1,425	99	0	0	0
1,425	1,450	103	0	0	0
1,450	1,475	107	0	0	0
1,475	1,500	111	0	0	0
1,500	1,525	115	2	0	0
1,525	1,550	119	6	0	0
1,550	1,575	123	10	0	0
1,575	1,600	127	14	0	0
1,600	1,625	132	18	0	0
1,625	1,650	136	22	0	0
1,650	1,675	140	26	0	0
1,675	1,700	144	30	0	0
1,700	1,725	148	34	0	0
1,725	1,750	152	38	0	0
1,750	1,775	156	42	0	0
1,775	1,800	160	46	0	0
1,800	1,825	165	50	0	0
1,825	1,850	169	54	0	0
1,850	1,875	173	58	0	0
1,875	1,900	178	62	0	0
1,900	1,925	182	66	0	0
1,925	1,950	187	70	0	0
1,950	1,975	191	74	0	0
1,975	2,000	195	78	0	0
2,000	2,025	200	82	0	0
2,025	2,050	204	86	0	0
2,050	2,075	208	90	0	0
2,075	2,100	213	94	0	0
2,100	2,125	217	99	0	0
2,125	2,150	222	103	0	0
2,150	2,175	226	107	0	0
2,175	2,200	230	111	0	0
2,200	2,225	235	115	2	0
2,225	2,250	239	119	6	0
2,250	2,275	243	123	10	0
2,275	2,300	248	127	14	0
2,300	2,325	252	132	18	0
2,325	2,350	257	136	22	0
2,350	2,375	261	140	26	0
2,375	2,400	266	144	30	0

If adjusted gross income is—		And the number of exemptions is—							
At least	But less than	1	2	3	4	5	6	7	8 or more
		The tax is—							
$2,400	$2,425	$270	$148	$34	$0	$0	$0	$0	$0
2,425	2,450	275	152	38	0	0	0	0	0
2,450	2,475	279	156	42	0	0	0	0	0
2,475	2,500	284	160	46	0	0	0	0	0
2,500	2,525	288	165	50	0	0	0	0	0
2,525	2,550	293	169	54	0	0	0	0	0
2,550	2,575	297	173	58	0	0	0	0	0
2,575	2,600	302	178	62	0	0	0	0	0
2,600	2,625	306	182	66	0	0	0	0	0
2,625	2,650	311	187	70	0	0	0	0	0
2,650	2,675	315	191	74	0	0	0	0	0
2,675	2,700	320	195	78	0	0	0	0	0
2,700	2,725	324	200	82	0	0	0	0	0
2,725	2,750	329	204	86	0	0	0	0	0
2,750	2,775	333	208	90	0	0	0	0	0
2,775	2,800	338	213	94	0	0	0	0	0
2,800	2,825	343	217	99	0	0	0	0	0
2,825	2,850	348	222	103	0	0	0	0	0
2,850	2,875	353	226	107	0	0	0	0	0
2,875	2,900	358	230	111	0	0	0	0	0
2,900	2,925	363	235	115	2	0	0	0	0
2,925	2,950	368	239	119	6	0	0	0	0
2,950	2,975	373	243	123	10	0	0	0	0
2,975	3,000	378	248	127	14	0	0	0	0
3,000	3,050	385	255	134	20	0	0	0	0
3,050	3,100	395	264	142	28	0	0	0	0
3,100	3,150	405	273	150	36	0	0	0	0
3,150	3,200	415	282	158	44	0	0	0	0
3,200	3,250	425	291	167	52	0	0	0	0
3,250	3,300	435	300	176	60	0	0	0	0
3,300	3,350	445	309	184	68	0	0	0	0
3,350	3,400	455	318	193	76	0	0	0	0
3,400	3,450	465	327	202	84	0	0	0	0
3,450	3,500	475	336	211	92	0	0	0	0
3.500	3,550	485	345	219	101	4	0	0	0
3,550	3,600	495	355	228	109	12	0	0	0
3,600	3,650	505	365	237	117	20	0	0	0
3,650	3,700	515	375	246	125	28	0	0	0
3,700	3,750	525	385	255	134	36	0	0	0
3,750	3,800	535	395	264	142	44	0	0	0
3.800	3,850	545	405	273	150	52	0	0	0
3,850	3.900	555	415	282	158	60	0	0	0
3.900	3,950	565	425	291	167	68	0	0	0
3,950	4,000	575	435	300	176	76	0	0	0
4,000	4,050	585	445	309	184	84	0	0	0
4,050	4,100	595	455	318	193	92	0	0	0
4,100	4,150	605	465	327	202	101	4	0	0
4,150	4,200	615	475	336	211	109	12	0	0
4.200	4,250	625	485	345	219	117	20	0	0
4,250	4,300	635	495	355	228	125	28	0	0
4.300	4.350	645	505	365	237	134	36	0	0
4,350	4.400	655	515	375	246	142	44	0	0
4,400	4,450	665	525	385	255	150	52	0	0
4,450	4,500	675	535	395	264	158	60	0	0
4,500	4,550	685	545	405	273	167	68	0	0
4,550	4,600	695	555	415	282	176	76	0	0
4,600	4,650	705	565	425	291	184	84	0	0
4,650	4,700	715	575	435	300	193	92	0	0
4,700	4,750	725	585	445	309	202	101	4	0
4,750	4,800	735	595	455	318	211	109	12	0
4,800	4,850	746	605	465	327	219	117	20	0
4,850	4,900	758	615	475	336	228	125	28	0
4,900	4,950	769	625	485	345	237	134	36	0
4,950	5,000	781	635	495	355	246	142	44	0

1 "(b) TAXABLE YEARS BEGINNING AFTER DECEM-
2 BER 31, 1964.—In lieu of the tax imposed by section 1,
3 there is hereby imposed for each taxable year beginning

1 after December 31, 1964, on the taxable income of every
2 individual whose adjusted gross income for such year is
3 less than $5,000 and who has elected for such year to pay
4 the tax imposed by this section a tax as follows:

"Table I—Single Person—NOT Head of Household

"Taxable Years Beginning After December 31, 1964

If adjusted gross income is—		And the number of exemptions is—			
At least	But less than	1	2	3	4 or more
		The tax is—			
$0	$900	$0	$0	$0	$0
900	925	2	0	0	0
925	950	5	0	0	0
950	975	9	0	0	0
975	1,000	12	0	0	0
1,000	1,025	16	0	0	0
1,025	1,050	19	0	0	0
1,050	1,075	23	0	0	0
1,075	1,100	26	0	0	0
1,100	1,125	30	0	0	0
1,125	1,150	33	0	0	0
1,150	1,175	37	0	0	0
1,175	1,200	40	0	0	0
1,200	1,225	44	0	0	0
1,225	1,250	47	0	0	0
1,250	1,275	51	0	0	0
1,275	1,300	54	0	0	0
1,300	1,325	58	0	0	0
1,325	1,350	61	0	0	0
1,350	1,375	65	0	0	0
1,375	1,400	68	0	0	0
1,400	1,425	72	0	0	0
1,425	1,450	76	0	0	0
1,450	1,475	79	0	0	0
1,475	1,500	83	0	0	0
1,500	1,525	87	0	0	0
1,525	1,550	91	0	0	0
1,550	1,575	94	0	0	0
1,575	1,600	98	0	0	0
1,600	1,625	102	2	0	0
1,625	1,650	106	5	0	0
1,650	1,675	109	9	0	0
1,675	1,700	113	12	0	0
1,700	1,725	117	16	0	0
1,725	1,750	121	19	0	0
1,750	1,775	124	23	0	0
1,775	1,800	128	26	0	0
1,800	1,825	132	30	0	0
1,825	1,850	136	33	0	0
1,850	1,875	139	37	0	0
1,875	1,900	143	40	0	0
1,900	1,925	147	44	0	0
1,925	1,950	151	47	0	0
1,950	1,975	155	51	0	0
1,975	2,000	159	54	0	0
2,000	2,025	163	58	0	0
2,025	2,050	167	61	0	0
2,050	2,075	171	65	0	0
2,075	2,100	175	68	0	0
2,100	2,125	179	72	0	0
2,125	2,150	183	76	0	0
2,150	2,175	187	79	0	0
2,175	2,200	191	83	0	0
2,200	2,225	195	87	0	0
2,225	2,250	199	91	0	0
2,250	2,275	203	94	0	0
2,275	2,300	207	98	0	0
2,300	2,325	211	102	2	0
2,325	2,350	215	106	5	0
2,350	2,375	219	109	9	0
2,375	2,400	223	113	12	0
2,400	2,425	227	117	16	0
2,425	2,450	231	121	19	0

If adjusted gross income is—		And the number of exemptions is—						
At least	But less than	1	2	3	4	5	6	7 or more
		The tax is—						
$2,450	$2,475	$236	$124	$23	$0	$0	$0	$0
2,475	2,500	240	128	26	0	0	0	0
2,500	2,525	244	132	30	0	0	0	0
2,525	2,550	248	136	33	0	0	0	0
2,550	2,575	253	139	37	0	0	0	0
2,575	2,600	257	143	40	0	0	0	0
2,600	2,625	261	147	44	0	0	0	0
2,625	2,650	265	151	47	0	0	0	0
2,650	2,675	270	155	51	0	0	0	0
2,675	2,700	274	159	54	0	0	0	0
2,700	2,725	278	163	58	0	0	0	0
2,725	2,750	282	167	61	0	0	0	0
2,750	2,775	287	171	65	0	0	0	0
2,775	2,800	291	175	68	0	0	0	0
2,800	2,825	295	179	72	0	0	0	0
2,825	2,850	299	183	76	0	0	0	0
2,850	2,875	304	187	79	0	0	0	0
2,875	2,900	308	191	83	0	0	0	0
2,900	2,925	312	195	87	0	0	0	0
2,925	2,950	317	199	91	0	0	0	0
2,950	2,975	322	203	94	0	0	0	0
2,975	3,000	327	207	98	0	0	0	0
3,000	3,050	333	213	104	4	0	0	0
3,050	3,100	342	221	111	11	0	0	0
3,100	3,150	350	229	119	18	0	0	0
3,150	3,200	359	238	126	25	0	0	0
3,200	3,250	367	246	134	32	0	0	0
3,250	3,300	376	255	141	39	0	0	0
3,300	3,350	385	263	149	46	0	0	0
3,350	3,400	393	272	157	53	0	0	0
3,400	3,450	402	280	165	60	0	0	0
3,450	3,500	410	289	173	67	0	0	0
3,500	3,550	419	297	181	74	0	0	0
3,550	3,600	427	306	189	81	0	0	0
3,600	3,650	436	315	197	89	0	0	0
3,650	3,700	444	324	205	96	0	0	0
3,700	3,750	453	334	213	104	4	0	0
3,750	3,800	462	343	221	111	11	0	0
3,800	3,850	470	353	229	119	18	0	0
3,850	3,900	479	362	238	126	25	0	0
3,900	3,950	487	372	246	134	32	0	0
3,950	4,000	496	381	255	141	39	0	0
4,000	4,050	504	390	263	149	46	0	0
4,050	4,100	513	399	272	157	53	0	0
4,100	4,150	521	407	280	165	60	0	0
4,150	4,200	530	416	289	173	67	0	0
4,200	4,250	538	424	297	181	74	0	0
4,250	4,300	547	433	306	189	81	0	0
4,300	4,350	556	442	315	197	89	0	0
4,350	4,400	564	450	324	205	96	0	0
4,400	4,450	573	459	334	213	104	4	0
4,450	4,500	581	467	343	221	111	11	0
4,500	4,550	590	476	353	229	119	18	0
4,550	4,600	598	484	362	238	126	25	0
4,600	4,650	607	493	372	246	134	32	0
4,650	4,700	615	501	381	255	141	39	0
4,700	4,750	624	510	391	263	149	46	0
4,750	4,800	633	519	400	272	157	53	0
4,800	4,850	641	527	410	280	165	60	0
4,850	4,900	650	536	419	289	173	67	0
4,900	4,950	658	544	429	297	181	74	0
4,950	5,000	667	553	438	306	189	81	0

"Table II—Head of Household

"Taxable Years Beginning After December 31, 1964

If adjusted gross income is—		And the number of exemptions is—				If adjusted gross income is—		And the number of exemptions is—						
At least	But less than	1	2	3	4 or more	At least	But less than	1	2	3	4	5	6	7 or more
		The tax is—						The tax is—						
$0	$900	$0	$0	$0	$0	$2,450	$2,475	$230	$121	$23	$0	$0	$0	$0
900	925	2	0	0	0	2,475	2,500	234	124	26	0	0	0	0
925	950	5	0	0	0	2,500	2,525	238	128	30	0	0	0	0
950	975	9	0	0	0	2,525	2,550	242	131	33	0	0	0	0
975	1,000	12	0	0	0	2,550	2,575	246	135	37	0	0	0	0
1,000	1,025	16	0	0	0	2,575	2,600	250	138	40	0	0	0	0
1,025	1,050	19	0	0	0	2,600	2,625	254	142	44	0	0	0	0
1,050	1,075	23	0	0	0	2,625	2,650	258	146	47	0	0	0	0
1,075	1,100	26	0	0	0	2,650	2,675	262	150	51	0	0	0	0
1,100	1,125	30	0	0	0	2,675	2,700	266	154	54	0	0	0	0
1,125	1,150	33	0	0	0	2,700	2,725	270	158	58	0	0	0	0
1,150	1,175	37	0	0	0	2,725	2,750	274	162	61	0	0	0	0
1,175	1,200	40	0	0	0	2,750	2,775	278	166	65	0	0	0	0
1,200	1,225	44	0	0	0	2,775	2,800	282	170	68	0	0	0	0
1,225	1,250	47	0	0	0	2,800	2,825	286	174	72	0	0	0	0
1,250	1,275	51	0	0	0	2,825	2,850	290	178	75	0	0	0	0
1,275	1,300	54	0	0	0	2,850	2,875	294	182	79	0	0	0	0
1,300	1,325	58	0	0	0	2,875	2,900	298	186	82	0	0	0	0
1,325	1,350	61	0	0	0	2,900	2,925	302	190	86	0	0	0	0
1,350	1,375	65	0	0	0	2,925	2,950	307	194	89	0	0	0	0
1,375	1,400	68	0	0	0	2,950	2,975	311	198	93	0	0	0	0
1,400	1,425	72	0	0	0	2,975	3,000	316	202	96	0	0	0	0
1,425	1,450	75	0	0	0	3,000	3,050	322	208	102	4	0	0	0
1,450	1,475	79	0	0	0	3,050	3,100	330	216	109	11	0	0	0
1,475	1,500	82	0	0	0	3,100	3,150	338	224	116	18	0	0	0
1,500	1,525	86	0	0	0	3,150	3,200	346	232	123	25	0	0	0
1,525	1,550	89	0	0	0	3,200	3,250	354	240	130	32	0	0	0
1,550	1,575	93	0	0	0	3,250	3,300	363	248	137	39	0	0	0
1,575	1,600	96	0	0	0	3,300	3,350	371	256	144	46	0	0	0
1,600	1,625	100	2	0	0	3,350	3,400	379	264	152	53	0	0	0
1,625	1,650	103	5	0	0	3,400	3,450	387	272	160	60	0	0	0
1,650	1,675	107	9	0	0	3,450	3,500	395	280	168	67	0	0	0
1,675	1,700	110	12	0	0	3,500	3,550	403	288	176	74	0	0	0
1,700	1,725	114	16	0	0	3,550	3,600	411	296	184	81	0	0	0
1,725	1,750	117	19	0	0	3,600	3,650	419	305	192	88	0	0	0
1,750	1,775	121	23	0	0	3,650	3,700	427	314	200	95	0	0	0
1,775	1,800	124	26	0	0	3,700	3,750	435	323	208	102	4	0	0
1,800	1,825	128	30	0	0	3,750	3,800	444	332	216	109	11	0	0
1,825	1,850	131	33	0	0	3,800	3,850	452	341	224	116	18	0	0
1,850	1,875	135	37	0	0	3,850	3,900	460	350	232	123	25	0	0
1,875	1,900	138	40	0	0	3,900	3,950	468	359	240	130	32	0	0
1,900	1,925	142	44	0	0	3,950	4,000	476	368	248	137	39	0	0
1,925	1,950	146	47	0	0	4,000	4,050	484	376	256	144	46	0	0
1,950	1,975	150	51	0	0	4,050	4,100	492	384	264	152	53	0	0
1,975	2,000	154	54	0	0	4,100	4,150	500	392	272	160	60	0	0
2,000	2,025	158	58	0	0	4,150	4,200	508	400	280	168	67	0	0
2,025	2,050	162	61	0	0	4,200	4,250	516	408	288	176	74	0	0
2,050	2,075	166	65	0	0	4,250	4,300	525	417	296	184	81	0	0
2,075	2,100	170	68	0	0	4,300	4,350	533	425	305	192	88	0	0
2,100	2,125	174	72	0	0	4,350	4,400	541	433	314	200	95	0	0
2,125	2,150	178	75	0	0	4,400	4,450	549	441	323	208	102	4	0
2,150	2,175	182	79	0	0	4,450	4,500	557	449	332	216	109	11	0
2,175	2,200	186	82	0	0	4,500	4,550	565	457	341	224	116	18	0
2,200	2,225	190	86	0	0	4,550	4,600	573	465	350	232	123	25	0
2,225	2,250	194	89	0	0	4,600	4,650	581	473	359	240	130	32	0
2,250	2,275	198	93	0	0	4,650	4,700	589	481	368	248	137	39	0
2,275	2,300	202	96	0	0	4,700	4,750	597	489	377	256	144	46	0
2,300	2,325	206	100	2	0	4,750	4,800	606	498	386	264	152	53	0
2,325	2,350	210	103	5	0	4,800	4,850	614	506	395	272	160	60	0
2,350	2,375	214	107	9	0	4,850	4,900	622	514	404	280	168	67	0
2,375	2,400	218	110	12	0	4,900	4,950	630	522	413	288	176	74	0
2,400	2,425	222	114	16	0	4,950	5,000	638	530	422	296	184	81	0
2,425	2,450	226	117	19	0									

"Table III—Married Persons Filing JOINT Returns

"Taxable Years Beginning After December 31, 1964

If adjusted gross income is—		And the number of exemptions is—			If adjusted gross income is—		And the number of exemptions is—					
At least	But less than	2	3	4 or more	At least	But less than	2	3	4	5	6	7 or more
		The tax is—					The tax is—					
$0	$1, 600	$0	$0	$0	$2, 800	$2, 825	$172	$72	$0	$0	$0	$0
1, 600	1, 625	2	0	0	2, 825	2, 850	176	75	0	0	0	0
1, 625	1, 650	5	0	0	2. 850	2, 875	179	79	0	0	0	0
1, 650	1, 675	9	0	0	2, 875	2, 900	183	82	0	0	0	0
1. 675	1, 700	12	0	0	2, 900	2 925	187	86	0	0	0	0
1, 700	1, 725	16	0	0	2, 925	2, 950	191	89	0	0	0	0
1, 725	1, 750	19	0	0	2, 950	2, 975	194	93	0	0	0	0
1, 750	1, 775	23	0	0	2, 975	3, 000	198	96	0	0	0	0
1, 775	1, 800	26	0	0	3, 000	3, 050	204	102	4	0	0	0
1, 800	1, 825	30	0	0	3, 050	3, 100	211	109	11	0	0	0
1. 825	1, 850	33	0	0	3, 100	3, 150	219	116	18	0	0	0
1, 850	1, 875	37	0	0	3. 150	3, 200	226	123	25	0	0	0
1, 875	1, 900	40	0	0	3, 200	3, 250	234	130	32	0	0	0
1, 900	1, 925	44	0	0	3, 250	3, 300	241	137	39	0	0	0
1, 925	1, 950	47	0	0	3, 300	3, 350	249	144	46	0	0	0
1, 950	1, 975	51	0	0	3, 350	3, 400	256	151	53	0	0	0
1, 975	2, 000	54	0	0	3, 400	3, 450	264	159	60	0	0	0
2, 000	2, 025	58	0	0	3, 450	3, 500	271	166	67	0	0	0
2, 025	2, 050	61	0	0	3, 500	3, 550	279	174	74	0	0	0
2, 050	2, 075	65	0	0	3, 550	3, 600	286	181	81	0	0	0
2, 075	2, 100	68	0	0	3, 600	3, 650	294	189	88	0	0	0
2, 100	2, 125	72	0	0	3, 650	3, 700	302	196	95	0	0	0
2, 125	2, 150	75	0	0	3, 700	3, 750	310	204	102	4	0	0
2, 150	2, 175	79	0	0	3, 750	3, 800	318	211	109	11	0	0
2, 175	2, 200	82	0	0	3, 800	3, 850	326	219	116	18	0	0
2, 200	2, 225	86	0	0	3, 850	3, 900	334	226	123	25	0	0
2, 225	2, 250	89	0	0	3, 900	3, 950	342	234	130	32	0	0
2, 250	2, 275	93	0	0	3, 950	4, 000	350	241	137	39	0	0
2, 275	2, 300	96	0	0	4, 000	4, 050	358	249	144	46	0	0
2, 300	2, 325	100	2	0	4, 050	4, 100	365	256	151	53	0	0
2, 325	2, 350	103	5	0	4, 100	4, 150	372	264	159	60	0	0
2, 350	2, 375	107	9	0	4, 150	4, 200	379	271	166	67	0	0
2, 375	2, 400	110	12	0	4, 200	4, 250	386	279	174	74	0	0
2, 400	2, 425	114	16	0	4, 250	4, 300	394	286	181	81	0	0
2, 425	2, 450	117	19	0	4, 300	4, 350	401	294	189	88	0	0
2, 450	2, 475	121	23	0	4, 350	4, 400	408	302	196	95	0	0
2, 475	2, 500	124	26	0	4, 400	4, 450	415	310	204	102	4	0
2, 500	2, 525	128	30	0	4, 450	4, 500	422	318	211	109	11	0
2, 525	2, 550	131	33	0	4, 500	4, 550	430	326	219	116	18	0
2, 550	2, 575	135	37	0	4, 550	4, 600	437	334	226	123	25	0
2, 575	2, 600	138	40	0	4, 600	4, 650	444	342	234	130	32	0
2, 600	2, 625	142	44	0	4, 650	4, 700	451	350	241	137	39	0
2, 625	2, 650	146	47	0	4, 700	4, 750	459	358	249	144	46	0
2, 650	2, 675	149	51	0	4, 750	4, 800	467	366	256	151	53	0
2, 675	2, 700	153	54	0	4, 800	4, 850	474	374	264	159	60	0
2, 700	2, 725	157	58	0	4, 850	4, 900	482	382	271	166	67	0
2, 725	2, 750	161	61	0	4, 900	4, 950	490	390	279	174	74	0
2, 750	2, 775	164	65	0	4, 950	5, 000	497	398	286	181	81	0
2, 775	2, 800	168	68	0								

"Table IV—Married Persons Filing SEPARATE Returns

"10 PERCENT STANDARD DEDUCTION

"Taxable Years Beginning After December 31, 1964

If adjusted gross income is—		And the number of exemptions is—				If adjusted gross income is—		And the number of exemptions is—							
At least	But less than	1	2	3	4 or more	At least	But less than	1	2	3	4	5	6	7	8 or more
		The tax is—						The tax is—							
$0	$675	$0	$0	$0	$0	$2,325	$2,350	$226	$131	$43	$0	$0	$0	$0	$0
675	700	3	0	0	0	2,350	2,375	229	134	46	0	0	0	0	0
700	725	6	0	0	0	2,375	2,400	233	137	49	0	0	0	0	0
725	750	9	0	0	0	2,400	2,425	237	141	52	0	0	0	0	0
750	775	12	0	0	0	2,425	2,450	241	144	55	0	0	0	0	0
775	800	15	0	0	0	2,450	2,475	245	148	58	0	0	0	0	0
800	825	18	0	0	0	2,475	2,500	249	151	61	0	0	0	0	0
825	850	22	0	0	0	2,500	2,525	252	155	65	0	0	0	0	0
850	875	25	0	0	0	2,525	2,550	256	158	68	0	0	0	0	0
875	900	28	0	0	0	2,550	2,575	260	162	71	0	0	0	0	0
900	925	31	0	0	0	2,575	2,600	264	166	74	0	0	0	0	0
925	950	34	0	0	0	2,600	2,625	268	169	78	0	0	0	0	0
950	975	37	0	0	0	2,625	2,650	272	173	81	0	0	0	0	0
975	1,000	40	0	0	0	2,650	2,675	275	176	84	0	0	0	0	0
1,000	1,025	44	0	0	0	2,675	2,700	279	180	88	3	0	0	0	0
1,025	1,050	47	0	0	0	2,700	2,725	283	184	91	6	0	0	0	0
1,050	1,075	50	0	0	0	2,725	2,750	287	187	95	9	0	0	0	0
1,075	1,100	53	0	0	0	2,750	2,775	291	191	98	12	0	0	0	0
1,100	1,125	56	0	0	0	2,775	2,800	294	194	101	15	0	0	0	0
1,125	1,150	59	0	0	0	2,800	2,825	298	198	105	18	0	0	0	0
1,150	1,175	62	0	0	0	2,825	2,850	302	202	108	22	0	0	0	0
1,175	1,200	66	0	0	0	2,850	2,875	306	205	111	25	0	0	0	0
1,200	1,225	69	0	0	0	2,875	2,900	310	209	115	28	0	0	0	0
1,225	1,250	72	0	0	0	2,900	2,925	314	212	118	31	0	0	0	0
1,250	1,275	75	0	0	0	2,925	2,950	318	216	122	34	0	0	0	0
1,275	1,300	79	0	0	0	2,950	2,975	323	220	125	37	0	0	0	0
1,300	1,325	82	0	0	0	2,975	3,000	327	223	128	40	0	0	0	0
1,325	1,350	86	1	0	0	3,000	3,050	333	229	133	45	0	0	0	0
1,350	1,375	89	4	0	0	3,050	3,100	342	236	140	51	0	0	0	0
1,375	1,400	92	7	0	0	3,100	3,150	350	244	147	58	0	0	0	0
1,400	1,425	96	10	0	0	3,150	3,200	359	252	154	64	0	0	0	0
1,425	1,450	99	13	0	0	3,200	3,250	367	259	161	70	0	0	0	0
1,450	1,475	102	16	0	0	3,250	3,300	376	267	169	77	0	0	0	0
1,475	1,500	106	19	0	0	3,300	3,350	385	275	176	84	0	0	0	0
1,500	1,525	109	23	0	0	3,350	3,400	393	282	183	91	5	0	0	0
1,525	1,550	113	26	0	0	3,400	3,450	402	290	190	97	12	0	0	0
1,550	1,575	116	29	0	0	3,450	3,500	410	298	197	104	18	0	0	0
1,575	1,600	119	32	0	0	3,500	3,550	419	305	205	111	24	0	0	0
1,600	1,625	123	35	0	0	3,550	3,600	427	313	212	118	30	0	0	0
1,625	1,650	126	38	0	0	3,600	3,650	436	322	219	124	37	0	0	0
1,650	1,675	129	41	0	0	3,650	3,700	444	330	226	131	43	0	0	0
1,675	1,700	133	45	0	0	3,700	3,750	453	339	234	138	49	0	0	0
1,700	1,725	136	48	0	0	3,750	3,800	462	348	242	145	56	0	0	0
1,725	1,750	140	51	0	0	3,800	3,850	470	356	249	152	62	0	0	0
1,750	1,775	143	54	0	0	3,850	3,900	479	365	257	159	68	0	0	0
1,775	1,800	146	57	0	0	3,900	3,950	487	373	265	166	75	0	0	0
1,800	1,825	150	60	0	0	3,950	4,000	496	382	272	173	82	0	0	0
1,825	1,850	154	64	0	0	4,000	4,050	504	390	280	181	88	3	0	0
1,850	1,875	157	67	0	0	4,050	4,100	513	399	287	188	95	9	0	0
1,875	1,900	161	70	0	0	4,100	4,150	521	407	295	195	102	16	0	0
1,900	1,925	164	73	0	0	4,150	4,200	530	416	303	202	109	22	0	0
1,925	1,950	168	77	0	0	4,200	4,250	538	424	310	209	115	28	0	0
1,950	1,975	172	80	0	0	4,250	4,300	547	433	319	217	122	35	0	0
1,975	2,000	175	83	0	0	4,300	4,350	556	442	328	224	129	41	0	0
2,000	2,025	179	87	2	0	4,350	4,400	564	450	336	231	136	47	0	0
2,025	2,050	182	90	5	0	4,400	4,450	573	459	345	239	142	54	0	0
2,050	2,075	186	93	8	0	4,450	4,500	581	467	353	247	149	60	0	0
2,075	2,100	190	97	11	0	4,500	4,550	590	476	362	254	157	66	0	0
2,100	2,125	193	100	14	0	4,550	4,600	598	484	370	262	164	73	0	0
2,125	2,150	197	104	17	0	4,600	4,650	607	493	379	270	171	79	0	0
2,150	2,175	200	107	20	0	4,650	4,700	615	501	387	277	178	86	1	0
2,175	2,200	204	110	24	0	4,700	4,750	624	510	396	285	185	93	7	0
2,200	2,225	208	114	27	0	4,750	4,800	633	519	405	293	193	100	14	0
2,225	2,250	211	117	30	0	4,800	4,850	641	527	413	300	200	106	20	0
2,250	2,275	215	120	33	0	4,850	4,900	650	536	422	308	207	113	26	0
2,275	2,300	218	124	36	0	4,900	4,950	658	544	430	316	214	120	33	0
2,300	2,325	222	127	39	0	4,950	5,000	667	553	439	325	221	127	39	0

"Table V—Married Persons Filing SEPARATE Returns

"MINIMUM STANDARD DEDUCTION

"Taxable Years Beginning After December 31, 1964

If adjusted gross income is—		And the number of exemptions is—				If adjusted gross income is—		And the number of exemptions is—							
At least	But less than	1	2	3	4 or more	At least	But less than	1	2	3	4	5	6	7	8 or more
		The tax is—						The tax is—							
$0	$800	$0	$0	$0	$0	$2,400	$2,425	$244	$132	$30	$0	$0	$0	$0	$0
800	825	2	0	0	0	2,425	2,450	248	136	33	0	0	0	0	0
825	850	5	0	0	0	2,450	2,475	253	139	37	0	0	0	0	0
850	875	9	0	0	0	2,475	2,500	257	143	40	0	0	0	0	0
875	900	12	0	0	0	2,500	2,525	261	147	44	0	0	0	0	0
900	925	16	0	0	0	2,525	2,550	265	151	47	0	0	0	0	0
925	950	19	0	0	0	2,550	2,575	270	155	51	0	0	0	0	0
950	975	23	0	0	0	2,575	2,600	274	159	54	0	0	0	0	0
975	1,000	26	0	0	0	2,600	2,625	278	163	58	0	0	0	0	0
1,000	1,025	30	0	0	0	2,625	2,650	282	167	61	0	0	0	0	0
1,025	1,050	33	0	0	0	2,650	2,675	287	171	65	0	0	0	0	0
1,050	1,075	37	0	0	0	2,675	2,700	291	175	68	0	0	0	0	0
1,075	1,100	40	0	0	0	2,700	2,725	295	179	72	0	0	0	0	0
1,100	1,125	44	0	0	0	2,725	2,750	299	183	76	0	0	0	0	0
1,125	1,150	47	0	0	0	2,750	2,775	304	187	79	0	0	0	0	0
1,150	1,175	51	0	0	0	2,775	2,800	308	191	83	0	0	0	0	0
1,175	1,200	54	0	0	0	2,800	2,825	312	195	87	0	0	0	0	0
1,200	1,225	58	0	0	0	2,825	2,850	317	199	91	0	0	0	0	0
1,225	1,250	61	0	0	0	2,850	2,875	322	203	94	0	0	0	0	0
1,250	1,275	65	0	0	0	2,875	2,900	327	207	98	0	0	0	0	0
1,275	1,300	68	0	0	0	2,900	2,925	331	211	102	2	0	0	0	0
1,300	1,325	72	0	0	0	2,925	2,950	336	215	106	5	0	0	0	0
1,325	1,350	76	0	0	0	2,950	2,975	341	219	109	9	0	0	0	0
1,350	1,375	79	0	0	0	2,975	3,000	346	223	113	12	0	0	0	0
1,375	1,400	83	0	0	0	3,000	3,050	353	229	119	18	0	0	0	0
1,400	1,425	87	0	0	0	3,050	3,100	362	238	126	25	0	0	0	0
1,425	1,450	91	0	0	0	3,100	3,150	372	246	134	32	0	0	0	0
1,450	1,475	94	0	0	0	3,150	3,200	381	255	141	39	0	0	0	0
1,475	1,500	98	0	0	0	3,200	3,250	391	263	149	46	0	0	0	0
1,500	1,525	102	2	0	0	3,250	3,300	400	272	157	53	0	0	0	0
1,525	1,550	106	5	0	0	3,300	3,350	410	280	165	60	0	0	0	0
1,550	1,575	109	9	0	0	3,350	3,400	419	289	173	67	0	0	0	0
1,575	1,600	113	12	0	0	3,400	3,450	429	297	181	74	0	0	0	0
1,600	1,625	117	16	0	0	3,450	3,500	438	306	189	81	0	0	0	0
1,625	1,650	121	19	0	0	3,500	3,550	448	315	197	89	4	0	0	0
1,650	1,675	124	23	0	0	3,550	3,600	457	324	205	96	11	0	0	0
1,675	1,700	128	26	0	0	3,600	3,650	467	334	213	104	18	0	0	0
1,700	1,725	132	30	0	0	3,650	3,700	476	343	221	111	25	0	0	0
1,725	1,750	136	33	0	0	3,700	3,750	486	353	229	119	32	0	0	0
1,750	1,775	139	37	0	0	3,750	3,800	495	362	238	126	39	0	0	0
1,775	1,800	143	40	0	0	3,800	3,850	505	372	246	134	46	0	0	0
1,800	1,825	147	44	0	0	3,850	3,900	514	381	255	141	53	0	0	0
1,825	1,850	151	47	0	0	3,900	3,950	524	391	263	149	60	0	0	0
1,850	1,875	155	51	0	0	3,950	4,000	533	400	272	157	67	0	0	0
1,875	1,900	159	54	0	0	4,000	4,050	543	410	280	165	74	0	0	0
1,900	1,925	163	58	0	0	4,050	4,100	552	419	289	173	81	0	0	0
1,925	1,950	167	61	0	0	4,100	4,150	562	429	297	181	89	4	0	0
1,950	1,975	171	65	0	0	4,150	4,200	571	438	306	189	96	11	0	0
1,975	2,000	175	68	0	0	4,200	4,250	581	448	315	197	104	18	0	0
2,000	2,025	179	72	0	0	4,250	4,300	590	457	324	205	111	25	0	0
2,025	2,050	183	76	0	0	4,300	4,350	600	467	334	213	119	32	0	0
2,050	2,075	187	79	0	0	4,350	4,400	609	476	343	221	126	39	0	0
2,075	2,100	191	83	0	0	4,400	4,450	619	486	353	229	134	46	0	0
2,100	2,125	195	87	0	0	4,450	4,500	628	495	362	238	141	53	0	0
2,125	2,150	199	91	0	0	4,500	4,550	638	505	372	246	149	60	0	0
2,150	2,175	203	94	0	0	4,550	4,600	647	514	381	255	157	67	0	0
2,175	2,200	207	98	0	0	4,600	4,650	657	524	391	263	165	74	0	0
2,200	2,225	211	102	2	0	4,650	4,700	666	533	400	272	173	81	0	0
2,225	2,250	215	106	5	0	4,700	4,750	676	543	410	280	181	89	4	0
2,250	2,275	219	109	9	0	4,750	4,800	685	552	419	289	189	96	11	0
2,275	2,300	223	113	12	0	4,800	4,850	696	562	429	297	197	104	18	0
2,300	2,325	227	117	16	0	4,850	4,900	707	571	438	306	205	111	25	0
2,325	2,350	231	121	19	0	4,900	4,950	718	581	448	315	213	119	32	0
2,350	2,375	236	124	23	0	4,950	5,000	729	590	457	324	221	126	39	0"
2,375	2,400	240	128	26	0										

1 (b) RULES FOR OPTIONAL TAX.—

2 (1) HUSBAND OR WIFE FILING SEPARATE RE-

3 TURNS.—Subsection (c) of section 4 (relating to rules

4 for optional tax) is amended to read as follows:

5 "(c) HUSBAND OR WIFE FILING SEPARATE RE-

6 TURN.—

7 "(1) A husband or wife may not elect to pay the

8 optional tax imposed by section 3 if the tax of the other

9 spouse is determined under section 1 on the basis of tax-

10 able income computed without regard to the standard

11 deduction.

12 "(2) Except as otherwise provided in this subsec-

13 tion, in the case of a husband or wife filing a separate

14 return the tax imposed by section 3 shall be—

15 "(A) for taxable years beginning in 1964, the

16 lesser of the tax shown in Table IV or Table V of

17 section 3 (a), and

18 "(B) for taxable years beginning after Decem-

19 ber 31, 1964, the lesser of the tax shown in Table

20 IV or Table V of section 3 (b).

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1 "(3) Neither Table V of section 3 (a) nor Table V
2 of section 3 (b) shall apply in the case of a husband
3 or wife filing a separate return if the tax of the other
4 spouse is determined with regard to the 10-percent
5 standard deduction; except that an individual described
6 in section 141 (d) (2) may elect (under regulations
7 prescribed by the Secretary or his delegate)—
8 "(A) to pay the tax shown in Table V of
9 section 3 (a) in lieu of the tax shown in Table IV
10 of section 3 (a), and
11 "(B) to pay the tax shown in Table V of
12 section 3 (b) in lieu of the tax shown in Table IV
13 of section 3 (b).
14 For purposes of this title, an election under the pre-
15 ceding sentence shall be treated as an election made
16 under section 141 (d) (2).
17 "(4) For purposes of this subsection, determination
18 of marital status shall be made under section 143."
19 (2) Amendment of section 6014.—Section
20 6014 (a) (relating to income tax return—tax not com-
21 puted by taxpayer) is amended by adding at the end
22 thereof the following new sentence: "In the case of a
23 married individual filing a separate return and electing

1 the benefits of this subsection, neither Table V in section
2 3 (a) nor Table V in section 3 (b) shall apply."
3 (3) TECHNICAL AMENDMENTS.—
4 (A) Subsection (a) of section 4 (relating to
5 rules for optional tax) is amended by striking out
6 "table" and inserting in lieu thereof "tables".
7 (B) Section 4 (f) (relating to cross references)
8 is amended by adding at the end thereof the follow-
9 ing new paragraph:

"(4) For nonapplicability of Table V in section 3(a) and Table V in section 3(b) in case where tax is not computed by taxpayer, see section 6014(a)."

10 (c) EFFECTIVE DATE.—Except for purposes of section
11 21 of the Internal Revenue Code of 1954 (relating to effect
12 of changes in rates during a taxable year), the amendments
13 made by this section shall apply to taxable years beginning
14 after December 31, 1963.
15 **SEC. 302. INCOME TAX COLLECTED AT SOURCE.**
16 (a) PERCENTAGE METHOD OF WITHHOLDING.—Sub-
17 section (a) of section 3402 (relating to requirement of with-
18 holding) is amended to read as follows:
19 "(a) REQUIREMENT OF WITHHOLDING.—Every em-
20 ployer making payment of wages shall deduct and withhold

1 upon such wages (except as provided in subsection (j)) a
2 tax equal to the following percentage of the amount by
3 which the wages exceed the number of withholding exemp-
4 tions claimed, multiplied by the amount of one such exemp-
5 tion as shown in subsection (b) (1):

6 "(1) 15 percent in the case of wages paid during
7 the calendar year 1964, and

8 "(2) 14 percent in the case of wages paid after
9 December 31, 1964."

10 (b) WAGE BRACKET WITHHOLDING.—Paragraph (1)
11 of section 3402 (c) (relating to wage bracket withholding)
12 is amended to read as follows:

13 "(1) (A) WAGES PAID DURING CALENDAR YEAR
14 1964.—At the election of the employer with respect to
15 any employee, the employer shall deduct and withhold
16 upon the wages paid to such employee during the cal-
17 endar year 1964 a tax determined in accordance with
18 the following tables, which shall be in lieu of the tax
19 required to be deducted and withheld under subsection
20 (a):

"If the payroll period with respect to an employee is weekly

And the wages are—		And the number of withholding exemptions claimed is—										
At least—	But less than—	0	1	2	3	4	5	6	7	8	9	10 or more
		The amount of income tax to be withheld shall be—										
$0	$13	15% of wages	$0	$0	$0	$0	$0	$0	$0	$0	$0	$0
$13	$14	$2.00	.10	0	0	0	0	0	0	0	0	0
$14	$15	2.20	.30	0	0	0	0	0	0	0	0	0
$15	$16	2.30	.40	0	0	0	0	0	0	0	0	0
$16	$17	2.50	.60	0	0	0	0	0	0	0	0	0
$17	$18	2.60	.70	0	0	0	0	0	0	0	0	0
$18	$19	2.80	.90	0	0	0	0	0	0	0	0	0
$19	$20	2.90	1.00	0	0	0	0	0	0	0	0	0
$20	$21	3.10	1.20	0	0	0	0	0	0	0	0	0
$21	$22	3.20	1.30	0	0	0	0	0	0	0	0	0
$22	$23	3.40	1.50	0	0	0	0	0	0	0	0	0
$23	$24	3.50	1.60	0	0	0	0	0	0	0	0	0
$24	$25	3.70	1.80	0	0	0	0	0	0	0	0	0
$25	$26	3.80	1.90	0	0	0	0	0	0	0	0	0
$26	$27	4.00	2.10	.10	0	0	0	0	0	0	0	0
$27	$28	4.10	2.20	.30	0	0	0	0	0	0	0	0
$28	$29	4.30	2.40	.40	0	0	0	0	0	0	0	0
$29	$30	4.40	2.50	.60	0	0	0	0	0	0	0	0
$30	$31	4.60	2.70	.70	0	0	0	0	0	0	0	0
$31	$32	4.70	2.80	.90	0	0	0	0	0	0	0	0
$32	$33	4.90	3.00	1.00	0	0	0	0	0	0	0	0
$33	$34	5.00	3.10	1.20	0	0	0	0	0	0	0	0
$34	$35	5.20	3.30	1.30	0	0	0	0	0	0	0	0
$35	$36	5.30	3.40	1.50	0	0	0	0	0	0	0	0
$36	$37	5.50	3.60	1.60	0	0	0	0	0	0	0	0
$37	$38	5.60	3.70	1.80	0	0	0	0	0	0	0	0
$38	$39	5.80	3.90	1.90	0	0	0	0	0	0	0	0
$39	$40	5.90	4.00	2.10	.20	0	0	0	0	0	0	0
$40	$41	6.10	4.20	2.20	.30	0	0	0	0	0	0	0
$41	$42	6.20	4.30	2.40	.50	0	0	0	0	0	0	0
$42	$43	6.40	4.50	2.50	.60	0	0	0	0	0	0	0
$43	$44	6.50	4.60	2.70	.80	0	0	0	0	0	0	0
$44	$45	6.70	4.80	2.80	.90	0	0	0	0	0	0	0
$45	$46	6.80	4.90	3.00	1.10	0	0	0	0	0	0	0
$46	$47	7.00	5.10	3.10	1.20	0	0	0	0	0	0	0
$47	$48	7.10	5.20	3.30	1.40	0	0	0	0	0	0	0
$48	$49	7.30	5.40	3.40	1.50	0	0	0	0	0	0	0
$49	$50	7.40	5.50	3.60	1.70	0	0	0	0	0	0	0
$50	$51	7.60	5.70	3.70	1.80	0	0	0	0	0	0	0
$51	$52	7.70	5.80	3.90	2.00	0	0	0	0	0	0	0
$52	$53	7.90	6.00	4.00	2.10	.20	0	0	0	0	0	0
$53	$54	8.00	6.10	4.20	2.30	.30	0	0	0	0	0	0
$54	$55	8.20	6.30	4.30	2.40	.50	0	0	0	0	0	0
$55	$56	8.30	6.40	4.50	2.60	.60	0	0	0	0	0	0
$56	$57	8.50	6.60	4.60	2.70	.80	0	0	0	0	0	0
$57	$58	8.60	6.70	4.80	2.90	.90	0	0	0	0	0	0
$58	$59	8.80	6.90	4.90	3.00	1.10	0	0	0	0	0	0
$59	$60	8.90	7.00	5.10	3.20	1.20	0	0	0	0	0	0
$60	$62	9.20	7.20	5.30	3.40	1.50	0	0	0	0	0	0
$62	$64	9.50	7.50	5.60	3.70	1.80	0	0	0	0	0	0
$64	$66	9.80	7.80	5.90	4.00	2.10	.10	0	0	0	0	0
$66	$68	10.10	8.10	6.20	4.30	2.40	.40	0	0	0	0	0
$68	$70	10.40	8.40	6.50	4.60	2.70	.70	0	0	0	0	0
$70	$72	10.70	8.70	6.80	4.90	3.00	1.00	0	0	0	0	0
$72	$74	11.00	9.00	7.10	5.20	3.30	1.30	0	0	0	0	0
$74	$76	11.30	9.30	7.40	5.50	3.60	1.60	0	0	0	0	0
$76	$78	11.60	9.60	7.70	5.80	3.90	1.90	0	0	0	0	0
$78	$80	11.90	9.90	8.00	6.10	4.20	2.20	.30	0	0	0	0
$80	$82	12.20	10.20	8.30	6.40	4.50	2.50	.60	0	0	0	0
$82	$84	12.50	10.50	8.60	6.70	4.80	2.80	.90	0	0	0	0
$84	$86	12.80	10.80	8.90	7.00	5.10	3.10	1.20	0	0	0	0
$86	$88	13.10	11.10	9.20	7.30	5.40	3.40	1.50	0	0	0	0
$88	$90	13.40	11.40	9.50	7.60	5.70	3.70	1.80	0	0	0	0
$90	$92	13.70	11.70	9.80	7.90	6.00	4.00	2.10	.20	0	0	0
$92	$94	14.00	12.00	10.10	8.20	6.30	4.30	2.40	.50	0	0	0
$94	$96	14.30	12.30	10.40	8.50	6.60	4.60	2.70	.80	0	0	0
$96	$98	14.60	12.60	10.70	8.80	6.90	4.90	3.00	1.10	0	0	0
$98	$100	14.90	12.90	11.00	9.10	7.20	5.20	3.30	1.40	0	0	0
$100	$105	15.40	13.50	11.50	9.60	7.70	5.80	3.80	1.90	0	0	0
$105	$110	16.10	14.20	12.30	10.40	8.40	6.50	4.60	2.70	.70	0	0
$110	$115	16.90	15.00	13.00	11.10	9.20	7.30	5.30	3.40	1.50	0	0
$115	$120	17.60	15.70	13.80	11.90	9.90	8.00	6.10	4.20	2.20	.30	0
$120	$125	18.40	16.50	14.50	12.60	10.70	8.80	6.80	4.90	3.00	1.10	0
$125	$130	19.10	17.20	15.30	13.40	11.40	9.50	7.60	5.70	3.70	1.80	0
$130	$135	19.90	18.00	16.00	14.10	12.20	10.30	8.30	6.40	4.50	2.60	.60
$135	$140	20.60	18.70	16.80	14.90	12.90	11.00	9.10	7.20	5.20	3.30	1.40
$140	$145	21.40	19.50	17.50	15.60	13.70	11.80	9.80	7.90	6.00	4.10	2.10
$145	$150	22.10	20.20	18.30	16.40	14.40	12.50	10.60	8.70	6.70	4.80	2.90
$150	$160	23.30	21.30	19.40	17.50	15.60	13.60	11.70	9.80	7.90	5.90	4.00
$160	$170	24.80	22.80	20.90	19.00	17.10	15.10	13.20	11.30	9.40	7.40	5.50
$170	$180	26.30	24.30	22.40	20.50	18.60	16.60	14.70	12.80	10.90	8.90	7.00
$180	$190	27.80	25.80	23.90	22.00	20.10	18.10	16.20	14.30	12.40	10.40	8.50
$190	$200	29.30	27.30	25.40	23.50	21.60	19.60	17.70	15.80	13.90	11.90	10.00
		15 percent of the excess over $200 plus—										
$200 and over		30.00	28.10	26.20	24.20	22.30	20.40	18.50	16.50	14.60	12.70	10.80.

"If the payroll period with respect to an employee is biweekly

And the wages are—		And the number of withholding exemptions claimed is—										
At least—	But less than—	0	1	2	3	4	5	6	7	8	9	10 or more
		The amount of income tax to be withheld shall be—										
$0	$26	15% of wages	$0	$0	$0	$0	$0	$0	$0	$0	$0	$0
$26	$28	$4.10	.20	0	0	0	0	0	0	0	0	0
$28	$30	4.40	.50	0	0	0	0	0	0	0	0	0
$30	$32	4.70	.80	0	0	0	0	0	0	0	0	0
$32	$34	5.00	1.10	0	0	0	0	0	0	0	0	0
$34	$36	5.30	1.40	0	0	0	0	0	0	0	0	0
$36	$38	5.60	1.70	0	0	0	0	0	0	0	0	0
$38	$40	5.90	2.00	0	0	0	0	0	0	0	0	0
$40	$42	6.20	2.30	0	0	0	0	0	0	0	0	0
$42	$44	6.50	2.60	0	0	0	0	0	0	0	0	0
$44	$46	6.80	2.90	0	0	0	0	0	0	0	0	0
$46	$48	7.10	3.20	0	0	0	0	0	0	0	0	0
$48	$50	7.40	3.50	0	0	0	0	0	0	0	0	0
$50	$52	7.70	3.80	0	0	0	0	0	0	0	0	0
$52	$54	8.00	4.10	.30	0	0	0	0	0	0	0	0
$54	$56	8.30	4.40	.60	0	0	0	0	0	0	0	0
$56	$58	8.60	4.70	.90	0	0	0	0	0	0	0	0
$58	$60	8.90	5.00	1.20	0	0	0	0	0	0	0	0
$60	$62	9.20	5.30	1.50	0	0	0	0	0	0	0	0
$62	$64	9.50	5.60	1.80	0	0	0	0	0	0	0	0
$64	$66	9.80	5.90	2.10	0	0	0	0	0	0	0	0
$66	$68	10.10	6.20	2.40	0	0	0	0	0	0	0	0
$68	$70	10.40	6.50	2.70	0	0	0	0	0	0	0	0
$70	$72	10.70	6.80	3.00	0	0	0	0	0	0	0	0
$72	$74	11.00	7.10	3.30	0	0	0	0	0	0	0	0
$74	$76	11.30	7.40	3.60	0	0	0	0	0	0	0	0
$76	$78	11.60	7.70	3.90	0	0	0	0	0	0	0	0
$78	$80	11.90	8.00	4.20	.30	0	0	0	0	0	0	0
$80	$82	12.20	8.30	4.50	.60	0	0	0	0	0	0	0
$82	$84	12.50	8.60	4.80	.90	0	0	0	0	0	0	0
$84	$86	12.80	8.90	5.10	1.20	0	0	0	0	0	0	0
$86	$88	13.10	9.20	5.40	1.50	0	0	0	0	0	0	0
$88	$90	13.40	9.50	5.70	1.80	0	0	0	0	0	0	0
$90	$92	13.70	9.80	6.00	2.10	0	0	0	0	0	0	0
$92	$94	14.00	10.10	6.30	2.40	0	0	0	0	0	0	0
$94	$96	14.30	10.40	6.60	2.70	0	0	0	0	0	0	0
$96	$98	14.60	10.70	6.90	3.00	0	0	0	0	0	0	0
$98	$100	14.90	11.00	7.20	3.30	0	0	0	0	0	0	0
$100	$102	15.20	11.30	7.50	3.60	0	0	0	0	0	0	0
$102	$104	15.50	11.60	7.80	3.90	.10	0	0	0	0	0	0
$104	$106	15.80	11.90	8.10	4.20	.40	0	0	0	0	0	0
$106	$108	16.10	12.20	8.40	4.50	.70	0	0	0	0	0	0
$108	$110	16.40	12.50	8.70	4.80	1.00	0	0	0	0	0	0
$110	$112	16.70	12.80	9.00	5.10	1.30	0	0	0	0	0	0
$112	$114	17.00	13.10	9.30	5.40	1.60	0	0	0	0	0	0
$114	$116	17.30	13.40	9.60	5.70	1.90	0	0	0	0	0	0
$116	$118	17.60	13.70	9.90	6.00	2.20	0	0	0	0	0	0
$118	$120	17.90	14.00	10.20	6.30	2.50	0	0	0	0	0	0
$120	$124	18.30	14.50	10.60	6.80	2.90	0	0	0	0	0	0
$124	$128	18.90	15.10	11.20	7.40	3.50	0	0	0	0	0	0
$128	$132	19.50	15.70	11.80	8.00	4.10	.30	0	0	0	0	0
$132	$136	20.10	16.30	12.40	8.60	4.70	.90	0	0	0	0	0
$136	$140	20.70	16.90	13.00	9.20	5.30	1.50	0	0	0	0	0
$140	$144	21.30	17.50	13.60	9.80	5.90	2.10	0	0	0	0	0
$144	$148	21.90	18.10	14.20	10.40	6.50	2.70	0	0	0	0	0
$148	$152	22.50	18.70	14.80	11.00	7.10	3.30	0	0	0	0	0
$152	$156	23.10	19.30	15.40	11.60	7.70	3.90	0	0	0	0	0
$156	$160	23.70	19.90	16.00	12.20	8.30	4.50	.60	0	0	0	0
$160	$164	24.30	20.50	16.60	12.80	8.90	5.10	1.20	0	0	0	0
$164	$168	24.90	21.10	17.20	13.40	9.50	5.70	1.80	0	0	0	0
$168	$172	25.50	21.70	17.80	14.00	10.10	6.30	2.40	0	0	0	0
$172	$176	26.10	22.30	18.40	14.60	10.70	6.90	3.00	0	0	0	0
$176	$180	26.70	22.90	19.00	15.20	11.30	7.50	3.60	0	0	0	0
$180	$184	27.30	23.50	19.60	15.80	11.90	8.10	4.20	.40	0	0	0
$184	$188	27.90	24.10	20.20	16.40	12.50	8.70	4.80	1.00	0	0	0
$188	$192	28.50	24.70	20.80	17.00	13.10	9.30	5.40	1.60	0	0	0
$192	$196	29.10	25.30	21.40	17.60	13.70	9.90	6.00	2.20	0	0	0
$196	$200	29.70	25.90	22.00	18.20	14.30	10.50	6.60	2.80	0	0	0
$200	$210	30.80	26.90	23.10	19.20	15.40	11.50	7.70	3.80	0	0	0
$210	$220	32.30	28.40	24.60	20.70	16.90	13.00	9.20	5.30	1.50	0	0
$220	$230	33.80	29.90	26.10	22.20	18.40	14.50	10.70	6.80	3.00	0	0
$230	$240	35.30	31.40	27.60	23.70	19.90	16.00	12.20	8.30	4.50	.60	0
$240	$250	36.80	32.90	29.10	25.20	21.40	17.50	13.70	9.80	6.00	2.10	0
$250	$260	38.30	34.40	30.60	26.70	22.90	19.00	15.20	11.30	7.50	3.60	0
$260	$270	39.80	35.90	32.10	28.20	24.40	20.50	16.70	12.80	9.00	5.10	1.30
$270	$280	41.30	37.40	33.60	29.70	25.90	22.00	18.20	14.30	10.50	6.60	2.80
$280	$290	42.80	38.90	35.10	31.20	27.40	23.50	19.70	15.80	12.00	8.10	4.30
$290	$300	44.30	40.40	36.60	32.70	28.90	25.00	21.20	17.30	13.50	9.60	5.80
$300	$320	46.50	42.70	38.80	35.00	31.10	27.30	23.40	19.60	15.70	11.90	8.00
$320	$340	49.50	45.70	41.80	38.00	34.10	30.30	26.40	22.60	18.70	14.90	11.00
$340	$360	52.50	48.70	44.80	41.00	37.10	33.30	29.40	25.60	21.70	17.90	14.00
$360	$380	55.50	51.70	47.80	44.00	40.10	36.30	32.40	28.60	24.70	20.90	17.00
$380	$400	58.50	54.70	50.80	47.00	43.10	39.30	35.40	31.60	27.70	23.90	20.00
		15 percent of the excess over $400 plus—										
$400 and over		60.00	56.20	52.30	48.50	44.60	40.80	36.90	33.10	29.20	25.40	21.50

"If the payroll period with respect to an employee is semimonthly

And the wages are—		And the number of withholding exemptions claimed is—										
At least—	But less than—	0	1	2	3	4	5	6	7	8	9	10 or more
		The amount of income tax to be withheld shall be—										
$0	$28	15% of wages	$0	$0	$0	$0	$0	$0	$0	$0	$0	$0
$28	$30	$4.40	.20	0	0	0	0	0	0	0	0	0
$30	$32	4.70	.50	0	0	0	0	0	0	0	0	0
$32	$34	5.00	.80	0	0	0	0	0	0	0	0	0
$34	$36	5.30	1.10	0	0	0	0	0	0	0	0	0
$36	$38	5.60	1.40	0	0	0	0	0	0	0	0	0
$38	$40	5.90	1.70	0	0	0	0	0	0	0	0	0
$40	$42	6.20	2.00	0	0	0	0	0	0	0	0	0
$42	$44	6.50	2.30	0	0	0	0	0	0	0	0	0
$44	$46	6.80	2.60	0	0	0	0	0	0	0	0	0
$46	$48	7.10	2.90	0	0	0	0	0	0	0	0	0
$48	$50	7.40	3.20	0	0	0	0	0	0	0	0	0
$50	$52	7.70	3.50	0	0	0	0	0	0	0	0	0
$52	$54	8.00	3.80	0	0	0	0	0	0	0	0	0
$54	$56	8.30	4.10	0	0	0	0	0	0	0	0	0
$56	$58	8.60	4.40	.20	0	0	0	0	0	0	0	0
$58	$60	8.90	4.70	.50	0	0	0	0	0	0	0	0
$60	$62	9.20	5.00	.80	0	0	0	0	0	0	0	0
$62	$64	9.50	5.30	1.10	0	0	0	0	0	0	0	0
$64	$66	9.80	5.60	1.40	0	0	0	0	0	0	0	0
$66	$68	10.10	5.90	1.70	0	0	0	0	0	0	0	0
$68	$70	10.40	6.20	2.00	0	0	0	0	0	0	0	0
$70	$72	10.70	6.50	2.30	0	0	0	0	0	0	0	0
$72	$74	11.00	6.80	2.60	0	0	0	0	0	0	0	0
$74	$76	11.30	7.10	2.90	0	0	0	0	0	0	0	0
$76	$78	11.60	7.40	3.20	0	0	0	0	0	0	0	0
$78	$80	11.90	7.70	3.50	0	0	0	0	0	0	0	0
$80	$82	12.20	8.00	3.80	0	0	0	0	0	0	0	0
$82	$84	12.50	8.30	4.10	0	0	0	0	0	0	0	0
$84	$86	12.80	8.60	4.40	.30	0	0	0	0	0	0	0
$86	$88	13.10	8.90	4.70	.60	0	0	0	0	0	0	0
$88	$90	13.40	9.20	5.00	.90	0	0	0	0	0	0	0
$90	$92	13.70	9.50	5.30	1.20	0	0	0	0	0	0	0
$92	$94	14.00	9.80	5.60	1.50	0	0	0	0	0	0	0
$94	$96	14.30	10.10	5.90	1.80	0	0	0	0	0	0	0
$96	$98	14.60	10.40	6.20	2.10	0	0	0	0	0	0	0
$98	$100	14.90	10.70	6.50	2.40	0	0	0	0	0	0	0
$100	$102	15.20	11.00	6.80	2.70	0	0	0	0	0	0	0
$102	$104	15.50	11.30	7.10	3.00	0	0	0	0	0	0	0
$104	$106	15.80	11.60	7.40	3.30	0	0	0	0	0	0	0
$106	$108	16.10	11.90	7.70	3.60	0	0	0	0	0	0	0
$108	$110	16.40	12.20	8.00	3.90	0	0	0	0	0	0	0
$110	$112	16.70	12.50	8.30	4.20	0	0	0	0	0	0	0
$112	$114	17.00	12.80	8.60	4.50	.30	0	0	0	0	0	0
$114	$116	17.30	13.10	8.90	4.80	.60	0	0	0	0	0	0
$116	$118	17.60	13.40	9.20	5.10	.90	0	0	0	0	0	0
$118	$120	17.90	13.70	9.50	5.40	1.20	0	0	0	0	0	0
$120	$124	18.30	14.10	10.00	5.80	1.60	0	0	0	0	0	0
$124	$128	18.90	14.70	10.60	6.40	2.20	0	0	0	0	0	0
$128	$132	19.50	15.30	11.20	7.00	2.80	0	0	0	0	0	0
$132	$136	20.10	15.90	11.80	7.60	3.40	0	0	0	0	0	0
$136	$140	20.70	16.50	12.40	8.20	4.00	0	0	0	0	0	0
$140	$144	21.30	17.10	13.00	8.80	4.60	.50	0	0	0	0	0
$144	$148	21.90	17.70	13.60	9.40	5.20	1.10	0	0	0	0	0
$148	$152	22.50	18.30	14.20	10.00	5.80	1.70	0	0	0	0	0
$152	$156	23.10	18.90	14.80	10.60	6.40	2.30	0	0	0	0	0
$156	$160	23.70	19.50	15.40	11.20	7.00	2.90	0	0	0	0	0
$160	$164	24.30	20.10	16.00	11.80	7.60	3.50	0	0	0	0	0
$164	$168	24.90	20.70	16.60	12.40	8.20	4.10	0	0	0	0	0
$168	$172	25.50	21.30	17.20	13.00	8.80	4.70	.50	0	0	0	0
$172	$176	26.10	21.90	17.80	13.60	9.40	5.30	1.10	0	0	0	0
$176	$180	26.70	22.50	18.40	14.20	10.00	5.90	1.70	0	0	0	0
$180	$184	27.30	23.10	19.00	14.80	10.60	6.50	2.30	0	0	0	0
$184	$188	27.90	23.70	19.60	15.40	11.20	7.10	2.90	0	0	0	0
$188	$192	28.50	24.30	20.20	16.00	11.80	7.70	3.50	0	0	0	0
$192	$196	29.10	24.90	20.80	16.60	12.40	8.30	4.10	0	0	0	0
$196	$200	29.70	25.50	21.40	17.20	13.00	8.90	4.70	.50	0	0	0
$200	$210	30.80	26.60	22.40	18.30	14.10	9.90	5.80	1.60	0	0	0
$210	$220	32.30	28.10	23.90	19.80	15.60	11.40	7.30	3.10	0	0	0
$220	$230	33.80	29.60	25.40	21.30	17.10	12.90	8.80	4.60	.40	0	0
$230	$240	35.30	31.10	26.90	22.80	18.60	14.40	10.30	6.10	1.90	0	0
$240	$250	36.80	32.60	28.40	24.30	20.10	15.90	11.80	7.60	3.40	0	0
$250	$260	38.30	34.10	29.90	25.80	21.60	17.40	13.30	9.10	4.90	.80	0
$260	$270	39.80	35.60	31.40	27.30	23.10	18.90	14.80	10.60	6.40	2.30	0
$270	$280	41.30	37.10	32.90	28.80	24.60	20.40	16.30	12.10	7.90	3.80	0
$280	$290	42.80	38.60	34.40	30.30	26.10	21.90	17.80	13.60	9.40	5.30	1.10
$290	$300	44.30	40.10	35.90	31.80	27.60	23.40	19.30	15.10	10.90	6.80	2.60
$300	$320	46.50	42.30	38.20	34.00	29.80	25.70	21.50	17.30	13.20	9.00	4.80
$320	$340	49.50	45.30	41.20	37.00	32.80	28.70	24.50	20.30	16.20	12.00	7.80
$340	$360	52.50	48.30	44.20	40.00	35.80	31.70	27.50	23.30	19.20	15.00	10.80
$360	$380	55.50	51.30	47.20	43.00	38.80	34.70	30.50	26.30	22.20	18.00	13.80
$380	$400	58.50	54.30	50.20	46.00	41.80	37.70	33.50	29.30	25.20	21.00	16.80
$400	$420	61.50	57.30	53.20	49.00	44.80	40.70	36.50	32.30	28.20	24.00	19.80
$420	$440	64.50	60.30	56.20	52.00	47.80	43.70	39.50	35.30	31.20	27.00	22.80
$440	$460	67.50	63.30	59.20	55.00	50.80	46.70	42.50	38.30	34.20	30.00	25.80
$460	$480	70.50	66.30	62.20	58.00	53.80	49.70	45.50	41.30	37.20	33.00	28.80
$480	$500	73.50	69.30	65.20	61.00	56.80	52.70	48.50	44.30	40.20	36.00	31.80
		15 percent of the excess over $500 plus—										
$500 and over		75.00	70.80	66.70	62.50	58.30	54.20	50.00	45.80	41.70	37.50	33.30

"If the payroll period with respect to an employee is monthly

And the wages are—		And the number of withholding exemptions claimed is—										
At least—	But less than—	0	1	2	3	4	5	6	7	8	9	10 or more
		The amount of income tax to be withheld shall be—										
$0	$56	15% of wages	$0	$0	$0	$0	$0	$0	$0	$0	$0	$0
$56	$60	$8.70	.40	0	0	0	0	0	0	0	0	0
$60	$64	9.30	1.00	0	0	0	0	0	0	0	0	0
$64	$68	9.90	1.60	0	0	0	0	0	0	0	0	0
$68	$72	10.50	2.20	0	0	0	0	0	0	0	0	0
$72	$76	11.10	2.80	0	0	0	0	0	0	0	0	0
$76	$80	11.70	3.40	0	0	0	0	0	0	0	0	0
$80	$84	12.30	4.00	0	0	0	0	0	0	0	0	0
$84	$88	12.90	4.60	0	0	0	0	0	0	0	0	0
$88	$92	13.50	5.20	0	0	0	0	0	0	0	0	0
$92	$96	14.10	5.80	0	0	0	0	0	0	0	0	0
$96	$100	14.70	6.40	0	0	0	0	0	0	0	0	0
$100	$104	15.30	7.00	0	0	0	0	0	0	0	0	0
$104	$108	15.90	7.60	0	0	0	0	0	0	0	0	0
$108	$112	16.50	8.20	0	0	0	0	0	0	0	0	0
$112	$116	17.10	8.80	.40	0	0	0	0	0	0	0	0
$116	$120	17.70	9.40	1.00	0	0	0	0	0	0	0	0
$120	$124	18.30	10.00	1.60	0	0	0	0	0	0	0	0
$124	$128	18.90	10.60	2.20	0	0	0	0	0	0	0	0
$128	$132	19.50	11.20	2.80	0	0	0	0	0	0	0	0
$132	$136	20.10	11.80	3.40	0	0	0	0	0	0	0	0
$136	$140	20.70	12.40	4.00	0	0	0	0	0	0	0	0
$140	$144	21.30	13.00	4.60	0	0	0	0	0	0	0	0
$144	$148	21.90	13.60	5.20	0	0	0	0	0	0	0	0
$148	$152	22.50	14.20	5.80	0	0	0	0	0	0	0	0
$152	$156	23.10	14.80	6.40	0	0	0	0	0	0	0	0
$156	$160	23.70	15.40	7.00	0	0	0	0	0	0	0	0
$160	$164	24.30	16.00	7.60	0	0	0	0	0	0	0	0
$164	$168	24.90	16.60	8.20	0	0	0	0	0	0	0	0
$168	$172	25.50	17.20	8.80	.50	0	0	0	0	0	0	0
$172	$176	26.10	17.80	9.40	1.10	0	0	0	0	0	0	0
$176	$180	26.70	18.40	10.00	1.70	0	0	0	0	0	0	0
$180	$184	27.30	19.00	10.60	2.30	0	0	0	0	0	0	0
$184	$188	27.90	19.60	11.20	2.90	0	0	0	0	0	0	0
$188	$192	28.50	20.20	11.80	3.50	0	0	0	0	0	0	0
$192	$196	29.10	20.80	12.40	4.10	0	0	0	0	0	0	0
$196	$200	29.70	21.40	13.00	4.70	0	0	0	0	0	0	0
$200	$204	30.30	22.00	13.60	5.30	0	0	0	0	0	0	0
$204	$208	30.90	22.60	14.20	5.90	0	0	0	0	0	0	0
$208	$212	31.50	23.20	14.80	6.50	0	0	0	0	0	0	0
$212	$216	32.10	23.80	15.40	7.10	0	0	0	0	0	0	0
$216	$220	32.70	24.40	16.00	7.70	0	0	0	0	0	0	0
$220	$224	33.30	25.00	16.60	8.30	0	0	0	0	0	0	0
$224	$228	33.90	25.60	17.20	8.90	.60	0	0	0	0	0	0
$228	$232	34.50	26.20	17.80	9.50	1.20	0	0	0	0	0	0
$232	$236	35.10	26.80	18.40	10.10	1.80	0	0	0	0	0	0
$236	$240	35.70	27.40	19.00	10.70	2.40	0	0	0	0	0	0
$240	$248	36.60	28.30	19.90	11.60	3.30	0	0	0	0	0	0
$248	$256	37.80	29.50	21.10	12.80	4.50	0	0	0	0	0	0
$256	$264	39.00	30.70	22.30	14.00	5.70	0	0	0	0	0	0
$264	$272	40.20	31.90	23.50	15.20	6.90	0	0	0	0	0	0
$272	$280	41.40	33.10	24.70	16.40	8.10	0	0	0	0	0	0
$280	$288	42.60	34.30	25.90	17.60	9.30	.90	0	0	0	0	0
$288	$296	43.80	35.50	27.10	18.80	10.50	2.10	0	0	0	0	0
$296	$304	45.00	36.70	28.30	20.00	11.70	3.30	0	0	0	0	0
$304	$312	46.20	37.90	29.50	21.20	12.90	4.50	0	0	0	0	0
$312	$320	47.40	39.10	30.70	22.40	14.10	5.70	0	0	0	0	0
$320	$328	48.60	40.30	31.90	23.60	15.30	6.90	0	0	0	0	0
$328	$336	49.80	41.50	33.10	24.80	16.50	8.10	0	0	0	0	0
$336	$344	51.00	42.70	34.30	26.00	17.70	9.30	1.00	0	0	0	0
$344	$352	52.20	43.90	35.50	27.20	18.90	10.50	2.20	0	0	0	0
$352	$360	53.40	45.10	36.70	28.40	20.10	11.70	3.40	0	0	0	0
$360	$368	54.60	46.30	37.90	29.60	21.30	12.90	4.60	0	0	0	0
$368	$376	55.80	47.50	39.10	30.80	22.50	14.10	5.80	0	0	0	0
$376	$384	57.00	48.70	40.30	32.00	23.70	15.30	7.00	0	0	0	0
$384	$392	58.20	49.90	41.50	33.20	24.90	16.50	8.20	0	0	0	0
$392	$400	59.40	51.10	42.70	34.40	26.10	17.70	9.40	1.10	0	0	0
$400	$420	61.50	53.20	44.80	36.50	28.20	19.80	11.50	3.20	0	0	0
$420	$440	64.50	56.20	47.80	39.50	31.20	22.80	14.50	6.20	0	0	0
$440	$460	67.50	59.20	50.80	42.50	34.20	25.80	17.50	9.20	.80	0	0
$460	$480	70.50	62.20	53.80	45.50	37.20	28.80	20.50	12.20	3.80	0	0
$480	$500	73.50	65.20	56.80	48.50	40.20	31.80	23.50	15.20	6.80	0	0
$500	$520	76.50	68.20	59.80	51.50	43.20	34.80	26.50	18.20	9.80	1.50	0
$520	$540	79.50	71.20	62.80	54.50	46.20	37.80	29.50	21.20	12.80	4.50	0
$540	$560	82.50	74.20	65.80	57.50	49.20	40.80	32.50	24.20	15.80	7.50	0
$560	$580	85.50	77.20	68.80	60.50	52.20	43.80	35.50	27.20	18.80	10.50	2.20
$580	$600	88.50	80.20	71.80	63.50	55.20	46.80	38.50	30.20	21.80	13.50	5.20
$600	$640	93.00	84.70	76.30	68.00	59.70	51.30	43.00	34.70	26.30	18.00	9.70
$640	$680	99.00	90.70	82.30	74.00	65.70	57.30	49.00	40.70	32.30	24.00	15.70
$680	$720	105.00	96.70	88.30	80.00	71.70	63.30	55.00	46.70	38.30	30.00	21.70
$720	$760	111.00	102.70	94.30	86.00	77.70	69.30	61.00	52.70	44.30	36.00	27.70
$760	$800	117.00	108.70	100.30	92.00	83.70	75.30	67.00	58.70	50.30	42.00	33.70
$800	$840	123.00	114.70	106.30	98.00	89.70	81.30	73.00	64.70	56.30	48.00	39.70
$840	$880	129.00	120.70	112.30	104.00	95.70	87.30	79.00	70.70	62.30	54.00	45.70
$880	$920	135.00	126.70	118.30	110.00	101.70	93.30	85.00	76.70	68.30	60.00	51.70
$920	$960	141.00	132.70	124.30	116.00	107.70	99.30	91.00	82.70	74.30	66.00	57.70
$960	$1,000	147.00	138.70	130.30	122.00	113.70	105.30	97.00	88.70	80.30	72.00	63.70
		15 percent of the excess over $1,000 plus—										
$1,000 and over		150.00	141.70	133.30	125.00	116.70	108.30	100.00	91.70	83.30	75.00	66.70

"If the payroll period with respect to an employee is a daily payroll period or a miscellaneous payroll period—

And the wages divided by the number of days in such period are—		And the number of withholding exemptions claimed is—										
At least—	But less than—	0	1	2	3	4	5	6	7	8	9	10 or more
		The amount of tax to be withheld shall be the following amount multiplied by the number of days in such period—										
$0	$2.00	15% of wages	$0	$0	$0	$0	$0	$0	$0	$0	$0	$0
$2.00	$2.25	$0.30	.05	0	0	0	0	0	0	0	0	0
$2.25	$2.50	.35	.10	0	0	0	0	0	0	0	0	0
$2.50	$2.75	.40	.10	0	0	0	0	0	0	0	0	0
$2.75	$3.00	.45	.15	0	0	0	0	0	0	0	0	0
$3.00	$3.25	.45	.20	0	0	0	0	0	0	0	0	0
$3.25	$3.50	.50	.25	0	0	0	0	0	0	0	0	0
$3.50	$3.75	.55	.25	0	0	0	0	0	0	0	0	0
$3.75	$4.00	.60	.30	.05	0	0	0	0	0	0	0	0
$4.00	$4.25	.60	.35	.05	0	0	0	0	0	0	0	0
$4.25	$4.50	.65	.40	.10	0	0	0	0	0	0	0	0
$4.50	$4.75	.70	.40	.15	0	0	0	0	0	0	0	0
$4.75	$5.00	.75	.45	.20	0	0	0	0	0	0	0	0
$5.00	$5.25	.75	.50	.20	0	0	0	0	0	0	0	0
$5.25	$5.50	.80	.55	.25	0	0	0	0	0	0	0	0
$5.50	$5.75	.85	.55	.30	0	0	0	0	0	0	0	0
$5.75	$6.00	.90	.60	.35	.05	0	0	0	0	0	0	0
$6.00	$6.25	.90	.65	.35	.10	0	0	0	0	0	0	0
$6.25	$6.50	.95	.70	.40	.15	0	0	0	0	0	0	0
$6.50	$6.75	1.00	.70	.45	.15	0	0	0	0	0	0	0
$6.75	$7.00	1.05	.75	.50	.20	0	0	0	0	0	0	0
$7.00	$7.25	1.05	.80	.50	.25	0	0	0	0	0	0	0
$7.25	$7.50	1.10	.85	.55	.30	0	0	0	0	0	0	0
$7.50	$7.75	1.15	.85	.60	.30	.05	0	0	0	0	0	0
$7.75	$8.00	1.20	.90	.65	.35	.10	0	0	0	0	0	0
$8.00	$8.25	1.20	.95	.65	.40	.10	0	0	0	0	0	0
$8.25	$8.50	1.25	1.00	.70	.45	.15	0	0	0	0	0	0
$8.50	$8.75	1.30	1.00	.75	.45	.20	0	0	0	0	0	0
$8.75	$9.00	1.35	1.05	.80	.50	.25	0	0	0	0	0	0
$9.00	$9.25	1.35	1.10	.80	.55	.25	0	0	0	0	0	0
$9.25	$9.50	1.40	1.15	.85	.60	.30	.05	0	0	0	0	0
$9.50	$9.75	1.45	1.15	.90	.60	.35	.05	0	0	0	0	0
$9.75	$10.00	1.50	1.20	.95	.65	.40	.10	0	0	0	0	0
$10.00	$10.50	1.55	1.25	1.00	.70	.45	.15	0	0	0	0	0
$10.50	$11.00	1.60	1.35	1.05	.80	.50	.25	0	0	0	0	0
$11.00	$11.50	1.70	1.40	1.15	.85	.60	.30	.05	0	0	0	0
$11.50	$12.00	1.75	1.50	1.20	.95	.65	.40	.10	0	0	0	0
$12.00	$12.50	1.85	1.55	1.30	1.00	.75	.45	.20	0	0	0	0
$12.50	$13.00	1.90	1.65	1.35	1.10	.80	.55	.25	0	0	0	0
$13.00	$13.50	2.00	1.70	1.45	1.15	.90	.60	.35	.05	0	0	0
$13.50	$14.00	2.05	1.80	1.50	1.25	.95	.70	.40	.15	0	0	0
$14.00	$14.50	2.15	1.85	1.60	1.30	1.05	.75	.50	.20	0	0	0
$14.50	$15.00	2.20	1.95	1.65	1.40	1.10	.85	.55	.30	0	0	0
$15.00	$15.50	2.30	2.00	1.75	1.45	1.20	.90	.65	.35	.10	0	0
$15.50	$16.00	2.35	2.10	1.80	1.55	1.25	1.00	.70	.45	.15	0	0
$16.00	$16.50	2.45	2.15	1.90	1.60	1.35	1.05	.80	.50	.25	0	0
$16.50	$17.00	2.50	2.25	1.95	1.70	1.40	1.15	.85	.60	.30	.05	0
$17.00	$17.50	2.60	2.30	2.05	1.75	1.50	1.20	.95	.65	.40	.10	0
$17.50	$18.00	2.65	2.40	2.10	1.85	1.55	1.30	1.00	.75	.45	.20	0
$18.00	$18.50	2.75	2.45	2.20	1.90	1.65	1.35	1.10	.80	.55	.25	0
$18.50	$19.00	2.80	2.55	2.25	2.00	1.70	1.45	1.15	.90	.60	.35	.05
$19.00	$19.50	2.90	2.60	2.35	2.05	1.80	1.50	1.25	.95	.70	.40	.15
$19.50	$20.00	2.95	2.70	2.40	2.15	1.85	1.60	1.30	1.05	.75	.50	.20
$20.00	$21.00	3.10	2.80	2.55	2.25	2.00	1.70	1.45	1.15	.90	.60	.35
$21.00	$22.00	3.25	2.95	2.70	2.40	2.15	1.85	1.60	1.30	1.05	.75	.50
$22.00	$23.00	3.40	3.10	2.85	2.55	2.30	2.00	1.75	1.45	1.20	.90	.65
$23.00	$24.00	3.55	3.25	3.00	2.70	2.45	2.15	1.90	1.60	1.35	1.05	.80
$24.00	$25.00	3.70	3.40	3.15	2.85	2.60	2.30	2.05	1.75	1.50	1.20	.95
$25.00	$26.00	3.85	3.55	3.30	3.00	2.75	2.45	2.20	1.90	1.65	1.35	1.10
$26.00	$27.00	4.00	3.70	3.45	3.15	2.90	2.60	2.35	2.05	1.80	1.50	1.25
$27.00	$28.00	4.15	3.85	3.60	3.30	3.05	2.75	2.50	2.20	1.95	1.65	1.40
$28.00	$29.00	4.30	4.00	3.75	3.45	3.20	2.90	2.65	2.35	2.10	1.80	1.55
$29.00	$30.00	4.45	4.15	3.90	3.60	3.35	3.05	2.80	2.50	2.25	1.95	1.70
		15 percent of the excess over $30 plus—										
$30 and over		4.50	4.25	3.95	3.70	3.40	3.15	2.85	2.60	2.30	2.05	1.75

1 "(B) WAGES PAID AFTER DECEMBER 31, 1964.—
2 At the election of the employer with respect to any
3 employee, the employer shall deduct and withhold upon
4 the wages paid to such employee after December 31,
5 1964, a tax determined in accordance with the follow-
6 ing tables, which shall be in lieu of the tax required to be
7 deducted and withheld under subsection (a):

"If the payroll period with respect to an employee is weekly—

And the wages are—		And the number of withholding exemptions claimed is—										
		0	1	2	3	4	5	6	7	8	9	10 or more
At least—	But less than—	The amount of income tax to be withheld shall be—										
$0	$13	14% of wages	$0	$0	$0	$0	$0	$0	$0	$0	$0	$0
$13	$14	$1.90	.10	0	0	0	0	0	0	0	0	0
$14	$15	2.00	.20	0	0	0	0	0	0	0	0	0
$15	$16	2.20	.40	0	0	0	0	0	0	0	0	0
$16	$17	2.30	.50	0	0	0	0	0	0	0	0	0
$17	$18	2.50	.70	0	0	0	0	0	0	0	0	0
$18	$19	2.60	.80	0	0	0	0	0	0	0	0	0
$19	$20	2.70	.90	0	0	0	0	0	0	0	0	0
$20	$21	2.90	1.10	0	0	0	0	0	0	0	0	0
$21	$22	3.00	1.20	0	0	0	0	0	0	0	0	0
$22	$23	3.20	1.40	0	0	0	0	0	0	0	0	0
$23	$24	3.30	1.50	0	0	0	0	0	0	0	0	0
$24	$25	3.40	1.60	0	0	0	0	0	0	0	0	0
$25	$26	3.60	1.80	0	0	0	0	0	0	0	0	0
$26	$27	3.70	1.90	.10	0	0	0	0	0	0	0	0
$27	$28	3.90	2.10	.30	0	0	0	0	0	0	0	0
$28	$29	4.00	2.20	.40	0	0	0	0	0	0	0	0
$29	$30	4.10	2.30	.50	0	0	0	0	0	0	0	0
$30	$31	4.30	2.50	.70	0	0	0	0	0	0	0	0
$31	$32	4.40	2.60	.80	0	0	0	0	0	0	0	0
$32	$33	4.60	2.80	1.00	0	0	0	0	0	0	0	0
$33	$34	4.70	2.90	1.10	0	0	0	0	0	0	0	0
$34	$35	4.80	3.00	1.20	0	0	0	0	0	0	0	0
$35	$36	5.00	3.20	1.40	0	0	0	0	0	0	0	0
$36	$37	5.10	3.30	1.50	0	0	0	0	0	0	0	0
$37	$38	5.30	3.50	1.70	0	0	0	0	0	0	0	0
$38	$39	5.40	3.60	1.80	0	0	0	0	0	0	0	0
$39	$40	5.50	3.70	1.90	.10	0	0	0	0	0	0	0
$40	$41	5.70	3.90	2.10	.30	0	0	0	0	0	0	0
$41	$42	5.80	4.00	2.20	.40	0	0	0	0	0	0	0
$42	$43	6.00	4.20	2.40	.60	0	0	0	0	0	0	0
$43	$44	6.10	4.30	2.50	.70	0	0	0	0	0	0	0
$44	$45	6.20	4.40	2.60	.80	0	0	0	0	0	0	0
$45	$46	6.40	4.60	2.80	1.00	0	0	0	0	0	0	0
$46	$47	6.50	4.70	2.90	1.10	0	0	0	0	0	0	0
$47	$48	6.70	4.90	3.10	1.30	0	0	0	0	0	0	0
$48	$49	6.80	5.00	3.20	1.40	0	0	0	0	0	0	0
$49	$50	6.90	5.10	3.30	1.50	0	0	0	0	0	0	0
$50	$51	7.10	5.30	3.50	1.70	0	0	0	0	0	0	0
$51	$52	7.20	5.40	3.60	1.80	0	0	0	0	0	0	0
$52	$53	7.40	5.60	3.80	2.00	.20	0	0	0	0	0	0
$53	$54	7.50	5.70	3.90	2.10	.30	0	0	0	0	0	0
$54	$55	7.60	5.80	4.00	2.20	.50	0	0	0	0	0	0
$55	$56	7.80	6.00	4.20	2.40	.60	0	0	0	0	0	0
$56	$57	7.90	6.10	4.30	2.50	.70	0	0	0	0	0	0
$57	$58	8.10	6.30	4.50	2.70	.90	0	0	0	0	0	0
$58	$59	8.20	6.40	4.60	2.80	1.00	0	0	0	0	0	0
$59	$60	8.30	6.50	4.70	2.90	1.20	0	0	0	0	0	0
$60	$62	8.50	6.70	5.00	3.20	1.40	0	0	0	0	0	0
$62	$64	8.80	7.00	5.20	3.40	1.60	0	0	0	0	0	0
$64	$66	9.10	7.30	5.50	3.70	1.90	.10	0	0	0	0	0
$66	$68	9.40	7.60	5.80	4.00	2.20	.40	0	0	0	0	0
$68	$70	9.70	7.90	6.10	4.30	2.50	.70	0	0	0	0	0
$70	$72	9.90	8.10	6.40	4.60	2.80	1.00	0	0	0	0	0
$72	$74	10.20	8.40	6.60	4.80	3.00	1.20	0	0	0	0	0
$74	$76	10.50	8.70	6.90	5.10	3.30	1.50	0	0	0	0	0
$76	$78	10.80	9.00	7.20	5.40	3.60	1.80	0	0	0	0	0
$78	$80	11.10	9.30	7.50	5.70	3.90	2.10	.30	0	0	0	0
$80	$82	11.30	9.50	7.80	6.00	4.20	2.40	.60	0	0	0	0
$82	$84	11.60	9.80	8.00	6.20	4.40	2.60	.90	0	0	0	0
$84	$86	11.90	10.10	8.30	6.50	4.70	2.90	1.10	0	0	0	0
$86	$88	12.20	10.40	8.60	6.80	5.00	3.20	1.40	0	0	0	0
$88	$90	12.50	10.70	8.90	7.10	5.30	3.50	1.70	0	0	0	0
$90	$92	12.70	10.90	9.20	7.40	5.60	3.80	2.00	.20	0	0	0
$92	$94	13.00	11.20	9.40	7.60	5.80	4.00	2.30	.50	0	0	0
$94	$96	13.30	11.50	9.70	7.90	6.10	4.30	2.50	.70	0	0	0
$96	$98	13.60	11.80	10.00	8.20	6.40	4.60	2.80	1.00	0	0	0
$98	$100	13.90	12.10	10.30	8.50	6.70	4.90	3.10	1.30	0	0	0
$100	$105	14.40	12.60	10.80	9.00	7.20	5.40	3.60	1.80	0	0	0
$105	$110	15.10	13.30	11.50	9.70	7.90	6.10	4.30	2.50	.70	0	0
$110	$115	15.80	14.00	12.20	10.40	8.60	6.80	5.00	3.20	1.40	0	0
$115	$120	16.50	14.70	12.90	11.10	9.30	7.50	5.70	3.90	2.10	.30	0
$120	$125	17.20	15.40	13.60	11.80	10.00	8.20	6.40	4.60	2.80	1.00	0
$125	$130	17.90	16.10	14.30	12.50	10.70	8.90	7.10	5.30	3.50	1.70	0
$130	$135	18.60	16.80	15.00	13.20	11.40	9.60	7.80	6.00	4.20	2.40	.60
$135	$140	19.30	17.50	15.70	13.90	12.10	10.30	8.50	6.70	4.90	3.10	1.30
$140	$145	20.00	18.20	16.40	14.60	12.80	11.00	9.20	7.40	5.60	3.80	2.00
$145	$150	20.70	18.90	17.10	15.30	13.50	11.70	9.90	8.10	6.30	4.50	2.70
$150	$160	21.70	19.90	18.10	16.30	14.50	12.70	10.90	9.10	7.30	5.50	3.80
$160	$170	23.10	21.30	19.50	17.70	15.90	14.10	12.30	10.50	8.70	6.90	5.20
$170	$180	24.50	22.70	20.90	19.10	17.30	15.50	13.70	11.90	10.10	8.30	6.60
$180	$190	25.90	24.10	22.30	20.50	18.70	16.90	15.10	13.30	11.50	9.70	8.00
$190	$200	27.30	25.50	23.70	21.90	20.10	18.30	16.50	14.70	12.90	11.10	9.40
		14 percent of the excess over $200 plus—										
$200 and over		28.00	26.20	24.40	22.60	20.80	19.00	17.20	15.40	13.60	11.80	10.10

"If the payroll period with respect to an employee is biweekly—

And the wages are—		And the number of withholding exemptions claimed is—										
At least—	But less than—	0	1	2	3	4	5	6	7	8	9	10 or more
		The amount of income tax to be withheld shall be—										
$0	$26	14% of wages	$0	$0	$0	$0	$0	$0	$0	$0	$0	$0
$26	$28	$3.80	.20	0	0	0	0	0	0	0	0	0
$28	$30	4.10	.50	0	0	0	0	0	0	0	0	0
$30	$32	4.30	.80	0	0	0	0	0	0	0	0	0
$32	$34	4.60	1.00	0	0	0	0	0	0	0	0	0
$34	$36	4.90	1.30	0	0	0	0	0	0	0	0	0
$36	$38	5.20	1.60	0	0	0	0	0	0	0	0	0
$38	$40	5.50	1.90	0	0	0	0	0	0	0	0	0
$40	$42	5.70	2.20	0	0	0	0	0	0	0	0	0
$42	$44	6.00	2.40	0	0	0	0	0	0	0	0	0
$44	$46	6.30	2.70	0	0	0	0	0	0	0	0	0
$46	$48	6.60	3.00	0	0	0	0	0	0	0	0	0
$48	$50	6.90	3.30	0	0	0	0	0	0	0	0	0
$50	$52	7.10	3.60	0	0	0	0	0	0	0	0	0
$52	$54	7.40	3.80	.20	0	0	0	0	0	0	0	0
$54	$56	7.70	4.10	.50	0	0	0	0	0	0	0	0
$56	$58	8.00	4.40	.80	0	0	0	0	0	0	0	0
$58	$60	8.30	4.70	1.10	0	0	0	0	0	0	0	0
$60	$62	8.50	5.00	1.40	0	0	0	0	0	0	0	0
$62	$64	8.80	5.20	1.60	0	0	0	0	0	0	0	0
$64	$66	9.10	5.50	1.90	0	0	0	0	0	0	0	0
$66	$68	9.40	5.80	2.20	0	0	0	0	0	0	0	0
$68	$70	9.70	6.10	2.50	0	0	0	0	0	0	0	0
$70	$72	9.90	6.40	2.80	0	0	0	0	0	0	0	0
$72	$74	10.20	6.60	3.00	0	0	0	0	0	0	0	0
$74	$76	10.50	6.90	3.30	0	0	0	0	0	0	0	0
$76	$78	10.80	7.20	3.60	0	0	0	0	0	0	0	0
$78	$80	11.10	7.50	3.90	.30	0	0	0	0	0	0	0
$80	$82	11.30	7.80	4.20	.60	0	0	0	0	0	0	0
$82	$84	11.60	8.00	4.40	.90	0	0	0	0	0	0	0
$84	$86	11.90	8.30	4.70	1.10	0	0	0	0	0	0	0
$86	$88	12.20	8.60	5.00	1.40	0	0	0	0	0	0	0
$88	$90	12.50	8.90	5.30	1.70	0	0	0	0	0	0	0
$90	$92	12.70	9.20	5.60	2.00	0	0	0	0	0	0	0
$92	$94	13.00	9.40	5.80	2.30	0	0	0	0	0	0	0
$94	$96	13.30	9.70	6.10	2.50	0	0	0	0	0	0	0
$96	$98	13.60	10.00	6.40	2.80	0	0	0	0	0	0	0
$98	$100	13.90	10.30	6.70	3.10	0	0	0	0	0	0	0
$100	$102	14.10	10.60	7.00	3.40	0	0	0	0	0	0	0
$102	$104	14.40	10.80	7.20	3.70	.10	0	0	0	0	0	0
$104	$106	14.70	11.10	7.50	3.90	.30	0	0	0	0	0	0
$106	$108	15.00	11.40	7.80	4.20	.60	0	0	0	0	0	0
$108	$110	15.30	11.70	8.10	4.50	.90	0	0	0	0	0	0
$110	$112	15.50	12.00	8.40	4.80	1.20	0	0	0	0	0	0
$112	$114	15.80	12.20	8.60	5.10	1.50	0	0	0	0	0	0
$114	$116	16.10	12.50	8.90	5.30	1.70	0	0	0	0	0	0
$116	$118	16.40	12.80	9.20	5.60	2.00	0	0	0	0	0	0
$118	$120	16.70	13.10	9.50	5.90	2.30	0	0	0	0	0	0
$120	$124	17.10	13.50	9.90	6.30	2.70	0	0	0	0	0	0
$124	$128	17.60	14.10	10.50	6.90	3.30	0	0	0	0	0	0
$128	$132	18.20	14.60	11.00	7.40	3.80	.30	0	0	0	0	0
$132	$136	18.80	15.20	11.60	8.00	4.40	.80	0	0	0	0	0
$136	$140	19.30	15.70	12.10	8.60	5.00	1.40	0	0	0	0	0
$140	$144	19.90	16.30	12.70	9.10	5.50	1.90	0	0	0	0	0
$144	$148	20.40	16.90	13.30	9.70	6.10	2.50	0	0	0	0	0
$148	$152	21.00	17.40	13.80	10.20	6.60	3.10	0	0	0	0	0
$152	$156	21.60	18.00	14.40	10.80	7.20	3.60	0	0	0	0	0
$156	$160	22.10	18.50	14.90	11.40	7.80	4.20	.60	0	0	0	0
$160	$164	22.70	19.10	15.50	11.90	8.30	4.70	1.10	0	0	0	0
$164	$168	23.20	19.70	16.10	12.50	8.90	5.30	1.70	0	0	0	0
$168	$172	23.80	20.20	16.60	13.00	9.40	5.90	2.30	0	0	0	0
$172	$176	24.40	20.80	17.20	13.60	10.00	6.40	2.80	0	0	0	0
$176	$180	24.90	21.30	17.70	14.20	10.60	7.00	3.40	0	0	0	0
$180	$184	25.50	21.90	18.30	14.70	11.10	7.50	3.90	.40	0	0	0
$184	$188	26.00	22.50	18.90	15.30	11.70	8.10	4.50	.90	0	0	0
$188	$192	26.60	23.00	19.40	15.80	12.20	8.70	5.10	1.50	0	0	0
$192	$196	27.20	23.60	20.00	16.40	12.80	9.20	5.60	2.00	0	0	0
$196	$200	27.70	24.10	20.50	17.00	13.40	9.80	6.20	2.60	0	0	0
$200	$210	28.70	25.10	21.50	17.90	14.30	10.80	7.20	3.60	0	0	0
$210	$220	30.10	26.50	22.90	19.30	15.70	12.20	8.60	5.00	1.40	0	0
$220	$230	31.50	27.90	24.30	20.70	17.10	13.60	10.00	6.40	2.80	0	0
$230	$240	32.90	29.30	25.70	22.10	18.50	15.00	11.40	7.80	4.20	.60	0
$240	$250	34.30	30.70	27.10	23.50	19.90	16.40	12.80	9.20	5.60	2.00	0
$250	$260	35.70	32.10	28.50	24.90	21.30	17.80	14.20	10.60	7.00	3.40	0
$260	$270	37.10	33.50	29.90	26.30	22.70	19.20	15.60	12.00	8.40	4.80	1.20
$270	$280	38.50	34.90	31.30	27.70	24.10	20.60	17.00	13.40	9.80	6.20	2.60
$280	$290	39.90	36.30	32.70	29.10	25.50	22.00	18.40	14.80	11.20	7.60	4.00
$290	$300	41.30	37.70	34.10	30.50	26.90	23.40	19.80	16.20	12.60	9.00	5.40
$300	$320	43.40	39.80	36.20	32.60	29.00	25.50	21.90	18.30	14.70	11.10	7.50
$320	$340	46.20	42.60	39.00	35.40	31.80	28.30	24.70	21.10	17.50	13.90	10.30
$340	$360	49.00	45.40	41.80	38.20	34.60	31.10	27.50	23.90	20.30	16.70	13.10
$360	$380	51.80	48.20	44.60	41.00	37.40	33.90	30.30	26.70	23.10	19.50	15.90
$380	$400	54.60	51.00	47.40	43.80	40.20	36.70	33.10	29.50	25.90	22.30	18.70
		14 percent of the excess over $400 plus—										
$400 and over		56.00	52.40	48.80	45.20	41.60	38.10	34.50	30.90	27.30	23.70	20.10

"If the payroll period with respect to an employee is semimonthly—

And the wages are—		And the number of withholding exemptions claimed is—										
At least—	But less than—	0	1	2	3	4	5	6	7	8	9	10 or more
		The amount of income tax to be withheld shall be—										
$0	$28	14% of wages	$0	$0	$0	$0	$0	$0	$0	$0	$0	$0
$28	$30	$4.10	.20	0	0	0	0	0	0	0	0	0
$30	$32	4.30	.50	0	0	0	0	0	0	0	0	0
$32	$34	4.60	.70	0	0	0	0	0	0	0	0	0
$34	$36	4.90	1.00	0	0	0	0	0	0	0	0	0
$36	$38	5.20	1.30	0	0	0	0	0	0	0	0	0
$38	$40	5.50	1.60	0	0	0	0	0	0	0	0	0
$40	$42	5.70	1.90	0	0	0	0	0	0	0	0	0
$42	$44	6.00	2.10	0	0	0	0	0	0	0	0	0
$44	$46	6.30	2.40	0	0	0	0	0	0	0	0	0
$46	$48	6.60	2.70	0	0	0	0	0	0	0	0	0
$48	$50	6.90	3.00	0	0	0	0	0	0	0	0	0
$50	$52	7.10	3.30	0	0	0	0	0	0	0	0	0
$52	$54	7.40	3.50	0	0	0	0	0	0	0	0	0
$54	$56	7.70	3.80	0	0	0	0	0	0	0	0	0
$56	$58	8.00	4.10	.20	0	0	0	0	0	0	0	0
$58	$60	8.30	4.40	.50	0	0	0	0	0	0	0	0
$60	$62	8.50	4.70	.80	0	0	0	0	0	0	0	0
$62	$64	8.80	4.90	1.00	0	0	0	0	0	0	0	0
$64	$66	9.10	5.20	1.30	0	0	0	0	0	0	0	0
$66	$68	9.40	5.50	1.60	0	0	0	0	0	0	0	0
$68	$70	9.70	5.80	1.90	0	0	0	0	0	0	0	0
$70	$72	9.90	6.10	2.20	0	0	0	0	0	0	0	0
$72	$74	10.20	6.30	2.40	0	0	0	0	0	0	0	0
$74	$76	10.50	6.60	2.70	0	0	0	0	0	0	0	0
$76	$78	10.80	6.90	3.00	0	0	0	0	0	0	0	0
$78	$80	11.10	7.20	3.30	0	0	0	0	0	0	0	0
$80	$82	11.30	7.50	3.60	0	0	0	0	0	0	0	0
$82	$84	11.60	7.70	3.80	0	0	0	0	0	0	0	0
$84	$86	11.90	8.00	4.10	.20	0	0	0	0	0	0	0
$86	$88	12.20	8.30	4.40	.50	0	0	0	0	0	0	0
$88	$90	12.50	8.60	4.70	.80	0	0	0	0	0	0	0
$90	$92	12.70	8.90	5.00	1.10	0	0	0	0	0	0	0
$92	$94	13.00	9.10	5.20	1.40	0	0	0	0	0	0	0
$94	$96	13.30	9.40	5.50	1.60	0	0	0	0	0	0	0
$96	$98	13.60	9.70	5.80	1.90	0	0	0	0	0	0	0
$98	$100	13.90	10.00	6.10	2.20	0	0	0	0	0	0	0
$100	$102	14.10	10.30	6.40	2.50	0	0	0	0	0	0	0
$102	$104	14.40	10.50	6.60	2.80	0	0	0	0	0	0	0
$104	$106	14.70	10.80	6.90	3.00	0	0	0	0	0	0	0
$106	$108	15.00	11.10	7.20	3.30	0	0	0	0	0	0	0
$108	$110	15.30	11.40	7.50	3.60	0	0	0	0	0	0	0
$110	$112	15.50	11.70	7.80	3.90	0	0	0	0	0	0	0
$112	$114	15.80	11.90	8.00	4.20	.30	0	0	0	0	0	0
$114	$116	16.10	12.20	8.30	4.40	.50	0	0	0	0	0	0
$116	$118	16.40	12.50	8.60	4.70	.80	0	0	0	0	0	0
$118	$120	16.70	12.80	8.90	5.00	1.10	0	0	0	0	0	0
$120	$124	17.10	13.20	9.30	5.40	1.50	0	0	0	0	0	0
$124	$128	17.60	13.80	9.90	6.00	2.10	0	0	0	0	0	0
$128	$132	18.20	14.30	10.40	6.50	2.60	0	0	0	0	0	0
$132	$136	18.80	14.90	11.00	7.10	3.20	0	0	0	0	0	0
$136	$140	19.30	15.40	11.50	7.70	3.80	0	0	0	0	0	0
$140	$144	19.90	16.00	12.10	8.20	4.30	.40	0	0	0	0	0
$144	$148	20.40	16.60	12.70	8.80	4.90	1.00	0	0	0	0	0
$148	$152	21.00	17.10	13.20	9.30	5.40	1.60	0	0	0	0	0
$152	$156	21.60	17.70	13.80	9.90	6.00	2.10	0	0	0	0	0
$156	$160	22.10	18.20	14.30	10.50	6.60	2.70	0	0	0	0	0
$160	$164	22.70	18.80	14.90	11.00	7.10	3.20	0	0	0	0	0
$164	$168	23.20	19.40	15.50	11.60	7.70	3.80	0	0	0	0	0
$168	$172	23.80	19.90	16.00	12.10	8.20	4.40	.50	0	0	0	0
$172	$176	24.40	20.50	16.60	12.70	8.80	4.90	1.00	0	0	0	0
$176	$180	24.90	21.00	17.10	13.30	9.40	5.50	1.60	0	0	0	0
$180	$184	25.50	21.60	17.70	13.80	9.90	6.00	2.10	0	0	0	0
$184	$188	26.00	22.20	18.30	14.40	10.50	6.60	2.70	0	0	0	0
$188	$192	26.60	22.70	18.80	14.90	11.00	7.20	3.30	0	0	0	0
$192	$196	27.20	23.30	19.40	15.50	11.60	7.70	3.80	0	0	0	0
$196	$200	27.70	23.80	19.90	16.10	12.20	8.30	4.40	.50	0	0	0
$200	$210	28.70	24.80	20.90	17.00	13.10	9.30	5.40	1.50	0	0	0
$210	$220	30.10	26.20	22.30	18.40	14.50	10.70	6.80	2.90	0	0	0
$220	$230	31.50	27.60	23.70	19.80	15.90	12.10	8.20	4.30	.40	0	0
$230	$240	32.90	29.00	25.10	21.20	17.30	13.50	9.60	5.70	1.80	0	0
$240	$250	34.30	30.40	26.50	22.60	18.70	14.90	11.00	7.10	3.20	0	0
$250	$260	35.70	31.80	27.90	24.00	20.10	16.30	12.40	8.50	4.60	.70	0
$260	$270	37.10	33.20	29.30	25.40	21.50	17.70	13.80	9.90	6.00	2.10	0
$270	$280	38.50	34.60	30.70	26.80	22.90	19.10	15.20	11.30	7.40	3.50	0
$280	$290	39.90	36.00	32.10	28.20	24.30	20.50	16.60	12.70	8.80	4.90	1.00
$290	$300	41.30	37.40	33.50	29.60	25.70	21.90	18.00	14.10	10.20	6.30	2.40
$300	$320	43.40	39.50	35.60	31.70	27.80	24.00	20.10	16.20	12.30	8.40	4.50
$320	$340	46.20	42.30	38.40	34.50	30.60	26.80	22.90	19.00	15.10	11.20	7.30
$340	$360	49.00	45.10	41.20	37.30	33.40	29.60	25.70	21.80	17.90	14.00	10.10
$360	$380	51.80	47.90	44.00	40.10	36.20	32.40	28.50	24.60	20.70	16.80	12.90
$380	$400	54.60	50.70	46.80	42.90	39.00	35.20	31.30	27.40	23.50	19.60	15.70
$400	$420	57.40	53.50	49.60	45.70	41.80	38.00	34.10	30.20	26.30	22.40	18.50
$420	$440	60.20	56.30	52.40	48.50	44.60	40.80	36.90	33.00	29.10	25.20	21.30
$440	$460	63.00	59.10	55.20	51.30	47.40	43.60	39.70	35.80	31.90	28.00	24.10
$460	$480	65.80	61.90	58.00	54.10	50.20	46.40	42.50	38.60	34.70	30.80	26.90
$480	$500	68.60	64.70	60.80	56.90	53.00	49.20	45.30	41.40	37.50	33.60	29.70
		14 percent of the excess over $500 plus—										
$500 and over		70 00	66.10	62.20	58.30	54.40	50.60	46.70	42.80	38.90	35.00	31.10

"If the payroll period with respect to an employee is monthly—

And the wages are—		And the number of withholding exemptions claimed is—										
At least—	But less than—	0	1	2	3	4	5	6	7	8	9	10 or more
		The amount of income tax to be withheld shall be—										
$0	$56	14% of wages	$0	$0	$0	$0	$0	$0	$0	$0	$0	$0
$56	$60	$8.10	.30	0	0	0	0	0	0	0	0	0
$60	$64	8.70	.90	0	0	0	0	0	0	0	0	0
$64	$68	9.20	1.50	0	0	0	0	0	0	0	0	0
$68	$72	9.80	2.00	0	0	0	0	0	0	0	0	0
$72	$76	10.40	2.60	0	0	0	0	0	0	0	0	0
$76	$80	10.90	3.10	0	0	0	0	0	0	0	0	0
$80	$84	11.50	3.70	0	0	0	0	0	0	0	0	0
$84	$88	12.00	4.30	0	0	0	0	0	0	0	0	0
$88	$92	12.60	4.80	0	0	0	0	0	0	0	0	0
$92	$96	13.20	5.40	0	0	0	0	0	0	0	0	0
$96	$100	13.70	5.90	0	0	0	0	0	0	0	0	0
$100	$104	14.30	6.50	0	0	0	0	0	0	0	0	0
$104	$108	14.80	7.10	0	0	0	0	0	0	0	0	0
$108	$112	15.40	7.60	0	0	0	0	0	0	0	0	0
$112	$116	16.00	8.20	.40	0	0	0	0	0	0	0	0
$116	$120	16.50	8.70	1.00	0	0	0	0	0	0	0	0
$120	$124	17.10	9.30	1.50	0	0	0	0	0	0	0	0
$124	$128	17.60	9.90	2.10	0	0	0	0	0	0	0	0
$128	$132	18.20	10.40	2.60	0	0	0	0	0	0	0	0
$132	$136	18.80	11.00	3.20	0	0	0	0	0	0	0	0
$136	$140	19.30	11.50	3.80	0	0	0	0	0	0	0	0
$140	$144	19.90	12.10	4.30	0	0	0	0	0	0	0	0
$144	$148	20.40	12.70	4.90	0	0	0	0	0	0	0	0
$148	$152	21.00	13.20	5.40	0	0	0	0	0	0	0	0
$152	$156	21.60	13.80	6.00	0	0	0	0	0	0	0	0
$156	$160	22.10	14.30	6.60	0	0	0	0	0	0	0	0
$160	$164	22.70	14.90	7.10	0	0	0	0	0	0	0	0
$164	$168	23.20	15.50	7.70	0	0	0	0	0	0	0	0
$168	$172	23.80	16.00	8.20	.50	0	0	0	0	0	0	0
$172	$176	24.40	16.60	8.80	1.00	0	0	0	0	0	0	0
$176	$180	24.90	17.10	9.40	1.60	0	0	0	0	0	0	0
$180	$184	25.50	17.70	9.90	2.10	0	0	0	0	0	0	0
$184	$188	26.00	18.30	10.50	2.70	0	0	0	0	0	0	0
$188	$192	26.60	18.80	11.00	3.30	0	0	0	0	0	0	0
$192	$196	27.20	19.40	11.60	3.80	0	0	0	0	0	0	0
$196	$200	27.70	19.90	12.20	4.40	0	0	0	0	0	0	0
$200	$204	28.30	20.50	12.70	4.90	0	0	0	0	0	0	0
$204	$208	28.80	21.10	13.30	5.50	0	0	0	0	0	0	0
$208	$212	29.40	21.60	13.80	6.10	0	0	0	0	0	0	0
$212	$216	30.00	22.20	14.40	6.60	0	0	0	0	0	0	0
$216	$220	30.50	22.70	15.00	7.20	0	0	0	0	0	0	0
$220	$224	31.10	23.30	15.50	7.70	0	0	0	0	0	0	0
$224	$228	31.60	23.90	16.10	8.30	.50	0	0	0	0	0	0
$228	$232	32.20	24.40	16.60	8.90	1.10	0	0	0	0	0	0
$232	$236	32.80	25.00	17.20	9.40	1.60	0	0	0	0	0	0
$236	$240	33.30	25.50	17.80	10.00	2.20	0	0	0	0	0	0
$240	$248	34.20	26.40	18.60	10.80	3.00	0	0	0	0	0	0
$248	$256	35.30	27.50	19.70	11.90	4.20	0	0	0	0	0	0
$256	$264	36.40	28.60	20.80	13.10	5.30	0	0	0	0	0	0
$264	$272	37.50	29.70	22.00	14.20	6.40	0	0	0	0	0	0
$272	$280	38.60	30.90	23.10	15.30	7.50	0	0	0	0	0	0
$280	$288	39.80	32.00	24.20	16.40	8.60	.90	0	0	0	0	0
$288	$296	40.90	33.10	25.30	17.50	9.80	2.00	0	0	0	0	0
$296	$304	42.00	34.20	26.40	18.70	10.90	3.10	0	0	0	0	0
$304	$312	43.10	35.30	27.60	19.80	12.00	4.20	0	0	0	0	0
$312	$320	44.20	36.50	28.70	20.90	13.10	5.40	0	0	0	0	0
$320	$328	45.40	37.60	29.80	22.00	14.20	6.50	0	0	0	0	0
$328	$336	46.50	38.70	30.90	23.10	15.40	7.60	0	0	0	0	0
$336	$344	47.60	39.80	32.00	24.30	16.50	8.70	.90	0	0	0	0
$344	$352	48.70	40.90	33.20	25.40	17.60	9.80	2.10	0	0	0	0
$352	$360	49.80	42.10	34.30	26.50	18.70	11.00	3.20	0	0	0	0
$360	$368	51.00	43.20	35.40	27.60	19.80	12.10	4.30	0	0	0	0
$368	$376	52.10	44.30	36.50	28.70	21.00	13.20	5.40	0	0	0	0
$376	$384	53.20	45.40	37.60	29.90	22.10	14.30	6.50	0	0	0	0
$384	$392	54.30	46.50	38.80	31.00	23.20	15.40	7.70	0	0	0	0
$392	$400	55.40	47.70	39.90	32.10	24.30	16.60	8.80	1.00	0	0	0
$400	$420	57.40	49.60	41.80	34.10	26.30	18.50	10.70	3.00	0	0	0
$420	$440	60.20	52.40	44.60	36.90	29.10	21.30	13.50	5.80	0	0	0
$440	$460	63.00	55.20	47.40	39.70	31.90	24.10	16.30	8.60	.80	0	0
$460	$480	65.80	58.00	50.20	42.50	34.70	26.90	19.10	11.40	3.60	0	0
$480	$500	68.60	60.80	53.00	45.30	37.50	29.70	21.90	14.20	6.40	0	0
$500	$520	71.40	63.60	55.80	48.10	40.30	32.50	24.70	17.00	9.20	1.40	0
$520	$540	74.20	66.40	58.60	50.90	43.10	35.30	27.50	19.80	12.00	4.20	0
$540	$560	77.00	69.20	61.40	53.70	45.90	38.10	30.30	22.60	14.80	7.00	0
$560	$580	79.80	72.00	64.20	56.50	48.70	40.90	33.10	25.40	17.60	9.80	2.00
$580	$600	82.60	74.80	67.00	59.30	51.50	43.70	35.90	28.20	20.40	12.60	4.80
$600	$640	86.80	79.00	71.20	63.50	55.70	47.90	40.10	32.40	24.60	16.80	9.00
$640	$680	92.40	84.60	76.80	69.10	61.30	53.50	45.70	38.00	30.20	22.40	14.60
$680	$720	98.00	90.20	82.40	74.70	66.90	59.10	51.30	43.60	35.80	28.00	20.20
$720	$760	103.60	95.80	88.00	80.30	72.50	64.70	56.90	49.20	41.40	33.60	25.80
$760	$800	109.20	101.40	93.60	85.90	78.10	70.30	62.50	54.80	47.00	39.20	31.40
$800	$840	114.80	107.00	99.20	91.50	83.70	75.90	68.10	60.40	52.60	44.80	37.00
$840	$880	120.40	112.60	104.80	97.10	89.30	81.50	73.70	66.00	58.20	50.40	42.60
$880	$920	126.00	118.20	110.40	102.70	94.90	87.10	79.30	71.60	63.80	56.00	48.20
$920	$960	131.60	123.80	116.00	108.30	100.50	92.70	84.90	77.20	69.40	61.60	53.80
$960	$1,000	137.20	129.40	121.60	113.90	106.10	98.30	90.50	82.80	75.00	67.20	59.40
		14 percent of the excess over $1,000 plus—										
$1,000 and over		140.00	132.20	124.40	116.70	108.90	101.10	93.30	85.60	77.80	70.00	62.20

"If the payroll period with respect to an employee is a daily payroll period or a miscellaneous payroll period—

And the wages divided by the number of days in such period are—		And the number of withholding exemptions claimed is—										
		0	1	2	3	4	5	6	7	8	9	10 or more
At least—	But less than—	The amount of tax to be withheld shall be the following amount multiplied by the number of days in such period—										
$0	$2.00	14% of wages	$0	$0	$0	$0	$0	$0	$0	$0	$0	$0
$2.00	$2.25	$.30	.05	0	0	0	0	0	0	0	0	
$2.25	$2.50	.35	.10	0	0	0	0	0	0	0	0	0
$2.50	$2.75	.35	.10	0	0	0	0	0	0	0	0	0
$2.75	$3.00	.40	.15	0	0	0	0	0	0	0	0	0
$3.00	$3.25	.45	.20	0	0	0	0	0	0	0	0	0
$3.25	$3.50	.45	.20	0	0	0	0	0	0	0	0	0
$3.50	$3.75	.50	.25	0	0	0	0	0	0	0	0	0
$3.75	$4.00	.55	.30	.05	0	0	0	0	0	0	0	0
$4.00	$4.25	.60	.30	.05	0	0	0	0	0	0	0	0
$4.25	$4.50	.60	.35	.10	0	0	0	0	0	0	0	0
$4.50	$4.75	.65	.40	.15	0	0	0	0	0	0	0	0
$4.75	$5.00	.70	.45	.15	0	0	0	0	0	0	0	0
$5.00	$5.25	.70	.45	.20	0	0	0	0	0	0	0	0
$5.25	$5.50	.75	.50	.25	0	0	0	0	0	0	0	0
$5.50	$5.75	.80	.55	.30	0	0	0	0	0	0	0	0
$5.75	$6.00	.80	.55	.30	.05	0	0	0	0	0	0	0
$6.00	$6.25	.85	.60	.35	.10	0	0	0	0	0	0	0
$6.25	$6.50	.90	.65	.40	.15	0	0	0	0	0	0	0
$6.50	$6.75	.95	.65	.40	.15	0	0	0	0	0	0	0
$6.75	$7.00	.95	.70	.45	.20	0	0	0	0	0	0	0
$7.00	$7.25	1.00	.75	.50	.25	0	0	0	0	0	0	0
$7.25	$7.50	1.05	.80	.50	.25	0	0	0	0	0	0	0
$7.50	$7.75	1.05	.80	.55	.30	.05	0	0	0	0	0	0
$7.75	$8.00	1.10	.85	.60	.35	.10	0	0	0	0	0	0
$8.00	$8.25	1.15	.90	.65	.35	.10	0	0	0	0	0	0
$8.25	$8.50	1.15	.90	.65	.40	.15	0	0	0	0	0	0
$8.50	$8.75	1.20	.95	.70	.45	.20	0	0	0	0	0	0
$8.75	$9.00	1.25	1.00	.75	.50	.20	0	0	0	0	0	0
$9.00	$9.25	1.30	1.00	.75	.50	.25	0	0	0	0	0	0
$9.25	$9.50	1.30	1.05	.80	.55	.30	.05	0	0	0	0	0
$9.50	$9.75	1.35	1.10	.85	.60	.30	.05	0	0	0	0	0
$9.75	$10.00	1.40	1.15	.85	.60	.35	.10	0	0	0	0	0
$10.00	$10.50	1.45	1.20	.90	.65	.40	.15	0	0	0	0	0
$10.50	$11.00	1.50	1.25	1.00	.75	.50	.25	0	0	0	0	0
$11.00	$11.50	1.60	1.30	1.05	.80	.55	.30	.05	0	0	0	0
$11.50	$12.00	1.65	1.40	1.15	.90	.60	.35	.10	0	0	0	0
$12.00	$12.50	1.70	1.45	1.20	.95	.70	.45	.20	0	0	0	0
$12.50	$13.00	1.80	1.55	1.25	1.00	.75	.50	.25	0	0	0	0
$13.00	$13.50	1.85	1.60	1.35	1.10	.85	.60	.30	.05	0	0	0
$13.50	$14.00	1.95	1.65	1.40	1.15	.90	.65	.40	.15	0	0	0
$14.00	$14.50	2.00	1.75	1.50	1.25	.95	.70	.45	.20	0	0	0
$14.50	$15.00	2.05	1.80	1.55	1.30	1.05	.80	.55	.30	0	0	0
$15.00	$15.50	2.15	1.90	1.60	1.35	1.10	.85	.60	.35	.10	0	0
$15.50	$16.00	2.20	1.95	1.70	1.45	1.20	.95	.65	.40	.15	0	0
$16.00	$16.50	2.30	2.00	1.75	1.50	1.25	1.00	.75	.50	.25	0	0
$16.50	$17.00	2.35	2.10	1.85	1.60	1.30	1.05	.80	.55	.30	.05	0
$17.00	$17.50	2.40	2.15	1.90	1.65	1.40	1.15	.90	.65	.35	.10	0
$17.50	$18.00	2.50	2.25	1.95	1.70	1.45	1.20	.95	.70	.45	.20	0
$18.00	$18.50	2.55	2.30	2.05	1.80	1.55	1.30	1.00	.75	.50	.25	0
$18.50	$19.00	2.65	2.35	2.10	1.85	1.60	1.35	1.10	.85	.60	.30	.05
$19.00	$19.50	2.70	2.45	2.20	1.95	1.65	1.40	1.15	.90	.65	.40	.15
$19.50	$20.00	2.75	2.50	2.25	2.00	1.75	1.50	1.25	1.00	.70	.45	.20
$20.00	$21.00	2.85	2.60	2.35	2.10	1.85	1.60	1.35	1.10	.80	.55	.30
$21.00	$22.00	3.00	2.75	2.50	2.25	2.00	1.75	1.50	1.20	.95	.70	.45
$22.00	$23.00	3.15	2.90	2.65	2.40	2.15	1.85	1.60	1.35	1.10	.85	.60
$23.00	$24.00	3.30	3.05	2.80	2.50	2.25	2.00	1.75	1.50	1.25	1.00	.75
$24.00	$25.00	3.45	3.15	2.90	2.65	2.40	2.15	1.90	1.65	1.40	1.15	.85
$25.00	$26.00	3.55	3.30	3.05	2.80	2.55	2.30	2.05	1.80	1.50	1.25	1.00
$26.00	$27.00	3.70	3.45	3.20	2.95	2.70	2.45	2.20	1.90	1.65	1.40	1.15
$27.00	$28.00	3.85	3.60	3.35	3.10	2.85	2.55	2.30	2.05	1.80	1.55	1.30
$28.00	$29.00	4.00	3.75	3.50	3.20	2.95	2.70	2.45	2.20	1.95	1.70	1.45
$29.00	$30.00	4.15	3.85	3.60	3.35	3.10	2.85	2.60	2.35	2.10	1.85	1.55
		14 percent of the excess over $30 plus—										
$30 and over		4.20	3.95	3.70	3.45	3.20	2.90	2.65	2.40	2.15	1.90	1.65"

1 (c) WITHHOLDING OF TAX ON CERTAIN NONRESIDENT
2 ALIENS.—
3 (1) Section 1441 (a) (relating to general rule) is
4 amended by striking out "the tax shall be equal to 18
5 percent of such item." and inserting in lieu thereof:
6 "the tax shall be equal to—
7 "(1) 15 percent in the case of payments made dur-
8 ing the calendar year 1964, and
9 "(2) 14 percent in the case of payments made after
10 December 31, 1964."
11 (2) Section 1441 (b) (relating to income items)
12 is amended by striking out "18 percent" and by insert-
13 ing in lieu thereof "15 percent or 14 percent (as the
14 case may be)".
15 (d) EFFECTIVE DATES.—The amendments made by sub-
16 sections (a) and (b) of this section shall apply with re-
17 spect to remuneration paid after December 31, 1963. The
18 amendment made by subsection (c) of this section shall
19 apply with respect to payments made after December 31,
20 1963.

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SECTION 8

BILL AS REPORTED BY THE COMMITTEE ON WAYS AND MEANS

Union Calendar No. 303

88TH CONGRESS
1ST SESSION

H. R. 8363

[Report No. 749]

IN THE HOUSE OF REPRESENTATIVES

SEPTEMBER 10, 1963

Mr. MILLS introduced the following bill; which was referred to the Committee on Ways and Means

SEPTEMBER 13, 1963

Committed to the Committee of the Whole House on the State of the Union and ordered to be printed

A BILL

To amend the Internal Revenue Code of 1954 to reduce individual and corporate income taxes, to make certain structural changes with respect to the income tax, and for other purposes.

1 *Be it enacted by the Senate and House of Representa-*
2 *tives of the United States of America in Congress assembled,*
3 **SECTION 1. DECLARATION BY CONGRESS.**
4 It is the sense of Congress that the tax reduction pro-
5 vided by this Act through stimulation of the economy, will,
6 after a brief transitional period, raise (rather than lower)
7 revenues and that such revenue increases should first be
8 used to eliminate the deficits in the administrative budgets
9 and then to reduce the public debt. To further the objective

I

1 of obtaining balanced budgets in the near future, Congress
2 by this action, recognizes the importance of taking all reason-
3 able means to restrain Government spending and urges the
4 President to declare his accord with this objective.

5 **SEC. 2. SHORT TITLE, ETC.**

6 (a) SHORT TITLE.—This Act may be cited as the
7 "Revenue Act of 1963".

8 (b) AMENDMENT OF 1954 CODE.—Except as otherwise
9 expressly provided, whenever in this Act an amendment or
10 repeal is expressed in terms of an amendment to, or repeal
11 of, a section or other provision, the reference shall be con-
12 sidered to be made to a section or other provision of the
13 Internal Revenue Code of 1954.

14 Title I—Reduction Of Income Tax Rates
15 And Related Amendments

16 PART I—INDIVIDUALS

17 **SEC. 111. REDUCTION OF TAX ON INDIVIDUALS.**

18 (a) INDIVIDUALS OTHER THAN HEADS OF HOUSE-
19 HOLDS.—Subsection (a) of section 1 (relating to rates of tax
20 on individuals other than heads of households) is amended
21 to read as follows:

22 "(a) RATES OF TAX ON INDIVIDUALS.—
23 "(1) TAXABLE YEARS BEGINNING IN 1964.—In
24 the case of a taxable year beginning on or after January
25 1, 1964, and before January 1, 1965, there is hereby im-

1 posed on the taxable income of every individual (other
2 than a head of a household to whom subsection (b) ap-
3 plies) a tax determined in accordance with the follow-
4 ing table:

"If the taxable income is:	The tax is:
Not over $500	16% of the taxable income.
Over $500 but not over $1,000	$80, plus 16.5% of excess over $500.
Over $1,000 but not over $1,500	$162.50, plus 17.5% of excess over $1,000.
Over $1,500 but not over $2,000	$250, plus 18% of excess over $1,500.
Over $2,000 but not over $4,000	$340, plus 20% of excess over $2,000.
Over $4,000 but not over $6,000	$740, plus 23.5% of excess over $4,000.
Over $6,000 but not over $8,000	$1,210, plus 27% of excess over $6,000.
Over $8,000 but not over $10,000	$1,750, plus 30.5% of excess over $8,000.
Over $10,000 but not over $12,000	$2,360, plus 34% of excess over $10,000.
Over $12,000 but not over $14,000	$3,040, plus 37.5% of excess over $12,000.
Over $14,000 but not over $16,000	$3,790, plus 41% of excess over $14,000.
Over $16,000 but not over $18,000	$4,610, plus 44.5% of excess over $16,000.
Over $18,000 but not over $20,000	$5,500, plus 47.5% of excess over $18,000.
Over $20,000 but not over $22,000	$6,450, plus 50.5% of excess over $20,000.
Over $22,000 but not over $26,000	$7,460, plus 53.5% of excess over $22,000.
Over $26,000 but not over $32,000	$9,600, plus 56% of excess over $26,000.
Over $32,000 but not over $38,000	$12,960, plus 58.5% of excess over $32,000.
Over $38,000 but not over $44,000	$16,470, plus 61% of excess over $38,000.
Over $44,000 but not over $50,000	$20,130, plus 63.5% of excess over $44,000.
Over $50,000 but not over $60,000	$23,940, plus 66% of excess over $50,000.
Over $60,000 but not over $70,000	$30,540, plus 68.5% of excess over $60,000.
Over $70,000 but not over $80,000	$37,390, plus 71% of excess over $70,000.
Over $80,000 but not over $90,000	$44,490, plus 73.5% of excess over $80,000.

"If the taxable income is:	The tax is:
Over $90,000 but not over $100,000	$51,840, plus 75% of excess over $90,000.
Over $100,000 but not over $200,000	$59,340, plus 76.5% of excess over $100,000.
Over $200,000	$135,840, plus 77% of excess over $200,000.

1 "(2) TAXABLE YEARS BEGINNING AFTER DECEM-
2 BER 31, 1964.—In the case of a taxable year beginning
3 after December 31, 1964, there is hereby imposed on
4 the taxable income of every individual (other than a
5 head of a household to whom subsection (b) applies) a
6 tax determined in accordance with the following table:

"If the taxable income is:	The tax is:
Not over $500	14% of the taxable income.
Over $500 but not over $1,000	$70, plus 15% of excess over $500.
Over $1,000 but not over $1,500	$145, plus 16% of excess over $1,000.
Over $1,500 but not over $2,000	$225, plus 17% of excess over $1,500.
Over $2,000 but not over $4,000	$310, plus 19% of excess over $2,000.
Over $4,000 but not over $6,000	$690, plus 22% of excess over $4,000.
Over $6,000 but not over $8,000	$1,130, plus 25% of excess over $6,000.
Over $8,000 but not over $10,000	$1,630, plus 28% of excess over $8,000.
Over $10,000 but not over $12,000	$2,190, plus 32% of excess over $10,000.
Over $12,000 but not over $14,000	$2,830, plus 36% of excess over $12,000.
Over $14,000 but not over $16,000	$3,550, plus 39% of excess over $14,000.
Over $16,000 but not over $18,000	$4,330, plus 42% of excess over $16,000.
Over $18,000 but not over $20,000	$5,170, plus 45% of excess over $18,000.
Over $20,000 but not over $22,000	$6,070, plus 48% of excess over $20,000.
Over $22,000 but not over $26,000	$7,030, plus 50% of excess over $22,000.
Over $26,000 but not over $32,000	$9,030, plus 53% of excess over $26,000.
Over $32,000 but not over $38,000	$12,210, plus 55% of excess over $32,000.
Over $38,000 but not over $44,000	$15,510, plus 58% of excess over $38,000.

"If the taxable income is:	The tax is:
Over $44,000 but not over $50,000	$18,990, plus 60% of excess over $44,000.
Over $50,000 but not over $60,000	$22,590, plus 62% of excess over $50,000.
Over $60,000 but not over $70,000	$28,790, plus 64% of excess over $60,000.
Over $70,000 but not over $80,000	$35,190, plus 66% of excess over $70,000.
Over $80,000 but not over $90,000	$41,790, plus 68% of excess over $80,000.
Over $90,000 but not over $100,000	$48,590, plus 69% of excess over $90,000.
Over $100,000	$55,490, plus 70% of excess over $100,000."

1 (b) HEADS OF HOUSEHOLDS.—Paragraph (1) of sec-
2 tion 1(b) (relating to rates of tax on heads of households)
3 is amended to read as follows:
4 "(1) RATES OF TAX.—
5 "(A) TAXABLE YEARS BEGINNING IN 1964.—
6 In the case of a taxable year beginning on or after
7 January 1, 1964, and before January 1, 1965,
8 there is hereby imposed on the taxable income of
9 every individual who is the head of a household a
10 tax determined in accordance with the following
11 table:

"If the taxable income is:	The tax is:
Not over $1,000	16% of the taxable income.
Over $1,000 but not over $2,000	$160, plus 17.5% of excess over $1,000.
Over $2,000 but not over $4,000	$335, plus 19% of excess over $2,000.
Over $4,000 but not over $6,000	$715, plus 22% of excess over $4,000.
Over $6,000 but not over $8,000	$1,155, plus 23% of excess over $6,000.
Over $8,000 but not over $10,000	$1,615, plus 27% of excess over $8,000.
Over $10,000 but not over $12,000	$2,155, plus 29% of excess over $10,000.
Over $12,000 but not over $14,000	$2,735, plus 32% of excess over $12,000.

"If the taxable income is:	The tax is:
Over $14,000 but not over $16,000----	$3,375, plus 34% of excess over $14,000.
Over $16,000 but not over $18,000----	$4,055, plus 37.5% of excess over $16,000.
Over $18,000 but not over $20,000----	$4,805, plus 39% of excess over $18,000.
Over $20,000 but not over $22,000----	$5,585, plus 42.5% of excess over $20,000.
Over $22,000 but not over $24,000----	$6,435, plus 43.5% of excess over $22,000.
Over $24,000 but not over $26,000----	$7,305, plus 45.5% of excess over $24,000.
Over $26,000 but not over $28,000----	$8,215, plus 47% of excess over $26,000.
Over $28,000 but not over $32,000----	$9,155, plus 48.5% of excess over $28,000.
Over $32,000 but not over $36,000----	$11,095, plus 51.5% of excess over $32,000.
Over $36,000 but not over $38,000----	$13,155, plus 53% of excess over $36,000.
Over $38,000 but not over $40,000----	$14,215, plus 54% of excess over $38,000.
Over $40,000 but not over $44,000----	$15,295, plus 56% of excess over $40,000.
Over $44,000 but not over $50,000----	$17,535, plus 58.5% of excess over $44,000.
Over $50,000 but not over $52,000----	$21,045, plus 59.5% of excess over $50,000.
Over $52,000 but not over $60,000----	$22,235, plus 61% of excess over $52,000.
Over $60,000 but not over $64,000----	$27,115, plus 62% of excess over $60,000.
Over $64,000 but not over $70,000----	$29,595, plus 63.5% of excess over $64,000.
Over $70,000 but not over $76,000----	$33,405, plus 65% of excess over $70,000.
Over $76,000 but not over $80,000----	$37,305, plus 66% of excess over $76,000.
Over $80,000 but not over $88,000----	$39,945, plus 67% of excess over $80,000.
Over $88,000 but not over $90,000----	$45,305, plus 69% of excess over $88,000.
Over $90,000 but not over $100,000---	$46,685, plus 69.5% of excess over $90,000.
Over $100,000 but not over $120,000--	$53,635, plus 71% of excess over $100,000.
Over $120,000 but not over $140,000--	$67,835, plus 72.5% of excess over $120,000.
Over $140,000 but not over $160,000--	$82,335, plus 74% of excess over $140,000.
Over $160,000 but not over $180,000--	$97,135, plus 75% of excess over $160,000.
Over $180,000 but not over $200,000--	$112,135, plus 75.5% of excess over $180,000.
Over $200,000--------------------	$127,235, plus 77% of excess over $200,000.

1 "(B) TAXABLE YEARS BEGINNING AFTER
2 DECEMBER 31, 1964.—In the case of a taxable year
3 beginning after December 31, 1964, there is hereby
4 imposed on the taxable income of every individual
5 who is the head of a household a tax determined in
6 accordance with the following table:

"If the taxable income is:	The tax is:
Not over $1,000	14% of the taxable income.
Over $1,000 but not over $2,000	$140, plus 16% of excess over $1,000.
Over $2,000 but not over $4,000	$300, plus 18% of excess over $2,000.
Over $4,000 but not over $6,000	$660, plus 20% of excess over $4,000.
Over $6,000 but not over $8,000	$1,060, plus 22% of excess over $6,000.
Over $8,000 but not over $10,000	$1,500, plus 25% of excess over $8,000.
Over $10,000 but not over $12,000	$2,000, plus 27% of excess over $10,000.
Over $12,000 but not over $14,000	$2,540, plus 31% of excess over $12,000.
Over $14,000 but not over $16,000	$3,160, plus 32% of excess over $14,000.
Over $16,000 but not over $18,000	$3,800, plus 35% of excess over $16,000.
Over $18,000 but not over $20,000	$4,500, plus 36% of excess over $18,000.
Over $20,000 but not over $22,000	$5,220, plus 40% of excess over $20,000.
Over $22,000 but not over $24,000	$6,020, plus 41% of excess over $22,000.
Over $24,000 but not over $26,000	$6,840, plus 43% of excess over $24,000.
Over $26,000 but not over $28,000	$7,700, plus 45% of excess over $26,000.
Over $28,000 but not over $32,000	$8,600, plus 46% of excess over $28,000.
Over $32,000 but not over $36,000	$10,440, plus 48% of excess over $32,000.
Over $36,000 but not over $38,000	$12,360, plus 50% of excess over $36,000.
Over $38,000 but not over $40,000	$13,360, plus 52% of excess over $38,000.
Over $40,000 but not over $44,000	$14,400, plus 53% of excess over $40,000.
Over $44,000 but not over $50,000	$16,520, plus 55% of excess over $44,000.
Over $50,000 but not over $52,000	$19,820, plus 56% of excess over $50,000.

"If the taxable income is:	The tax is:
Over $52,000 but not over $64,000	$20,940, plus 58% of excess over $52,000.
Over $64,000 but not over $70,000	$27,900, plus 59% of excess over $64,000.
Over $70,000 but not over $76,000	$31,440, plus 61% of excess over $70,000.
Over $76,000 but not over $80,000	$35,100, plus 62% of excess over $76,000.
Over $80,000 but not over $88,000	$37,580, plus 63% of excess over $80,000.
Over $88,000 but not over $100,000	$42,620, plus 64% of excess over $88,000.
Over $100,000 but not over $120,000	$50,300, plus 66% of excess over $100,000.
Over $120,000 but not over $140,000	$63,500, plus 67% of excess over $120,000.
Over $140,000 but not over $160,000	$76,900, plus 68% of excess over $140,000.
Over $160,000 but not over $180,000	$90,500, plus 69% of excess over $160,000.
Over $180,000	$104,300, plus 70% of excess over $180,000."

1 **SEC. 112. MINIMUM STANDARD DEDUCTION.**

2 (a) GENERAL RULE.—Section 141 (relating to standard
3 deduction) is amended to read as follows:

4 **"SEC. 141. STANDARD DEDUCTION.**

5 "(a) STANDARD DEDUCTION.—Except as otherwise
6 provided in this section, the standard deduction referred to
7 in this title is the larger of the 10-percent standard deduction
8 or the minimum standard deduction. The standard deduc-
9 tion shall not exceed $1,000, except that in the case of a
10 separate return by a married individual the standard deduc-
11 tion shall not exceed $500.

12 "(b) TEN-PERCENT STANDARD DEDUCTION.—The 10-
13 percent standard deduction is an amount equal to 10 percent
14 of the adjusted gross income.

1 "(c) MINIMUM STANDARD DEDUCTION.—The mini-
2 mum standard deduction is an amount equal to the sum of—
3 "(1) $100, multiplied by the number of exemptions
4 allowed for the taxable year as a deduction under section
5 151, plus
6 "(2) (A) $200, in the case of a joint return of a
7 husband and wife under section 6013,
8 "(B) $200, in the case of a return of an individual
9 who is not married, or
10 "(C) $100, in the case of a separate return by a
11 married individual.
12 "(d) MARRIED INDIVIDUALS FILING SEPARATE RE-
13 TURNS.—Notwithstanding subsection (a)—
14 "(1) The minimum standard deduction shall not
15 apply in the case of a separate return by a married in-
16 dividual if the tax of the other spouse is determined with
17 regard to the 10-percent standard deduction.
18 "(2) A married individual filing a separate return
19 may, if the minimum standard deduction is less than the
20 10-percent standard deduction, and if the minimum
21 standard deduction of his spouse is greater than the
22 10-percent standard deduction of such spouse, elect
23 (under regulations prescribed by the Secretary or his
24 delegate) to have his tax determined with regard to

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1 the minimum standard deduction in lieu of being de-
2 termined with regard to the 10-percent standard de-
3 duction."
4 (b) AMENDMENT OF SECTION 2.—The second sentence
5 of section 2 (a) (relating to tax in case of joint return or re-
6 turn of surviving spouse) is amended by striking out "and
7 section 3" and inserting in lieu thereof ", section 3, and sec-
8 tion 141".
9 (c) AMENDMENTS OF SECTION 144.—
10 (1) The first sentence of section 144 (b) (relating
11 to change of election of standard deduction) is amended
12 to read as follows: "Under regulations prescribed by
13 the Secretary or his delegate, a change of election
14 with respect to the standard deduction for any taxable
15 year may be made after the filing of the return for such
16 year."
17 (2) Section 144 is amended by adding at the end
18 thereof the following new subsection:
19 "(c) CHANGE OF ELECTION DEFINED.—For purposes
20 of this title, the term 'change of election with respect to the
21 standard deduction' means—
22 "(1) a change of an election to take (or not to
23 take) the standard deduction;

1 "(2) a change of an election to pay (or not to
2 pay) the tax under section 3; or
3 "(3) a change of an election under section
4 141(d)(2)."
5 (d) CONFORMING AMENDMENTS.—
6 (1) Subparagraph (A) of section 6212(c)(2)
7 (relating to cross references) is amended by striking out
8 "**to take**" and inserting in lieu thereof "**with respect to**
9 **the**".
10 (2) Paragraph (3) of section 6504 (relating to
11 cross references) is amended by striking out "**to take**"
12 and inserting in lieu thereof "**with respect to the**".
13 **SEC. 113. RELATED AMENDMENTS.**
14 (a) RETIREMENT INCOME CREDIT.—Section 37(a)
15 (relating to credit against tax for retirement income) is
16 amended by striking out "an amount equal to the amount
17 received by such individual as retirement income (as defined
18 in subsection (c) and as limited by subsection (d)), multi-
19 plied by the rate provided in section 1 for the first $2,000
20 of taxable income;" and inserting in lieu thereof "an amount
21 equal to 15 percent of the amount received by such individual

1 as retirement income (as defined in subsection (c) and as
2 limited by subsection (d));".
3 (b) TAX ON NONRESIDENT ALIEN INDIVIDUALS.—
4 Section 871 (relating to tax on nonresident alien individuals)
5 is amended—
6 (1) By striking out "is more than $15,400, except
7 that—" in subsection (b) and inserting in lieu thereof
8 "is more than $19,000 in the case of a taxable year
9 beginning in 1964 or more than $21,200 in the case of
10 a taxable year beginning after 1964, except that—".
11 (2) By striking out the heading to subsection (a)
12 and inserting in lieu thereof the following:
13 "(a) NO UNITED STATES BUSINESS—30 PERCENT
14 TAX.—".
15 (3) By striking out the heading to subsection (b)
16 and inserting in lieu thereof the following:
17 "(b) NO UNITED STATES BUSINESS—REGULAR
18 TAX.—".
19 **SEC. 114. CROSS REFERENCES TO TAX TABLES, ETC.**

(1) For optional tax if adjusted gross income is less than $5,000, see section 301 of this Act.

(2) For income tax collected at source, see section 302 of this Act.

1 PART II—CORPORATIONS

2 SEC. 121. REDUCTION OF TAX ON CORPORATIONS.

3 Section 11 (relating to tax on corporations) is amended
4 to read as follows:

5 "SEC. 11. TAX IMPOSED.

6 "(a) CORPORATIONS IN GENERAL.—A tax is hereby
7 imposed for each taxable year on the taxable income of
8 every corporation. The tax shall consist of a normal tax
9 computed under subsection (b) and a surtax computed under
10 subsection (c).

11 "(b) NORMAL TAX.—The normal tax is equal to the
12 following percentage of the taxable income:

13 "(1) 30 percent, in the case of a taxable year
14 beginning before January 1, 1964, and

15 "(2) 22 percent, in the case of a taxable year
16 beginning after December 31, 1963.

17 "(c) SURTAX.—The surtax is equal to the following
18 percentage of the amount by which the taxable income
19 exceeds the surtax exemption for the taxable year:

20 "(1) 22 percent, in the case of a taxable year
21 beginning before January 1, 1964,

1 "(2) 28 percent, in the case of a taxable year
2 beginning after December 31, 1963, and before Jan-
3 uary 1, 1965, and
4 "(3) 26 percent, in the case of a taxable year
5 beginning after December 31, 1964.
6 "(d) SURTAX EXEMPTION.—For purposes of this sub-
7 title, the surtax exemption for any taxable year is $25,000
8 or the amount determined under section 1561 (relating to
9 surtax exemptions in case of certain controlled corporations).
10 "(e) EXCEPTIONS.—Subsection (a) shall not apply to
11 a corporation subject to a tax imposed by—
12 "(1) section 594 (relating to mutual savings banks
13 conducting life insurance business),
14 "(2) subchapter L (sec. 801 and following, relat-
15 ing to insurance companies),
16 "(3) subchapter M (sec. 851 and following, re-
17 lating to regulated investment companies and real estate
18 investment trusts), or
19 "(4) section 881(a) (relating to foreign corpora-
20 tions not engaged in business in United States)."
21 **SEC. 122. CURRENT TAX PAYMENTS BY CORPORATIONS.**
22 (a) INSTALLMENT PAYMENTS OF ESTIMATED INCOME
23 TAX BY CORPORATIONS.—Section 6154 (relating to install-

1 ment payments of estimated income tax by corporations)
2 is amended to read as follows:
3 "SEC. 6154. INSTALLMENT PAYMENTS OF ESTIMATED IN-
4 COME TAX BY CORPORATIONS.
5 "(a) AMOUNT AND TIME FOR PAYMENT OF EACH
6 INSTALLMENT.—The amount of estimated tax (as defined
7 in section 6016(b)) with respect to which a declaration is
8 required under section 6016 shall be paid as follows:
9 "(1) PAYMENT IN 4 INSTALLMENTS.—If the
10 declaration is filed on or before the 15th day of the
11 4th month of the taxable year, the estimated tax shall
12 be paid in 4 installments. The amount and time for
13 payment of each installment shall be determined in
14 accordance with the following table:

"If the taxable year begins in—	The following percentages of the estimated tax shall be paid on the 15th day of the—			
	4th month	6th month	9th month	12th month
1964	1	1	25	25
1965	4	4	25	25
1966	9	9	25	25
1967	14	14	25	25
1968	19	19	25	25
1969	22	22	25	25
1970 or any subsequent year	25	25	25	25

1 "(2) PAYMENT IN 3 INSTALLMENTS.—If the dec-
2 laration is filed after the 15th day of the 4th month and
3 not after the 15th day of the 6th month of the taxable
4 year, and is not required by section 6074 (a) to be
5 filed on or before the 15th day of such 4th month, the
6 estimated tax shall be paid in 3 installments. The
7 amount and time for payment of each installment shall
8 be determined in accordance with the following table:

"If the taxable year begins in—	The following percentages of the estimated tax shall be paid on the 15th day of the—		
	6th month	9th month	12th month
1964	1⅓	25⅓	25⅓
1965	5⅓	26⅓	26⅓
1966	12	28	28
1967	18⅔	29⅔	29⅔
1968	25⅓	31⅓	31⅓
1969	29⅓	32⅓	32⅓
1970 or any subsequent year	33⅓	33⅓	33⅓

9 "(3) PAYMENT IN 2 INSTALLMENTS.—If the
10 declaration of estimated tax is filed after the 15th day
11 of the 6th month and not after the 15th day of the 9th
12 month of the taxable year, and is not required by section
13 6074 (a) to be filed on or before the 15th day of such
14 6th month, the estimated tax shall be paid in 2 install-
15 ments. The amount and time for payment of each

1 installment shall be determined in accordance with the
2 following table:

"If the taxable year begins in—	The following percentages of the estimated tax shall be paid on the 15th day of the—	
	9th month	12th month
1964	26	26
1965	29	29
1966	34	34
1967	39	39
1968	44	44
1969	47	47
1970 or any subsequent year	50	50

3 "(4) PAYMENT IN 1 INSTALLMENT.—If the
4 declaration of estimated tax is filed after the 15th day
5 of the 9th month of the taxable year, and is not required
6 by section 6074 (a) to be filed on or before the 15th
7 day of such 9th month, the estimated tax shall be paid
8 in 1 installment. The amount and time for payment of
9 the installment shall be determined in accordance with
10 the following table:

"If the taxable year begins in—	The following percentages of the estimated tax shall be paid on the 15th day of the 12th month
1964	52
1965	58
1966	68
1967	78
1968	88
1969	94
1970 or any subsequent year	100

1 "(5) LATE FILING.—If the declaration is filed after
2 the time prescribed in section 6074(a) (determined
3 without regard to any extension of time for filing the
4 declaration under section 6081), paragraphs (2), (3),
5 and (4) of this subsection shall not apply, and there
6 shall be paid at the time of such filing all installments
7 of estimated tax which would have been payable on or
8 before such time if the declaration had been filed within
9 the time prescribed in section 6074(a), and the remain-
10 ing installments shall be paid at the times at which,
11 and in the amounts in which, they would have been pay-
12 able if the declaration had been so filed.

13 "(b) AMENDMENT OF DECLARATION.—If any amend-
14 ment of a declaration is filed, the amount of each remaining
15 installment (if any) shall be the amount which would have
16 been payable if the new estimate had been made when the
17 first estimate for the taxable year was made, increased or de-
18 creased (as the case may be), by the amount computed by
19 dividing—

1 "(1) the difference between (A) the amount of
2 estimated tax required to be paid before the date on
3 which the amendment is made, and (B) the amount of
4 estimated tax which would have been required to be paid
5 before such date if the new estimate had been made
6 when the first estimate was made, by
7 "(2) the number of installments remaining to be
8 paid on or after the date on which the amendment is
9 made.
10 "(c) APPLICATION TO SHORT TAXABLE YEAR.—The
11 application of this section to taxable years of less than 12
12 months shall be in accordance with regulations prescribed by
13 the Secretary or his delegate.
14 "(d) INSTALLMENTS PAID IN ADVANCE.—At the elec-
15 tion of the corporation, any installment of the estimated tax
16 may be paid before the date prescribed for its payment."
17 (b) TIME FOR FILING DECLARATIONS OF ESTIMATED
18 INCOME TAX BY CORPORATIONS.—Section 6074 (relating

1 to time for filing declarations of estimated income tax by cor-
2 porations) is amended to read as follows:
3 "SEC. 6074. TIME FOR FILING DECLARATIONS OF ESTI-
4 MATED INCOME TAX BY CORPORATIONS.
5 "(a) GENERAL RULE.—The declaration of estimated tax
6 required of corporations by section 6016 shall be filed as
7 follows:

"If the requirements of section 6016 are first met—	The declaration shall be filed on or before—
before the 1st day of the 4th month of the taxable year	the 15th day of the 4th month of the taxable year
after the last day of the 3d month and before the 1st day of the 6th month of the taxable year	the 15th day of the 6th month of the taxable year
after the last day of the 5th month and before the 1st day of the 9th month of the taxable year	the 15th day of the 9th month of the taxable year
after the last day of the 8th month and before the 1st day of the 12th month of the taxable year	the 15th day of the 12th month of the taxable year

8 "(b) AMENDMENT.—An amendment of a declaration
9 may be filed in any interval between installment dates
10 prescribed for the taxable year, but only one amendment
11 may be filed in each such interval.
12 "(c) SHORT TAXABLE YEAR.—The application of this
13 section to taxable years of less than 12 months shall be in
14 accordance with regulations prescribed by the Secretary or
15 his delegate."

1 (c) FAILURE BY CORPORATIONS TO PAY ESTIMATED
2 INCOME TAX.—
3 (1) The last sentence of section 6655 (c) (2) (re-
4 lating to period of underpayment) is amended to read
5 as follows: "For purposes of this paragraph, a payment
6 of estimated tax on any installment date shall be con-
7 sidered a payment of any previous underpayment only to
8 the extent such payment exceeds the amount of the in-
9 stallment determined under subsection (b) (1) for such
10 installment date."
11 (2) Paragraph (3) of section 6655 (d) (relating
12 to exception) is amended to read as follows:
13 "(3) (A) An amount equal to 70 percent of the
14 tax for the taxable year computed by placing on an
15 annualized basis the taxable income:
16 "(i) for the first 3 months of the taxable year,
17 in the case of the installment required to be paid in
18 the 4th month,
19 "(ii) for the first 3 months or for the first 5
20 months of the taxable year, in the case of the in-
21 stallment required to be paid in the 6th month,
22 "(iii) for the first 6 months or for the first 8
23 months of the taxable year in the case of the install-
24 ment required to be paid in the 9th month, and

1 "(iv) for the first 9 months or for the first 11
2 months of the taxable year, in the case of the in-
3 stallment required to be paid in the 12th month of
4 the taxable year.
5 "(B) For purposes of this paragraph, the taxable
6 income shall be placed on an annualized basis by—
7 "(i) multiplying by 12 the taxable income re-
8 ferred to in subparagraph (A), and
9 "(ii) dividing the resulting amount by the num-
10 ber of months in the taxable year (3, 5, 6, 8, 9, or
11 11, as the case may be) referred to in subparagraph
12 (A)."
13 (d) TECHNICAL AMENDMENT.—Section 6016(f) (re-
14 lating to declarations of estimated income tax by corpora-
15 tions) is amended to read as follows:
16 "(f) CROSS REFERENCE.—

"For provisions relating to the number of amendments which may be filed, see section 6074(b)."

17 **SEC. 123. RELATED AMENDMENTS.**
18 (a) TAX ON MUTUAL INSURANCE COMPANIES
19 (OTHER THAN LIFE, ETC.)—
20 (1) Subsection (a) of section 821 (relating to
21 imposition of tax) is amended to read as follows:
22 "(a) IMPOSITION OF TAX.—A tax is hereby imposed
23 for each taxable year beginning after December 31, 1963,

1 on the mutual insurance company taxable income of every
2 mutual insurance company (other than a life insurance com-
3 pany and other than a fire, flood, or marine insurance com-
4 pany subject to the tax imposed by section 831). Such
5 tax shall consist of—

6 "(1) NORMAL TAX.—A normal tax of 22 percent
7 of the mutual insurance company taxable income, or 44
8 percent of the amount by which such taxable income
9 exceeds $6,000, whichever is the lesser; plus

10 "(2) SURTAX.—A surtax on the mutual insurance
11 company taxable income computed as provided in sec-
12 tion 11(c) as though the mutual insurance company
13 taxable income were the taxable income referred to in
14 section 11(c)."

15 (2) Paragraph (1) of section 821(c) (relating to
16 alternative tax for certain small companies) is amended
17 to read as follows:

18 "(1) IMPOSITION OF TAX.—In the case of taxable
19 years beginning after December 31, 1963, there is here-
20 by imposed for each taxable year on the income of each
21 mutual insurance company to which this subsection
22 applies a tax (which shall be in lieu of the tax im-
23 posed by subsection (a)) computed as follows:

24 "(A) NORMAL TAX.—A normal tax of 22 per-
25 cent of the taxable investment income, or 44 per-

1 cent of the amount by which such taxable income
2 exceeds $3,000, whichever is the lesser; plus
3 "(B) SURTAX.—A surtax on the taxable in-
4 vestment income computed as provided in section
5 11(c) as though the taxable investment income
6 were the taxable income referred to in section
7 11(c)."
8 (b) RECEIPT OF MINIMUM DISTRIBUTIONS BY DOMES-
9 TIC CORPORATIONS.—Subsection (b) of section 963 (relat-
10 ing to receipt of minimum distributions by domestic cor-
11 porations) is amended to read as follows:
12 "(b) MINIMUM DISTRIBUTION.—For purposes of this
13 section, a minimum distribution with respect to the earnings
14 and profits for the taxable year of any controlled foreign cor-
15 poration or corporations shall, in the case of any United
16 States shareholder, be its pro rata share of an amount deter-
17 mined in accordance with whichever of the following tables
18 applies to the taxable year:
19 "(1) TAXABLE YEARS BEGINNING IN 1963.—

"If the effective foreign tax rate is (percentage)—	The required minimum distribution of earnings and profits is (percentage)—
Under 10	90
10 or over but less than 20	86
20 or over but less than 28	82
28 or over but less than 34	75
34 or over but less than 39	68
39 or over but less than 42	55
42 or over but less than 44	40
44 or over but less than 46	27
46 or over but less than 47	14
47 or over	0

1 "(2) TAXABLE YEARS BEGINNING IN 1964.—

"If the effective foreign tax rate is (percentage)—	The required minimum distribution of earnings and profits is (percentage)—
Under 10	87
10 or over but less than 19	83
19 or over but less than 27	79
27 or over but less than 33	72
33 or over but less than 37	65
37 or over but less than 40	53
40 or over but less than 42	38
42 or over but less than 44	26
44 or over but less than 45	13
45 or over	0

2 "(3) TAXABLE YEARS BEGINNING AFTER DECEM-
3 BER 31, 1964.—

"If the effective foreign tax rate is (percentage)—	The required minimum distribution of earnings and profits is (percentage)—
Under 9	83
9 or over but less than 18	79
18 or over but less than 26	76
26 or over but less than 32	69
32 or over but less than 36	63
36 or over but less than 39	51
39 or over but less than 41	37
41 or over but less than 42	25
42 or over but less than 43	13
43 or over	0"

4 (c) AMENDMENT OF SECTION 242.—Section 242 (a)
5 (relating to deduction for partially tax-exempt interest) is
6 amended by adding at the end thereof the following new
7 sentence: "No deduction shall be allowed under this section
8 for purposes of any surtax imposed by this subtitle."

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1 PART III—EFFECTIVE DATES

2 SEC. 131. GENERAL RULE.

3 Except for purposes of section 21 of the Internal Reve-
4 nue Code of 1954 (relating to effect of changes in rates
5 during a taxable year), the amendments made by parts
6 I and II of this title shall apply with respect to taxable
7 years beginning after December 31, 1963.

8 SEC. 132. FISCAL YEAR TAXPAYERS.

9 Effective with respect to taxable years ending after
10 December 31, 1963, subsection (d) of section 21 (relating
11 to effect of changes in rates during a taxable year) is
12 amended to read as follows:

13 "(d) CHANGES MADE BY REVENUE ACT OF 1963.—
14 "(1) INDIVIDUALS.—In applying subsection (a)
15 to the taxable year of an individual beginning in 1963
16 and ending in 1964—
17 "(A) the rate of tax for the period on and after
18 January 1, 1964, shall be applied to the tax-
19 able income determined as if part IV of subchapter
20 B (relating to standard deduction for individuals),
21 as amended by the Revenue Act of 1963, applied
22 to taxable years ending after December 31, 1963,
23 and
24 "(B) section 4 (relating to rules for optional

1 tax), as amended by such Act, shall be applied to
2 taxable years ending after December 31, 1963.
3 In applying subsection (a) to a taxable year of an
4 individual beginning in 1963 and ending in 1964, or
5 beginning in 1964 and ending in 1965, the change in
6 the tax imposed under section 3 shall be treated as a
7 change in a rate of tax.
8 "(2) CORPORATIONS.—In applying subsection (a)
9 to a taxable year of a corporation beginning in 1963
10 and ending in 1964, if—
11 "(A) the surtax exemption of such corpora-
12 tion for such taxable year is less than $25,000 by
13 reason of the application of section 1561 (relating
14 to surtax exemptions in case of certain controlled
15 corporations), or
16 "(B) an additional tax is imposed on the tax-
17 able income of such corporation for such taxable
18 year by section 1562 (b) (relating to additional tax
19 in case of component members of controlled groups
20 which elect multiple surtax exemptions),
21 the change in the surtax exemption, or the imposition
22 of such additional tax, shall be treated as a change in a
23 rate of tax taking effect on January 1, 1964."

1 # Title II—Structural Changes

2 SEC. 201. DIVIDENDS RECEIVED BY INDIVIDUALS.

3 (a) REDUCTION OF 4 PERCENT CREDIT TO 2 PERCENT
4 CREDIT FOR CALENDAR YEAR 1964.—

5 (1) GENERAL RULE.—Section 34(a) (relating to
6 general rule for credit for dividends received) is amended
7 by striking out "an amount equal to 4 percent of the
8 dividends which are received after July 31, 1954, from
9 domestic corporations and are included in gross income"
10 and inserting in lieu thereof:

11 "an amount equal to the following percentage of the divi-
12 dends which are received from domestic corporations and are
13 included in gross income:

14 "(1) 4 percent of the amount of such dividends
15 which are received before January 1, 1964, and

16 "(2) 2 percent of the amount of such dividends
17 which are received during the calendar year 1964."

18 (2) LIMITATIONS.—Section 34(b)(2) (relating
19 to limitations on amount of credit) is amended—

20 (A) by inserting ", or beginning after Decem-
21 ber 31, 1963" after "1955" at the end of sub-
22 paragraph (A), and

23 (B) by inserting ", and beginning before Jan-
24 uary 1, 1964" after "1954" at the end of subpara-
25 graph (B).

1 (b) REPEAL OF CREDIT FOR DIVIDENDS RECEIVED BY
2 INDIVIDUALS.—Effective with respect to dividends received
3 after December 31, 1964, section 34 (relating to dividends
4 received by individuals) is hereby repealed.

5 (c) DOUBLING OF AMOUNT OF PARTIAL EXCLUSION
6 FROM GROSS INCOME OF DIVIDENDS RECEIVED BY INDIVID-
7 UALS.—Section 116 (a) (relating to partial exclusion from
8 gross income of dividends received by individuals) is
9 amended by striking out "$50" each place it appears and
10 inserting in lieu thereof "$100".

11 (d) CONFORMING AMENDMENTS.—

12 (1) The table of sections for subpart A of part IV
13 of subchapter A of chapter 1 is amended by striking
14 out

"Sec. 34. Dividends received by individuals."

15 (2) Section 35 (b) (1) is amended by striking out
16 "the sum of the credits allowable under sections 33 and
17 34" and inserting in lieu thereof "the credit allowable
18 under section 33".

19 (3) Section 37 (a) is amended by striking out
20 "section 34 (relating to credit for dividends received
21 by individuals),".

22 (4) Section 46 (a) (3) is amended by striking out
23 subparagraph (B), and by redesignating subparagraphs
24 (C) and (D) as "(B)" and "(C)", respectively.

1 (5) Section 584 (c) (2) is amended by striking
2 out "section 34 or".
3 (6) (A) Section 642 (a) is amended by striking
4 out paragraph (3);
5 (B) Section 642 (i) is amended to read as follows:
6 "(i) CROSS REFERENCES.—

"(1) For disallowance of standard deduction in case of estates and trusts, see section 142(b)(4).

"(2) For special rule for determining the time of receipt of dividends by a beneficiary under section 652 or 662, see section 116(c)(3)."

7 (C) Section 116 (c) is amended by adding at the
8 end thereof the following new paragraph:
9 "(3) The amount of dividends properly allocable
10 to a beneficiary under section 652 or 662 shall be deemed
11 to have been received by the beneficiary ratably on the
12 same date that the dividends were received by the
13 estate or trust."
14 (7) Section 702 (a) (5) is amended by striking out
15 "a credit under section 34," and the comma after "sec-
16 tion 116".
17 (8) Section 854 (a) is amended by striking out
18 "section 34 (a) (relating to credit for dividends re-
19 ceived by individuals)," and the comma after "section
20 116 (relating to an exclusion for dividends received by
21 individuals)".

1 (9) Section 854 (b) (1) is amended by striking out
2 "the credit under section 34 (a)," and the comma after
3 "section 116".
4 (10) Section 854 (b) (2) is amended by striking
5 out "the credit under section 34," and the comma after
6 "section 116".
7 (11) Section 857 (c) is amended by striking out
8 "section 34 (a) (relating to credit for dividends received
9 by individuals)," and the comma after "section 116
10 (relating to an exclusion for dividends received by
11 individuals)".
12 (12) Section 871 (b) is amended by striking out
13 "the sum of the credits under sections 34 and 35" and
14 inserting in lieu thereof "the credit under section 35".
15 (13) Section 1375 (b) is amended by striking out
16 "section 34," and the comma after "section 37".
17 (14) Section 6014 (a) is amended by striking out
18 "34 or".
19 (e) Effective Dates.—The amendments made by
20 subsection (a) shall apply with respect to taxable years end-
21 ing after December 31, 1963. The amendment made by sub-
22 section (b) shall apply with respect to taxable years ending
23 after December 31, 1964. The amendment made by sub-
24 section (c) shall apply with respect to taxable years begin-

1 ning after December 31, 1963. The amendments made
2 by subsection (d) shall apply with respect to dividends
3 received after December 31, 1964, in taxable years ending
4 after such date.

5 **SEC. 202. REPEAL OF REQUIREMENT THAT BASIS OF SEC-**
6 **TION 38 PROPERTY BE REDUCED BY 7 PER-**
7 **CENT; OTHER PROVISIONS RELATING TO IN-**
8 **VESTMENT CREDIT.**

9 (a) REPEAL OF REQUIREMENT THAT BASIS BE RE-
10 DUCED.—

11 (1) IN GENERAL.—Subsection (g) of section 48
12 (requiring that the basis of section 38 property be re-
13 duced by 7 percent of the qualified investment) is here-
14 by repealed.

15 (2) INCREASE IN BASIS OF PROPERTY PLACED IN
16 SERVICE BEFORE JULY 1, 1963.—

17 (A) The basis of any section 38 property (as
18 defined in section 48(a) of the Internal Revenue
19 Code of 1954) placed in service before July 1,
20 1963, shall be increased, under regulations pre-
21 scribed by the Secretary of the Treasury or his dele-
22 gate, by an amount equal to 7 percent of the quali-
23 fied investment with respect to such property un-
24 der section 46(c) of the Internal Revenue Code
25 of 1954. If there has been any increase with respect

1 to such property under section 48 (g) (2) of such
2 Code, the increase under the preceding sentence
3 shall be appropriately reduced therefor.
4 (B) If a lessor made the election provided by
5 section 48 (d) of the Internal Revenue Code of 1954
6 with respect to property placed in service before
7 July 1, 1963—
8 (i) subparagraph (A) shall not apply
9 with respect to such property, but
10 (ii) under regulations prescribed by the
11 Secretary of the Treasury or his delegate, the
12 deductions otherwise allowable under section
13 162 of such Code to the lessee for amounts
14 paid to the lessor under the lease (or, if such
15 lessee has purchased such property, the basis
16 of such property) shall be adjusted in a manner
17 consistent with subparagraph (A).
18 (C) The adjustments under this paragraph
19 shall be made as of the first day of the taxpayer's
20 first taxable year which begins after June 30, 1963.
21 (3) CONFORMING AMENDMENTS.—
22 (A) The last sentence of section 48 (d) (re-
23 lating to certain leased property) is hereby repealed.
24 (B) Section 181 (relating to deduction for cer-

1 tain unused investment credit) is hereby repealed.
2 (C) Section 1016 (a) (19) (relating to adjust-
3 ments to basis) is amended to read as follows:
4 "(19) to the extent provided in section 48 (g) and
5 in section 202 (a) (2) of the Revenue Act of 1963, in
6 the case of property which is or has been section 38
7 property (as defined in section 48 (a)) ;"
8 (D) The table of sections for part VI of sub-
9 chapter B of chapter 1 is amended by striking out
10 the following:

"Sec. 181. Deduction for certain unused investment credit."

11 (4) EFFECTIVE DATE.—Paragraphs (1) and (3)
12 of this subsection shall apply—
13 (A) in the case of property placed in service
14 after June 30, 1963, with respect to taxable years
15 ending after such date, and
16 (B) in the case of property placed in service
17 before July 1, 1963, with respect to taxable years
18 beginning after June 30, 1963.
19 (b) BASIS OF CERTAIN LEASED PROPERTY TO
20 LESSEE.—Paragraphs (1) and (2) of section 48 (d) (relat-
21 ing to certain leased property) are amended to read as
22 follows:
23 "(1) except as provided in paragraph (2), the
24 fair market value of such property, or

1 "(2) if such property is leased by a corporation
2 which is a member of an affiliated group (within the
3 meaning of section 46(a)(5)) to another corporation
4 which is a member of the same affiliated group, the
5 basis of such property to the lessor."
6 (c) TREATMENT OF ELEVATORS AND ESCALATORS
7 FOR PURPOSES OF THE INVESTMENT CREDIT.—Section 48
8 (a)(1) (relating to section 38 property) is amended—
9 (1) by striking out the period at the end of sub-
10 paragraph (B) and inserting in lieu thereof ", or"; and
11 (2) by adding after subparagraph (B) the follow-
12 ing new subparagraph:
13 "(C) elevators and escalators, but only if—
14 "(i) the construction, reconstruction, or
15 erection of the elevator or escalator is completed
16 by the taxpayer after June 30, 1963, or
17 "(ii) the elevator or escalator is acquired
18 after June 30, 1963, and the original use of
19 such elevator or escalator commences with the
20 taxpayer and commences after such date."
21 (d) TREATMENT OF ELEVATORS AND ESCALATORS
22 FOR PURPOSES OF SECTION 1245.—Section 1245(a) (re-
23 lating to gain from dispositions of certain depreciable prop-
24 erty) is amended—
25 (1) by striking out so much of paragraph (2) as

1 precedes the second sentence thereof and inserting in
2 lieu thereof the following:
3 "(2) RECOMPUTED BASIS.—For purposes of this
4 section, the term 'recomputed basis' means—
5 "(A) with respect to any property referred
6 to in paragraph (3) (A) or (B), its adjusted
7 basis recomputed by adding thereto all adjustments,
8 attributable to periods after December 31, 1961, or
9 "(B) with respect to any property referred to
10 in paragraph (3) (C), its adjusted basis recomputed
11 by adding thereto all adjustments, attributable to
12 periods after June 30, 1963,
13 reflected in such adjusted basis on account of deductions
14 (whether in respect of the same or other property)
15 allowed or allowable to the taxpayer or to any other
16 person for depreciation, or for amortization under section
17 168.";
18 (2) by striking out the period at the end of para-
19 graph (3) (B) and inserting in lieu thereof ", or";
20 and
21 (3) by adding at the end of paragraph (3) the
22 following new subparagraph:
23 "(C) an elevator or an escalator."

1 (e) TREATMENT OF INVESTMENT CREDIT BY FED-
2 ERAL REGULATORY AGENCIES.—It was the intent of the
3 Congress in providing an investment credit under section 38
4 of the Internal Revenue Code of 1954, and it is the intent
5 of the Congress in repealing the reduction in basis required
6 by section 48 (g) of such Code, to provide an incentive for
7 modernization and growth of private industry (including that
8 portion thereof which is regulated). Accordingly, Congress
9 does not intend that any agency or instrumentality of the
10 United States having jurisdiction with respect to a taxpayer
11 shall, without the consent of the taxpayer, use—
12 (1) in the case of public utility property (as de-
13 fined in section 46 (c) (3) (B) of the Internal Revenue
14 Code of 1954), more than a proportionate part (deter-
15 mined with reference to the average useful life of the
16 property with respect to which the credit was allowed)
17 of the credit against tax allowed for any taxable year by
18 section 38 of such Code, or
19 (2) in the case of any other property, any credit
20 against tax allowed by section 38 of such Code,
21 to reduce such taxpayer's Federal income taxes for the pur-
22 pose of establishing the cost of service of the taxpayer or to
23 accomplish a similar result by any other method.

1 (f) EFFECTIVE DATES.—

2 (1) The amendments made by subsection (b) shall
3 apply with respect to property possession of which is
4 transferred to a lessee on or after the date of enactment
5 of this Act.

6 (2) The amendments made by subsection (c) shall
7 apply with respect to taxable years ending after June
8 30, 1963.

9 (3) The amendments made by subsection (d) shall
10 apply with respect to dispositions after December 31,
11 1963, in taxable years ending after such date.

12 **SEC. 203. GROUP-TERM LIFE INSURANCE PURCHASED FOR**
13 **EMPLOYEES.**

14 (a) INCLUSION IN INCOME.—

15 (1) Part II of subchapter B of chapter 1 (relating
16 to items specifically included in gross income) is
17 amended by adding at the end thereof the following new
18 section:

19 **"SEC. 79. GROUP-TERM LIFE INSURANCE PURCHASED**
20 **FOR EMPLOYEES.**

21 "(a) GENERAL RULE.—There shall be included in the
22 gross income of an employee for the taxable year an amount
23 equal to the cost of group-term life insurance on his life
24 provided for part or all of such year under a policy (or

1 policies) carried directly or indirectly by his employer (or
2 employers); but only to the extent that such cost exceeds
3 the sum of—
4 "(1) the cost of so much of such insurance as ex-
5 ceeds $30,000 of protection, and
6 "(2) the amount (if any) paid by the employee
7 toward the purchase of such insurance.
8 "(b) EXCEPTIONS.—Subsection (a) shall not apply
9 to—
10 "(1) the cost of group-term life insurance on the
11 life of an individual which is provided under a policy
12 carried directly or indirectly by an employer after such
13 individual has terminated his employment with such
14 employer and either has reached the retirement age with
15 respect to such employer or is disabled (within the
16 meaning of paragraph (3) of section 213(g), deter-
17 mined without regard to paragraph (4) thereof),
18 "(2) the cost of any portion of the group-term life
19 insurance on the life of an employee provided during
20 part or all of the taxable year of the employee under
21 which—
22 "(A) the employer is directly or indirectly
23 the beneficiary, or

1 "(B) a person described in section 170(c) is
2 the sole beneficiary,
3 for the entire period during such taxable year for
4 which the employee receives such insurance, and
5 "(3) the cost of any group-term life insurance
6 which is provided under a contract to which section
7 72(m)(3) applies.
8 "(c) DETERMINATION OF COST OF INSURANCE.—
9 "(1) UNIFORM PREMIUM TABLE METHOD.—For
10 purposes of this section and chapter 24, the cost of
11 group-term life insurance on the life of an employee
12 provided during any period shall be determined on the
13 basis of uniform premiums (computed on the basis of
14 5-year age brackets) prescribed by regulations by the
15 Secretary or his delegate.
16 "(2) POLICY COST METHOD.—If the employer so
17 elects (at such time and in such manner as the Secretary
18 or his delegate prescribes) with respect to any employee
19 for any period, the cost of group-term life insurance on
20 the life of such employee shall (in lieu of being deter-
21 mined under paragraph (1)) be determined on the basis
22 of the average premium cost under the policy for the
23 ages included within the age bracket which would be
24 applicable to such employee under paragraph (1). The
25 preceding sentence shall not apply for purposes of deter-

1 mining the cost of insurance provided under a policy if
2 the premium on such policy is not computed on the
3 basis of the cost of such insurance at the ages (or at the
4 age brackets applicable under paragraph (1)) of the
5 individuals comprising the group.

6 "(3) EMPLOYED INDIVIDUALS OVER AGE 64.—In
7 the case of an employee who has attained age 64, the
8 cost determined under paragraph (1) or (2), as the
9 case may be, shall not exceed the cost which would be
10 determined under such paragraph with respect to such
11 individual if he were age 63."

12 (2) The table of sections for part II of subchapter
13 B of chapter 1 is amended by adding at the end thereof
14 the following:

"Sec. 79. Group-term life insurance purchased for employees."

15 (3) Section 7701(a)(20) (defining employee)
16 is amended by striking out "For the purpose of apply-
17 ing the provisions of sections 104" and inserting in lieu
18 thereof "For the purpose of applying the provisions of
19 sections 79 and 218 with respect to group-term life
20 insurance purchased for employees, for the purpose of
21 applying the provisions of sections 104".

22 (b) CERTAIN CONTRIBUTIONS BY EMPLOYEES FOR

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1 GROUP-TERM LIFE INSURANCE.—Part VII of subchapter
2 B of chapter 1 (relating to additional itemized deductions
3 for individuals) is amended by inserting after section 217
4 the following new section:

5 "SEC. 218. CERTAIN CONTRIBUTIONS BY EMPLOYEES FOR
6 GROUP-TERM LIFE INSURANCE.

7 "In the case of an employee on whose life group-term
8 life insurance in excess of $30,000 is provided for part or
9 all of the taxable year under a policy (or policies) carried
10 directly or indirectly by his employer (or employers), there
11 shall be allowed as a deduction for such taxable year an
12 amount equal to the excess (if any) of—

13 "(1) the amount paid by the employee toward
14 the purchase of such insurance in excess of $30,000,
15 over

16 "(2) the cost (determined in the manner provided
17 by paragraph (1) of section 79(c), without regard to
18 paragraph (3) thereof) of such insurance in excess of
19 $30,000.

20 For purposes of this section, there shall not be taken into
21 account any insurance the cost of which is excepted from
22 the application of subsection (a) of section 79 by subsection
23 (b) thereof."

1 (c) WITHHOLDING.—Section 3401 (a) (relating to
2 definition of wages) is amended by striking out the period
3 at the end of paragraph (13) and inserting in lieu thereof
4 "; or", and by adding at the end thereof the following new
5 paragraph:

6 "(14) in the form of group-term life insurance on
7 the life of an employee, but only to the extent the cost
8 of such insurance is not includible in the employee's
9 gross income under section 79 (a). For purposes of
10 this paragraph, the extent to which the cost of group-
11 term life insurance is includible in the employee's gross
12 income under section 79 (a) shall be determined as if
13 the employer were the only employer paying such
14 employee remuneration in the form of such insurance;
15 or".

16 (d) EFFECTIVE DATES.—The amendments made by
17 subsections (a) and (b) shall apply with respect to group-
18 term life insurance provided after December 31, 1963, in
19 taxable years ending after such date. The amendments made
20 by subsection (c) shall apply with respect to remuneration
21 paid after December 31, 1963, in the form of group-term
22 life insurance provided after such date.

1 **SEC. 204. INCLUSION IN GROSS INCOME OF REIMBURSED**
2 **MEDICAL EXPENSES TO THE EXTENT THAT**
3 **THE REIMBURSEMENT EXCEEDS THE EX-**
4 **PENSES.**

5 (a) GENERAL RULE.—Part II of subchapter B of chap-
6 ter 1 (relating to items specifically included in gross income)
7 is amended by adding at the end thereof the following new
8 section:

9 **"SEC. 80. REIMBURSEMENT OF MEDICAL EXPENSES IN**
10 **EXCESS OF SUCH EXPENSES.**

11 "Notwithstanding any other provision of this subchapter,
12 amounts received through accident or health insurance for
13 medical expenses shall be included in gross income to the
14 extent the aggregate of such amounts received for any per-
15 sonal injury or sickness exceeds the aggregate amount of the
16 medical expenses incurred by the taxpayer for such
17 personal injury or sickness. For purposes of this section,
18 the term 'medical expenses' means expenses for medical care
19 as defined in section 213 (e), except that it does not include
20 amounts paid for accident or health insurance."

1 (b) CLERICAL AMENDMENT.—The table of sections for
2 such part II is amended by adding at the end thereof the
3 following:

"Sec. 80. Reimbursement of medical expenses in excess of such expenses."

4 (c) TECHNICAL AMENDMENT.—Subsection (e) of sec-
5 tion 105 (relating to the definition of accident and health
6 plans) is amended by striking out "this section" and insert-
7 ing in lieu thereof "this section, section 80,".
8 (d) EFFECTIVE DATE.—The amendments made by this
9 section shall apply to taxable years beginning after Decem-
10 ber 31, 1963.

11 **SEC. 205. AMOUNTS RECEIVED UNDER WAGE CONTINUA-**
12 **TION PLANS.**

13 (a) WAGE CONTINUATION PLANS.—The second sen-
14 tence of section 105(d) (relating to wage continuation
15 plans) is amended to read as follows: "The preceding sen-
16 tence shall not apply to amounts attributable to the first 30
17 calendar days in such period."
18 (b) EFFECTIVE DATE.—The amendment made by sub-
19 section (a) shall apply to amounts attributable to periods of
20 absence commencing after December 31, 1963.

1 SEC. 206. EXCLUSION FROM GROSS INCOME OF GAIN ON
2 SALE OR EXCHANGE OF RESIDENCE OF INDI-
3 VIDUAL WHO HAS ATTAINED AGE 65.

4 (a) IN GENERAL.—Part III of subchapter B of chapter
5 1 (relating to items specifically excluded from gross income)
6 is amended by redesignating section 121 as section 122 and
7 by inserting before such section the following new section:

8 "SEC. 121. GAIN FROM SALE OR EXCHANGE OF RESIDENCE
9 OF INDIVIDUAL WHO HAS ATTAINED AGE 65.

10 "(a) GENERAL RULE.—At the election of the taxpayer,
11 gross income does not include gain from the sale or exchange
12 of property if—
13 "(1) the taxpayer has attained the age of 65 before
14 the date of such sale or exchange, and
15 "(2) during the 8-year period ending on the date
16 of the sale or exchange, such property has been owned
17 and used by the taxpayer as his principal residence for
18 periods aggregating 5 years or more.
19 "(b) LIMITATIONS.—
20 "(1) WHERE ADJUSTED SALES PRICE EXCEEDS
21 $20,000.—If the adjusted sales price of the property
22 sold or exchanged exceeds $20,000, subsection (a)
23 shall apply to that portion of the gain which bears the
24 same ratio to the total amount of such gain as $20,000
25 bears to such adjusted sales price. For purposes of the

1 preceding sentence, the term 'adjusted sales price' has
2 the meaning assigned to such term by section 1034
3 (b) (1) (determined without regard to subsection
4 (d) (7) of this section).
5 "(2) APPLICATION TO ONLY ONE SALE OR EX-
6 CHANGE.—Subsection (a) shall not apply to any sale
7 or exchange by the taxpayer if an election by the
8 taxpayer or his spouse under subsection (a) with
9 respect to any other sale or exchange is in effect.
10 "(c) ELECTION.—An election under subsection (a)
11 may be made or revoked at any time before the expiration
12 of the period for making a claim for credit or refund of the
13 tax imposed by this chapter for the taxable year in which
14 the sale or exchange occurred, and shall be made or revoked
15 in such manner as the Secretary or his delegate shall by
16 regulations prescribe. In the case of a taxpayer who is
17 married, an election under subsection (a) or a revocation
18 thereof may be made only if his spouse joins in such election
19 or revocation.
20 "(d) SPECIAL RULES.—
21 "(1) PROPERTY HELD JOINTLY BY HUSBAND AND
22 WIFE.—For purposes of this section, if—
23 "(A) property is held by a husband and wife
24 as joint tenants, tenants by the entirety, or com-
25 munity property,

1 "(B) such husband and wife make a joint re-
2 turn under section 6013 for the taxable year of the
3 sale or exchange, and
4 "(C) one spouse satisfies the age, holding, and
5 use requirements of subsection (a) with respect to
6 such property,
7 then both husband and wife shall be treated as satisfying
8 the age, holding, and use requirements of subsection (a)
9 with respect to such property.
10 "(2) PROPERTY OF DECEASED SPOUSE.—For pur-
11 poses of this section, in the case of an unmarried in-
12 dividual whose spouse is deceased on the date of the sale
13 or exchange of property, if—
14 "(A) the deceased spouse (during the 8-year
15 period ending on the date of the sale or exchange)
16 satisfied the holding and use requirements of sub-
17 section (a)(2) with respect to such property, and
18 "(B) no election by the deceased spouse under
19 subsection (a) is in effect with respect to a prior
20 sale or exchange,
21 then such individual shall be treated as satisfying the
22 holding and use requirements of subsection (a)(2) with
23 respect to such property.
24 "(3) TENANT-STOCKHOLDER IN COOPERATIVE
25 HOUSING CORPORATION.—For purposes of this section,

1 if the taxpayer holds stock as a tenant-stockholder (as
2 defined in section 216) in a cooperative housing corpora-
3 tion (as defined in such section), then—
4 "(A) the holding requirements of subsection
5 (a)(2) shall be applied to the holding of such
6 stock, and
7 "(B) the use requirements of subsection (a)
8 (2) shall be applied to the house or apartment
9 which the taxpayer was entitled to occupy as such
10 stockholder.
11 "(4) INVOLUNTARY CONVERSIONS.—For purposes
12 of this section, the destruction, theft, seizure, requisition,
13 or condemnation of property shall be treated as the sale
14 of such property.
15 "(5) PROPERTY USED IN PART AS PRINCIPAL RESI-
16 DENCE.—In the case of property only a portion of which,
17 during the 8-year period ending on the date of the sale
18 or exchange, has been owned and used by the taxpayer
19 as his principal residence for periods aggregating 5 years
20 or more, this section shall apply with respect to so much
21 of the gain from the sale or exchange of such property
22 as is determined, under regulations prescribed by the
23 Secretary or his delegate, to be attributable to the por-
24 tion of the property so owned and used by the taxpayer.

1 "(6) DETERMINATION OF MARITAL STATUS.—In
2 the case of any sale or exchange, for purposes of this
3 section—
4 "(A) the determination of whether an indi-
5 vidual is married shall be made as of the date of
6 the sale or exchange; and
7 "(B) an individual legally separated from his
8 spouse under a decree of divorce or of separate
9 maintenance shall not be considered as married.
10 "(7) APPLICATION OF SECTIONS 1033 AND
11 1034.—In applying sections 1033 (relating to involun-
12 tary conversions) and 1034 (relating to sale or exchange
13 of residence), the amount realized from the sale or ex-
14 change of property shall be treated as being the amount
15 determined without regard to this section, reduced by the
16 amount of gain not included in gross income pursuant
17 to an election under this section."
18 (b) TECHNICAL AND CLERICAL AMENDMENTS.—
19 (1) Section 6012 (c) (relating to persons required
20 to make returns of income) is amended to read as
21 follows:
22 "(c) CERTAIN INCOME EARNED ABROAD OR FROM
23 SALE OF RESIDENCE.—For purposes of this section, gross
24 income shall be computed without regard to the exclusion

1 provided for in section 121 (relating to sale of residence by
2 individual who has attained age 65) and without regard to
3 the exclusion provided for in section 911 (relating to earned
4 income from sources without the United States)."

5 (2) The table of sections for part III of subchapter
6 B of chapter 1 is amended by striking out

"Sec. 121. Cross references to other Acts."

7 and inserting in lieu thereof

"Sec. 121. Gain from sale or exchange of residence of individual who has attained age 65.
"Sec. 122. Cross references to other Acts."

8 (3) Section 1033 (h) (relating to involuntary con-
9 versions) is amended by adding at the end thereof the
10 following new paragraph:

"(3) For exclusion from gross income of certain gain from involuntary conversion of residence of taxpayer who has attained age 65, see section 121."

11 (4) Section 1034 (relating to sale or exchange of
12 residence) is amended by adding at the end thereof the
13 following new subsection:

14 "(k) CROSS REFERENCE.—

"For exclusion from gross income of certain gain from sale or exchange of residence of taxpayer who has attained age 65, see section 121."

15 (c) EFFECTIVE DATE.—The amendments made by this
16 section shall apply to dispositions after December 31, 1963,
17 in taxable years ending after such date.

1 SEC. 207. DENIAL OF DEDUCTION FOR CERTAIN STATE,
2 LOCAL, AND FOREIGN TAXES.
3 (a) IN GENERAL.—Subsections (a), (b), and (c) of
4 section 164 (relating to deduction for taxes) are amended to
5 read as follows:
6 "(a) GENERAL RULE.—Except as otherwise provided
7 in this section, the following taxes shall be allowed as a de-
8 duction for the taxable year within which paid or accrued:
9 "(1) State and local, and foreign, real property
10 taxes.
11 "(2) State and local personal property taxes.
12 "(3) State and local, and foreign, income, war
13 profits, and excess profits taxes.
14 "(4) State and local general sales taxes.
15 In addition, there shall be allowed as a deduction State and
16 local, and foreign, taxes not described in the preceding sen-
17 tence which are paid or accrued within the taxable year in
18 carrying on a trade or business or an activity described in
19 section 212 (relating to expenses for production of income).
20 "(b) DEFINITIONS AND SPECIAL RULES.—For pur-
21 poses of this section—
22 "(1) PERSONAL PROPERTY TAXES.—The term
23 'personal property tax' means an ad valorem tax which
24 is imposed on an annual basis in respect of personal
25 property.

1 "(2) GENERAL SALES TAXES.—
2 "(A) IN GENERAL.—The term 'general sales
3 tax' means a tax imposed at one rate in respect of
4 the sale at retail of a broad range of classes of items.
5 "(B) SPECIAL RULES FOR FOOD, ETC.—In the
6 case of items of food, clothing, medical supplies, and
7 motor vehicles—
8 "(i) the fact that the tax does not apply
9 in respect of some or all of such items shall not
10 be taken into account in determining whether
11 the tax applies in respect of a broad range of
12 classes of items, and
13 "(ii) the fact that the rate of tax ap-
14 plicable in respect of some or all of such items
15 is lower than the general rate of tax shall not
16 be taken into account in determining whether
17 the tax is imposed at one rate.
18 "(C) ITEMS TAXED AT DIFFERENT RATES.—
19 Except in the case of a lower rate of tax applicable
20 in respect of an item described in subparagraph (B),
21 no deduction shall be allowed under this section for
22 any general sales tax imposed in respect of an item
23 at a rate other than the general rate of tax.
24 "(D) COMPENSATING USE TAXES.—A com-
25 pensating use tax in respect of an item shall be

1 treated as a general sales tax. For purposes of the
2 preceding sentence, the term 'compensating use tax'
3 means, in respect of any item, a tax which—
4 "(i) is imposed on the use, storage, or
5 consumption of such item, and
6 "(ii) is complementary to a general sales
7 tax, but only if a deduction is allowable under
8 subsection (a) (4) in respect of items sold at
9 retail in the taxing jurisdiction which are similar
10 to such item.
11 "(E) SEPARATELY STATED GENERAL SALES
12 TAXES.—If the amount of any general sales tax is
13 separately stated, then, to the extent that the
14 amount so stated is paid by the consumer (other-
15 wise than in connection with the consumer's trade
16 or business) to his seller, such amount shall be
17 treated as a tax imposed on, and paid by, such
18 consumer.
19 "(3) STATE OR LOCAL TAXES.—A State or local
20 tax includes only a tax imposed by a State, a possession

1 of the United States, or a political subdivision of any of
2 the foregoing, or by the District of Columbia.
3 "(4) FOREIGN TAXES.—A foreign tax includes only
4 a tax imposed by the authority of a foreign country.
5 "(c) DEDUCTION DENIED IN CASE OF CERTAIN
6 TAXES.—No deduction shall be allowed for the following
7 taxes:
8 "(1) Taxes assessed against local benefits of a kind
9 tending to increase the value of the property assessed;
10 but this paragraph shall not prevent the deduction of so
11 much of such taxes as is properly allocable to mainte-
12 nance or interest charges.
13 "(2) Taxes on real property, to the extent that
14 subsection (d) requires such taxes to be treated as
15 imposed on another taxpayer."
16 (b) TECHNICAL AMENDMENTS.—
17 (1) The first sentence of section 164(f) (relating
18 to payments for municipal services in atomic energy
19 communities) is amended by inserting "State" before
20 "real property taxes".

1 (2) Section 164(g) (relating to cross references)
2 is amended to read as follows:
3 "(g) Cross References.—

"(1) For provisions disallowing any deduction for the payment of the tax imposed by subchapter B of chapter 3 (relating to tax-free covenant bonds), see section 1451.

"(2) For provisions disallowing any deduction for certain taxes, see section 275."

4 (3) (A) Part IX of subchapter B of chapter 1
5 (relating to items not deductible) is amended by adding
6 at the end thereof the following new section:

7 **"SEC. 275. CERTAIN TAXES.**

8 "(a) General Rule.—No deduction shall be allowed
9 for the following taxes:
10 "(1) Federal income taxes, including—
11 "(A) the tax imposed by section 3101 (re-
12 lating to the tax on employees under the Federal
13 Insurance Contributions Act);
14 "(B) the taxes imposed by sections 3201 and
15 3211 (relating to the taxes on railroad employees
16 and railroad employee representatives); and
17 "(C) the tax withheld at source on wages
18 under section 3402, and corresponding provisions of
19 prior revenue laws.
20 "(2) Federal war profits and excess profits taxes.
21 "(3) Estate, inheritance, legacy, succession, and
22 gift taxes.

1 "(4) Income, war profits, and excess profits taxes
2 imposed by the authority of any foreign country or pos-
3 session of the United States, if the taxpayer chooses to
4 take to any extent the benefits of section 901 (relating
5 to the foreign tax credit).

6 "(5) Taxes on real property, to the extent that sec-
7 tion 164 (d) requires such taxes to be treated as imposed
8 on another taxpayer.

9 "(b) CROSS REFERENCE.—

"For disallowance of certain other taxes, see section 164(c)."

10 (B) The table of sections for such part IX is
11 amended by adding at the end thereof the following:

"Sec. 275. Certain taxes."

12 (4) Paragraph (1) of section 535 (b) (relating to
13 adjustments to accumulated taxable income) is amended
14 by striking out "section 164 (b) (6)" and inserting in
15 lieu thereof "section 275 (a) (4)".

16 (5) The first sentence of paragraph (1) of section
17 545 (b) (relating to adjustments to personal holding
18 company taxable income) is amended by striking out
19 "section 164 (b) (6)" and inserting in lieu thereof
20 "section 275 (a) (4)".

21 (6) The first sentence of paragraph (1) of section
22 556 (b) (relating to adjustments to foreign personal
23 holding company taxable income) is amended by strik-

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1 ing out "section 164(b)(6)" and inserting in lieu
2 thereof "section 275(a)(4)".
3 (7) Paragraph (1) of section 901(d) (relating
4 to credit for taxes imposed by foreign countries) is
5 amended by striking out "section 164" and inserting
6 in lieu thereof "sections 164 and 275".
7 (8) Section 903 (relating to credit for taxes
8 imposed by a foreign country in lieu of income, etc.,
9 taxes) is amended by striking out "section 164(b)"
10 and inserting in lieu thereof "sections 164(a) and 275
11 (a)".
12 (c) EFFECTIVE DATE.—The amendments made by this
13 section shall apply to taxable years beginning after Decem-
14 ber 31, 1963.
15 **SEC. 208. PERSONAL CASUALTY AND THEFT LOSSES.**
16 (a) LIMITATION ON AMOUNT OF CASUALTY OR
17 THEFT LOSS DEDUCTION.—Section 165(c)(3) (relating
18 to losses of property not connected with trade or business)
19 is amended to read as follows:
20 "(3) losses of property not connected with a trade
21 or business, if such losses arise from fire, storm, ship-
22 wreck, or other casualty, or from theft. A loss de-
23 scribed in this paragraph shall be allowed only to the
24 extent that the amount of loss to such individual arising
25 from each casualty, or from each theft, exceeds $100.

1 For purposes of the $100 limitation of the preceding
2 sentence, a husband and wife making a joint return
3 under section 6013 for the taxable year in which the
4 loss is allowed as a deduction shall be treated as one
5 individual. No loss described in this paragraph shall
6 be allowed if, at the time of filing the return, such
7 loss has been claimed for estate tax purposes in the
8 estate tax return."
9 (b) EFFECTIVE DATE.—The amendment made by sub-
10 section (a) shall apply to losses sustained after December
11 31, 1963, in taxable years ending after such date.
12 **SEC. 209. CHARITABLE, ETC., CONTRIBUTIONS AND GIFTS.**
13 (a) CERTAIN ORGANIZATIONS ADDED TO ADDITIONAL
14 10-PERCENT CHARITABLE LIMITATION.—Section 170 (b)
15 (1) (A) (relating to limitation on amount of deduction for
16 charitable contributions by individuals) is amended by strik-
17 ing out "or" at the end of clause (iii), and by inserting after
18 clause (iv) the following new clauses:
19 "(v) a governmental unit referred to in
20 subsection (c) (1), or
21 "(vi) an organization referred to in sub-
22 section (c) (2) which normally receives a sub-
23 stantial part of its support (exclusive of income
24 received in the exercise or performance by such
25 organization of its charitable, educational, or

1 other purpose or function constituting the basis
2 for its exemption under section 501 (a)) from a
3 governmental unit referred to in subsection (c)
4 (1) or from direct or indirect contributions from
5 the general public,".

6 (b) 5-YEAR CARRYOVER OF CERTAIN CHARITABLE
7 CONTRIBUTIONS MADE BY CORPORATIONS.—

8 (1) IN GENERAL.—Section 170 (b) (2) (relating
9 to limitation on amount of deduction for charitable con-
10 tributions by corporations) is amended by striking out
11 the sentence following subparagraph (D) and inserting
12 in lieu thereof the following:

13 "Any contribution made by a corporation in a taxable
14 year (hereinafter in this sentence referred to as the
15 'contribution year') in excess of the amount deductible
16 for such year under the preceding sentence shall be
17 deductible for each of the 5 succeeding taxable years
18 in order of time, but only to the extent of the lesser of
19 the two following amounts: (i) the excess of the maxi-
20 mum amount deductible for such succeeding taxable year
21 under the preceding sentence over the sum of the con-
22 tributions made in such year plus the aggregate of the
23 excess contributions which were made in taxable years
24 before the contribution year and which are deductible un-
25 der this sentence for such succeeding taxable year; or
26 (ii) in the case of the first succeeding taxable year, the

1 amount of such excess contribution, and in the case of
2 the second, third, fourth, or fifth succeeding taxable
3 years, the portion of such excess contribution not de-
4 ductible under this sentence for any taxable year inter-
5 vening between the contribution year and such succeed-
6 ing taxable year."

7 (2) CARRYOVERS IN CERTAIN CORPORATE ACQUI-
8 SITIONS.—Paragraph (19) of section 381(c) (relating
9 to items of distributor or transferor corporation) is
10 amended to read as follows:

11 "(19) CHARITABLE CONTRIBUTIONS IN EXCESS
12 OF PRIOR YEARS' LIMITATIONS.—Contributions made
13 in the taxable year ending on the date of distribution or
14 transfer and the 4 prior taxable years by the distributor
15 or transferor corporation in excess of the amount de-
16 ductible under section 170(b)(2) for such taxable
17 years shall be deductible by the acquiring corporation
18 for its taxable years which begin after the date of dis-
19 tribution or transfer, subject to the limitations imposed
20 in section 170(b)(2). In applying the preceding
21 sentence, each taxable year of the distributor or trans-
22 feror corporation beginning on or before the date of
23 distribution or transfer shall be treated as a prior taxable
24 year with reference to the acquiring corporation's tax-
25 able years beginning after such date."

26 (c) FUTURE INTERESTS IN TANGIBLE PERSONAL

1 PROPERTY.—Section 170 (relating to charitable, etc., con-
2 tributions and gifts) is amended by redesignating subsections
3 (f) and (g) as subsections (g) and (h), respectively, and
4 by inserting after subsection (e) the following new sub-
5 section:
6 "(f) FUTURE INTERESTS IN TANGIBLE PERSONAL
7 PROPERTY.—For purposes of this section, payment of a
8 charitable contribution which consists of a future interest in
9 tangible personal property shall be treated as made only
10 when all intervening interests in, and rights to the actual
11 possession or enjoyment of, the property have expired or are
12 held by persons other than the taxpayer or those standing
13 in a relationship to the taxpayer described in section 267
14 (b). For purposes of the preceding sentence, a fixture
15 which is intended to be severed from the real property shall
16 be treated as tangible personal property. This subsection
17 shall not apply to any charitable contribution where—
18 "(1) the sole intervening interest or right is a non-
19 transferable life interest reserved by the donor, or
20 "(2) in the case of a joint gift by husband and
21 wife, the sole intervening interest or right is a non-
22 transferable life interest reserved by the donors which
23 expires not later than the death of whichever of such
24 donors dies later.
25 For purposes of the preceding sentence, a right to make an
26 earlier transfer of the reserved life interest to the donee of

1 the future interest shall not be treated as making a life inter-
2 est transferable."

3 (d) EFFECTIVE DATES.—The amendments made by
4 subsections (a) and (b) shall apply with respect to con-
5 tributions which are paid (or treated as paid under section
6 170 (a) (2) of the Internal Revenue Code of 1954) in tax-
7 able years beginning after December 31, 1963. The amend-
8 ments made by subsection (c) shall apply to transfers of
9 future interests made after December 31, 1963, in taxable
10 years ending after such date.

11 SEC. 210. ONE-PERCENT LIMITATION ON MEDICINE AND
12 DRUGS.

13 (a) GENERAL RULE.—Subsection (b) of section 213
14 (relating to medical, dental, etc., expenses) is amended by
15 adding at the end thereof the following new sentence: "The
16 preceding sentence shall not apply to amounts paid for the
17 care of—

18 "(1) the taxpayer and his spouse, if either of them
19 has attained the age of 65 before the close of the taxa-
20 ble year, or

21 "(2) any dependent described in subsection (a)
22 (1) (A)."

23 (b) EFFECTIVE DATE.—The amendment made by sub-
24 section (a) shall apply to taxable years beginning after
25 December 31, 1963.

1 SEC. 211. CARE OF DEPENDENTS.

2 (a) CHILD CARE ALLOWANCE.—Section 214 (relating
3 to expenses for care of certain dependents) is amended to
4 read as follows:

5 "SEC. 214. EXPENSES FOR CARE OF CERTAIN DEPENDENTS.

6 "(a) GENERAL RULE.—There shall be allowed as a
7 deduction expenses paid during the taxable year by a tax-
8 payer who is a woman or widower, or is a husband whose
9 wife is incapacitated or is institutionalized, for the care of one
10 or more dependents (as defined in subsection (d)(1)), but
11 only if such care is for the purpose of enabling the taxpayer
12 to be gainfully employed.

13 "(b) LIMITATIONS.—

14 "(1) DOLLAR LIMIT.—

15 "(A) Except as provided in subparagraph
16 (B), the deduction under subsection (a) shall not
17 exceed $600 for any taxable year.

18 "(B) The $600 limit of subparagraph (A)
19 shall be increased (to an amount not above $900)
20 by the amount of expenses incurred by the taxpayer
21 for any period during which—

22 "(i) the taxpayer had 2 or more depend-
23 ents, and

24 "(ii) paragraph (2) does not apply.

25 "(2) WORKING WIVES.—In the case of a woman

1 who is married, the deduction under subsection (a)—

2 "(A) shall not be allowed unless she files a

3 joint return with her husband for the taxable year,

4 and

5 "(B) shall be reduced by the amount (if any)

6 by which the adjusted gross income of the taxpayer

7 and her spouse exceeds $4,500.

8 This paragraph shall not apply to expenses incurred

9 while the taxpayer's husband is incapable of self-support

10 because mentally or physically defective.

11 "(3) HUSBANDS WITH INCAPACITATED WIVES.—

12 In the case of a husband whose wife is incapacitated,

13 the deduction under subsection (a)—

14 "(A) shall not be allowed unless he files a

15 joint return with his wife for the taxable year, and

16 "(B) shall be reduced by the amount (if any)

17 by which the adjusted gross income of the taxpayer

18 and his spouse exceeds $4,500.

19 This paragraph shall not apply to expenses incurred

20 while the taxpayer's wife is institutionalized if such in-

21 stitutionalization is for a period of at least 90 consecutive

22 days (whether or not within one taxable year) or a

23 shorter period if terminated by her death.

24 "(4) CERTAIN PAYMENTS NOT TAKEN INTO

1 ACCOUNT.—Subsection (a) shall not apply to any
2 amount paid to an individual with respect to whom the
3 taxpayer is allowed for his taxable year a deduction un-
4 der section 151 (relating to deductions for personal
5 exemptions).

6 "(c) SPECIAL RULE WHERE WIFE IS INCAPACI-
7 TATED OR INSTITUTIONALIZED.—In the case of a husband
8 whose wife is incapacitated or is institutionalized, the deduc-
9 tion under subsection (a) shall be allowed only for expenses
10 incurred while the wife was incapacitated or institutionalized
11 (as the case may be) for a period of at least 90 consecutive
12 days (whether or not within one taxable year) or a shorter
13 period if terminated by her death.

14 "(d) DEFINITIONS.—For purposes of this section—
15 "(1) DEPENDENT.—The term 'dependent' means a
16 person with respect to whom the taxpayer is entitled to
17 an exemption under section 151 (e) (1)—
18 "(A) who has not attained the age of 13 years
19 and who (within the meaning of section 152) is a
20 son, stepson, daughter, or stepdaughter of the tax-
21 payer; or
22 "(B) who is physically or mentally incapable
23 of caring for himself.
24 "(2) WIDOWER.—The term 'widower' includes an
25 unmarried individual who is legally separated from his

1 spouse under a decree of divorce or of separate mainte-
2 nance.

3 "(3) INCAPACITATED WIFE.—A wife shall be con-
4 sidered incapacitated only (A) while she is incapable of
5 caring for herself because mentally or physically defec-
6 tive, or (B) while she is institutionalized.

7 "(4) INSTITUTIONALIZED WIFE.—A wife shall be
8 considered institutionalized only while she is, for the
9 purpose of receiving medical care or treatment, an
10 inpatient, resident, or inmate of a public or private hos-
11 pital, sanitarium, or other similar institution.

12 "(5) DETERMINATION OF STATUS.—A woman
13 shall not be considered as married if—

14 "(A) she is legally separated from her spouse
15 under a decree of divorce or of separate maintenance
16 at the close of the taxable year, or

17 "(B) she has been deserted by her spouse, does
18 not know his whereabouts (and has not known his
19 whereabouts at any time during the taxable year),
20 and has applied to a court of competent jurisdiction
21 for appropriate process to compel him to pay support
22 or otherwise to comply with the law or a judicial
23 order, as determined under regulations prescribed by
24 the Secretary or his delegate."

1 (b) EFFECTIVE DATE.—The amendment made by sub-
2 section (a) shall apply to taxable years beginning after
3 December 31, 1963.

4 SEC. 212. MOVING EXPENSES.

5 (a) DEDUCTION ALLOWED FOR MOVING EXPENSES.—
6 (1) Part VII of subchapter B of chapter 1 (relat-
7 ing to additional itemized deductions for individuals) is
8 amended by redesignating section 217 as section 219 and
9 by inserting after section 216 the following new section:

10 "SEC. 217. MOVING EXPENSES.

11 "(a) DEDUCTION ALLOWED.—There shall be allowed
12 as a deduction moving expenses paid or incurred during the
13 taxable year in connection with the commencement of work
14 by the taxpayer as an employee at a new principal place of
15 work.

16 "(b) DEFINITION OF MOVING EXPENSES.—
17 "(1) IN GENERAL.—For purposes of this section,
18 the term 'moving expenses' means only the reasonable
19 expenses—
20 "(A) of moving household goods and personal
21 effects from the former residence to the new resi-
22 dence, and
23 "(B) of traveling (including meals and lodg-

1 ing) from the former residence to the new place
2 of residence.
3 "(2) INDIVIDUALS OTHER THAN TAXPAYER.—In
4 the case of any individual other than the taxpayer, ex-
5 penses referred to in paragraph (1) shall be taken into
6 account only if such individual has both the former resi-
7 dence and the new residence as his principal place of
8 abode and is a member of the taxpayer's household.
9 "(c) CONDITIONS FOR ALLOWANCE.—No deduction
10 shall be allowed under this section unless—
11 "(1) the taxpayer's new principal place of work—
12 "(A) is at least 20 miles farther from his for-
13 mer residence than was his former principal place
14 of work, or
15 "(B) if he had no former principal place of
16 work, is at least 20 miles from his former residence,
17 and
18 "(2) during the 12-month period immediately fol-
19 lowing his arrival in the general location of his new
20 principal place of work, the taxpayer is a full-time em-
21 ployee, in such general location, during at least 39
22 weeks.

1 "(d) RULES FOR APPLICATION OF SUBSECTION
2 (c) (2).—
3 "(1) Subsection (c) (2) shall not apply to any
4 item to the extent that the taxpayer receives reim-
5 bursement or other expense allowance from his employer
6 for such item.
7 "(2) If a taxpayer has not satisfied the condition
8 of subsection (c) (2) before the time prescribed by law
9 (including extensions thereof) for filing the return for
10 the taxable year during which he paid or incurred mov-
11 ing expenses which would otherwise be deductible under
12 this section, but may still satisfy such condition, then
13 such expenses may (at the election of the taxpayer) be
14 deducted for such taxable year notwithstanding subsec-
15 tion (c) (2).
16 "(3) If—
17 "(A) for any taxable year moving expenses
18 have been deducted in accordance with the rule
19 provided in paragraph (2), and
20 "(B) the condition of subsection (c) (2) is
21 not satisfied by the close of the subsequent taxable
22 year,
23 then an amount equal to the expenses which were so

1 deducted shall be included in gross income for such sub-
2 sequent taxable year.

3 "(e) DISALLOWANCE OF DEDUCTION WITH RESPECT
4 TO REIMBURSEMENTS NOT INCLUDED IN GROSS INCOME.—
5 No deduction shall be allowed under this section for any item
6 to the extent that the taxpayer receives reimbursement or
7 other expense allowance for such item which is not in-
8 cluded in his gross income.

9 "(f) REGULATIONS.—The Secretary or his delegate
10 shall prescribe such regulations as may be necessary to carry
11 out the purposes of this section."

12 (2) The table of sections for part VII of subchapter
13 B of chapter 1 is amended by striking out—

"Sec. 217. Cross references."

14 and inserting in lieu thereof the following:

"Sec. 217. Moving expenses.
"Sec. 218. Certain contributions by employees for group-term life insurance.
"Sec. 219. Cross references."

15 (b) ADJUSTED GROSS INCOME.—Section 62 (defining
16 adjusted gross income) is amended by inserting after para-
17 graph (7) the following new paragraph:

18 "(8) MOVING EXPENSE DEDUCTION.—The deduc-
19 tion allowed by section 217."

1 (c) WITHHOLDING.—Section 3401 (a) (relating to
2 definition of "wages") is amended by adding after paragraph
3 (14) (added by section 203 (c) of this Act) the following
4 new paragraph:
5 "(15) to or on behalf of an employee if (and to the
6 extent that) at the time of the payment of such remuner-
7 ation it is reasonable to believe that a corresponding
8 deduction is allowable under section 217."
9 (d) EFFECTIVE DATES.—The amendments made by
10 subsections (a) and (b) shall apply to expenses incurred
11 after December 31, 1963, in taxable years ending after such
12 date. The amendment made by subsection (c) shall apply
13 with respect to remuneration paid after December 31, 1963.

14 **SEC. 213. INTEREST ON LOANS INCURRED TO PURCHASE**
15 **CERTAIN INSURANCE AND ANNUITY CON-**
16 **TRACTS.**

17 (a) DISALLOWANCE OF INTEREST DEDUCTION.—
18 Section 264 (a) (relating to certain amounts paid in connec-
19 tion with insurance contracts) is amended—
20 (1) by inserting after paragraph (2) the follow-
21 ing new paragraph:
22 "(3) Except as provided in subsection (c), any
23 amount paid or accrued on indebtedness incurred or
24 continued to purchase or carry a life insurance, endow-
25 ment, or annuity contract (other than a single premium

1 contract or a contract treated as a single premium con-
2 tract) pursuant to a plan of purchase which contem-
3 plates the systematic direct or indirect borrowing of
4 part or all of the increases in the cash value of such
5 contract (either from the insurer or otherwise)."
6 (2) by adding at the end thereof the following
7 new sentence: "Paragraph (3) shall apply only in
8 respect of contracts purchased after August 6, 1963."
9 (b) EXCEPTIONS.—Section 264 is amended by adding
10 at the end thereof the following new subsection:
11 "(c) EXCEPTIONS.—Subsection (a) (3) shall not ap-
12 ply to any amount paid or accrued by a person during a
13 taxable year on indebtedness incurred or continued as part
14 of a plan referred to in subsection (a) (3)—
15 "(1) if no part of 4 of the annual premiums due
16 during the 7-year period (beginning with the date the
17 first premium on the contract to which such plan relates
18 was paid) is paid under such plan by means of indebted-
19 ness,
20 "(2) if the total of the amounts paid or accrued by
21 such person during such taxable year for which (with-
22 out regard to this paragraph) no deduction would be
23 allowable by reason of subsection (a) (3) does not
24 exceed $100,
25 "(3) if such amount was paid or accrued on in-

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1 debtedness incurred because of an unforeseen substantial
2 loss of income or unforeseen substantial increase in his
3 financial obligations, or
4 "(4) if such indebtedness was incurred in con-
5 nection with his trade or business.
6 For purposes of applying paragraph (1), if there is a sub-
7 stantial increase in the premiums on a contract, a new 7-
8 year period described in such paragraph with respect to such
9 contract shall commence on the date the first such increased
10 premium is paid."
11 (c) EFFECTIVE DATE.—The amendments made by this
12 section shall apply with respect to amounts paid or accrued
13 in taxable years beginning after December 31, 1963.
14 **SEC. 214. EMPLOYEE STOCK OPTIONS AND PURCHASE**
15 **PLANS.**
16 (a) IN GENERAL.—Part II of subchapter D of chapter
17 1 is amended to read as follows:
18 **"PART II—CERTAIN STOCK OPTIONS**

"Sec. 421. General rules.
"Sec. 422. Qualified stock options.
"Sec. 423. Employee stock purchase plans.
"Sec. 424. Restricted stock options.
"Sec. 425. Definitions and special rules.

1 "SEC. 421. GENERAL RULES.

2 "(a) EFFECT OF QUALIFYING TRANSFER.—If a share
3 of stock is transferred to an individual in a transfer in
4 respect of which the requirements of section 422 (a),
5 423 (a), or 424 (a) are met—

6 "(1) except as provided in section 422 (c) (1),
7 no income shall result at the time of the transfer of
8 such share to the individual upon his exercise of the
9 option with respect to such share;

10 "(2) no deduction under section 162 (relating
11 to trade or business expenses) shall be allowable at
12 any time to the employer corporation, a parent or
13 subsidiary corporation of such corporation, or a corpora-
14 tion issuing or assuming a stock option in a transaction
15 to which section 425 (a) applies, with respect to the
16 share so transferred; and

17 "(3) no amount other than the price paid under
18 the option shall be considered as received by any of
19 such corporations for the share so transferred.

20 "(b) EFFECT OF DISQUALIFYING DISPOSITION.—If

1 the transfer of a share of stock to an individual pursuant to
2 his exercise of an option would otherwise meet the require-
3 ments of section 422 (a), 423 (a), or 424 (a) except that
4 there is a failure to meet any of the holding period require-
5 ments of section 422 (a) (1), 423 (a) (1), or 424 (a) (1),
6 then any increase in the income of such individual or deduc-
7 tion from the income of his employer corporation for the
8 taxable year in which such exercise occurred attributable to
9 such disposition, shall be treated as an increase in income or
10 a deduction from income in the taxable year of such in-
11 dividual or of such employer corporation in which such dis-
12 position occurred.

13 "(c) EXERCISE BY ESTATE.—

14 "(1) IN GENERAL.—If an option to which this part
15 applies is exercised after the death of the employee by
16 the estate of the decedent, or by a person who acquired
17 the right to exercise such option by bequest or in-
18 heritance or by reason of the death of the decedent,
19 the provisions of subsection (a) shall apply to the same
20 extent as if the option had been exercised by the dece-
21 dent, except that—

22 "(A) the holding period and employment
23 requirements of sections 422 (a), 423 (a), and 424
24 (a) shall not apply, and

25 "(B) any transfer by the estate of stock ac-

1 quired shall be considered a disposition of such stock
2 for purposes of sections 423 (c) and 424 (c) (1).
3 "(2) DEDUCTION FOR ESTATE TAX.—If an amount
4 is required to be included under section 422 (c) (1),
5 423 (c), or 424 (c) (1) in gross income of the estate
6 of the deceased employee or of a person described in
7 paragraph (1), there shall be allowed to the estate or
8 such person a deduction with respect to the estate tax
9 attributable to the inclusion in the taxable estate of
10 the deceased employee of the net value for estate tax
11 purposes of the option. For this purpose, the deduction
12 shall be determined under section 691 (c) as if the
13 option acquired from the deceased employee were an
14 item of gross income in respect of the decedent under
15 section 691 and as if the amount includible in gross
16 income under section 422 (c) (1), 423 (c), or 424 (c)
17 (1) were an amount included in gross income under
18 section 691 in respect of such item of gross income.
19 "(3) BASIS OF SHARES ACQUIRED.—In the case of
20 a share of stock acquired by the exercise of an option
21 to which paragraph (1) applies—
22 "(A) the basis of such share shall include
23 so much of the basis of the option as is attributable
24 to such share; except that the basis of such share
25 shall be reduced by the excess (if any) of (i) the

1 amount, which would have been includible in gross
2 income under section 422 (c) (1), 423 (c), or 424
3 (c) (1) if the employee had exercised the option
4 on the date of his death and had held the share
5 acquired pursuant to such exercise at the time
6 of his death, over (ii) the amount which is in-
7 cludible in gross income under such section; and
8 "(B) the last sentence of sections 422 (c) (1),
9 423 (c), and 424 (c) (1) shall apply only to the
10 extent that the amount includible in gross income
11 under such sections exceeds so much of the basis
12 of the option as is attributable to such share.
13 **"SEC. 422. QUALIFIED STOCK OPTIONS.**
14 "(a) IN GENERAL.—Subject to the provisions of sub-
15 section (c) (1), section 421 (a) shall apply with respect to
16 the transfer of a share of stock to an individual pursuant to his
17 exercise of a qualified stock option if—
18 "(1) no disposition of such share is made by such
19 individual within the 3-year period beginning on the day
20 after the day of the transfer of such share, and
21 "(2) at all times during the period beginning with
22 the date of the granting of the option and ending on
23 the day 3 months before the date of such exercise, such
24 individual was an employee of either the corporation

1 granting such option, a parent or subsidiary corporation
2 of such corporation, or a corporation or a parent or sub-
3 sidiary corporation of such corporation issuing or assum-
4 ing a stock option in a transaction to which section
5 425 (a) applies.

6 "(b) QUALIFIED STOCK OPTION.—For purposes of this
7 part, the term 'qualified stock option' means an option
8 granted to an individual after June 11, 1963 (other than
9 a restricted stock option granted pursuant to a contract
10 described in section 424 (c) (4) (A)), for any reason con-
11 nected with his employment by a corporation, if granted
12 by the employer corporation or its parent or subsidiary cor-
13 poration, to purchase stock of any of such corporations, but
14 only if—

15 "(1) the option is granted pursuant to a plan
16 which includes the aggregate number of shares which
17 may be issued under options, and the employees (or
18 class of employees) eligible to receive options, and
19 which is approved by the stockholders of the granting
20 corporation within 12 months before or after the date
21 such plan is adopted;

22 "(2) such option is granted within 10 years from
23 the date such plan is adopted, or the date such plan
24 is approved by the stockholders, whichever is earlier;

1 "(3) such option by its terms is not exercisable
2 after the expiration of 5 years from the date such
3 option is granted;

4 "(4) except as provided in subsection (c) (1),
5 the option price is not less than the fair market value
6 of the stock at the time such option is granted;

7 "(5) such option by its terms is not exercisable
8 while there is outstanding (within the meaning of sub-
9 section (c) (2)) any qualified stock option (or re-
10 stricted stock option) which was granted, before the
11 granting of such option, to such individual to purchase
12 stock in his employer corporation or in a corporation
13 which (at the time of the granting of such option) is a
14 parent or subsidiary corporation of the employer corpora-
15 tion, or in a predecessor corporation of any of such
16 corporations;

17 "(6) such option by its terms is not transferable
18 by such individual otherwise than by will or the laws
19 of descent and distribution, and is exercisable, during
20 his lifetime, only by him; and

21 "(7) such individual, immediately after such option
22 is granted, does not own stock possessing more than 5
23 percent of the total combined voting power or value of
24 all classes of stock of the employer corporation or of its
25 parent or subsidiary corporation; except that if the

1 equity capital of such corporation or corporations (de-
2 termined at the time the option is granted) is less than
3 $2,000,000, then, for purposes of applying the limita-
4 tion of this paragraph, there shall be added to such
5 5 percent the percentage (not higher than 5 percent)
6 which bears the same ratio to 5 percent as the difference
7 between such equity capital and $2,000,000 bears to
8 $1,000,000.
9 "(c) SPECIAL RULES.—
10 "(1) EXERCISE OF OPTION WHEN PRICE IS LESS
11 THAN VALUE OF STOCK.—If a share of stock is trans-
12 ferred pursuant to the exercise by an individual of an
13 option which fails to qualify as a qualified stock option
14 under subsection (b) because there was a failure in an
15 attempt, made in good faith, to meet the requirement of
16 subsection (b) (4), the requirement of subsection (b)
17 (4) shall be considered to have been met, but there
18 shall be included as compensation (and not as gain upon
19 the sale or exchange of a capital asset) in his gross in-
20 come for the taxable year in which such option is ex-
21 ercised, an amount equal to the lesser of—
22 "(A) 150 percent of the difference between
23 the option price and the fair market value of the
24 share at the time the option was granted, or

1 "(B) the difference between the option price
2 and the fair market value of the share at the time
3 of such exercise.
4 The basis of the share acquired shall be increased by an
5 amount equal to the amount included in his gross income
6 under this paragraph in the taxable year in which the
7 exercise occurred.
8 "(2) CERTAIN OPTIONS TREATED AS OUTSTAND-
9 ING.—For purposes of subsection (b) (5)—
10 "(A) any restricted stock option which is not
11 terminated before January 1, 1965, and
12 "(B) any qualified stock option granted after
13 June 11, 1963,
14 shall be treated as outstanding until such option is exer-
15 cised in full or expires by reason of the lapse of time.
16 For purposes of the preceding sentence, a restricted stock
17 option granted before June 12, 1963, shall not be treated
18 as outstanding for any period before the first day on
19 which (under the terms of such option) it may be
20 exercised.
21 "(3) OPTIONS GRANTED TO CERTAIN SHARE-
22 HOLDERS.—For purposes of subsection (b) (7)—
23 "(A) the term 'equity capital' means—
24 "(i) in the case of one corporation, the
25 sum of its money and other property (in an

1 amount equal to the adjusted basis of such
2 property for determining gain), less the amount
3 of its indebtedness (other than indebtedness to
4 shareholders), and
5 "(ii) in the case of a group of corporations
6 consisting of a parent and its subsidiary cor-
7 porations, the sum of the equity capital of each
8 of such corporations adjusted, under regulations
9 prescribed by the Secretary or his delegate, to
10 eliminate the effect of intercorporate ownership
11 or transactions among such corporations;
12 "(B) the rules of section 425(d) shall apply
13 in determining the stock ownership of the indi-
14 vidual; and
15 "(C) stock which the individual may purchase
16 under outstanding options shall be treated as stock
17 owned by such individual.
18 If an individual is granted an option which permits
19 him to purchase stock in excess of the limitation of
20 subsection (b)(7) (determined by applying the rules
21 of this paragraph), such option shall be treated as
22 meeting the requirement of subsection (b)(7) to the
23 extent that such individual could, if the option were fully
24 exercised at the time of grant, purchase stock under
25 such option without exceeding such limitation. The

1 portion of such option which is treated as meeting the
2 requirement of subsection (b) (7) shall be deemed
3 to be that portion of the option which is first exercised.
4 "(4) CERTAIN DISQUALIFYING DISPOSITIONS
5 WHERE AMOUNT REALIZED IS LESS THAN VALUE AT
6 EXERCISE.—If—
7 "(A) an individual who has acquired a share
8 of stock by the exercise of a qualified stock option
9 makes a disposition of such share within the 3-year
10 period described in subsection (a) (1), and
11 "(B) such disposition is a sale or exchange
12 with respect to which a loss (if sustained) would
13 be recognized to such individual,
14 then the amount which is includible in the gross income
15 of such individual, and the amount which is deductible
16 from the income of his employer corporation, as com-
17 pensation attributable to the exercise of such option shall
18 not exceed the excess (if any) of the amount realized
19 on such sale or exchange over the amount paid for
20 such share.
21 "(5) CERTAIN TRANSFERS BY INSOLVENT INDI-
22 VIDUALS.—If an insolvent individual holds a share of
23 stock acquired pursuant to his exercise of a qualified
24 stock option, and if such share is transferred to a trustee,
25 receiver, or other similar fiduciary, in any proceeding

1 under the Bankruptcy Act or any other similar insol-
2 vency proceeding, neither such transfer, nor any other
3 transfer of such share for the benefit of his creditors
4 in such proceeding, shall constitute a 'disposition of
5 such share' for purposes of subsection (a) (1).

6 **"SEC. 423. EMPLOYEE STOCK PURCHASE PLANS.**

7 "(a) GENERAL RULE.—Section 421 (a) shall apply
8 with respect to the transfer of a share of stock to an individ-
9 ual pursuant to his exercise of an option granted after June
10 11, 1963 (other than a restricted stock option granted pur-
11 suant to a plan described in section 424 (c) (4) (B)), under
12 an employee stock purchase plan (as defined in subsection
13 (b)) if—

14 "(1) no disposition of such share is made by him
15 within 2 years after the date of the granting of the
16 option nor within 6 months after the transfer of such
17 share to him; and

18 "(2) at all times during the period beginning with
19 the date of the granting of the option and ending on
20 the day 3 months before the date of such exercise, he
21 is an employee of the corporation granting such option,
22 a parent or subsidiary corporation of such corporation,
23 or a corporation or a parent or subsidiary corporation
24 of such corporation issuing or assuming a stock option
25 in a transaction to which section 425 (a) applies.

1 "(b) EMPLOYEE STOCK PURCHASE PLAN.—For pur-
2 poses of this part, the term 'employee stock purchase plan'
3 means a plan which meets the following requirements:
4 "(1) the plan provides that options are to be
5 granted only to employees of the employer corporation
6 or of its parent or subsidiary corporation to purchase
7 stock in any such corporations;
8 "(2) such plan is approved by the stockholders
9 of the granting corporation within 12 months before or
10 after the date such plan is adopted;
11 "(3) under the terms of the plan, no employee can
12 be granted an option if such employee, immediately
13 after the option is granted, owns stock possessing 5 per-
14 cent or more of the total combined voting power or value
15 of all classes of stock of the employer corporation or of
16 its parent or subsidiary corporation. For purposes of
17 this paragraph, the rules of section 425(d) shall apply
18 in determining the stock ownership of an individual, and
19 stock which the employee may purchase under outstand-
20 ing options shall be treated as stock owned by the em-
21 ployee;
22 "(4) under the terms of the plan, options are to be
23 granted to all employees of any corporation whose em-
24 ployees are granted any of such options by reason of

1 their employment by such corporation, except that there
2 may be excluded—
3 "(A) employees who have been employed less
4 than 2 years,
5 "(B) employees whose customary employment
6 is 20 hours or less per week,
7 "(C) employees whose customary employment
8 is for not more than 5 months in any calendar year,
9 and
10 "(D) officers, persons whose principal duties
11 consist of supervising the work of other employees,
12 or highly compensated employees;
13 "(5) under the terms of the plan, all employees
14 granted such options shall have the same rights and
15 privileges, except that the amount of stock which may
16 be purchased by any employee under such option may
17 bear a uniform relationship to the total compensation,
18 or the basic or regular rate of compensation, of em-
19 ployees, and the plan may provide that no employee
20 may purchase more than a maximum amount of stock
21 fixed under the plan;
22 "(6) under the terms of the plan, the option price
23 is not less than the lesser of—
24 "(A) an amount equal to 85 percent of the

1 fair market value of the stock at the time such option
2 is granted, or
3 "(B) an amount which under the terms of the
4 option may not be less than 85 percent of the fair
5 market value of the stock at the time such option is
6 exercised;
7 "(7) under the terms of the plan, such option can-
8 not be exercised after the expiration of—
9 "(A) 5 years from the date such option is
10 granted if, under the terms of such plan, the option
11 price is to be not less than 85 percent of the fair
12 market value of such stock at the time of the exer-
13 cise of the option, or
14 "(B) 27 months from the date such option is
15 granted, if the option price is not determinable in
16 the manner described in subparagraph (A);
17 "(8) under the terms of the plan, no employee
18 may be granted an option which permits his rights to
19 purchase stock under all such plans of his employer
20 corporation and its parent and subsidiary corporations
21 to accrue at a rate which exceeds $25,000 of fair mar-
22 ket value of such stock (determined at the time such
23 option is granted) for each calendar year in which such
24 option is outstanding at any time. For purposes of this
25 paragraph—

1 "(A) the right to purchase stock under an
2 option accrues when the option (or any portion
3 thereof) first becomes exercisable during the
4 calendar year;
5 "(B) the right to purchase stock under an
6 option accrues at the rate provided in the option,
7 but in no case may such rate exceed $25,000 of
8 fair market value of such stock (determined at the
9 time such option is granted) for any one calendar
10 year; and
11 "(C) a right to purchase stock which has
12 accrued under one option granted pursuant to the
13 plan may not be carried over to any other option;
14 and
15 "(9) under the terms of the plan, such option is
16 not transferable by such individual otherwise than by
17 will or the laws of descent and distribution, and is exer-
18 cisable, during his lifetime, only by him.
19 For purposes of paragraphs (3) to (9), inclusive, where
20 additional terms are contained in an offering made under a
21 plan, such additional terms shall, with respect to options
22 exercised under such offering, be treated as a part of the
23 terms of such plan.
24 "(c) SPECIAL RULE WHERE OPTION PRICE IS BETWEEN
25 85 PERCENT AND 100 PERCENT OF VALUE OF STOCK.—If the

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1 option price of a share of stock acquired by an individual pursu-
2 ant to a transfer to which subsection (a) applies was less than
3 100 percent of the fair market value of such share at the
4 time such option was granted, then, in the event of any
5 disposition of such share by him which meets the holding
6 period requirements of subsection (a), or in the event of
7 his death (whenever occurring) while owning such share,
8 there shall be included as compensation (and not as gain
9 upon the sale or exchange of a capital asset) in his gross
10 income, for the taxable year in which falls the date of
11 such disposition or for the taxable year closing with his
12 death, whichever applies, an amount equal to the lesser of—
13 "(1) the excess of the fair market value of the
14 share at the time of such disposition or death over
15 the amount paid for the share under the option, or
16 "(2) the excess of the fair market value of the
17 share at the time the option was granted over the option
18 price.
19 If the option price is not fixed or determinable at the time
20 the option is granted, then for purposes of this subsection,
21 the option price shall be determined as if the option were
22 exercised at such time. In the case of the disposition of
23 such share by the individual, the basis of the share in his
24 hands at the time of such disposition shall be increased by an

1 amount equal to the amount so includible in his gross income.

2 "SEC. 424. RESTRICTED STOCK OPTIONS.

3 "(a) IN GENERAL.—Section 421 (a) shall apply with
4 respect to the transfer of a share of stock to an individual
5 pursuant to his exercise after 1949 of a restricted stock
6 option, if—

7 "(1) no disposition of such share is made by him
8 within 2 years from the date of the granting of the
9 option nor within 6 months after the transfer of such
10 share to him, and

11 "(2) at the time he exercises such option—

12 "(A) he is an employee of either the corpora-
13 tion granting such option, a parent or subsidiary
14 corporation of such corporation, or a corporation or
15 a parent or subsidiary corporation of such corpora-
16 tion issuing or assuming a stock option in a trans-
17 action to which section 425 (a) applies, or

18 "(B) he ceased to be an employee of such
19 corporations within the 3-month period preceding
20 the time of exercise.

21 "(b) RESTRICTED STOCK OPTION.—For purposes of
22 this part, the term 'restricted stock option' means an option
23 granted after February 26, 1945, and before June 12, 1963

1 (or, if it meets the requirements of subsection (c) (4), an
2 option granted after June 11, 1963), to an individual,
3 for any reason connected with his employment by a corpo-
4 ration, if granted by the employer corporation or its parent
5 or subsidiary corporation, to purchase stock of any of such
6 corporations, but only if—
7 "(1) at the time such option is granted—
8 "(A) the option price is at least 85 percent of
9 the fair market value at such time of the stock sub-
10 ject to the option, or
11 "(B) in the case of a variable price option, the
12 option price (computed as if the option had been
13 exercised when granted) is at least 85 percent of
14 the fair market value of the stock at the time such
15 option is granted;
16 "(2) such option by its terms is not transferable by
17 such individual otherwise than by will or the laws of
18 descent and distribution, and is exercisable, during his
19 lifetime, only by him;
20 "(3) such individual, at the time the option is
21 granted, does not own stock possessing more than 10
22 percent of the total combined voting power of all classes
23 of stock of the employer corporation or of its parent
24 or subsidiary corporation. This paragraph shall not
25 apply if at the time such option is granted, the option

1 price is at least 110 percent of the fair market value
2 of the stock subject to the option, and such option either
3 by its terms is not exercisable after the expiration of 5
4 years from the date such option is granted or is exer-
5 cised within one year after August 16, 1954. For
6 purposes of this paragraph, the provisions of section 425
7 (d) shall apply in determining the stock ownership of an
8 individual; and
9 "(4) such option by its terms is not exercisable
10 after the expiration of 10 years from the date such
11 option is granted, if such option has been granted on or
12 after June 22, 1954.
13 "(c) SPECIAL RULES.—
14 "(1) OPTIONS UNDER WHICH OPTION PRICE IS
15 BETWEEN 85 PERCENT AND 95 PERCENT OF VALUE OF
16 STOCK.—If no disposition of a share of stock acquired by
17 an individual on his exercise after 1949 of a restricted
18 stock option is made by him within 2 years from the date
19 of the granting of the option nor within 6 months after
20 the transfer of such share to him, but, at the time the
21 restricted stock option was granted, the option price
22 (computed under subsection (b) (1)) was less than
23 95 percent of the fair market value at such time of such
24 share, then, in the event of any disposition of such share
25 by him, or in the event of his death (whenever occur-

1 ring) while owning such share, there shall be included
2 as compensation (and not as gain upon the sale or ex-
3 change of a capital asset) in his gross income, for the
4 taxable year in which falls the date of such disposition
5 or for the taxable year closing with his death, whichever
6 applies—
7 "(A) in the case of a share of stock acquired
8 under an option qualifying under subsection (b)
9 (1) (A), an amount equal to the amount (if any)
10 by which the option price is exceeded by the lesser
11 of—
12 "(i) the fair market value of the share at
13 the time of such disposition or death, or
14 "(ii) the fair market value of the share
15 at the time the option was granted; or
16 "(B) in the case of stock acquired under an
17 option qualifying under subsection (b) (1) (B), an
18 amount equal to the lesser of—
19 "(i) the excess of the fair market value of
20 the share at the time of such disposition or
21 death over the price paid under the option, or
22 "(ii) the excess of the fair market value of
23 the share at the time the option was granted
24 over the option price (computed as if the option
25 had been exercised at such time).

1 In the case of a disposition of such share by the indi-
2 vidual, the basis of the share in his hands at the time
3 of such disposition shall be increased by an amount
4 equal to the amount so includible in his gross income.
5 "(2) STOCKHOLDER APPROVAL.—For purposes of
6 this section, if the grant of an option is subject to ap-
7 proval by stockholders, the date of grant of the option
8 shall be determined as if the option had not been subject
9 to such approval.
10 "(3) VARIABLE PRICE OPTION.—For purposes of
11 subsection (b)(1), the term 'variable price option'
12 means an option under which the purchase price of the
13 stock is fixed or determinable under a formula in which
14 the only variable is the fair market value of the stock
15 at any time during a period of 6 months which includes
16 the time the option is exercised; except that in the case
17 of options granted after September 30, 1958, such term
18 does not include any such option in which such formula
19 provides for determining such price by reference to the
20 fair market value of the stock at any time before the
21 option is exercised if such value may be greater than the
22 average fair market value of the stock during the calen-
23 dar month in which the option is exercised.
24 "(4) CERTAIN OPTIONS GRANTED AFTER JUNE
25 11, 1963.—For purposes of subsection (b), an option

1 granted after June 11, 1963, meets the requirements
2 of this paragraph if granted pursuant to—
3 "(A) a binding written contract entered into
4 before June 12, 1963, or
5 "(B) a written plan adopted and approved
6 before June 12, 1963, which (as of June 12, 1963,
7 and as of the date of the granting of the option)—
8 "(i) met the requirements of paragraphs
9 (4) and (5) of section 423 (b), or
10 "(ii) was being administered in a way
11 which did not discriminate in favor of officers,
12 persons whose principal duties consist of super-
13 vising the work of other employees, or highly
14 compensated employees.
15 "SEC. 425. DEFINITIONS AND SPECIAL RULES.
16 "(a) CORPORATE REORGANIZATIONS, LIQUIDATIONS,
17 ETC.—For purposes of this part, the term 'issuing or assum-
18 ing a stock option in a transaction to which section 425 (a)
19 applies' means a substitution of a new option for the old
20 option, or an assumption of the old option, by an employer
21 corporation, or a parent or subsidiary of such corporation,
22 by reason of a corporate merger, consolidation, acquisition of
23 property or stock, separation, reorganization, or liquidation,
24 if—
25 "(1) the excess of the aggregate fair market value

1 of the shares subject to the option immediately after the
2 substitution or assumption over the aggregate option
3 price of such shares is not more than the excess of the
4 aggregate fair market value of all shares subject to the
5 option immediately before such substitution or assump-
6 tion over the aggregate option price of such shares, and
7 "(2) the new option or the assumption of the old
8 option does not give the employee additional benefits
9 which he did not have under the old option.
10 For purposes of this subsection, the parent-subsidiary rela-
11 tionship shall be determined at the time of any such trans-
12 action under this subsection.
13 "(b) ACQUISITION OF NEW STOCK.—For purposes of
14 this part, if stock is received by an individual in a distribu-
15 tion to which section 305, 354, 355, 356, or 1036 (or so
16 much of section 1031 as relates to section 1036) applies, and
17 such distribution was made with respect to stock transferred
18 to him upon his exercise of the option, such stock shall be
19 considered as having been transferred to him on his exercise
20 of such option. A similar rule shall be applied in the case of a
21 series of such distributions.
22 "(c) DISPOSITION.—
23 "(1) IN GENERAL.—Except as provided in para-
24 graph (2), for purposes of this part, the term 'disposi-

1 tion' includes a sale, exchange, gift, or a transfer of legal
2 title, but does not include—
3 "(A) a transfer from a decedent to an estate
4 or a transfer by bequest or inheritance;
5 "(B) an exchange to which section 354, 355,
6 356, or 1036 (or so much of section 1031 as relates
7 to section 1036) applies; or
8 "(C) a mere pledge or hypothecation.
9 "(2) JOINT TENANCY.—The acquisition of a share
10 of stock in the name of the employee and another jointly
11 with the right of survivorship or a subsequent transfer
12 of a share of stock into such joint ownership shall not
13 be deemed a disposition, but a termination of such joint
14 tenancy (except to the extent such employee acquires
15 ownership of such stock) shall be treated as a disposition
16 by him occurring at the time such joint tenancy is
17 terminated.
18 "(d) ATTRIBUTION OF STOCK OWNERSHIP.—For pur-
19 poses of this part, in applying the percentage limitations of
20 sections 422(b)(7), 423(b)(3), and 424(b)(3)—
21 "(1) the individual with respect to whom such
22 limitation is being determined shall be considered as
23 owning the stock owned, directly or indirectly, by or
24 for his brothers and sisters (whether by the whole or

1 half blood), spouse, ancestors, and lineal descendants;
2 and

3 "(2) stock owned, directly or indirectly, by or for
4 a corporation, partnership, estate, or trust, shall be con-
5 sidered as being owned proportionately by or for its
6 shareholders, partners, or beneficiaries.

7 "(e) PARENT CORPORATION.—For purposes of this
8 part, the term 'parent corporation' means any corporation
9 (other than the employer corporation) in an unbroken chain
10 of corporations ending with the employer corporation if, at
11 the time of the granting of the option, each of the corpora-
12 tions other than the employer corporation owns stock pos-
13 sessing 50 percent or more of the total combined voting
14 power of all classes of stock in one of the other corporations
15 in such chain.

16 "(f) SUBSIDIARY CORPORATION.—For purposes of this
17 part, the term 'subsidiary corporation' means any corporation
18 (other than the employer corporation) in an unbroken chain
19 of corporations beginning with the employer corporation
20 if, at the time of the granting of the option, each of the cor-
21 porations other than the last corporation in the unbroken
22 chain owns stock possessing 50 percent or more of the total
23 combined voting power of all classes of stock in one of the
24 other corporations in such chain.

1 "(g) SPECIAL RULE FOR APPLYING SUBSECTIONS
2 (e) AND (f).—In applying subsections (e) and (f) for
3 purposes of section 422(a)(2), 423(a)(2), and 424(a)
4 (2), there shall be substituted for the term 'employer cor-
5 poration' wherever it appears in subsections (e) and (f) the
6 term 'grantor corporation', or the term 'corporation issuing
7 or assuming a stock option in a transaction to which section
8 425(a) applies', as the case may be.
9 "(h) MODIFICATION, EXTENSION, OR RENEWAL OF
10 OPTION.—
11 "(1) IN GENERAL.—For purposes of this part, if
12 the terms of any option to purchase stock are modified,
13 extended, or renewed, such modification, extension, or
14 renewal shall be considered as the granting of a new
15 option.
16 "(2) SPECIAL RULES FOR SECTIONS 423 AND 424
17 OPTIONS.—
18 "(A) In the case of the transfer of stock pur-
19 suant to the exercise of an option to which section
20 423 or 424 applies and which has been so modified,
21 extended, or renewed, then, except as provided in
22 subparagraph (B), the fair market value of such
23 stock at the time of the granting of such option shall
24 be considered as whichever of the following is the
25 highest:

1 "(i) the fair market value of such stock
2 on the date of the original granting of the
3 option,
4 "(ii) the fair market value of such stock
5 on the date of the making of such modifica-
6 tion, extension, or renewal, or
7 "(iii) the fair market value of such stock
8 at the time of the making of any intervening
9 modification, extension, or renewal.
10 "(B) Subparagraph (A) shall not apply with
11 respect to a modification, extension, or renewal of
12 a restricted stock option before June 12, 1963 (or
13 after June 11, 1963, if made pursuant to a bind-
14 ing written contract entered into before June 12,
15 1963), if the aggregate of the monthly average fair
16 market values of the stock subject to the option
17 for the 12 consecutive calendar months before the
18 date of the modification, extension, or renewal,
19 divided by 12, is an amount less than 80 percent
20 of the fair market value of such stock on the date
21 of the original granting of the option or the date
22 of the making of any intervening modification, ex-
23 tension, or renewal, whichever is the highest.
24 "(3) DEFINITION OF MODIFICATION.—The term
25 'modification' means any change in the terms of the

1 option which gives the employee additional benefits
2 under the option, but such term shall not include a
3 change in the terms of the option—
4 "(A) attributable to the issuance or assump-
5 tion of an option under subsection (a); or
6 "(B) to permit the option to qualify under
7 sections 422(b)(6), 423(b)(9), and 424(b)(2).
8 If a restricted stock option is exercisable after the expira-
9 tion of 10 years from the date such option is granted, sub-
10 paragraph (B) shall not apply unless the terms of the
11 option are also changed to make it not exercisable after
12 the expiration of such period.
13 "(i) CROSS REFERENCES.—

"For provisions requiring the reporting of certain acts with respect to a qualified stock option, options granted under employer stock purchase plans, or a restricted stock option, see section 6039."

14 (b) ADMINISTRATIVE PROVISIONS.—
15 (1) REPORTING REQUIREMENT FOR CERTAIN
16 OPTIONS.—Subpart A of part III of subchapter A of
17 chapter 61 (relating to information returns) is amended
18 by renumbering section 6039 as 6040, and by inserting
19 after section 6038 the following new section:

1 "SEC. 6039. INFORMATION REQUIRED IN CONNECTION
2 WITH CERTAIN OPTIONS.

3 "(a) REQUIREMENT OF REPORTING.—Every corpora-
4 tion—
5 "(1) which in any calendar year transfers a share
6 of stock to any person pursuant to such person's exer-
7 cise of a qualified stock option or a restricted stock
8 option, or
9 "(2) which in any calendar year records (or has
10 by its agent recorded) a transfer of the legal title of a
11 share of stock—
12 "(A) acquired by the transferor pursuant to his
13 exercise of an option described in section 423(c)
14 (relating to special rule where option price is be-
15 tween 85 percent and 100 percent of value of
16 stock), or
17 "(B) acquired by the transferor pursuant to
18 his exercise of a restricted stock option described in
19 section 424(c)(1) (relating to options under
20 which option price is between 85 percent and 95
21 percent of value of stock),

1 shall, for such calendar year, make a return at such time
2 and in such manner, and setting forth such information, as
3 the Secretary or his delegate may by regulations prescribe.
4 For purposes of the preceding sentence, any option which a
5 corporation treats as a qualified stock option, a restricted
6 stock option, or an option granted under an employee stock
7 purchase plan, shall be deemed to be such an option. A
8 return is required by reason of a transfer described in para-
9 graph (2) of a share only with respect to the first transfer
10 of such share by the person who exercised the option.

11 "(b) STATEMENTS TO BE FURNISHED TO PERSONS
12 WITH RESPECT TO WHOM INFORMATION IS FURNISHED.—
13 Every corporation making a return under subsection
14 (a) shall furnish to each person whose name is set forth
15 in such return a written statement setting forth such informa-
16 tion as the Secretary or his delegate may by regulations
17 prescribe. The written statement required under the preced-
18 ing sentence shall be furnished to the person on or before
19 January 31 of the year following the calendar year for which
20 the return under subsection (a) was made.

21 "(c) IDENTIFICATION OF STOCK.—Any corporation
22 which transfers any share of stock pursuant to the exercise
23 of an option described in subsection (a)(2) shall identify
24 such stock in a manner adequate to carry out the purposes
25 of this section.

1 "(d) CROSS REFERENCES.—

"For definition of—
"(1) The term 'qualified stock option', see section 422(b).
"(2) The term 'employee stock purchase plan', see section 423(b).
"(3) The term 'restricted stock option', see section 424(b)."

2 (2) PENALTIES FOR FAILURE TO FILE INFORMA-
3 TION RETURNS.—Section 6652(a) (relating to failure
4 to file certain information returns) is amended to read
5 as follows:
6 "(a) RETURNS RELATING TO PAYMENTS OF DIVI-
7 DENDS, ETC., AND CERTAIN TRANSFERS OF STOCK.—In
8 the case of each failure to file a statement of—
9 "(1) the aggregate amount of payments to another
10 person required by section 6042(a)(1) (relating to
11 payments of dividends aggregating $10 or more), sec-
12 tion 6044(a)(1) (relating to payments of patronage
13 dividends aggregating $10 or more), or section 6049
14 (a)(1) (relating to payments of interest aggregating
15 $10 or more), or
16 "(2) the transfer of stock or the transfer of legal
17 title of stock required by section 6039 (relating to
18 information in connection with certain options),
19 on the date prescribed therefor (determined with regard to
20 any extension of time for filing), unless it is shown that such

1 failure is due to reasonable cause and not to willful neglect,
2 there shall be paid (upon notice and demand by the Secre-
3 tary or his delegate and in the same manner as tax), by the
4 person failing to so file the statement, $10 for each such
5 statement not so filed, but the total amount imposed on the
6 delinquent person for all such failures during any calendar
7 year shall not exceed $25,000."

8 (3) PENALTIES FOR FAILURE TO FURNISH
9 STATEMENTS TO PERSONS WITH RESPECT TO WHOM
10 RETURNS ARE FILED.—Section 6678 (relating to failure
11 to furnish certain statements) is amended—

12 (A) by striking out "section 6042 (c)," and
13 inserting in lieu thereof "section 6039 (b), 6042
14 (c),"; and

15 (B) by striking out "section 6042 (a) (1),"
16 and inserting in lieu thereof "section 6039 (a),
17 6042 (a) (1),".

18 (c) TECHNICAL AMENDMENTS.—

19 (1) Section 402 (a) (3) (B) (relating to tax-
20 ability of beneficiary of employees' trust) is amended
21 by striking out "section 421 (d) (2) and (3)" and in-
22 serting in lieu thereof "subsections (e) and (f) of
23 section 425".

24 (2) The last sentence of subparagraph (B) of

1 section 691 (c) (2) (relating to allowance of deduction
2 for estate tax in case of items constituting income in
3 respect of a decedent) is amended to read as follows:
4 "Such net value shall be determined with respect to the
5 provisions of section 421 (c) (2), relating to the deduc-
6 tion for estate tax with respect to stock options to which
7 part II of subchapter D apply."
8 (d) CLERICAL AMENDMENTS.—
9 (1) The table of parts for subchapter D of chapter
10 1 is amended by striking out

"Part II. Miscellaneous provisions."

11 and inserting in lieu thereof the following:

"Part II. Certain stock options."

12 (2) The table of sections for subpart A of part
13 III of subchapter A of chapter 61 is amended by
14 striking out

"Sec. 6039. Cross references."

15 and inserting in lieu thereof:

"Sec. 6039. Information required in connection with certain options.
"Sec. 6040. Cross references."

16 (e) EFFECTIVE DATE.—
17 (1) Except as provided in paragraph (2),
18 the amendments made by this section shall apply to
19 taxable years ending after June 11, 1963.

1 (2) The amendments made by subsection (b) shall
2 apply to stock transferred pursuant to options exercised
3 on or after January 1, 1964.

4 **SEC. 215. INTEREST ON CERTAIN DEFERRED PAYMENTS.**

5 (a) IN GENERAL.—Part III of subchapter E of chapter
6 1 (relating to accounting periods and methods of account-
7 ing) is amended by adding at the end thereof the following
8 new section:

9 **"SEC. 483. INTEREST ON CERTAIN DEFERRED PAYMENTS.**

10 "(a) AMOUNT CONSTITUTING INTEREST.—For pur-
11 poses of this title, in the case of any contract for the sale
12 or exchange of property there shall be treated as interest
13 that part of a payment to which this section applies which
14 bears the same ratio to the amount of such payment as the
15 total unstated interest under such contract bears to the total
16 of the payments to which this section applies which are due
17 under such contract.

18 "(b) TOTAL UNSTATED INTEREST.—For purposes of
19 this section, the term 'total unstated interest' means, with
20 respect to a contract for the sale or exchange of property,
21 an amount equal to the excess of—

22 "(1) the sum of the payments to which this sec-
23 tion applies which are due under the contract, over

1 "(2) the sum of the present values of such pay-
2 ments and the present values of any interest payments
3 due under the contract.
4 For purposes of paragraph (2), the present value of a pay-
5 ment shall be determined, as of the date of the sale or ex-
6 change, by discounting such payment at the rate, and in the
7 manner, provided in regulations prescribed by the Secretary
8 or his delegate. Such regulations shall provide for discount-
9 ing on the basis of 6-month brackets and shall provide that
10 the present value of any interest payment due not more than
11 6 months after the date of the sale or exchange is an amount
12 equal to 100 percent of such payment.
13 "(c) PAYMENTS TO WHICH SECTION APPLIES.—
14 "(1) IN GENERAL.—Except as provided in sub-
15 section (f), this section shall apply to any payment on
16 account of the sale or exchange of property which con-
17 stitutes part or all of the sales price and which is due
18 more than 6 months after the date of such sale or ex-
19 change under a contract—
20 "(A) under which some or all of the payments
21 are due more than one year after the date of such
22 sale or exchange, and
23 "(B) under which, using a rate provided by

1 regulations prescribed by the Secretary or his dele-
2 gate for purposes of this subparagraph, there is total
3 unstated interest.
4 Any rate prescribed for determining whether there is
5 total unstated interest for purposes of subparagraph (B)
6 shall be at least one percentage point lower than the
7 rate prescribed for purposes of subsection (b) (2).
8 "(2) TREATMENT OF EVIDENCE OF INDEBTED-
9 NESS.—For purposes of this section, an evidence of in-
10 debtedness of the purchaser given in consideration for
11 the sale or exchange of property shall not be considered
12 a payment, and any payment due under such evidence
13 of indebtedness shall be treated as due under the contract
14 for the sale or exchange.
15 "(d) PAYMENTS THAT ARE INDEFINITE AS TO TIME,
16 LIABILITY, OR AMOUNT.—In the case of a contract for the
17 sale or exchange of property under which the liability for,
18 or the amount or due date of, any portion of a payment can-
19 not be determined at the time of the sale or exchange, this
20 section shall be separately applied to such portion as if it
21 (and any amount of interest attributable to such portion)
22 were the only payments due under the contract; and such
23 determinations of liability, amount, and due date shall be
24 made at the time payment of such portion is made.
25 "(e) CHANGE IN TERMS OF CONTRACT.—If the lia-

1 bility for, or the amount or due date of, any payment (includ-
2 ing interest) under a contract for the sale or exchange of
3 property is changed, the 'total unstated interest' under the
4 contract shall be recomputed and allocated (with adjustment
5 for prior interest (including unstated interest) payments)
6 under regulations prescribed by the Secretary or his delegate.
7 "(f) EXCEPTIONS AND LIMITATIONS.—
8 "(1) SALES PRICE OF $3,000 OR LESS.—This sec-
9 tion shall not apply to any payment on account of the
10 sale or exchange of property if it can be determined at
11 the time of such sale or exchange that the sales price
12 cannot exceed $3,000.
13 "(2) CARRYING CHARGES.—In the case of the pur-
14 chaser, the tax treatment of amounts paid on account
15 of the sale or exchange of property shall be made with-
16 out regard to this section if any such amounts are treated
17 under section 163 (b) as if they included interest.
18 "(3) TREATMENT OF SELLER.—In the case of the
19 seller, the tax treatment of any amounts received on
20 account of the sale or exchange of property shall be
21 made without regard to this section if no part of any
22 gain on such sale or exchange would be considered as
23 gain from the sale or exchange of a capital asset or prop-
24 erty described in section 1231.
25 "(4) SALES OR EXCHANGES OF PATENTS.—This

1 section shall not apply to any payments made pursuant
2 to a transfer described in section 1235 (a) (relating to
3 sale or exchange of patents).

4 "(5) ANNUITIES.—This section shall not apply to
5 any amount the liability for which depends in whole or
6 in part on the life expectancy of one or more individ-
7 uals and which constitutes an amount received as an
8 annuity to which section 72 applies."

9 (b) CLERICAL AMENDMENT.—The table of sections for
10 such part is amended by adding at the end thereof the fol-
11 lowing new item:

"Sec. 483. Interest on certain deferred payments."

12 (c) CERTAIN CARRYING CHARGES.—The first sentence
13 of section 163 (b) (1) (relating to installment purchases
14 where interest charge is not separately stated) is amended
15 by striking out "personal property is purchased" and inserting
16 in lieu thereof "personal property or services are purchased".

17 (d) EFFECTIVE DATES.—The amendments made by
18 subsections (a) and (b) shall apply to payments made after
19 December 31, 1963, on account of sales or exchanges of
20 property occurring after June 30, 1963. The amendment
21 made by subsection (c) shall apply to payments made dur-
22 ing taxable years beginning after December 31, 1963.

1 SEC. 216. PERSONAL HOLDING COMPANIES.

2 (a) PERSONAL HOLDING COMPANY TAX RATE.—
3 Section 541 (relating to imposition of personal holding
4 company tax) is amended by striking out "tax equal to"
5 and all that follows and inserting in lieu thereof: "tax equal
6 to 70 percent of the undistributed personal holding company
7 income."

8 (b) DEFINITION OF PERSONAL HOLDING COMPANY.—
9 Paragraph (1) of section 542 (a) (relating to the gross
10 income requirement for personal holding company purposes)
11 is amended to read as follows:

12 "(1) ADJUSTED ORDINARY GROSS INCOME RE-
13 QUIREMENT.—At least 60 percent of its adjusted
14 ordinary gross income (as defined in section 543 (b)
15 (2)) for the taxable year is personal holding company
16 income (as defined in section 543 (a)), and".

17 (c) EXCLUDED CORPORATIONS.—

18 (1) DOMESTIC BUILDING AND LOAN ASSOCIA-
19 TIONS.—Paragraph (2) of section 542 (c) (relating to
20 corporations excepted from the definition of personal
21 holding company) is amended to read as follows:

22 "(2) a bank as defined in section 581, or a do-

1 mestic building and loan association within the meaning
2 of section 7701 (a) (19) without regard to subpara-
3 graphs (D) and (E) thereof;".

4 (2) LENDING AND FINANCE COMPANIES.—Sec-
5 tion 542 (c) is amended by striking out paragraphs (6),
6 (7), (8), and (9), by renumbering paragraphs (10)
7 and (11) as paragraphs (7) and (8), and by insert-
8 ing after paragraph (5) the following new paragraph:

9 "(6) a lending or finance company if—

10 "(A) 60 percent or more of its ordinary gross
11 income (as defined in section 543 (b) (1)) is de-
12 rived directly from the active and regular conduct
13 of a lending or finance business;

14 "(B) the personal holding company income for
15 the taxable year (computed without regard to in-
16 come described in subsection (d) (3) and in-
17 come derived directly from the active and regular
18 conduct of a lending or finance business, and com-
19 puted by including as personal holding company
20 income the entire amount of the gross income from
21 rents, royalties, produced film rents, and compen-
22 sation for use of corporate property by sharehold-
23 ers), plus the interest described in section 543
24 (b) (2) (C), is not more than 20 percent of the
25 ordinary gross income;

1 "(C) the sum of the deductions which are
2 directly allocable to the active and regular con-
3 duct of its lending or finance business equals or
4 exceeds the sum of—
5 "(i) 15 percent of so much of the ordinary
6 gross income derived therefrom as does not
7 exceed $500,000, plus
8 "(ii) 5 percent of so much of the ordinary
9 gross income derived therefrom as exceeds
10 $500,000 but not $1,000,000; and
11 "(D) the loans to a person who is a share-
12 holder in such company during the taxable year
13 by or for whom 10 percent or more in value of
14 its outstanding stock is owned directly or indirectly
15 (including, in the case of an individual, stock owned
16 by members of his family as defined in section 544
17 (a)(2)), outstanding at any time during such year
18 do not exceed $5,000 in principal amount;".
19 (3) SPECIAL RULES FOR SECTION 542(C)(6).—Sec-
20 tion 542 is amended by adding at the end thereof the
21 following new subsection:
22 "(d) SPECIAL RULES FOR APPLYING SUBSECTION
23 (c)(6).—
24 "(1) LENDING OR FINANCE BUSINESS DEFINED.—
25 "(A) IN GENERAL.—Except as provided in

1 subparagraph (B), for purposes of subsection (c)
2 (6), the term 'lending or finance business' means
3 a business of—
4 "(i) making loans, or
5 "(ii) purchasing or discounting accounts
6 receivable, notes, or installment obligations.
7 "(B) EXCEPTIONS.—For purposes of subpara-
8 graph (A), the term 'lending or finance business'
9 does not include the business of—
10 "(i) making loans, or purchasing or dis-
11 counting accounts receivable, notes, or install-
12 ment obligations, if (at the time of the loan,
13 purchase, or discount) the remaining maturity
14 exceeds 60 months, or
15 "(ii) making loans evidenced by, or pur-
16 chasing, certificates of indebtedness issued in a
17 series, under a trust indenture, and in registered
18 form or with interest coupons attached.
19 For purposes of clause (i), the remaining maturity
20 shall be treated as including any period for which
21 there may be a renewal or extension under the terms
22 of an option exercisable by the borrower.
23 "(2) BUSINESS DEDUCTIONS.—For purposes of
24 subsection (c) (6) (C), the deductions which may be
25 taken into account shall include only—

1 "(A) deductions which are allowable only by
2 reason of section 162 or section 404, except there
3 shall not be included any such deduction in respect
4 of compensation for personal services rendered by
5 shareholders (including members of the share-
6 holder's family as described in section 544 (a) (2)),
7 and
8 "(B) deductions allowable under section 167,
9 and deductions allowable under section 164 for
10 real property taxes, but in either case only to the
11 extent that the property with respect to which such
12 deductions are allowable is used directly in the
13 active and regular conduct of the lending or finance
14 business.
15 "(3) INCOME RECEIVED FROM CERTAIN DOMESTIC
16 SUBSIDIARIES.—For purposes of subsection (c) (6)
17 (B), in the case of a lending company which is author-
18 ized to engage in and is actively and regularly engaged
19 in the small loan business (consumer finance business)
20 under one or more State statutes providing for the direct
21 regulation of such business, and which meets the require-
22 ments of subsection (c) (6) (A), there shall not be
23 treated as personal holding company income the law-
24 ful income received from domestic subsidiary corpora-
25 tions (of which stock possessing at least 80 percent of

1 the voting power of all classes of stock and of which at
2 least 80 percent of each class of nonvoting stock is
3 owned directly by such lending company) which are
4 themselves excepted under subsection (c) (6)."
5 (d) PERSONAL HOLDING COMPANY INCOME.—Subsec-
6 tions (a) and (b) of section 543 (relating to personal
7 holding company income) are amended to read as follows:
8 "(a) GENERAL RULE.—For purposes of this subtitle,
9 the term 'personal holding company income' means the
10 portion of the adjusted ordinary gross income which consists
11 of:
12 "(1) DIVIDENDS, ETC.—Dividends, interest, royal-
13 ties (other than mineral, oil, or gas royalties or copy-
14 right royalties), and annuities. This paragraph shall
15 not apply to—
16 "(A) interest constituting rent (as defined in
17 subsection (b) (3)),
18 "(B) interest on amounts set aside in a re-
19 serve fund under section 511 or 607 of the Mer-
20 chant Marine Act, 1936, and
21 "(C) a dividend distribution of divested stock
22 (as defined in subsection (e) of section 1111), but
23 only if the stock with respect to which the distribu-
24 tion is made was owned by the distributee on Sep-
25 tember 6, 1961, or was owned by the distributee

1 for at least 2 years before the date on which the
2 antitrust order (as defined in subsection (d) of sec-
3 tion 1111) was entered.
4 "(2) RENTS.—The adjusted income from rents;
5 except that such adjusted income shall not be included
6 if—
7 "(A) such adjusted income constitutes 50 per-
8 cent or more of the adjusted ordinary gross income,
9 and
10 "(B) the personal holding company income for
11 the taxable year (computed without regard to this
12 paragraph and paragraph (6), and computed by
13 including as personal holding company income
14 copyright royalties and the adjusted income from
15 mineral, oil, and gas royalties) is not more than
16 10 percent of the ordinary gross income.
17 "(3) MINERAL, OIL, AND GAS ROYALTIES.—The
18 adjusted income from mineral, oil, and gas royalties;
19 except that such adjusted income shall not be included
20 if—
21 "(A) such adjusted income constitutes 50 per-
22 cent or more of the adjusted ordinary gross income,
23 "(B) the personal holding company income for
24 the taxable year (computed without regard to this
25 paragraph, and computed by including as personal

1 holding company income copyright royalties and
2 the adjusted income from rents) is not more than
3 10 percent of the ordinary gross income, and
4 "(C) the sum of the deductions which are al-
5 lowable under section 162 (relating to trade or busi-
6 ness expenses) other than—
7 "(i) deductions for compensation for per-
8 sonal services rendered by the shareholders,
9 and
10 "(ii) deductions which are specifically al-
11 lowable under sections other than section 162,
12 equals or exceeds 15 percent of the adjusted ordi-
13 nary gross income.
14 "(4) Copyright royalties.—Copyright royalties;
15 except that copyright royalties shall not be included if—
16 "(A) such royalties (exclusive of royalties
17 received for the use of, or right to use, copyrights
18 or interests in copyrights on works created in whole,
19 or in part, by any shareholder) constitute 50 per-
20 cent or more of the ordinary gross income,
21 "(B) the personal holding company income
22 for the taxable year computed—
23 "(i) without regard to copyright royalties,
24 other than royalties received for the use of, or
25 right to use, copyrights or interests in copyrights

1 in works created in whole, or in part, by any
2 shareholder owning more than 10 percent of
3 the total outstanding capital stock of the cor-
4 poration,
5 "(ii) without regard to dividends from any
6 corporation in which the taxpayer owns at least
7 50 percent of all classes of stock entitled to
8 vote and at least 50 percent of the total value
9 of all classes of stock and which corporation
10 meets the requirements of this subparagraph
11 and subparagraphs (A) and (C), and
12 "(iii) by including as personal holding
13 company income the adjusted income from
14 rents and the adjusted income from mineral,
15 oil, and gas royalties,
16 is not more than 10 percent of the ordinary gross
17 income, and
18 "(C) the sum of the deductions which are
19 properly allocable to such royalties and which are
20 allowable under section 162, other than—
21 "(i) deductions for compensation for per-
22 sonal services rendered by the shareholders,
23 "(ii) deductions for royalties paid or ac-
24 crued, and

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1 "(iii) deductions which are specifically
2 allowable under sections other than section 162,
3 equals or exceeds 25 percent of the amount by
4 which the ordinary gross income exceeds the sum
5 of the royalties paid or accrued and the amounts
6 allowable as deductions under section 167 (relating
7 to depreciation) with respect to copyright royalties.
8 For purposes of this subsection, the term 'copyright
9 royalties' means compensation, however designated, for
10 the use of, or the right to use, copyrights in works pro-
11 tected by copyright issued under title 17 of the United
12 States Code (other than by reason of section 2 or 6
13 thereof) and to which copyright protection is also
14 extended by the laws of any country other than the
15 United States of America by virtue of any international
16 treaty, convention, or agreement, or interests in any
17 such copyrighted works, and includes payments from
18 any person for performing rights in any such copy-
19 righted work and payments (other than produced film
20 rents as defined in paragraph (5)(B)) received for
21 the use of, or right to use, films. For purposes of this
22 paragraph, the term 'shareholder' shall include any per-
23 son who owns stock within the meaning of section 544.

1 "(5) PRODUCED FILM RENTS.—
2 "(A) Produced film rents; except that such
3 rents shall not be included if such rents constitute
4 50 percent or more of the ordinary gross income.
5 "(B) For purposes of this section, the term
6 'produced film rents' means payments received with
7 respect to an interest in a film for the use of, or
8 right to use, such film, but only to the extent that
9 such interest was acquired before substantial com-
10 pletion of production of such film.
11 "(6) USE OF CORPORATION PROPERTY BY SHARE-
12 HOLDER.—Amounts received as compensation (however
13 designated and from whomsoever received) for the use
14 of, or right to use, property of the corporation in any
15 case where, at any time during the taxable year, 25
16 percent or more in value of the outstanding stock of the
17 corporation is owned, directly or indirectly, by or for an
18 individual entitled to the use of the property; whether
19 such right is obtained directly from the corporation or
20 by means of a sublease or other arrangement. This
21 paragraph shall apply only to a corporation which has
22 personal holding company income for the taxable year

1 (computed without regard to this paragraph and para-
2 graph (2), and computed by including as personal
3 holding company income copyright royalties and the
4 adjusted income from mineral, oil, and gas royalties)
5 in excess of 10 percent of its ordinary gross income.

6 "(7) PERSONAL SERVICE CONTRACTS.—

7 "(A) Amounts received under a contract un-
8 der which the corporation is to furnish personal
9 services; if some person other than the corporation
10 has the right to designate (by name or by descrip-
11 tion) the individual who is to perform the services,
12 or if the individual who is to perform the services
13 is designated (by name or by description) in the
14 contract; and

15 "(B) amounts received from the sale or other
16 disposition of such a contract.

17 This paragraph shall apply with respect to amounts
18 received for services under a particular contract only if
19 at some time during the taxable year 25 percent or more
20 in value of the outstanding stock of the corporation is
21 owned, directly or indirectly, by or for the individual who
22 has performed, is to perform, or may be designated (by
23 name or by description) as the one to perform, such
24 services.

25 "(8) ESTATES AND TRUSTS.—Amounts includible

1 in computing the taxable income of the corporation un-
2 der part I of subchapter J (sec. 641 and following,
3 relating to estates, trusts, and beneficiaries).
4 "(b) DEFINITIONS.—For purposes of this part—
5 "(1) ORDINARY GROSS INCOME.—The term 'ordi-
6 nary gross income' means the gross income determined
7 by excluding—
8 "(A) all gains from the sale or other disposi-
9 tion of capital assets, and
10 "(B) all gains (other than those referred to in
11 subparagraph (A)) from the sale or other disposi-
12 tion of property described in section 1231(b).
13 "(2) ADJUSTED ORDINARY GROSS INCOME.—The
14 term 'adjusted ordinary gross income' means the ordinary
15 gross income adjusted as follows:
16 "(A) RENTS.—From the gross income from
17 rents (as defined in the second sentence of para-
18 graph (3) of this subsection) subtract the amount
19 allowable as deductions for—
20 "(i) exhaustion, wear and tear, obsoles-
21 cence, and amortization,
22 "(ii) property taxes,
23 "(iii) interest, and
24 "(iv) rent,
25 to the extent allocable, under regulations prescribed

1 by the Secretary or his delegate, to such gross in-
2 come from rents. The amount subtracted under
3 this subparagraph shall not exceed such gross in-
4 come from rents.

5 "(B) MINERAL ROYALTIES, ETC.—From the
6 gross income from mineral, oil, and gas royalties
7 described in subsection (a) (3), and from the gross
8 income from working interests in an oil or gas well,
9 subtract the amount allowable as deductions for—

10 "(i) exhaustion, wear and tear, obsoles-
11 cence, amortization, and depletion,

12 "(ii) property and severance taxes,

13 "(iii) interest, and

14 "(iv) rent,

15 to the extent allocable, under regulations prescribed
16 by the Secretary or his delegate, to such gross in-
17 come from royalties or such gross income from work-
18 ing interests in oil or gas wells. The amount sub-
19 tracted under this subparagraph with respect to
20 royalties shall not exceed the gross income from such
21 royalties, and the amount subtracted under this
22 subparagraph with respect to working interests
23 shall not exceed the gross income from such working
24 interests.

25 "(C) INTEREST.—There shall be excluded—

1 "(i) interest received on a direct obliga-
2 tion of the United States held for sale to
3 customers in the ordinary course of trade or
4 business by a regular dealer who is making a
5 primary market in such obligations, and
6 "(ii) interest on a condemnation award, a
7 judgment, and a tax refund.
8 "(3) ADJUSTED INCOME FROM RENTS.—The term
9 'adjusted income from rents' means the gross income
10 from rents, reduced by the amount subtracted under
11 paragraph (2)(A) of this subsection. For purposes
12 of the preceding sentence, the term 'rents' means com-
13 pensation, however designated, for the use of, or right
14 to use, property, and the interest on debts owed to the
15 corporation, to the extent such debts represent the
16 price for which real property held primarily for sale
17 to customers in the ordinary course of its trade or
18 business was sold or exchanged by the corporation;
19 but does not include amounts constituting personal hold-
20 ing company income under subsection (a)(6), nor
21 copyright royalties (as defined in subsection (a)(4)),
22 nor produced film rents (as defined in subsection
23 (a)(5)(B)).
24 "(4) ADJUSTED INCOME FROM MINERAL, OIL,
25 AND GAS ROYALTIES.—The term 'adjusted income from

1 mineral, oil, and gas royalties' means the gross income
2 from such royalties, reduced by the amount subtracted
3 under paragraph (2)(B) of this subsection in respect
4 of such royalties."
5 (e) FOREIGN PERSONAL HOLDING COMPANY IN-
6 COME AND STOCK OWNERSHIP.—Section 553 (relating to
7 foreign personal holding company income) and section 554
8 (relating to stock ownership) are amended to read as
9 follows:
10 **"SEC. 553. FOREIGN PERSONAL HOLDING COMPANY IN-**
11 **COME.**
12 "(a) FOREIGN PERSONAL HOLDING COMPANY IN-
13 COME.—For purposes of this subtitle, the term 'foreign per-
14 sonal holding company income' means that portion of the
15 gross income, determined for purposes of section 552, which
16 consists of:
17 "(1) DIVIDENDS, ETC.—Dividends, interest, royal-
18 ties, and annuities. This paragraph shall not apply to
19 a dividend distribution of divested stock (as defined in
20 subsection (e) of section 1111) but only if the stock
21 with respect to which the distribution is made was
22 owned by the distributee on September 6, 1961, or was
23 owned by the distributee for at least 2 years before
24 the date on which the antitrust order (as defined in
25 subsection (d) of section 1111) was entered.

1 "(2) STOCK AND SECURITIES TRANSACTIONS.—
2 Except in the case of regular dealers in stock or secu-
3 rities, gains from the sale or exchange of stock or
4 securities.

5 "(3) COMMODITIES TRANSACTIONS.—Gains from
6 futures transactions in any commodity on or subject to
7 the rules of a board of trade or commodity exchange.
8 This paragraph shall not apply to gains by a producer,
9 processor, merchant, or handler of the commodity which
10 arise out of bona fide hedging transactions reasonably
11 necessary to the conduct of its business in the manner in
12 which such business is customarily and usually con-
13 ducted by others.

14 "(4) ESTATES AND TRUSTS.—Amounts includible
15 in computing the taxable income of the corporation
16 under part I of subchapter J (sec. 641 and following,
17 relating to estates, trusts, and beneficiaries); and gains
18 from the sale or other disposition of any interest in an
19 estate or trust.

20 "(5) PERSONAL SERVICE CONTRACTS.—
21 "(A) Amounts received under a contract
22 under which the corporation is to furnish personal
23 services; if some person other than the corporation
24 has the right to designate (by name or by descrip-

1 tion) the individual who is to perform the services,
2 or if the individual who is to perform the services
3 is designated (by name or by description) in the
4 contract; and
5 "(B) amounts received from the sale or other
6 disposition of such a contract.
7 This paragraph shall apply with respect to amounts
8 received for services under a particular contract only if
9 at some time during the taxable year 25 percent or more
10 in value of the outstanding stock of the corporation is
11 owned, directly or indirectly, by or for the individual
12 who has performed, is to perform, or may be designated
13 (by name or by description) as the one to perform, such
14 services.
15 "(6) USE OF CORPORATION PROPERTY BY SHARE-
16 HOLDER.—Amounts received as compensation (however
17 designated and from whomsoever received) for the use of,
18 or right to use, property of the corporation in any case
19 where, at any time during the taxable year, 25 percent
20 or more in value of the outstanding stock of the corpora-
21 tion is owned, directly or indirectly, by or for an indi-
22 vidual entitled to the use of the property; whether such
23 right is obtained directly from the corporation or by

1 means of a sublease or other arrangement. This para-
2 graph shall apply only to a corporation which has foreign
3 personal holding company income for the taxable year,
4 computed without regard to this paragraph and para-
5 graph (7), in excess of 10 percent of its gross income.
6 "(7) RENTS.—Rents, unless constituting 50 per-
7 cent or more of the gross income. For purposes of this
8 paragraph, the term 'rents' means compensation, how-
9 ever designated, for the use of, or right to use, property;
10 but does not include amounts constituting foreign per-
11 sonal holding company income under paragraph (6).
12 "(b) LIMITATION ON GROSS INCOME IN CERTAIN
13 TRANSACTIONS.—For purposes of this part—
14 "(1) gross income and foreign personal holding
15 company income determined with respect to transactions
16 described in subsection (a) (2) (relating to gains from
17 stock and security transactions) shall include only the
18 excess of gains over losses from such transactions, and
19 "(2) gross income and foreign personal holding
20 company income determined with respect to transactions
21 described in subsection (a) (3) (relating to gains from
22 commodity transactions) shall include only the excess of
23 gains over losses from such transactions.

1 "SEC. 554. STOCK OWNERSHIP.

2 "(a) CONSTRUCTIVE OWNERSHIP.—For purposes of de-
3 termining whether a corporation is a foreign personal holding
4 company, insofar as such determination is based on stock
5 ownership under section 552 (a) (2), section 553 (a) (5),
6 or section 553 (a) (6)—

7 "(1) STOCK NOT OWNED BY INDIVIDUAL.—Stock
8 owned, directly or indirectly, by or for a corporation,
9 partnership, estate, or trust shall be considered as being
10 owned proportionately by its shareholders, partners, or
11 beneficiaries.

12 "(2) FAMILY AND PARTNERSHIP OWNERSHIP.—
13 An individual shall be considered as owning the stock
14 owned, directly or indirectly, by or for his family or by
15 or for his partner. For purposes of this paragraph, the
16 family of an individual includes only his brothers and
17 sisters (whether by the whole or half blood), spouse,
18 ancestors, and lineal descendants.

19 "(3) OPTIONS.—If any person has an option to
20 acquire stock, such stock shall be considered as owned by
21 such person. For purposes of this paragraph, an option
22 to acquire such an option, and each one of a series of
23 such options, shall be considered as an option to acquire
24 such stock.

25 "(4) APPLICATION OF FAMILY-PARTNERSHIP AND

1 OPTION RULES.—Paragraphs (2) and (3) shall be
2 applied—
3 "(A) for purposes of the stock ownership
4 requirement provided in section 552 (a) (2), if, but
5 only if, the effect is to make the corporation a foreign
6 personal holding company;
7 "(B) for purposes of section 553 (a) (5)
8 (relating to personal service contracts) or of section
9 553 (a) (6) (relating to the use of property by
10 shareholders), if, but only if, the effect is to make
11 the amounts therein referred to includible under
12 such paragraph as foreign personal holding com-
13 pany income.
14 "(5) CONSTRUCTIVE OWNERSHIP AS ACTUAL
15 OWNERSHIP.—Stock constructively owned by a person
16 by reason of the application of paragraph (1) or (3)
17 shall, for purposes of applying paragraph (1) or (2),
18 be treated as actually owned by such person; but stock
19 constructively owned by an individual by reason of the
20 application of paragraph (2) shall not be treated as
21 owned by him for purposes of again applying such
22 paragraph in order to make another the constructive
23 owner of such stock.
24 "(6) OPTION RULE IN LIEU OF FAMILY AND
25 PARTNERSHIP RULE.—If stock may be considered as

1 owned by an individual under either paragraph (2)
2 or (3) it shall be considered as owned by him under
3 paragraph (3).
4 "(b) CONVERTIBLE SECURITIES.—Outstanding securi-
5 ties convertible into stock (whether or not convertible during
6 the taxable year) shall be considered as outstanding stock—
7 "(1) for purposes of the stock ownership require-
8 ment provided in section 552 (a) (2), but only if the
9 effect of the inclusion of all such securities is to make
10 the corporation a foreign personal holding company;
11 "(2) for purposes of section 553 (a) (5) (relating
12 to personal service contracts), but only if the effect of
13 the inclusion of all such securities is to make the amounts
14 therein referred to includible under such paragraph as
15 foreign personal holding company income; and
16 "(3) for purposes of section 553 (a) (6) (relating
17 to the use of property by shareholders), but only if the
18 effect of the inclusion of all such securities is to make the
19 amounts therein referred to includible under such para-
20 graph as foreign personal holding company income.
21 The requirement in paragraphs (1), (2), and (3) that all
22 convertible securities must be included if any are to be in-
23 cluded shall be subject to the exception that, where some of
24 the outstanding securities are convertible only after a later
25 date than in the case of others, the class having the earlier

1 conversion date may be included although the others are not
2 included, but no convertible securities shall be included unless
3 all outstanding securities having a prior conversion date are
4 also included."
5 (f) Dividends-Paid Deduction.—
6 (1) Paragraph (2) of section 316 (b) (relating to
7 special rules for dividend defined) is amended to read
8 as follows:
9 "(2) Distributions by personal holding com-
10 panies.—
11 "(A) In the case of a corporation which—
12 "(i) under the law applicable to the tax-
13 able year in which the distribution is made, is a
14 personal holding company (as defined in section
15 542), or
16 "(ii) for the taxable year in respect of
17 which the distribution is made under section 563
18 (b) (relating to dividends paid after the close
19 of the taxable year), or section 547 (relating
20 to deficiency dividends), or the corresponding
21 provisions of prior law, is a personal holding
22 company under the law applicable to such tax-
23 able year,
24 the term 'dividend' also means any distribution of
25 property (whether or not a dividend as defined in

1 subsection (a)) made by the corporation to its
2 shareholders, to the extent of its undistributed per-
3 sonal holding company income (determined under
4 section 545 without regard to distributions under
5 this paragraph) for such year.

6 "(B) For purposes of subparagraph (A), the
7 term 'distribution of property' includes a distribu-
8 tion in complete liquidation occurring within 24
9 months after the adoption of a plan of liquidation,
10 but—

11 "(i) only to the extent of the amounts dis-
12 tributed to distributees other than corporate
13 shareholders, and

14 "(ii) only to the extent that the corpora-
15 tion designates such amounts as a dividend dis-
16 tribution and duly notifies such distributees of
17 such designation, under regulations prescribed
18 by the Secretary or his delegate, but

19 "(iii) not in excess of the sum of such
20 distributees' allocable share of the undistributed
21 personal holding company income for such
22 year, computed without regard to this subpara-
23 graph or section 562 (b)."

24 (2) Section 331 (b) (relating to nonapplication
25 of section 301) is amended by inserting after "any

1 distribution of property" the phrase "(other than a
2 distribution referred to in paragraph (2) (B) of section
3 316(b))".
4 (3) Section 562(b) (relating to distributions in
5 liquidation) is amended to read as follows:
6 "(b) DISTRIBUTIONS IN LIQUIDATION.—
7 "(1) Except in the case of a personal holding com-
8 pany described in section 542 or a foreign personal
9 holding company described in section 552,—
10 "(A) in the case of amounts distributed in
11 liquidation, the part of such distribution which is
12 properly chargeable to earnings and profits ac-
13 cumulated after February 28, 1913, shall be treated
14 as a dividend for purposes of computing the divi-
15 dends paid deduction, and
16 "(B) in the case of a complete liquidation
17 occurring within 24 months after the adoption of
18 a plan of liquidation, any distribution within such
19 period pursuant to such plan shall, to the extent of
20 the earnings and profits (computed without regard
21 to capital losses) of the corporation for the taxable
22 year in which such distribution is made, be treated
23 as a dividend for purposes of computing the divi-
24 dends paid deduction.
25 "(2) In the case of a complete liquidation of a per-

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1 sonal holding company, occurring within 24 months
2 after the adoption of a plan of liquidation, the amount
3 of any distribution within such period pursuant to such
4 plan shall be treated as a dividend for purposes of com-
5 puting the dividends paid deduction, to the extent that
6 such amount is distributed to corporate distributees and
7 represents such corporate distributees' allocable share of
8 the undistributed personal holding company income for
9 the taxable year of such distribution computed without
10 regard to this paragraph and without regard to sub-
11 paragraph (B) of section 316(b) (2)."
12 (4) Section 551(b) (relating to amount included
13 in gross income) is amended by striking out "received
14 as a dividend" and inserting in lieu thereof "received as
15 a dividend (determined as if any distribution in liquida-
16 tion actually made in such taxable year had not been
17 made)".
18 (g) ONE-MONTH LIQUIDATIONS.—Section 333 (relat-
19 ing to election as to recognition of gain in certain liquida-
20 tions) is amended by adding at the end thereof the following
21 new subsection:
22 "(g) SPECIAL RULE.—
23 "(1) LIQUIDATIONS BEFORE JANUARY 1, 1966.—
24 In the case of a liquidation occurring before January 1,
25 1966, of a corporation referred to in paragraph (3)—

1 "(A) the date 'December 31, 1953' referred to
2 in subsections (e) (2) and (f) (1) shall be treated
3 as if such date were 'December 31, 1962', and
4 "(B) in the case of stock in such corporation
5 held for more than 6 months, the term 'a dividend'
6 as used in subsection (e) (1) shall be treated as
7 if such term were 'class B capital gain'.
8 Subparagraph (B) shall not apply to any earnings and
9 profits to which the corporation succeeds after August 1,
10 1963, pursuant to any corporate reorganization or pur-
11 suant to any liquidation to which section 332 applies,
12 except earnings and profits which on August 1, 1963,
13 constituted earnings and profits of a corporation referred
14 to in paragraph (3), and except earnings and profits
15 which were earned after such date by a corporation
16 referred to in paragraph (3).
17 "(2) LIQUIDATIONS AFTER DECEMBER 31,
18 1965.—
19 "(A) IN GENERAL.—In the case of a liquida-
20 tion occurring after December 31, 1965, of a corpo-
21 ration to which this subparagraph applies—
22 "(i) the date 'December 31, 1953' re-
23 ferred to in subsections (e) (2) and (f) (1)
24 shall be treated as if such date were 'December
25 31, 1962', and

1 "(ii) so much of the gain recognized under
2 subsection (e)(1) as is attributable to the
3 earnings and profits accumulated after Febru-
4 ary 28, 1913, and before January 1, 1966, shall,
5 in the case of stock in such corporation held for
6 more than 6 months, be treated as class B
7 capital gain, and only the remainder of such
8 gain shall be treated as a dividend.
9 Clause (ii) shall not apply to any earnings and
10 profits to which the corporation succeeds after
11 August 1, 1963, pursuant to any corporate reorgani-
12 zation or pursuant to any liquidation to which sec-
13 tion 332 applies, except earnings and profits which
14 on August 1, 1963, constituted earnings and profits
15 of a corporation referred to in paragraph (3), and
16 except earnings and profits which were earned after
17 such date by a corporation referred to in para-
18 graph (3).
19 "(B) CORPORATIONS TO WHICH APPLI-
20 CABLE.—Subparagraph (A) shall apply only with
21 respect to a corporation which is referred to in para-
22 graph (3) and which—
23 "(i) on August 1, 1963, owes qualified
24 indebtedness (as defined in section 545(c)),
25 "(ii) before January 1, 1967, notifies the
26 Secretary or his delegate that it may wish to

1 have subparagraph (A) apply to it and submits
2 such information as may be required by regu-
3 lations prescribed by the Secretary or his dele-
4 gate, and
5 "(iii) liquidates before the close of the tax-
6 able year in which such corporation ceases to
7 owe such qualified indebtedness or (if earlier)
8 the taxable year referred to in subparagraph
9 (C).
10 "(C) ADJUSTED POST-1963 EARNINGS AND
11 PROFITS EXCEED QUALIFIED INDEBTEDNESS.—In
12 the case of any corporation, the taxable year re-
13 ferred to in this subparagraph is the first taxable
14 year at the close of which its adjusted post-1963
15 earnings and profits equal or exceed the amount of
16 such corporation's qualified indebtedness on August
17 1, 1963. For purposes of the preceding sentence,
18 the term 'adjusted post-1963 earnings and profits'
19 means the sum of—
20 "(i) the earnings and profits of such cor-
21 poration for taxable years beginning after De-
22 cember 31, 1963, without diminution by reason
23 of any distributions made out of such earnings
24 and profits, and
25 "(ii) the deductions allowed for taxable
26 years beginning after December 31, 1963, for

1 exhaustion, wear and tear, obsolescence, or
2 amortization.
3 "(3) CORPORATIONS REFERRED TO.—For purposes
4 of paragraphs (1) and (2), a corporation referred to in
5 this paragraph is a corporation which for at least one of
6 the two most recent taxable years ending before the date
7 of the enactment of this subsection was not a personal
8 holding company under section 542, but would have been
9 a personal holding company under section 542 for such
10 taxable year if the law applicable for the first taxable
11 year beginning after December 31, 1963, had been
12 applicable to such taxable year."
13 (h) EXCEPTION FOR CERTAIN CORPORATIONS.—
14 (1) GENERAL RULE.—Except as provided in para-
15 graph (2), in the case of a corporation referred to in
16 section 333(g)(3) of the Internal Revenue Code of
17 1954 (as added by subsection (g) of this section), the
18 amendments made by this section (other than subsec-
19 tions (f) and (g)) shall not apply if there is a com-
20 plete liquidation of such corporation and if the distri-
21 bution of all the property under such liquidation occurs
22 before January 1, 1966.
23 (2) EXCEPTION.—Paragraph (1) shall not apply
24 to any liquidation to which section 332 of the Internal
25 Revenue Code of 1954 applies unless—
26 (A) the corporate distributee (referred to in

1 subsection (b) (1) of such section 332) in such
2 liquidation is liquidated in a complete liquidation to
3 which such section 332 does not apply, and
4 (B) the distribution of all the property under
5 such liquidation occurs before the 91st day after the
6 last distribution referred to in paragraph (1) and
7 before January 1, 1966.
8 (i) DEDUCTION FOR AMORTIZATION OF INDEBTED-
9 NESS.—
10 (1) Section 545 (a) (relating to definition of un-
11 distributed personal holding company income) is
12 amended by striking out "subsection (b)" and inserting
13 in lieu thereof "subsections (b) and (c)".
14 (2) Section 545 is amended by adding at the end
15 thereof the following new subsection:
16 "(c) SPECIAL ADJUSTMENT TO TAXABLE INCOME.—
17 "(1) IN GENERAL.—Except as otherwise provided
18 in this subsection, for purposes of subsection (a) there
19 shall be allowed as a deduction amounts used, or amounts
20 irrevocably set aside (to the extent reasonable with
21 reference to the size and terms of the indebtedness), to
22 pay or retire qualified indebtedness.
23 "(2) CORPORATIONS TO WHICH APPLICABLE.—
24 This subsection shall apply only with respect to a corpo-
25 ration—
26 "(A) which for at least one of the two most

1 recent taxable years ending before the date of
2 the enactment of this subsection was not a per-
3 sonal holding company under section 542, but would
4 have been a personal holding company under sec-
5 tion 542 for such taxable year if the law applicable
6 for the first taxable year beginning after December
7 31, 1963, had been applicable to such taxable year,
8 or

9 "(B) to the extent that it succeeds to the de-
10 duction referred to in paragraph (1) by reason of
11 section 381(c)(15).

12 "(3) QUALIFIED INDEBTEDNESS.—

13 "(A) IN GENERAL.—Except as otherwise pro-
14 vided in this paragraph, for purposes of this sub-
15 section the term 'qualified indebtedness' means—

16 "(i) the outstanding indebtedness incurred
17 by the taxpayer after December 31, 1933, and
18 before August 1, 1963, and

19 "(ii) the outstanding indebtedness incurred
20 after July 31, 1963, for the purpose of making
21 a payment or set-aside referred to in paragraph
22 (1) in the same taxable year, but, in the case
23 of such a payment or set-aside which is made on
24 or after the first day of the first taxable year
25 beginning after December 31, 1963, only to the
26 extent the deduction otherwise allowed in para-

1 graph (1) with respect to such payment or
2 set-aside is treated as nondeductible by reason
3 of the election provided in paragraph (4).
4 "(B) EXCEPTION.—For purposes of subpara-
5 graph (A), qualified indebtedness does not include
6 any amounts which were, at any time after July 31,
7 1963, and before the payment or set-aside, owed to
8 a person who at such time owned (or was con-
9 sidered as owning within the meaning of section
10 318(a)) more than 10 percent in value of the tax-
11 payer's outstanding stock.
12 "(C) REDUCTION FOR AMOUNTS IRREVO-
13 CABLY SET ASIDE.—For purposes of subparagraph
14 (A), the qualified indebtedness with respect to a
15 contract shall be reduced by amounts irrevocably
16 set aside before the taxable year to pay or retire
17 such indebtedness; and no deduction shall be al-
18 lowed under paragraph (1) for payments out of
19 amounts so set aside.
20 "(4) ELECTION NOT TO DEDUCT.—A taxpayer
21 may elect, under regulations prescribed by the Secre-
22 tary or his delegate, to treat as nondeductible an amount
23 otherwise deductible under paragraph (1); but only
24 if the taxpayer files such election on or before the 15th
25 day of the third month following the close of the taxable

1 year with respect to which such election applies, desig-
2 nating therein the amounts which are to be treated as
3 nondeductible and specifying the indebtedness (referred
4 to in paragraph (3) (A) (ii)) incurred for the purpose
5 of making the payment or set-aside.

6 "(5) LIMITATIONS.—The deduction otherwise al-
7 lowed by this subsection for the taxable year shall be
8 reduced by the sum of—

9 "(A) the amount, if any, by which—

10 "(i) the deductions allowed for the taxable
11 year and all preceding taxable years beginning
12 after December 31, 1963, for exhaustion, wear
13 and tear, obsolescence, or amortization (other
14 than such deductions which are disallowed in
15 computing undistributed personal holding com-
16 pany income under subsection (b) (8)), exceed

17 "(ii) any reduction, by reason of this
18 subparagraph, of the deductions otherwise al-
19 lowed by this subsection for such preceding
20 taxable years, and

21 "(B) the amount, if any, by which—

22 "(i) the deductions allowed under sub-
23 section (b) (5) in computing undistributed per-
24 sonal holding company income for the taxable
25 year and all preceding taxable years beginning
26 after December 31, 1963, exceed

1 "(ii) any reduction, by reason of this sub-
2 paragraph, of the deductions otherwise allowed
3 by this subsection for such preceding taxable
4 years.
5 "(6) PRO-RATA REDUCTION IN CERTAIN CASES.—
6 For purposes of paragraph (3)(A), if property (of a
7 character which is subject to the allowance for ex-
8 haustion, wear and tear, obsolescence, or amortization)
9 is disposed of after July 31, 1963, the total amounts of
10 qualified indebtedness of the taxpayer shall be reduced
11 pro-rata in the taxable year of such disposition by the
12 amount, if any, by which—
13 "(A) the adjusted basis of such property at the
14 time of such disposition, exceeds
15 "(B) the amount of qualified indebtedness
16 which ceased to be qualified indebtedness with
17 respect to the taxpayer by reason of the assump-
18 tion of the indebtedness by the transferee."
19 (3) Paragraph (15) of section 381(c) (relating
20 to carryovers in certain corporate acquisitions) is
21 amended to read as follows:
22 "(15) INDEBTEDNESS OF CERTAIN PERSONAL
23 HOLDING COMPANIES.—The acquiring corporation shall
24 be considered to be the distributor or transferor corpora-
25 tion for the purpose of determining the applicability of
26 subsections (b)(7) and (c) of section 545, relating to

1 deduction with respect to payment of certain indebted-
2 ness."
3 (j) INCREASE IN BASIS WITH RESPECT TO CERTAIN
4 FOREIGN PERSONAL HOLDING COMPANY HOLDINGS.—
5 (1) IN GENERAL.—Part II of subchapter O of
6 chapter 1 (relating to basis rules of general application)
7 is amended by redesignating section 1022 as section
8 1023 and by inserting after section 1021 the following
9 new section:

10 **"SEC. 1022. INCREASE IN BASIS WITH RESPECT TO CER-**
11 **TAIN FOREIGN PERSONAL HOLDING COM-**
12 **PANY HOLDINGS.**

13 "(a) GENERAL RULE.—The basis (determined under
14 section 1014 (b) (5), relating to basis of stock or securities
15 in a foreign personal holding company) of a share of stock
16 or a security, acquired from a decedent dying after August
17 15, 1963, of a corporation which was a foreign personal
18 holding company for its most recent taxable year ending
19 before the date of the enactment of this section shall be in-
20 creased by its proportionate share of any Federal estate tax
21 attributable to the net appreciation in value of all of such
22 shares and securities determined as provided in this section.
23 "(b) PROPORTIONATE SHARE.—For purposes of sub-
24 section (a), the proportionate share of a share of stock or of
25 a security is that amount which bears the same ratio to the
26 aggregate increase determined under subsection (c) (2) as

1 the appreciation in value of such share or security bears to
2 the aggregate appreciation in value of all such shares and
3 securities having appreciation in value.

4 "(c) SPECIAL RULES AND DEFINITIONS.—For pur-
5 poses of this section—

6 "(1) FEDERAL ESTATE TAX.—The term 'Federal
7 estate tax' means only the tax imposed by section 2001
8 or 2101, reduced by any credit allowable with respect
9 to a tax on prior transfers by section 2013 or 2102.

10 "(2) FEDERAL ESTATE TAX ATTRIBUTABLE TO
11 NET APPRECIATION IN VALUE.—The Federal estate tax
12 attributable to the net appreciation in value of all shares
13 of stock and securities to which subsection (a) applies
14 is that amount which bears the same ratio to the Federal
15 estate tax as the net appreciation in value of all of such
16 shares and securities bears to the value of the gross estate
17 as determined under chapter 11 (including section 2032,
18 relating to alternative valuation).

19 "(3) NET APPRECIATION.—The net appreciation in
20 value of all shares and securities to which subsection (a)
21 applies is the amount by which the fair market value of
22 all such shares and securities exceeds the basis of such
23 property in the hands of the decedent.

24 "(4) FAIR MARKET VALUE.—For purposes of this
25 section, the term 'fair market value' means fair market

1 value determined under chapter 11 (including section
2 2032, relating to alternate valuation).
3 "(d) LIMITATIONS.—This section shall not apply to
4 any foreign personal holding company referred to in section
5 342(a)(2)."
6 (2) AMENDMENT OF SECTION 1016(a).—Section
7 1016(a) (relating to adjustments to basis) is amended
8 by striking out the period at the end thereof and by
9 inserting in lieu thereof a semicolon and by adding at
10 the end thereof the following new paragraph:
11 "(21) to the extent provided in section 1022, re-
12 lating to increase in basis for certain foreign personal
13 holding company holdings, or in section 216(j)(4) of
14 the Revenue Act of 1963."
15 (3) CLERICAL AMENDMENTS.—
16 (A) The table of sections for part II of sub-
17 chapter O of chapter 1 is amended by striking
18 out

"Sec. 1022. Cross references."

19 and inserting in lieu thereof the following:

"Sec. 1022. Increase in basis with respect to certain foreign personal holding company holdings.
"Sec. 1023. Cross references."

20 (4) ONE-MONTH LIQUIDATIONS.—If—
21 (A) a corporation was a foreign personal
22 holding company for its most recent taxable year

1 ending before the date of the enactment of this
2 Act,
3 (B) all of the stock of such corporation is
4 owned on August 15, 1963, and at the time of
5 liquidation, by individuals and estates, and
6 (C) the transfer of all the property under the
7 liquidation occurs within one of the first 4 calendar
8 months ending after such date of enactment,
9 then such corporation shall be treated as a domestic
10 corporation for purposes of section 333 of the Internal
11 Revenue Code of 1954 (relating to 1-month liquida-
12 tions), and shall be treated as a foreign corporation for
13 purposes of section 367 of such Code (relating to foreign
14 corporations). In applying such section 367 for pur-
15 poses of this paragraph, references in the first sentence of
16 such section 367 to other sections of such Code shall be
17 treated as including a reference to such section 333.
18 (5) BASIS OF CERTAIN PROPERTY ACQUIRED FROM
19 A DECEDENT.—
20 (A) In the case of property described in sub-
21 paragraph (B) acquired from a decedent or passing
22 from a decedent (within the meaning of section
23 1014(b) of the Internal Revenue Code of 1954),
24 the basis shall (in lieu of being the basis provided
25 by section 1014 of such Code) be the basis immedi-

1 ately before the death of the decedent, increased
2 by the amount of any Federal estate tax attributable
3 to the net appreciation in value of such property
4 (determined in accordance with section 1022 of such
5 Code as if such property were stock and securities
6 referred to in such section).
7 (B) Subparagraph (A) shall apply to—
8 (i) property which the decedent received
9 as a qualified electing shareholder, and
10 (ii) property the basis of which (without
11 the application of this paragraph) is a sub-
12 stituted basis (as defined in section 1016(b)
13 of the Internal Revenue Code of 1954) deter-
14 mined by reference to the basis of such property
15 or other property received by any individual or
16 estate as a qualified electing shareholder.
17 For purposes of this subparagraph, property shall
18 be treated as property received as a qualified elect-
19 ing shareholder if, with respect to such property, the
20 recipient was a qualified electing shareholder (within
21 the meaning of section 333(c) of such Code) in
22 a corporate liquidation to which section 333 of
23 such Code applied by reason of paragraph (4) of
24 this subsection.
25 (C) In the case of property acquired from the

1 decedent by gift, the increase in basis under this
2 paragraph shall not exceed the amount by which
3 the increase under this paragraph is greater than
4 the increase allowable under section 1015 (d) of the
5 Internal Revenue Code of 1954.
6 (6) LIMITATIONS.—The provisions of paragraphs
7 (4) and (5) of this subsection shall not apply to any
8 foreign corporation referred to in section 342 (a) (2)
9 of the Internal Revenue Code of 1954.
10 (7) MEANING OF TERMS.—Terms used in para-
11 graphs (4) through (6) of this subsection shall have
12 the same meaning as when used in chapter 1 of the
13 Internal Revenue Code of 1954.
14 (k) TECHNICAL AMENDMENTS.—
15 (1) Section 542 (b) (relating to corporations filing
16 consolidated returns) is amended by striking out "gross
17 income" each place it appears and inserting in lieu
18 thereof "adjusted ordinary gross income".
19 (2) Section 543 (relating to personal holding com-
20 pany income) is amended by striking out subsection
21 (d) (relating to special adjustment on disposition of
22 antitrust stock received as a dividend).
23 (3) Section 544 (relating to rules for determining
24 stock ownership) is amended—
25 (A) by striking out "section 543 (a) (5)" each

1 place it appears and inserting in lieu thereof "section
2 543 (a) (7)", and
3 (B) by striking out "section 543 (a) (9)" each
4 place it appears and inserting in lieu thereof "section
5 543 (a) (4)".
6 (4) REAL ESTATE INVESTMENT TRUSTS.—Para-
7 graph (6) of section 856 (a) (relating to definition of
8 real estate investment trust) is amended by striking out
9 "gross income" and inserting in lieu thereof "adjusted
10 ordinary gross income (as defined in section 543
11 (b) (2))".
12 (5) UNINCORPORATED BUSINESS ENTERPRISES
13 ELECTING TO BE TAXED AS DOMESTIC CORPORATIONS.—
14 Section 1361 (i) (relating to personal holding company
15 income) is amended to read as follows:
16 "(i) PERSONAL HOLDING COMPANY INCOME.—
17 "(1) EXCLUDED FROM INCOME OF ENTERPRISE.—
18 There shall be excluded from the gross income of the
19 enterprise as to which an election has been made under
20 subsection (a) any item of gross income (computed
21 without regard to the adjustments provided in section
22 543 (b) (3) or (4)) if, but for this paragraph, such
23 item (adjusted, where applicable, as provided in section
24 543 (b) (3) or (4)) would constitute personal holding

1 company income (as defined in section 543 (a)) of such
2 enterprise.
3 "(2) INCOME AND DEDUCTIONS OF OWNERS.—
4 Items excluded from the gross income of the enter-
5 prise under paragraph (1), and the expenses attribut-
6 able thereto, shall be treated as the income and deduc-
7 tions of the proprietor or partners (in accordance with
8 their distributive shares of partnership income) of such
9 enterprise.
10 "(3) DISTRIBUTIONS.—If—
11 "(A) the amount excluded from gross income
12 under paragraph (2) exceeds the expenses at-
13 tributable thereto, and
14 "(B) any portion of such excess is distributed
15 to the proprietor or partner during the year earned,
16 such portion shall not be taxed as a corporate distribu-
17 tion. The portion of such excess not distributed during
18 such year shall be considered as paid-in surplus or as
19 a contribution to capital as of the close of such year."
20 (6) ASSESSMENT AND COLLECTION OF PERSONAL
21 HOLDING COMPANY TAX.—Section 6501 (f) (relating
22 to personal holding company tax) is amended by
23 striking out "gross income, described in section
24 543 (a)," and inserting in lieu thereof "gross income

1 and adjusted ordinary gross income, described in section
2 543,".
3 (l) EFFECTIVE DATES.—
4 (1) The amendments made by this section (other
5 than by subsections (c) (1), (f), (g), and (j)) shall
6 apply to taxable years beginning after December 31,
7 1963.
8 (2) The amendment made by subsection (c) (1)
9 shall apply to taxable years beginning after October 16,
10 1962.
11 (3) The amendments made by subsections (f) and
12 (g) shall apply to distributions made in any taxable
13 year of the distributing corporation beginning after De-
14 cember 31, 1963.
15 (4) The amendments made by paragraphs (1),
16 (2), and (3) of subsection (j) shall apply in respect
17 of decedents dying after August 15, 1963.
18 (5) Subsection (h) shall apply to taxable years
19 beginning after December 31, 1963.

1 SEC. 217. TREATMENT OF PROPERTY IN CASE OF OIL AND
2 GAS WELLS.

3 (a) IN GENERAL.—Section 614 (b) (relating to special
4 rule as to operating mineral interests) is amended to read as
5 follows:

6 "(b) SPECIAL RULES AS TO OPERATING MINERAL
7 INTERESTS IN OIL AND GAS WELLS.—In the case of oil
8 and gas wells—

9 "(1) IN GENERAL.—Except as otherwise provided
10 in this subsection—

11 "(A) all of the taxpayer's operating mineral
12 interests in a separate tract or parcel of land shall
13 be combined and treated as one property, and

14 "(B) the taxpayer may not combine an operat-
15 ing mineral interest in one tract or parcel of land
16 with an operating mineral interest in another tract
17 or parcel of land.

18 "(2) ELECTION TO TREAT OPERATING MINERAL
19 INTERESTS AS SEPARATE PROPERTIES.—If the tax-

1 payer has more than one operating mineral interest in
2 a single tract or parcel of land, he may elect to treat
3 one or more of such operating mineral interests as
4 separate properties. The taxpayer may not have more
5 than one combination of operating mineral interests in
6 a single tract or parcel of land. If the taxpayer makes
7 the election provided in this paragraph with respect to
8 any interest in a tract or parcel of land, each operating
9 mineral interest which is discovered or acquired by the
10 taxpayer in such tract or parcel of land after the taxable
11 year for which the election is made shall be treated—
12 "(A) if there is no combination of interests in
13 such tract or parcel, as a separate property unless
14 the taxpayer elects to combine it with another in-
15 terest, or
16 "(B) if there is a combination of interests in
17 such tract or parcel, as part of such combination
18 unless the taxpayer elects to treat it as a separate
19 property.
20 "(3) CERTAIN UNITIZATION OR POOLING AR-
21 RANGEMENTS.—
22 "(A) IN GENERAL.—Under regulations pre-
23 scribed by the Secretary or his delegate, if one or
24 more of the taxpayer's operating mineral interests
25 participate, under a voluntary or compulsory

1 unitization or pooling agreement, in a single co-
2 operative or unit plan of operation, then for the
3 period of such participation—
4 "(i) they shall be treated for all purposes
5 of this subtitle as one property, and
6 "(ii) the application of paragraphs (1),
7 (2), and (4) in respect of such interests shall
8 be suspended.
9 "(B) LIMITATION.—Subparagraph (A) shall
10 apply to a voluntary agreement only if all the
11 operating mineral interests covered by such agree-
12 ment—
13 "(i) are in the same deposit, or are in 2
14 or more deposits the joint development or pro-
15 duction of which is logical from the standpoint
16 of geology, convenience, economy, or conser-
17 vation, and
18 "(ii) are in tracts or parcels of land which
19 are contiguous or in close proximity.
20 "(C) SPECIAL RULE IN THE CASE OF AR-
21 RANGEMENTS ENTERED INTO IN TAXABLE YEARS
22 BEGINNING BEFORE JANUARY 1, 1964.—If—
23 "(i) two or more of the taxpayer's op-
24 erating mineral interests participate under a
25 voluntary or compulsory unitization or pooling

1 agreement entered into in any taxable year
2 beginning before January 1, 1964, in a single
3 cooperative or unit plan of operation,
4 "(ii) the taxpayer, for the last taxable
5 year beginning before January 1, 1964, treated
6 such interests as two or more separate prop-
7 erties, and
8 "(iii) it is determined that such treatment
9 was proper under the law applicable to such
10 taxable year,
11 such taxpayer may continue to treat such interests
12 in a consistent manner for the period of such par-
13 ticipation.
14 "(4) MANNER, TIME, AND SCOPE OF ELECTION.—
15 "(A) MANNER AND TIME.—Any election pro-
16 vided in paragraph (2) shall be made for each
17 operating mineral interest, in the manner prescribed
18 by the Secretary or his delegate by regulations, not
19 later than the time prescribed by law for filing the
20 return (including extensions thereof) for whichever
21 of the following taxable years is the later: The first
22 taxable year beginning after December 31, 1963,
23 or the first taxable year in which any expenditure

1 for development or operation in respect of such oper-
2 ating mineral interest is made by the taxpayer after
3 the acquisition of such interest.

4 "(B) SCOPE.—Any election under paragraph
5 (2) shall be for all purposes of this subtitle and
6 shall be binding on the taxpayer for all subsequent
7 taxable years.

8 "(5) TREATMENT OF CERTAIN PROPERTIES.—If,
9 on the day preceding the first day of the first taxable
10 year beginning after December 31, 1963, the taxpayer
11 has any operating mineral interests which he treats
12 under subsection (d) of this section (as in effect before
13 the amendments made by the Revenue Act of 1963),
14 such treatment shall be continued and shall be deemed
15 to have been adopted pursuant to paragraphs (1) and
16 (2) of this subsection (as amended by such Act)."

17 (b) TECHNICAL AMENDMENTS.—

18 (1) The heading of section 614(c) is amended to
19 read as follows:

20 "(c) SPECIAL RULES AS TO OPERATING MINERAL
21 INTERESTS IN MINES.—"

22 (2) Paragraph (5) of section 614(c) is hereby
23 repealed.

1 (3) Section 614(d) is amended to read as follows:
2 "(d) OPERATING MINERAL INTERESTS DEFINED.—
3 For purposes of this section, the term 'operating mineral in-
4 terest' includes only an interest in respect of which the costs
5 of production of the mineral are required to be taken into
6 account by the taxpayer for purposes of computing the 50
7 percent limitation provided for in section 613, or would be
8 so required if the mine, well, or other natural deposit were in
9 the production stage."
10 (4) Section 614(e)(2) is amended by striking
11 out "within the meaning of subsection (b)(3)".
12 (c) ALLOCATION OF BASIS IN CERTAIN CASES.—For
13 purposes of the Internal Revenue Code of 1954—
14 (1) FAIR MARKET VALUE RULE.—Except as pro-
15 vided in paragraph (2), if a taxpayer has a section
16 614(b) aggregation, then the adjusted basis (as of the
17 first day of the first taxable year beginning after Decem-
18 ber 31, 1963) of each property included in such aggre-
19 gation shall be determined by multiplying the adjusted
20 basis of the aggregation by a fraction—
21 (A) the numerator of which is the fair market
22 value of such property, and
23 (B) the denominator of which is the fair mar-
24 ket value of such aggregation.
25 For purposes of this paragraph, the adjusted basis and

1 the fair market value of the aggregation, and the fair
2 market value of each property included therein, shall
3 be determined as of the day preceding the first day of
4 the first taxable year which begins after December
5 31, 1963.

6 (2) ALLOCATION OF ADJUSTMENTS, ETC.—If the
7 taxpayer makes an election under this paragraph with
8 respect to any section 614(b) aggregation, then the
9 adjusted basis (as of the first day of the first taxable year
10 beginning after December 31, 1963) of each property
11 included in such aggregation shall be the adjusted basis
12 of such property at the time it was first included in the
13 aggregation by the taxpayer, adjusted for that portion of
14 those adjustments to the basis of the aggregation which
15 are reasonably attributable to such property. If, under
16 the preceding sentence, the total of the adjusted bases of
17 the interests included in the aggregation exceeds the
18 adjusted basis of the aggregation (as of the day preced-
19 ing the first day of the first taxable year which begins
20 after December 31, 1963), the adjusted bases of the
21 properties which include such interests shall be adjusted,
22 under regulations prescribed by the Secretary of the
23 Treasury or his delegate, so that the total of the ad-
24 justed bases of such interests equals the adjusted basis
25 of the aggregation. An election under this paragraph

1 shall be made at such time and in such manner as the
2 Secretary of the Treasury or his delegate shall by regu-
3 lations prescribe.

4 (3) DEFINITIONS.—For purposes of this subsec-
5 tion—

6 (A) SECTION 614(b) AGGREGATION.—The
7 term "section 614 (b) aggregation" means any ag-
8 gregation to which section 614 (b) (1) (A) of the
9 Internal Revenue Code of 1954 (as in effect before
10 the amendments made by subsection (a) of this
11 section) applied for the day preceding the first day
12 of the first taxable year beginning after December
13 31, 1963.

14 (B) PROPERTY.—The term "property" has the
15 same meaning as is applicable, under section 614
16 of the Internal Revenue Code of 1954, to the tax-
17 payer for the first taxable year beginning after
18 December 31, 1963.

19 (d) EFFECTIVE DATE.—The amendments made by sub-
20 sections (a) and (b) shall apply to taxable years beginning
21 after December 31, 1963.

1 **SEC. 218. TREATMENT OF CERTAIN IRON ORE ROYALTIES.**

2 (a) IN GENERAL.—

3 (1) AMENDMENT OF SECTION 631(c).—Section
4 631 (c) (relating to disposal of coal with a retained eco-
5 nomic interest) is amended—

6 (A) by striking out the heading and inserting
7 in lieu thereof the following:

8 "(c) DISPOSAL OF COAL OR IRON ORE WITH A RE-
9 TAINED ECONOMIC INTEREST.—";

10 (B) by inserting "or iron ore" after "coal (in-
11 cluding lignite)"; and

12 (C) by inserting "or iron ore" after "coal"
13 each other place it appears in section 631 (c).

14 (2) AMENDMENT OF SECTION 1231(b).—Section
15 1231 (b) (2) (defining property used in the trade or
16 business) is amended to read as follows:

17 "(2) TIMBER, COAL, OR IRON ORE.—Such term in-
18 cludes timber, coal, and iron ore with respect to which
19 section 631 applies."

20 (3) AMENDMENT OF SECTION 272.—The text of

1 section 272 (relating to disposal of coal) is amended by
2 inserting "or iron ore" after "coal" each place it appears.
3 (b) CLERICAL AMENDMENTS.—
4 (1) the heading of section 631 is amended to read
5 as follows:
6 "SEC. 631. GAIN OR LOSS IN THE CASE OF TIMBER, COAL,
7 OR IRON ORE."
8 (2) The table of sections for part III of subchapter
9 I of chapter 1 is amended by striking out

"Sec. 631. Gain or loss in the case of timber or coal."

10 and inserting in lieu thereof the following:

"Sec. 631. Gain or loss in the case of timber, coal, or iron ore."

11 (3) The heading of section 272 is amended to read
12 as follows:
13 "SEC. 272. DISPOSAL OF COAL OR IRON ORE."
14 (4) The table of sections for part IX of subchapter
15 B of chapter 1 is amended by striking out

"Sec. 272. Disposal of coal."

16 and inserting in lieu thereof the following:

"Sec. 272. Disposal of coal or iron ore."

17 (5) Section 1016(a)(15) is amended by inserting
18 "or iron ore" after "coal".
19 (6) Section 1402(a)(3)(B) is amended to read
20 as follows:

1 "(B) from the cutting of timber, or the dis-
2 posal of timber, coal, or iron ore, if section 631
3 applies to such gain or loss, or"
4 (c) EFFECTIVE DATE.—The amendments made by this
5 section shall apply to iron ore mined in taxable years begin-
6 ning after December 31, 1963.

7 **SEC. 219. CAPITAL GAINS AND LOSSES.**

8 (a) ALTERNATIVE TAX, ETC.—
9 (1) IN GENERAL.—
10 (A) ALTERNATIVE TAX.—Subsection (b) of
11 section 1201 (relating to alternative tax on tax-
12 payers other than corporations) is amended to read
13 as follows:
14 "(b) OTHER TAXPAYERS.—If, for any taxable year, a
15 taxpayer (other than a corporation) is allowed a deduc-
16 tion under section 1202, then, in lieu of the tax imposed
17 by sections 1 and 511(b), there is hereby imposed a tax (if
18 such a tax is less than the tax imposed by such sections)
19 which shall consist of the sum of—
20 "(1) a partial tax computed on the taxable income
21 reduced by an amount equal to the sum of—
22 "(A) 40 percent of the adjusted class A capital
23 gain, and

1 "(B) 50 percent of the adjusted class B capital
2 gain,
3 plus
4 "(2) an amount equal to the sum of—
5 "(A) 21 percent of the adjusted class A
6 capital gain, and
7 "(B) 25 percent of the adjusted class B capital
8 gain."
9 (B) DEDUCTION FOR CAPITAL GAINS.—Sec-
10 tion 1202 (relating to deduction for capital gains)
11 is amended to read as follows:
12 **"SEC. 1202. DEDUCTION FOR CAPITAL GAINS.**
13 "(a) GENERAL RULE.—In the case of a taxpayer other
14 than a corporation, a deduction from gross income shall
15 be allowed equal to the sum of—
16 "(1) 60 percent of the adjusted class A capital
17 gain, and
18 "(2) 50 percent of the adjusted class B capital
19 gain.
20 "(b) SPECIAL RULE.—In the case of an estate or trust,
21 the deduction allowable under subsection (a) shall be com-
22 puted by excluding the portion (if any), of the gains for
23 the taxable year from sales or exchanges of capital assets,
24 which, under sections 652 and 662 (relating to inclusions
25 of amounts in gross income of beneficiaries of trusts), is

1 includible by the income beneficiaries as gain derived from
2 the sale or exchange of capital assets."
3 (C) DEFINITIONS.—Section 1222 (relating to
4 other terms relating to capital gains and losses) is
5 amended to read as follows:
6 **"SEC. 1222. OTHER TERMS RELATING TO CAPITAL GAINS**
7 **AND LOSSES.**
8 "(a) TERMS APPLICABLE TO ALL TAXPAYERS.—For
9 purposes of this subtitle—
10 "(1) SHORT-TERM CAPITAL GAIN.—The term
11 'short-term capital gain' means gain from the sale or
12 exchange of a capital asset held for not more than 6
13 months, if and to the extent such gain is taken into ac-
14 count in computing gross income.
15 "(2) SHORT-TERM CAPITAL LOSS.—The term
16 'short-term capital loss' means loss from the sale or
17 exchange of a capital asset held for not more than 6
18 months, if and to the extent that such loss is taken into
19 account in computing taxable income.
20 "(3) NET SHORT-TERM CAPITAL GAIN.—The term
21 'net short-term capital gain' means the excess of short-
22 term capital gains for the taxable year over the short-
23 term capital losses for such year.
24 "(4) NET SHORT-TERM CAPITAL LOSS.—The term
25 'net short-term capital loss' means the excess of short-

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1 term capital losses for the taxable year over the short-
2 term capital gains for such year.
3 "(b) TERMS APPLICABLE TO CORPORATIONS.—For
4 purposes of this subtitle, in the case of a corporation—
5 "(1) LONG-TERM CAPITAL GAIN.—The term 'long-
6 term capital gain' means gain from the sale or exchange
7 of a capital asset held for more than 6 months, if and to
8 the extent such gain is taken into account in computing
9 gross income.
10 "(2) LONG-TERM CAPITAL LOSS.—The term 'long-
11 term capital loss' means loss from the sale or exchange
12 of a capital asset held for more than 6 months, if and to
13 the extent that such loss is taken into account in com-
14 puting taxable income.
15 "(3) NET LONG-TERM CAPITAL GAIN.—The term
16 'net long-term capital gain' means the excess of long-
17 term capital gains for the taxable year over the long-
18 term capital losses for such year.
19 "(4) NET LONG-TERM CAPITAL LOSS.—The term
20 'net long-term capital loss' means the excess of long-
21 term capital losses for the taxable year over the long-
22 term capital gains for such year.
23 "(5) NET CAPITAL GAIN.—The term 'net capital
24 gain' means the excess of the gains from sales or ex-

1 changes of capital assets over the losses from such sales
2 or exchanges.
3 "(6) NET CAPITAL LOSS.—The term 'net capital
4 loss' means the excess of the losses from sales or ex-
5 changes of capital assets over the sum allowed under
6 section 1211 (a). For purposes of determining losses
7 under this paragraph, amounts which are short-term
8 capital losses under section 1212 shall be excluded.
9 "(c) TERMS APPLICABLE TO TAXPAYERS OTHER
10 THAN CORPORATIONS.—For purposes of this subtitle, in the
11 case of a taxpayer other than a corporation—
12 "(1) CLASS B CAPITAL GAIN.—The term 'class
13 B capital gain' means gain from the sale or exchange of
14 a capital asset held for more than 6 months but not
15 more than 2 years, if and to the extent such gain is
16 taken into account in computing gross income.
17 "(2) CLASS B CAPITAL LOSS.—The term 'class B
18 capital loss' means loss from the sale or exchange of a
19 capital asset held for more than 6 months but not more
20 than 2 years, if and to the extent that such loss is taken
21 into account in computing taxable income.
22 "(3) CLASS A CAPITAL GAIN.—The term 'class A
23 capital gain' means gain from the sale or exchange of a
24 capital asset held for more than 2 years, if and to the

1 extent such gain is taken into account in computing
2 gross income.
3 "(4) CLASS A CAPITAL LOSS.—The term 'class A
4 capital loss' means loss from the sale or exchange of
5 a capital asset held for more than 2 years, if and to
6 the extent that such loss is taken into account in com-
7 puting taxable income.
8 "(5) NET CLASS B CAPITAL GAIN.—The term 'net
9 class B capital gain' means the excess of class B capital
10 gains for the taxable year over the class B capital losses
11 for such year.
12 "(6) NET CLASS B CAPITAL LOSS.—The term 'net
13 class B capital loss' means the excess of class B capital
14 losses for the taxable year over the class B capital gains
15 for such year.
16 "(7) NET CLASS A CAPITAL GAIN.—The term
17 'net class A capital gain' means the excess of class A
18 capital gains for the taxable year over the class A capital
19 losses for such year.
20 "(8) NET CLASS A CAPITAL LOSS.—The term 'net
21 class A capital loss' means the excess of class A capital
22 losses for the taxable year over the class A capital gains
23 for such year.
24 "(9) ADJUSTED CLASS B CAPITAL GAIN.—The

1 term 'adjusted class B capital gain' means the net class
2 B capital gain for the taxable year reduced by losses
3 which reduce such net gain as provided in subsection
4 (d).
5 "(10) ADJUSTED CLASS A CAPITAL GAIN.—The
6 term 'adjusted class A capital gain' means the net class
7 A capital gain for the taxable year reduced by losses
8 which reduce such net gain as provided in subsection
9 (d).
10 "(d) RULES FOR REDUCING NET CAPITAL GAINS BY
11 CAPITAL LOSSES.—For purposes of paragraphs (9) and
12 (10) of subsection (c) and for purposes of reducing any net
13 short-term capital gain, if for a taxable year a taxpayer
14 (other than a corporation) has a net short-term, net class
15 B, or net class A capital loss, such loss shall reduce any net
16 short-term, net class B, or net class A capital gain for such
17 year by applying paragraph (1), then paragraph (2), and
18 then paragraph (3):
19 "(1) A net class A capital loss shall reduce first
20 any net class B capital gain and then any net short-
21 term capital gain.
22 "(2) A net class B capital loss shall reduce first
23 any net class A capital gain and then any net short-term
24 capital gain.

1 "(3) A net short-term capital loss shall reduce
2 first any net class B capital gain and then any net class
3 A capital gain."
4 (2) PROPERTY USED IN THE TRADE OR BUSINESS
5 AND INVOLUNTARY CONVERSIONS.—
6 (A) Subsection (a) of section 1231 (relating
7 to property used in a trade or business) is amended
8 to read as follows:
9 "(a) GENERAL RULE.—If, during the taxable year—
10 "(1) the recognized gains from sales or exchanges
11 of property used in the trade or business, plus
12 "(2) the recognized gains from the compulsory or
13 involuntary conversion (as a result of destruction, in
14 whole or in part, theft or seizure, or an exercise of
15 the power of requisition or condemnation or the threat
16 or imminence thereof) of property used in the trade or
17 business and of capital assets held for more than 6
18 months into other property or money,
19 exceed the recognized losses from such sales, exchanges, and
20 conversions, each such gain or loss shall be considered as gain
21 or loss from the sale or exchange of a capital asset. If such
22 gains do not exceed such losses, such gains and losses shall
23 not be considered as gains and losses from sales or exchanges
24 of capital assets."

1 (B) Section 1231 is amended by adding at the
2 end thereof the following new subsection:
3 "(c) Special Rules.—
4 "(1) Gains and losses taken into account.—
5 For purposes of subsection (a)—
6 "(A) Any gain described in subsection (a)
7 shall be included—
8 "(i) only if and to the extent taken into
9 account in computing gross income, and
10 "(ii) only to the extent not required (by
11 any provision of this subtitle other than this
12 section) to be treated as gain from the sale or
13 exchange of property which is neither a capital
14 asset nor property described in this section.
15 "(B) Losses described in subsection (a) shall
16 be included only if and to the extent taken into
17 account in computing taxable income, except that
18 section 1211 shall not apply.
19 "(C) Losses upon the destruction, in whole or
20 in part, theft or seizure, or requisition or condem-
21 nation of property used in the trade or business and
22 held for more than 6 months, or of a capital asset
23 held for more than 6 months, shall be considered
24 losses from a compulsory or involuntary conversion.

1 "(2) CERTAIN LOSSES FROM CASUALTY OR
2 THEFT.—In the case of any property used in the trade
3 or business, and in the case of any capital asset held for
4 more than 6 months and held for the production of
5 income, subsection (a) shall not apply to any loss, in
6 respect of which the taxpayer is not compensated for
7 by insurance in any amount, arising from fire, storm,
8 shipwreck, or other casualty or from theft.
9 "(3) GAINS AND LOSSES TREATED AS CLASS B
10 GAINS AND LOSSES.—In the case of a taxpayer other
11 than a corporation, gain or loss—
12 "(A) from a sale, exchange, or conversion of
13 property to which subsection (b) (2), (3), or
14 (4) applies, and
15 "(B) which by reason of subsection (a) is
16 considered as gain or loss from the sale or exchange
17 of a capital asset,
18 shall be considered as class B capital gain or loss whether
19 or not such property was held for more than 2 years."
20 (3) CERTAIN DISTRIBUTIONS UNDER EMPLOYEES'
21 TRUSTS AND ANNUITY PLANS.—
22 (A) DISTRIBUTION UNDER EMPLOYEES'
23 TRUSTS.—Section 402 (a) (relating to taxability of
24 beneficiary of exempt trust) is amended—
25 (i) by adding at the end of paragraph (1)

1 the following new sentence: "Any gain on the
2 subsequent sale or other disposition of any
3 such security by the distributee (or by any
4 other person in whose hands the basis of such
5 security is determined by reference to the basis
6 of the security in the hands of the distributee)
7 shall, to the extent of the amount of such net
8 unrealized appreciation attributable to such
9 security, be considered a gain from the sale
10 or exchange of a capital asset held for more than
11 6 months but not more than 2 years.";
12 (ii) by adding immediately before the pe-
13 riod at the end of the first sentence of paragraph
14 (2) the words "but not more than 2 years";
15 and
16 (iii) by adding immediately before the last
17 sentence of paragraph (2) the following new
18 sentence: "Any gain on the subsequent sale
19 or other disposition of any such security by
20 the distributee (or by any other person in
21 whose hands the basis of such security is de-
22 termined by reference to the basis of the secu-
23 rity in the hands of the distributee) shall, to
24 the extent of the amount of such net unrealized

1 appreciation attributable to such security, be
2 considered a gain from the sale or exchange
3 of a capital asset held for more than 6 months
4 but not more than 2 years."

5 (B) DISTRIBUTIONS UNDER EMPLOYEE AN-
6 NUITIES.—Section 403(a)(2)(A) (relating to
7 capital gains treatment for certain distributions) is
8 amended by adding immediately before the period
9 at the end of the first sentence the words "but not
10 more than 2 years".

11 (C) EFFECTIVE DATE.—

12 (i) The amendments made by subpara-
13 graphs (A)(ii) and (B) shall apply with re-
14 spect to distributions or amounts paid in tax-
15 able years of the distributees beginning after
16 December 31, 1963.

17 (ii) The amendments made by subpara-
18 graphs (A)(i) and (iii) shall apply with re-
19 spect to securities which are sold or otherwise
20 disposed of in taxable years beginning after
21 December 31, 1963.

22 (4) SALE OR EXCHANGE OF PATENTS.—Subsec-
23 tion (a) of section 1235 (relating to the sale or ex-
24 change of patents) is amended by adding at the end
25 thereof the following new sentences:

1 "In the case of a holder described in subsection (b) (1),
2 any gain or loss on such a transfer shall be treated as class
3 B capital gain or loss. In the case of a holder described in
4 subsection (b) (2), any gain or loss on such a transfer shall
5 be treated as class A, or class B, capital gain or loss, depend-
6 ing on the period for which the property was held (or
7 deemed held)."

8 (5) EMPLOYEE TERMINATION PAYMENTS.—Sec-
9 tion 1240 (relating to taxability to employee of termina-
10 tion payments) is amended by striking out "6 months"
11 and inserting in lieu thereof "6 months but not more than
12 2 years".

13 (b) UNLIMITED CAPITAL LOSS CARRYOVER.—Section
14 1212 (relating to capital loss carryover) is amended—

15 (1) by striking out "If for any taxable year the tax-
16 payer" and inserting in lieu thereof:

17 "(a) CORPORATIONS.—If for any taxable year a
18 corporation"; and

19 (2) by adding the following new subsection:

20 "(b) OTHER TAXPAYERS.—

21 "(1) To the extent, for any taxable year, a tax-
22 payer, other than a corporation, has a net short-term,
23 net class B, or net class A capital loss which does not
24 reduce capital gains under the rules provided in section
25 1222 (d), such loss, reduced as provided in paragraph

1 (2), shall be carried forward and treated in the suc-
2 ceeding taxable year as a short-term, class B, or class A
3 capital loss, as the case may be, sustained in such suc-
4 ceeding year.
5 "(2) An amount equal to the excess of the sum
6 allowable under section 1211 (b) over the gains from
7 sales or exchanges of capital assets for the taxable year
8 shall reduce, in order, any net short-term, class B, or
9 class A capital loss for the taxable year which does
10 not reduce capital gains for such year under the rules
11 provided in section 1222 (d).
12 "(3) For purposes of this subsection, a net capital
13 loss for a taxable year beginning before January 1,
14 1964, shall be determined under the applicable law
15 relating to the computation of capital gains and losses
16 in effect before such date, and the amount of any such
17 capital loss so determined which such applicable law
18 allows to be carried over to the first taxable year of the
19 taxpayer beginning after December 31, 1963, shall be
20 treated as a short-term capital loss occurring in such
21 taxable year."
22 (c) TECHNICAL AMENDMENTS.—
23 (1) Section 172 (d) (2) (B) (relating to net op-
24 erating loss deduction) is amended by striking out "long-
25 term".

1 (2) Section 333 (e) (2) (relating to noncorporate
2 shareholders of certain liquidating corporations) is
3 amended by striking out "short-term or long-term capital
4 gain," and inserting in lieu thereof "short-term, class
5 A, or class B capital gain,".
6 (3) Section 341 (a) (relating to collapsible cor-
7 porations) is amended by striking out "6 months" and
8 inserting in lieu thereof "6 months but not more than
9 2 years or held for more than 2 years, as the case may
10 be,".
11 (4) Section 584 (c) (1) (relating to common trust
12 funds) is amended—
13 (A) by striking out in subparagraph (B)
14 wherever it appears "6 months" and inserting in
15 lieu thereof "6 months but not more than 2 years",
16 and
17 (B) by redesignating subparagraph (C) as
18 subparagraph (D) and by inserting after sub-
19 paragraph (B) the following new subparagraph:
20 "(C) as part of its gains and losses from sales
21 or exchanges of capital assets held for more than 2
22 years, its proportionate share of the gains and losses
23 of the common trust fund from sales or exchanges of
24 capital assets held for more than 2 years;".
25 (5) Section 642 (c) (relating to special rules for

1 credits and deductions) is amended by striking out
2 "6 months," and inserting in lieu thereof "6 months but
3 not more than 2 years or held for more than 2 years,
4 as the case may be,".
5 (6) Section 702 (a) (2) (relating to income and
6 credits of partners) is amended by striking out "6
7 months," and inserting in lieu thereof "6 months but
8 not more than 2 years or held for more than 2 years, as
9 the case may be,".
10 (7) (A) Section 852 (relating to taxation of reg-
11 ulated investment companies and their shareholders)
12 is amended by striking out subparagraphs (B) and (C)
13 of subsection (b) (3) and inserting in lieu thereof the
14 following:
15 "(B) TREATMENT OF CAPITAL GAIN DIVI-
16 DENDS BY SHAREHOLDERS.—A capital gain dividend
17 shall be treated by shareholders, other than corpora-
18 tions, as a class A or class B capital gain to the
19 extent so designated by the company. Shareholders
20 which are corporations shall treat a capital gain
21 dividend as a long-term capital gain.
22 "(C) DEFINITION OF CAPITAL GAIN DIVI-
23 DEND.—For purposes of this part, a capital gain divi-
24 dend is any dividend, or part thereof, which is desig-
25 nated by the company in a written notice mailed to

1 its shareholders not later than 30 days after the close
2 of its taxable year, as a distribution of class A
3 or class B capital gain. In the case of a share-
4 holder which is a corporation, if the aggregate
5 amount designated as a capital gain dividend with
6 respect to a taxable year of the company (including
7 capital gains dividends paid after the close of the
8 taxable year described in section 855) is greater
9 than the excess of the net long-term capital gain over
10 the net short-term capital loss of the taxable year,
11 the portion of each distribution which shall be a
12 capital gain dividend shall be only that proportion
13 of the amount so designated which such excess of
14 the net long-term capital gain over the net short-
15 term capital loss bears to the aggregate amount so
16 designated. In the case of a shareholder other than
17 a corporation, if the aggregate amount desig-
18 nated as class A capital gain, or as class B capi-
19 tal gain with respect to a taxable year of the com-
20 pany (including capital gains dividends paid after
21 the close of the taxable year described in section
22 855) is greater than the adjusted class A, or ad-
23 justed class B capital gain, respectively—
24 "(i) the portion of each distribution which
25 shall be treated as a class A capital gain shall

1 be only that proportion of the amount so desig-
2 nated as class A capital gain which the ad-
3 justed class A capital gain bears to the aggre-
4 gate amount so designated, and
5 "(ii) the portion of each distribution which
6 shall be treated as a class B capital gain shall
7 be only that proportion of the amount so desig-
8 nated as class B capital gain which the
9 adjusted class B capital gain bears to the ag-
10 gregate amount so designated.
11 For purposes of the preceding sentence, the adjusted
12 class A or adjusted class B capital gain shall be
13 computed as though the company were a taxpayer
14 other than a corporation except that section
15 1212 (a) shall apply in lieu of section 1212 (b)."
16 (B) Section 852 (b) (3) (D) is amended by strik-
17 ing out clauses (i), (ii), and (iii) and inserting in lieu
18 thereof the following:
19 "(i) Every shareholder of a regulated
20 investment company at the close of the com-
21 pany's taxable year shall, in the case of a cor-
22 poration, in computing its long-term capital
23 gains, and, in the case of a shareholder other
24 than a corporation, in computing his class A and
25 class B capital gains, include in his return for his

1 taxable year in which the last day of the com-
2 pany's taxable year falls, such amounts as the
3 company shall designate in respect of such
4 shares in a written notice mailed to its share-
5 holders at any time prior to the expiration of
6 30 days after the close of its taxable year, but the
7 amount so includible by any shareholder shall
8 not exceed that part of the amount subjected to
9 tax in subparagraph (A) which he would have
10 received if all of such amount had been dis-
11 tributed as capital gain dividends by the com-
12 pany to the holders of such shares at the close
13 of its taxable year.
14 "(ii) For purposes of this title, every such
15 shareholder shall be deemed to have paid, for
16 his taxable year under clause (i), the tax of
17 25 percent imposed by subparagraph (A) on
18 the amounts required by this subparagraph to
19 be included in respect of such shares, in the case
20 of a corporation, in computing its long-term
21 capital gains, and, in the case of a shareholder
22 other than a corporation, in computing his class
23 A and class B capital gains, for that year; and
24 such shareholder shall be allowed credit or re-

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1 fund, as the case may be, for the tax so deemed
2 to have been paid by him.
3 "(iii) The adjusted basis of such shares in
4 the hands of the shareholder shall be increased
5 by 75 percent of the amounts required by this
6 subparagraph to be included in computing his
7 capital gains."
8 (C) Section 852(b)(4) is amended to read as
9 follows:
10 "(4) LOSS ON SALE OR EXCHANGE OF STOCK HELD
11 LESS THAN 31 DAYS.—If, under subparagraph (B) or
12 (D) of paragraph (3) a shareholder of a regulated in-
13 vestment company is required, with respect to any share,
14 to treat any amount as a long-term, class A, or class B
15 capital gain, and such share is held by the taxpayer for
16 less than 31 days, then any loss on the sale or exchange
17 of such share shall—
18 "(A) in the case of a corporation, to the extent
19 of such long-term capital gain, be treated as loss
20 from the sale or exchange of a capital asset held for
21 more than 6 months, or
22 "(B) in the case of a shareholder other than a
23 corporation—
24 "(i) to the extent of such class A capital
25 gain, be treated as loss from the sale or ex-

1 change of a capital asset held for more than
2 2 years, and
3 "(ii) to the extent of such class B capital
4 gain, be treated as loss from the sale or ex-
5 change of a capital asset held for more than 6
6 months but not more than 2 years.
7 If there is a loss on the sale or exchange of such
8 share which is less than the sum of such class A and
9 class B capital gains, then a portion of such loss
10 equal to the proportion which such class A capital
11 gain bears to the sum of such class A and class B
12 capital gains shall be a class A capital loss; and
13 the remainder of such loss shall be a class B capital
14 loss.
15 For purposes of this paragraph, the rules of section
16 246(c)(3) shall apply in determining whether any
17 share of stock has been held for less than 31 days;
18 except that '30 days' shall be substituted for '15 days'
19 in subparagraph (B) of section 246(c)(3)."
20 (8)(A) Section 857 (relating to the taxation of
21 real estate investment trusts and their beneficiaries) is
22 amended by striking out subparagraphs (B) and (C)
23 of subsection (b)(3) and inserting in lieu thereof the
24 following:
25 "(B) TREATMENT OF CAPITAL GAIN DIVI-

1 DENDS BY SHAREHOLDERS.—A capital gain dividend
2 shall be treated by the shareholders or holders of
3 beneficial interests, other than corporations, as a
4 class A or class B capital gain to the extent so desig-
5 nated by the real estate investment trust. Share-
6 holders or holders of beneficial interests which are
7 corporations shall treat a capital gain dividend as a
8 long-term capital gain.
9 "(C) DEFINITION OF CAPITAL GAIN DIVI-
10 DEND.—For purposes of this part, a capital gain
11 dividend is any dividend, or part thereof, which
12 is designated by the real estate investment trust
13 in a written notice mailed to its shareholders or
14 holders of beneficial interests at any time before the
15 expiration of 30 days after the close of its taxable
16 year as a distribution of class A or class B capital
17 gain. In the case of a shareholder or holder of
18 beneficial interest which is a corporation, if the ag-
19 gregate amount designated as a capital gain divi-
20 dend with respect to a taxable year of the trust (in-
21 cluding capital gain dividends paid after the close
22 of the taxable year described in section 858) is
23 greater than the excess of the net long-term capital
24 gain over the net short-term capital loss of the tax-
25 able year, the portion of each distribution which

1 shall be a capital gain dividend shall be only that
2 proportion of the amount so designated which such
3 excess of the net long-term capital gain over the
4 net short-term capital loss bears to the aggregate
5 amount so designated. In the case of a shareholder
6 or holder of a beneficial interest other than a cor-
7 poration, if the aggregate amount designated as
8 class A or as class B capital gain with respect to a
9 taxable year of the trust (including capital gains
10 dividends paid after the close of the taxable year
11 described in section 858) is greater than the ad-
12 justed class A or adjusted class B capital gain, re-
13 spectively—
14 "(i) the portion of each distribution which
15 shall be treated as a class A capital gain shall
16 be only that proportion of the amount so desig-
17 nated as class A capital gain which the adjusted
18 class A capital gain bears to the aggregate
19 amount so designated, and
20 "(ii) the portion of each distribution which
21 shall be treated as a class B capital gain shall
22 be only that proportion of the amount so desig-
23 nated as class B capital gain which the ad-
24 justed class B capital gain bears to the aggre-
25 gate amount so designated.

1 For purposes of the preceding sentence, the adjusted
2 class A or class B capital gain shall be computed as
3 though the trust were a taxpayer other than a cor-
4 poration except that section 1212 (a) shall apply
5 in lieu of section 1212 (b)."

6 (B) Section 857 is amended by striking out para-
7 graph (4) of subsection (b) and inserting in lieu thereof
8 the following:

9 "(4) LOSS ON SALE OR EXCHANGE OF STOCK HELD
10 LESS THAN 31 DAYS.—If, under subparagraph (B) of
11 paragraph (3) a shareholder of, or a holder of a bene-
12 ficial interest in, a real estate investment trust is re-
13 quired, with respect to any share or beneficial interest,
14 to treat any amount as a long-term, class A, or class B
15 capital gain, and such share or interest is held by the
16 taxpayer for less than 31 days, then any loss on the
17 sale or exchange of such share or interest shall—

18 "(A) in the case of a corporation, to the ex-
19 tent of such long-term capital gain, be treated as
20 loss from the sale or exchange of a capital asset
21 held for more than 6 months, or

22 "(B) in the case of a shareholder other than
23 a corporation—

24 "(i) to the extent of such class A capital
25 gain, be treated as loss from the sale or exchange

1 of a capital asset held for more than 2 years,
2 and
3 "(ii) to the extent of such class B capital
4 gain, be treated as loss from the sale or ex-
5 change of a capital asset held for more than 6
6 months but not more than 2 years.
7 If there is a loss on the sale or exchange of such
8 share or interest which is less than the sum of such
9 class A and class B capital gains, then a portion of
10 such loss equal to the proportion which such class
11 A capital gain bears to the sum of such class A
12 and class B capital gains shall be a class A capital
13 loss; and the remainder of such loss shall be a class
14 B capital loss.
15 For purposes of this paragraph, the rules of section
16 246 (c) (3) shall apply in determining whether any
17 share of stock or beneficial interest has been held
18 for less than 31 days; except that '30 days' shall be sub-
19 stituted for '15 days' in subparagraph (B) of section
20 246 (c) (3)."
21 (9) The last sentence of section 1232 (a) (2) (A)
22 (relating to bonds and other evidences of indebtedness)
23 is amended to read as follows: "Gain in excess of such
24 amount shall, in the case of a corporation, be considered
25 gain from the sale or exchange of a capital asset held

1 more than 6 months or in the case of a taxpayer other
2 than a corporation, be considered gain from the sale or
3 exchange of a capital asset held for more than 6 months
4 but not more than 2 years or held for more than 2 years,
5 as the case may be."
6 (10) (A) Subsection (b) of section 1233 (relating
7 to gains and losses from short sales) is amended to read
8 as follows:
9 "(b) SHORT-TERM AND CLASS B GAINS AND HOLD-
10 ING PERIODS.—If gain or loss from a short sale is considered
11 as gain or loss from the sale or exchange of a capital asset
12 under subsection (a) and if on the date of such short sale
13 substantially identical property has been held by the
14 taxpayer—
15 "(1) for not more than 6 months (determined
16 without regard to the effect, under the second sentence
17 of this subsection, of such short sale on the holding
18 period), or if substantially identical property is acquired
19 by the taxpayer after such short sale and on or before
20 the date of the closing thereof, any gain on the closing
21 of such short sale shall be considered as a gain on the
22 sale or exchange of a capital asset held for not more than
23 6 months (notwithstanding the period of time any
24 property used to close such short sale has been held); or

1 "(2) in the case of a taxpayer other than a cor-
2 poration, for more than 6 months but not more than 2
3 years (determined without regard to the effect, under
4 the second sentence of this subsection, of such short
5 sale on the holding period), any gain on the closing of
6 such short sale shall be considered as a gain on the sale
7 or exchange of a capital asset held for more than 6
8 months but not more than 2 years (notwithstanding
9 the period of time any property used to close such short
10 sale has been held).
11 The holding period of such substantially identical property
12 shall be considered to begin (notwithstanding section 1223,
13 relating to the holding period of property) on the date of the
14 closing of the short sale, or on the date of a sale, gift, or
15 other disposition of such property, whichever date occurs
16 first. The preceding sentence shall apply to such substantially
17 identical property in the order of the dates of the acquisition
18 of such property, but only to so much of such property as
19 does not exceed the quantity sold short. For purposes of this
20 subsection, the acquisition of an option to sell property at a
21 fixed price shall be considered as a short sale, and the exer-
22 cise or failure to exercise such option shall be considered as
23 a closing of such short sale."

1 (B) Subsection (d) of section 1233 is amended to
2 read as follows:
3 "(d) LONG-TERM, CLASS A, AND CLASS B LOSSES.—
4 If on the date of such short sale substantially identical prop-
5 erty has been held by the taxpayer—
6 "(1) In the case of a corporation, for more than 6
7 months, any loss on the closing of such short sale shall
8 be considered as a loss on the sale or exchange of a
9 capital asset held for more than 6 months (notwithstand-
10 ing the period of time any property used to close such
11 short sale has been held, and notwithstanding section
12 1234).
13 "(2) In the case of a taxpayer other than a corpo-
14 ration—
15 "(A) for more than 2 years, any loss on the
16 closing of such short sale shall be considered as a
17 loss on the sale or exchange of a capital asset held
18 for more than 2 years (notwithstanding the period
19 of time any property used to close such short sale
20 has been held, and notwithstanding section 1234),
21 or
22 "(B) for more than 6 months but not more
23 than 2 years, any loss on the closing of such short
24 sale shall be considered as a loss on the sale or ex-

1 change of a capital asset held for more than 6
2 months but not more than 2 years (notwithstanding
3 the period of time any property used to close such
4 short sale has been held, and notwithstanding
5 section 1234)."
6 (C) Paragraph (1) of section 1233 (e) is amended
7 to read as follows:
8 "(1) Subsection (b) or (d) shall not apply to the
9 gain or loss, respectively, on any quantity of property
10 used to close such short sale which is in excess of the
11 quantity of the substantially identical property referred
12 to in the applicable subsection. In the case of a tax-
13 payer other than a corporation—
14 "(A) subsection (b) (1) or (d) (2) (A)
15 shall not apply to the gain or loss, respectively, on
16 any quantity of property used to close such short
17 sale which is in excess of the quantity of the
18 substantially identical property to which either sub-
19 section (b) (1) or (d) (2) (A) applies (deter-
20 mined without regard to this subparagraph), and
21 "(B) subsection (b) (2) or (d) (2) (B) shall
22 apply only to the gain or loss, respectively, on the
23 excess described in subparagraph (A), but only
24 to the extent of the quantity of the substantially

1 identical property to which either subsection (b)
2 (2) or (d) (2) (B) applies (determined without
3 regard to this subparagraph)."
4 (D) Section 1233 (e) (4) (A) is amended by strik-
5 ing out "for not more than 6 months," in clause (i)
6 and inserting in lieu thereof "in the case of a corporation,
7 for not more than 6 months, or in the case of a taxpayer
8 other than a corporation, for not more than 2 years,",
9 and by striking out "subsection (b) (2)" in the lan-
10 guage following clause (ii) and inserting in lieu thereof
11 "the second and third sentences of subsection (b)".
12 (E) Section 1233 (f) is amended by striking out
13 "subsection (b) (2)" each place it appears and inserting
14 in lieu thereof "the second and third sentences of sub-
15 section (b)".
16 (11) (A) Section 1247 (relating to election by
17 foreign investment companies to distribute income cur-
18 rently) is amended by striking out subparagraph (B)
19 of subsection (a) (1) and inserting in lieu thereof the
20 following:
21 "(B) designate in a written notice mailed to
22 its shareholders at any time before the expiration of
23 45 days after the close of its taxable year the pro
24 rata amount for the taxable year of the adjusted
25 class A and adjusted class B capital gain (deter-

1 mined as though such corporation were a taxpayer
2 other than a corporation except that section 1212
3 (a) shall apply in lieu of section 1212(b)); and
4 the portions thereof which are being distributed;
5 and"
6 (B) Clause (i) of section 1247(a)(2)(A) is
7 amended to read as follows:
8 "(i) the adjusted class A and adjusted
9 class B capital gain referred to in paragraph
10 (1)(B),"
11 (C) Subparagraph (C) of section 1247(a)(2) is
12 amended to read as follows:
13 "(C) CARRYOVER OF CAPITAL LOSSES FROM
14 NONELECTION YEARS DENIED.—In computing the
15 adjusted class A and adjusted class B capital gains
16 referred to in paragraph (1)(B), section 1212 shall
17 not apply to losses incurred in or with respect to
18 taxable years before the first taxable year to which
19 the election applies."
20 (D) Section 1247(c)(2) is amended by striking
21 out "his long-term capital gains" and inserting in lieu
22 thereof "in the case of a shareholder which is a corpora-
23 tion, its long-term capital gains, and in the case of a
24 shareholder other than a corporation, his class A and
25 class B capital gains";

1 (E) Subsection (d) of section 1247 is amended
2 to read as follows:
3 "(d) TREATMENT OF DISTRIBUTED AND UNDIS-
4 TRIBUTED CAPITAL GAINS BY A QUALIFIED SHARE-
5 HOLDER.—Every qualified shareholder of a foreign investment
6 company for any taxable year of such company with respect
7 to which an election pursuant to subsection (a) is in effect
8 shall—
9 "(1) if such shareholder is a taxpayer other than
10 a corporation—
11 "(A) include in computing his class A or class
12 B capital gain for his taxable year in which re-
13 ceived, his pro rata share of the distributed portion
14 of the adjusted class A or adjusted class B capital
15 gain, respectively, and
16 "(B) include in computing his class A or class
17 B capital gain for his taxable year in which or with
18 which the taxable year of such company ends, his
19 pro rata share of the undistributed portion of the
20 adjusted class A or adjusted class B capital gain,
21 respectively, or
22 "(2) if such shareholder is a corporation, include
23 in computing its long-term capital gains—
24 "(A) for its taxable year in which received,

1 its pro rata share of the distributed portion of the
2 sum of the adjusted class A and adjusted class B
3 capital gains, and
4 "(B) for its taxable year in which or with
5 which the taxable year of such company ends,
6 its pro rata share of the undistributed portion of the
7 sum of the adjusted class A and adjusted class B
8 capital gains.
9 For purposes of this subsection the adjusted class A and
10 adjusted class B capital gains shall be determined as pro-
11 vided in subsection (a) (1) (B)."
12 (F) Subsection (i) of section 1247 is amended
13 to read as follows:
14 "(i) LOSS ON SALE OR EXCHANGE OF CERTAIN
15 STOCK.—
16 "(1) SHAREHOLDERS OTHER THAN CORPORA-
17 TIONS.—If, under this section, any qualified shareholder
18 other than a corporation treats any amount designated
19 under subsection (a) (1) (B) with respect to a share
20 of stock as—
21 "(A) class B capital gain and such share is
22 held by the taxpayer for 6 months or less, then
23 any loss on the sale or exchange of such share shall,
24 to the extent of the amount treated as class B capital

1 gain, be treated as a loss from the sale or exchange
2 of a capital asset held for more than 6 months but
3 not more than 2 years,
4 "(B) class A capital gain and such share is
5 held by the taxpayer for 2 years or less, then any
6 loss on the sale or exchange of such share shall, to
7 the extent of the amount treated as class A capital
8 gain, be treated as a loss from the sale or exchange
9 of a capital asset held for more than 2 years, or
10 "(C) both class A and class B capital gains
11 and such share is held by the taxpayer for 6 months
12 or less and there is a loss on the sale or exchange of
13 such stock which is less than the sum of the amount
14 so designated, then an amount of such loss shall be
15 treated as a loss from the sale or exchange of a
16 capital asset held for more than 6 months but not
17 more than 2 years which bears the same relation
18 to such loss as the class B capital gain so designated
19 bears to the sum of such class B and the class A
20 capital gains so designated; and the remainder of
21 such loss shall be treated as a loss from the sale or
22 exchange of a capital asset held for more than
23 2 years.
24 "(2) CORPORATE SHAREHOLDERS.—If, under this
25 section, any qualified shareholder which is a corpora-

1 tion treats any amount designated under subsection (a)
2 (1) (B) with respect to a share of stock as long-term
3 capital gain and such share is held by the taxpayer for
4 6 months or less, then any loss on the sale or exchange
5 of such share shall, to the extent of the amount treated
6 as long-term capital gain, be treated as a loss from
7 the sale or exchange of a capital asset held for more than
8 6 months."
9 (12) Section 1248 (b) (relating to gain from cer-
10 tain sales or exchanges of stock in certain foreign corpo-
11 rations) is amended by striking out "6 months," each
12 place it appears and inserting in lieu thereof "6 months
13 but not more than 2 years or held for more than 2 years,
14 as the case may be,".
15 (13) Section 1375 (a) (relating to special rules
16 applicable to capital gains of electing small business cor-
17 porations) is amended to read as follows:
18 "(a) CAPITAL GAINS.—
19 "(1) TREATMENT IN HANDS OF SHAREHOLDERS.—
20 The amount includible in the gross income of a share-
21 holder as dividends (including amounts treated as divi-
22 dends under section 1373 (b)) from an electing small
23 business corporation during any taxable year of the cor-
24 poration, to the extent such amount is a distribution of
25 property out of earnings and profits of the taxable year

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1 as specified in section 316(a) (2), shall be treated (i)
2 as class A capital gain to the extent of the shareholder's
3 pro rata share of the adjusted class A capital gain
4 (computed by the corporation as though it were a
5 taxpayer other than a corporation except that section
6 1212(b) (2) shall not apply) for such taxable year,
7 and (ii) as class B capital gain to the extent of the
8 shareholder's pro rata share of the adjusted class B
9 capital gain (computed by the corporation as though
10 it were a taxpayer other than a corporation except
11 that section 1212(b) (2) shall not apply) for such
12 taxable year. For purposes of this paragraph, the
13 adjusted class A capital gain or the adjusted class B
14 capital gain shall be deemed not to exceed an amount
15 equal to that portion of the corporation's taxable income
16 (computed as provided in section 1373(d)) for
17 the taxable year which bears the same ratio to such
18 taxable income as such adjusted class A capital gain or
19 such adjusted class B capital gain (determined without
20 regard to the provisions of this sentence) bears to the
21 sum of such adjusted class A and adjusted class B capital
22 gains.
23 "(2) DETERMINATION OF SHAREHOLDER'S PRO
24 RATA SHARE.—A shareholder's pro rata share of the
25 adjusted class A or adjusted class B capital gain (com-
26 puted as provided in paragraph (1)) for any taxable

1 year shall be an amount which bears the same ratio to
2 such adjusted class A capital gain or such adjusted class
3 B capital gain as the amount of dividends described in
4 paragraph (1) includible in the shareholder's gross
5 income bears to the entire amount of dividends described
6 in paragraph (1) includible in the gross income of all
7 shareholders."
8 (d) EFFECTIVE DATE.—
9 (1) GENERAL RULE.—Except as otherwise specifi-
10 cally provided, and except as provided by paragraph
11 (2), the amendments made by this section shall apply
12 to taxable years beginning after December 31, 1963.
13 (2) TRANSITION RULES.—
14 (A) DISTRIBUTIONS OF CAPITAL GAINS.—
15 (i) If a taxpayer, other than a corporation,
16 is required to include as capital gain in his gross
17 income for a taxable year beginning after
18 December 31, 1963, an amount attributable
19 to sales or exchanges of capital assets held
20 for more than 6 months and such gain was
21 realized in a taxable year beginning before
22 January 1, 1964, by a person described in
23 clause (iii), such amount shall be treated by
24 such taxpayer as class B capital gain.
25 (ii) If a taxpayer, other than a corpora-
26 tion, is required to include as capital gain in

1 his gross income for a taxable year beginning
2 before January 1, 1964, an amount attributable
3 to sales or exchanges of capital assets held for
4 more than 6 months and such gain was realized
5 in a taxable year beginning after December
6 31, 1963, by a person described in clause (iii),
7 such amount shall be treated by such taxpayer
8 as long-term capital gain.

9 (iii) This subparagraph applies in respect
10 of a regulated investment company or a real
11 estate investment trust to which subchapter M
12 of chapter 1 of the Internal Revenue Code of
13 1954 applies, a foreign investment company to
14 which section 1247 of such Code applies, an
15 electing small business corporation to which
16 subchapter S of chapter 1 of such Code applies,
17 a common trust fund to which section 584
18 applies, a partnership, an estate, and a trust.

19 (B) LOSS ON SALE OR EXCHANGE OF CER-
20 TAIN STOCK.—If a shareholder (or a holder of a
21 beneficial interest), other than a corporation, in a
22 regulated investment company, real estate invest-
23 ment trust, or foreign investment company is re-
24 quired for a taxable year beginning before January
25 1, 1964, under section 852(b)(3) (B) or (D),
26 section 857(b)(3)(B), or section 1247(d), to

1 treat an amount with respect to a share (or bene-
2 ficial interest), as a long-term capital gain, and
3 such share (or beneficial interest) is held by the
4 taxpayer for less than 31 days (6 months or less in
5 the case of a shareholder of a foreign investment
6 company), then a loss on the sale or exchange of
7 such share in a taxable year of such shareholder
8 beginning after December 31, 1963, shall to the
9 extent of such long-term capital gain, be treated as
10 loss from the sale or exchange or a capital asset
11 held for more than 6 months but not more than
12 2 years.

13 (C) REGULATORY AUTHORITY.—The Secre-
14 tary or his delegate shall prescribe such regulations
15 as may be necessary to carry out the purposes of
16 this subsection.

17 (D) MEANING OF TERMS.—Terms used in this
18 subsection shall have the same meaning as when
19 used in chapter 1 of the Internal Revenue Code of
20 1954.

21 **SEC. 220. GAIN FROM DISPOSITIONS OF CERTAIN DEPRE-**
22 **CIABLE REALTY.**

23 (a) GAIN FROM DISPOSITIONS OF CERTAIN DEPRE-
24 CIABLE REALTY.—Part IV of subchapter P of chapter 1
25 (relating to special rules for determining capital gains and

1 losses) is amended by adding at the end thereof the follow-
2 ing new section:

3 "SEC. 1250. GAIN FROM DISPOSITIONS OF CERTAIN DEPRE-
4 CIABLE REALTY.

5 "(a) GENERAL RULE.—

6 "(1) ORDINARY INCOME.—Except as otherwise
7 provided in this section, if section 1250 property is dis-
8 posed of after December 31, 1963, the applicable per-
9 centage of the lower of—

10 "(A) the additional depreciation (as defined in
11 subsection (b)(1)) in respect of the property, or

12 "(B) the excess of—

13 "(i) the amount realized (in the case of a
14 sale, exchange, or involuntary conversion), or
15 the fair market value of such property (in the
16 case of any other disposition), over

17 "(ii) the adjusted basis of such property,
18 shall be treated as gain from the sale or exchange of
19 property which is neither a capital asset nor property
20 described in section 1231. Such gain shall be recog-
21 nized notwithstanding any other provision of this
22 subtitle.

23 "(2) APPLICABLE PERCENTAGE.—For purposes of
24 paragraph (1), the term 'applicable percentage'
25 means 100 percent minus one percentage point for each

1 full month the property was held after the date on which
2 the property was held 20 full months.

3 "(b) ADDITIONAL DEPRECIATION DEFINED.—For
4 purposes of this section—

5 "(1) IN GENERAL.—The term 'additional deprecia-
6 tion' means, in the case of any property, the depreciation
7 adjustments in respect of such property; except that, in
8 the case of property held more than one year, it means
9 such adjustments only to the extent that they exceed the
10 amount of the depreciation adjustments which would
11 have resulted if such adjustments had been determined
12 for each taxable year under the straight line method of
13 adjustment. For purposes of the preceding sentence, if a
14 useful life (or salvage value) was used in determining
15 the amount allowed as a deduction for any taxable year,
16 such life (or value) shall be used in determining the
17 depreciation adjustments which would have resulted for
18 such year under the straight line method.

19 "(2) PROPERTY HELD BY LESSEE.—In the case
20 of a lessee, in determining the depreciation adjustments
21 which would have resulted in respect of any building
22 erected (or other improvement made) on the leased
23 property, or in respect of any cost of acquiring the lease,
24 the lease period shall be treated as including all renewal
25 periods. For purposes of the preceding sentence—

1 "(A) the term 'renewal period' means any
2 period for which the lease may be renewed, ex-
3 tended, or continued pursuant to an option exercis-
4 able by the lessee, but
5 "(B) the inclusion of renewal periods shall
6 not extend the period taken into account by more
7 than $\frac{2}{3}$ of the period on the basis of which the
8 depreciation adjustments were allowed.
9 "(3) DEPRECIATION ADJUSTMENTS.—The term
10 'depreciation adjustments' means, in respect of any
11 property, all adjustments attributable to periods after
12 December 31, 1963, reflected in the adjusted basis of
13 such property on account of deductions (whether in
14 respect of the same or other property) allowed or
15 allowable to the taxpayer or to any other person for
16 exhaustion, wear and tear, obsolescence, or amortization
17 (other than amortization under section 168). For pur-
18 poses of the preceding sentence, if the taxpayer can
19 establish by adequate records or other sufficient evidence
20 that the amount allowed as a deduction for any period
21 was less than the amount allowable, the amount taken
22 into account for such period shall be the amount allowed.
23 "(c) SECTION 1250 PROPERTY.—For purposes of this
24 section, the term 'section 1250 property' means any real
25 property (other than section 1245 property, as defined in
26 section 1245(a)(3)) which is or has been property of a

1 character subject to the allowance for depreciation provided
2 in section 167.
3 "(d) EXCEPTIONS AND LIMITATIONS.—
4 "(1) GIFTS.—Subsection (a) shall not apply to a
5 disposition by gift.
6 "(2) TRANSFERS AT DEATH.—Except as provided
7 in section 691 (relating to income in respect of a de-
8 cedent), subsection (a) shall not apply to a transfer at
9 death.
10 "(3) CERTAIN TAX-FREE TRANSACTIONS.—If the
11 basis of property in the hands of a transferee is deter-
12 mined by reference to its basis in the hands of the trans-
13 feror by reason of the application of section 332, 351,
14 361, 371(a), 374(a), 721, or 731, then the amount
15 of gain taken into account by the transferor under sub-
16 section (a)(1) shall not exceed the amount of gain
17 recognized to the transferor on the transfer of such prop-
18 erty (determined without regard to this section).
19 This paragraph shall not apply to a disposition to an
20 organization (other than a cooperative described in sec-
21 tion 521) which is exempt from the tax imposed by this
22 chapter.
23 "(4) LIKE KIND EXCHANGES; INVOLUNTARY
24 CONVERSIONS, ETC.—
25 "(A) RECOGNITION LIMIT.—If property is

1 disposed of and gain (determined without regard
2 to this section) is not recognized in whole or in
3 part under section 1031 or 1033, then the amount
4 of gain taken into account by the transferor under
5 subsection (a) (1) shall not exceed the greater of
6 the following:

7 "(i) the amount of gain recognized on the
8 disposition (determined without regard to this
9 section), increased as provided in subparagraph
10 (B), or

11 "(ii) the amount determined under sub-
12 paragraph (C).

13 "(B) INCREASE FOR CERTAIN STOCK.—With
14 respect to any transaction, the increase provided
15 by this subparagraph is the amount equal to the
16 fair market value of any stock purchased in a cor-
17 poration which (but for this paragraph) would
18 result in nonrecognition of gain under section
19 1033 (a) (3) (A).

20 "(C) ADJUSTMENT WHERE INSUFFICIENT
21 SECTION 1250 PROPERTY IS ACQUIRED.—With re-
22 spect to any transaction, the amount determined
23 under this subparagraph shall be the excess of—

24 "(i) the amount of gain which would (but
25 for this paragraph) be taken into account un-
26 der subsection (a) (1), over

1 "(ii) the fair market value (or cost in
2 the case of a transaction described in section
3 1033 (a) (3)) of the section 1250 property
4 acquired in the transaction.
5 "(D) BASIS OF PROPERTY ACQUIRED.—In the
6 case of property purchased by the taxpayer in a
7 transaction described in section 1033 (a) (3), in
8 applying the last sentence of section 1033 (c), such
9 sentence shall be applied—
10 "(i) first solely to section 1250 properties
11 and to the amount of gain not taken into ac-
12 count under subsection (a) (1) by reason of
13 this paragraph, and
14 "(ii) then to all purchased properties
15 to which such sentence applies and to the re-
16 maining gain not recognized on the transaction
17 as if the cost of the section 1250 properties were
18 the basis of such properties computed under
19 clause (i).
20 In the case of property acquired in any other trans-
21 action to which this paragraph applies, rules con-
22 sistent with the preceding sentence shall be applied
23 under regulations prescribed by the Secretary or his
24 delegate.
25 "(E) ADDITIONAL DEPRECIATION WITH RE-
26 SPECT TO PROPERTY DISPOSED OF.—In the case of

1 any transaction described in section 1031 or 1033,
2 the additional depreciation in respect of the section
3 1250 property acquired which is attributable to the
4 section 1250 property disposed of shall be an amount
5 equal to the amount of the gain which was not
6 taken into account under subsection (a) (1) by
7 reason of the application of this paragraph.

8 "(5) SECTION 1071 AND 1081 TRANSACTIONS.—
9 Under regulations prescribed by the Secretary or his
10 delegate, rules consistent with paragraphs (3) and (4)
11 of this subsection and with subsections (e) and (f)
12 shall apply in the case of transactions described in sec-
13 tion 1071 (relating to gain from sale or exchange to
14 effectuate policies of FCC) or section 1081 (relating to
15 exchanges in obedience to SEC orders).

16 "(6) PROPERTY DISTRIBUTED BY A PARTNERSHIP
17 TO A PARTNER.—

18 "(A) IN GENERAL.—For purposes of this sec-
19 tion, the basis of section 1250 property distributed
20 by a partnership to a partner shall be deemed to be
21 determined by reference to the adjusted basis of
22 such property to the partnership.

23 "(B) ADDITIONAL DEPRECIATION.—In respect
24 of any property described in subparagraph (A), the
25 additional depreciation attributable to periods before
26 the distribution by the partnership shall be—

1 "(i) the amount of the gain to which sub-
2 section (a) would have applied if such property
3 had been sold by the partnership immediately
4 before the distribution at its fair market value
5 at such time and the applicable percentage for
6 the property had been 100 percent, reduced by
7 "(ii) if section 751 (b) applied to any part
8 of such gain, the amount of such gain to which
9 section 751 (b) would have applied if the ap-
10 plicable percentage for the property had been
11 100 percent.
12 "(7) DISPOSITION OF PRINCIPAL RESIDENCE.—
13 Subsection (a) shall not apply to a disposition of—
14 "(A) property to the extent used by the tax-
15 payer as his principal residence (within the mean-
16 ing of section 1034, relating to sale or exchange
17 of residence), and
18 "(B) property in respect of which the taxpayer
19 meets the age and ownership requirements of section
20 121 (relating to gains from sale or exchange of
21 residence of individual who has attained the age of
22 65) but only to the extent that he meets the use
23 requirements of such section in respect of such
24 property.
25 "(e) HOLDING PERIOD.—For purposes of determining
26 the applicable percentage under this section, the provisions

1 of section 1223 shall not apply, and the holding period of
2 section 1250 property shall be determined under the follow-
3 ing rules:
4 "(1) BEGINNING OF HOLDING PERIOD.—The hold-
5 ing period of section 1250 property shall be deemed to
6 begin—
7 "(A) in the case of property acquired by the
8 taxpayer, on the day after the date of acquisition,
9 or
10 "(B) in the case of property constructed, re-
11 constructed, or erected by the taxpayer, on the
12 first day of the month during which the property
13 is placed in service.
14 "(2) PROPERTY WITH TRANSFERRED BASIS.—If
15 the basis of property acquired in a transaction described
16 in paragraph (1), (2), (3), or (5) of subsection (d)
17 is determined by reference to its basis in the hands of the
18 transferor, then the holding period of the property in
19 the hands of the transferee shall include the holding
20 period of the property in the hands of the transferor.
21 "(3) PRINCIPAL RESIDENCE.—If the basis of
22 property acquired in a transaction described in para-
23 graph (7) of subsection (d) is determined by reference
24 to the basis in the hands of the taxpayer of other prop-
25 erty, then the holding period of the property acquired
26 shall include the holding period of such other property.

1 "(f) SPECIAL RULES FOR PROPERTY WHICH IS SUB-
2 STANTIALLY IMPROVED.—
3 "(1) AMOUNT TREATED AS ORDINARY IN-
4 COME.—If, in the case of a disposition of section 1250
5 property, the property is treated as consisting of more
6 than one element by reason of paragraph (3), then the
7 amount taken into account under subsection (a)(1)
8 in respect of such section 1250 property as gain from
9 the sale or exchange of property which is neither a
10 capital asset nor property described in section 1231 shall
11 be the sum of the amounts determined under paragraph
12 (2).
13 "(2) ORDINARY INCOME ATTRIBUTABLE TO AN
14 ELEMENT.—For purposes of paragraph (1), the
15 amount taken into account for any element shall be the
16 amount determined by multiplying—
17 "(A) the amount which bears the same ratio
18 to the lower of the amounts specified in subpara-
19 graph (A) or (B) of subsection (a)(1) for the
20 section 1250 property as the additional depreciation
21 for such element bears to the sum of the additional
22 depreciation for all elements, by
23 "(B) the applicable percentage for such ele-
24 ment.
25 For purposes of this paragraph, determinations with

1 respect to any element shall be made as if it were a
2 separate property.

3 "(3) PROPERTY CONSISTING OF MORE THAN ONE
4 ELEMENT.—In applying this subsection in the case of
5 any section 1250 property, there shall be treated as a
6 separate element—

7 "(A) each separate improvement,

8 "(B) if, before completion of section 1250
9 property, units thereof (as distinguished from im-
10 provements) were placed in service, each such unit
11 of section 1250 property, and

12 "(C) the remaining property which is not
13 taken into account under subparagraphs (A) and
14 (B).

15 "(4) PROPERTY WHICH IS SUBSTANTIALLY IM-
16 PROVED.—For purposes of this subsection—

17 "(A) IN GENERAL.—The term 'separate im-
18 provement' means each improvement added during
19 the 36-month period ending on the last day of any
20 taxable year to the capital account for the prop-
21 erty, but only if the sum of the amounts added to
22 such account during such period exceeds the
23 greatest of—

24 "(i) 25 percent of the adjusted basis of
25 the property,

26 "(ii) 10 percent of the adjusted basis of

1 the property, determined without regard to the
2 adjustments provided in paragraphs (2) and
3 (3) of section 1016 (a), or
4 "(iii) $5,000.
5 For purposes of clauses (i) and (ii), the adjusted
6 basis of the property shall be determined as of the
7 beginning of the first day of such 36-month period,
8 or of the holding period of the property (within the
9 meaning of subsection (e)), whichever is the later.
10 "(B) EXCEPTION.—Improvements in any tax-
11 able year shall be taken into account for purposes of
12 subparagraph (A) only if the sum of the amounts
13 added to the capital account for the property for
14 such taxable year exceeds the greater of—
15 "(i) $2,000, or
16 "(ii) one percent of the adjusted basis re-
17 ferred to in subparagraph (A) (ii), determined,
18 however, as of the beginning of such taxable
19 year.
20 For purposes of this section, if the amount added to
21 the capital account for any separate improvement
22 does not exceed the greater of clause (i) or (ii),
23 such improvement shall be treated as placed in
24 service on the first day, of a calendar month, which
25 is closest to the middle of the taxable year.
26 "(C) IMPROVEMENT.—The term 'improve-

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1 ment' means, in the case of any section 1250 prop-
2 erty, any addition to capital account for such prop-
3 erty after the initial acquisition or after completion
4 of the property.
5 "(g) ADJUSTMENTS TO BASIS.—The Secretary or his
6 delegate shall prescribe such regulations as he may deem nec-
7 essary to provide for adjustments to the basis of property to
8 reflect gain recognized under subsection (a).
9 "(h) APPLICATION OF SECTION.—This section shall
10 apply notwithstanding any other provision of this subtitle."
11 (b) TECHNICAL AMENDMENTS.—
12 (1) SPECIAL RULE FOR CHARITABLE CONTRIBU-
13 TIONS.—
14 (A) The heading of section 170(e) (relating
15 to special rule for charitable contributions of section
16 1245 property) is amended by striking out "SEC-
17 TION 1245 PROPERTY" and inserting in lieu thereof
18 "CERTAIN PROPERTY".
19 (B) The text of such section 170(e) is
20 amended by striking out "section 1245(a)" and in-
21 serting in lieu thereof "section 1245(a) or
22 1250(a)".
23 (2) CORPORATE DISTRIBUTIONS OF PROPERTY.—
24 Subsections (b) and (d) of section 301 (relating to
25 amount distributed) are each amended by striking out

1 "under section 1245 (a)" and inserting in lieu thereof
2 "under section 1245 (a) or 1250 (a)".
3 (3) EFFECT ON EARNINGS AND PROFITS.—Para-
4 graph (3) of section 312 (c) (relating to adjustments
5 of earnings and profits) is amended by striking out "or
6 under section 1245 (a)" and inserting in lieu thereof
7 "or under section 1245 (a) or 1250 (a)".
8 (4) COLLAPSIBLE CORPORATIONS.—Paragraph
9 (12) of section 341 (e) (relating to collapsible cor-
10 porations) is amended by striking out "section 1245
11 (a)" and inserting in lieu thereof "sections 1245 (a)
12 and 1250 (a)".
13 (5) INSTALLMENT OBLIGATIONS IN CERTAIN
14 LIQUIDATIONS.—Subparagraphs (A) and (B) of section
15 453 (d) (4) (relating to distribution of installment obli-
16 gations in certain corporate liquidations) are each
17 amended by striking out "section 1245 (a)" and insert-
18 ing in lieu thereof "section 1245 (a) or 1250 (a)".
19 (6) SPECIAL RULE FOR PARTNERSHIPS.—Section
20 751 (c) (relating to definition of "unrealized receiva-
21 bles" for purposes of subchapter K) is amended by
22 striking out "(as defined in section 1245 (a) (3))" and
23 inserting in lieu thereof "(as defined in section 1245
24 (a) (3)) and section 1250 property (as defined in sec-
25 tion 1250 (c))" and by striking out "to which section

1 1245 (a)" and inserting in lieu thereof "to which section
2 1245 (a) or 1250 (a)".
3 (7) The table of sections for part IV of subchapter
4 P of chapter 1 is amended by adding at the end thereof
5 the following:

"Sec. 1250. Gain from dispositions of certain depreciable realty."

6 (c) EFFECTIVE DATE.—The amendments made by this
7 section shall apply to dispositions after December 31, 1963,
8 in taxable years ending after such date.

9 **SEC. 221. AVERAGING.**

10 (a) GENERAL RULE.—Part I of subchapter Q of chap-
11 ter 1 is amended to read as follows:

12 **"PART I—INCOME AVERAGING**

"Sec. 1301. Limitation on tax.
"Sec. 1302. Definition of averagable income; related definitions.
"Sec. 1303. Eligible individuals.
"Sec. 1304. Special rules.
"Sec. 1305. Regulations.

13 **"SEC. 1301. LIMITATION ON TAX.**

14 "If an eligible individual has averagable income for the
15 computation year, and if the amount of such income exceeds
16 $3,000, then the tax imposed by section 1 for the computa-
17 tion year which is attributable to averagable income shall
18 be 5 times the increase in tax under such section which would
19 result from adding 20 percent of such income to the sum of—
20 "(1) 133⅓ percent of average base period income,
21 and

1 "(2) the amount (if any) of the average base
2 period capital gain net income.

3 "SEC. 1302. DEFINITION OF AVERAGABLE INCOME; RE-
4 LATED DEFINITIONS.

5 "(a) AVERAGABLE INCOME.—For purposes of this
6 part—
7 "(1) IN GENERAL.—The term 'averagable income'
8 means the amount (if any) by which adjusted tax-
9 able income exceeds 133⅓ percent of average base period
10 income.
11 "(2) ADJUSTMENT IN CERTAIN CASES FOR CAPI-
12 TAL GAINS.—If—
13 "(A) the average base period capital gain net
14 income, exceeds
15 "(B) the capital gain net income for the com-
16 putation year,
17 then the term 'averagable income' means the amount de-
18 termined under paragraph (1), reduced by an amount
19 equal to such excess.
20 "(b) ADJUSTED TAXABLE INCOME.—For purposes of
21 this part, the term 'adjusted taxable income' means the tax-
22 able income for the computation year, decreased by the sum
23 of the following amounts:
24 "(1) CAPITAL GAIN NET INCOME FOR THE COM-

1 PUTATION YEAR.—The amount (if any) of the capital
2 gain net income for the computation year.
3 "(2) INCOME ATTRIBUTABLE TO GIFTS, BEQUESTS,
4 ETC.—
5 "(A) IN GENERAL.—The amount of net in-
6 come attributable to an interest in property where
7 such interest was received by the taxpayer as a gift,
8 bequest, devise, or inheritance during the computa-
9 tion year or any base period year. This para-
10 graph shall not apply to gifts, bequests, devises,
11 or inheritances between husband and wife if they
12 make a joint return, or if one of them makes a re-
13 turn as a surviving spouse (as defined in section
14 2 (b)), for the computation year.
15 "(B) AMOUNT OF NET INCOME.—Unless the
16 taxpayer otherwise establishes to the satisfaction of
17 the Secretary or his delegate, the amount of net
18 income for any taxable year attributable to an
19 interest described in subparagraph (A) shall be
20 deemed to be 6 percent of the fair market value of
21 such interest (as determined in accordance with
22 the provisions of chapter 11 or chapter 12, as the
23 case may be).
24 "(C) LIMITATION.—This paragraph shall ap-
25 ply only if the sum of the net incomes attributable

1 to interests described in subparagraph (A) exceeds
2 $3,000.
3 "(D) NET INCOME.—For purposes of this
4 paragraph, the term 'net income' means, with re-
5 spect to any interest, the excess of—
6 "(i) items of gross income attributable to
7 such interest, over
8 "(ii) the deductions properly allocable to
9 or chargeable against such items.
10 For purposes of computing such net income, capital
11 gains and losses shall not be taken into account.
12 "(3) WAGERING INCOME.—The amount (if any)
13 by which the gains from wagering transactions for the
14 computation year exceed the losses from such trans-
15 actions.
16 "(4) CERTAIN AMOUNTS RECEIVED BY OWNER-
17 EMPLOYEES.—The amount (if any) to which section
18 72(m)(5) (relating to penalties applicable to certain
19 amounts received by owner-employees) applies.
20 "(c) AVERAGE BASE PERIOD INCOME.—For purposes
21 of this part—
22 "(1) IN GENERAL.—The term 'average base period
23 income' means one-fourth of the sum of the base period
24 incomes for the base period.

1 "(2) BASE PERIOD INCOME.—The base period in-
2 come for any taxable year is the taxable income for such
3 year first increased and then decreased (but not below
4 zero) in the following order:
5 "(A) Taxable income shall be increased by an
6 amount equal to the excess of—
7 "(i) the amount excluded from gross in-
8 come under section 911 (relating to earned in-
9 come from sources without the United States)
10 and subpart D of part III of subchapter N (sec.
11 931 and following, relating to income from
12 sources within possessions of the United States),
13 over
14 "(ii) the deductions which would have
15 been properly allocable to or chargeable against
16 such amount but for the exclusion of such
17 amount from gross income.
18 "(B) Taxable income shall be decreased by
19 the capital gain net income.
20 "(C) If the decrease provided by paragraph
21 (2) of subsection (b) applies to the computation
22 year, the taxable income shall be decreased under
23 the rules of such paragraph (2) (other than the
24 limitation contained in subparagraph (C) thereof).
25 "(d) CAPITAL GAIN NET INCOME, ETC.—For pur-
26 poses of this part—

1 "(1) CAPITAL GAIN NET INCOME.—The term
2 'capital gain net income' means, for any taxable year
3 beginning after December 31, 1963, the amount (if
4 any) by which—
5 "(A) the sum of the adjusted class A capital
6 gain and the adjusted class B capital gain, exceeds
7 "(B) the deduction allowable under section
8 1202(a).
9 The term 'capital gain net income' means, for any
10 taxable year beginning before January 1, 1964, the
11 amount equal to 50 percent of the excess of the net
12 long-term capital gain over the net short-term capital
13 loss.
14 "(2) AVERAGE BASE PERIOD CAPITAL GAIN NET
15 INCOME.—The term 'average base period capital gain
16 net income' means one-fourth of the sum of the capital
17 gain net incomes for the base period. For purposes of
18 the preceding sentence, the capital gain net income for
19 any base period year shall not exceed the base period
20 income for such year computed without regard to sub-
21 section (c)(2)(B).
22 "(e) OTHER RELATED DEFINITIONS.—For purposes
23 of this part—
24 "(1) COMPUTATION YEAR.—The term 'computa-

1 tion year' means the taxable year for which the taxpayer
2 chooses the benefits of this part.
3 "(2) BASE PERIOD.—The term 'base period' means
4 the 4 taxable years immediately preceding the compu-
5 tation year.
6 "(3) BASE PERIOD YEAR.—The term 'base period
7 year' means any of the 4 taxable years immediately
8 preceding the computation year.
9 "(4) JOINT RETURN.—The term 'joint return'
10 means the return of a husband and wife made under
11 section 6013.
12 **"SEC. 1303. ELIGIBLE INDIVIDUALS.**
13 "(a) GENERAL RULE.—Except as otherwise provided
14 in this section, for purposes of this part the term 'eligible
15 individual' means any individual who is a citizen or resi-
16 dent of the United States throughout the computation year.
17 "(b) NONRESIDENT ALIEN INDIVIDUALS.—For pur-
18 poses of this part, an individual shall not be an eligible in-
19 dividual for the computation year if, at any time during
20 such year or the base period, such individual was a nonresi-
21 dent alien.
22 "(c) INDIVIDUALS RECEIVING SUPPORT FROM
23 OTHERS.—
24 "(1) IN GENERAL.—For purposes of this part, an

1 individual shall not be an eligible individual for the com-
2 putation year if, for any base period year, such individ-
3 ual (and his spouse) furnished less than one-half of his
4 support.

5 "(2) EXCEPTIONS.—Paragraph (1) shall not ap-
6 ply to any computation year if—

7 "(A) such year ends after the individual at-
8 tained age 25 and, during at least 4 of his taxable
9 years beginning after he attained age 21 and end-
10 ing with his computation year, he was not a full-
11 time student,

12 "(B) more than one-half of the individual's
13 adjusted taxable income for the computation year
14 is attributable to work performed by him in sub-
15 stantial part during 2 or more of the base period
16 years, or

17 "(C) the individual makes a joint return for
18 the computation year and not more than 25 per-
19 cent of the aggregate adjusted gross income of such
20 individual and his spouse for the computation year
21 is attributable to such individual.

22 In applying subparagraph (C), amounts which consti-
23 tute earned income (within the meaning of section 911
24 (b)) and are community income under community

1 property laws applicable to such income shall be taken
2 into account as if such amounts did not constitute com-
3 munity income.

4 "(d) STUDENT DEFINED.—For purposes of this sec-
5 tion, the term 'student' means, with respect to a taxable year,
6 an individual who during each of 5 calendar months during
7 such taxable year—

8 "(1) was a full-time student at an educational in-
9 stitution (as defined in section 151 (e) (4)); or

10 "(2) was pursuing a full-time course of institu-
11 tional on-farm training under the supervision of an ac-
12 credited agent of an educational institution (as defined
13 in section 151 (e) (4)) or of a State or political sub-
14 division of a State.

15 **"SEC. 1304. SPECIAL RULES.**

16 "(a) TAXPAYER MUST CHOOSE BENEFITS.—This part
17 shall apply to the taxable year only if the taxpayer chooses
18 to have the benefits of this part for such taxable year. Such
19 choice may be made or changed at any time before the
20 expiration of the period prescribed for making a claim for
21 credit or refund of the tax imposed by this chapter for the
22 taxable year.

23 "(b) CERTAIN PROVISIONS INAPPLICABLE.—If the
24 taxpayer chooses the benefits of this part for the taxable
25 year, the following provisions shall not apply to him for
26 such year:

1 "(1) section 3 (relating to optional tax if adjusted
2 gross income is less than $5,000),
3 "(2) section 72(n)(2) (relating to limitation of
4 tax in case of certain distributions with respect to con-
5 tributions by self-employed individuals),
6 "(3) section 911 (relating to earned income from
7 sources without the United States), and
8 "(4) subpart D of part III of subchapter N (sec.
9 931 and following, relating to income from sources
10 within possessions of the United States).
11 "(c) FAILURE OF CERTAIN MARRIED INDIVIDUALS
12 TO MAKE JOINT RETURN, ETC.—
13 "(1) APPLICATION OF SUBSECTION.—Paragraphs
14 (2), (3), and (4) of this subsection shall apply in the
15 case of any individual who was married for any base
16 period year or the computation year; except that—
17 "(A) such paragraphs shall not apply in re-
18 spect of a base period year if—
19 "(i) such individual and his spouse make
20 a joint return, or such individual makes a re-
21 turn as a surviving spouse (as defined in section
22 2(b)), for the computation year, and
23 "(ii) such individual was not married to
24 any other spouse for such base period year, and
25 "(B) paragraph (4) shall not apply in respect

1 of the computation year if the individual and his
2 spouse make a joint return for such year.

3 "(2) MINIMUM BASE PERIOD INCOME.—For pur-
4 poses of this part, the base period income of an individual
5 for any base period year shall not be less than 50 percent
6 of the base period income which would result from com-
7 bining his income and deductions for such year—

8 "(A) with the income and deductions for such
9 year of the individual who is his spouse for the
10 computation year, or

11 "(B) if greater, with the income and deduc-
12 tions for such year of the individual who was his
13 spouse for such base period year.

14 "(3) MINIMUM BASE PERIOD CAPITAL GAIN NET
15 INCOME.—For purposes of this part, the capital gain
16 net income of any individual for any base period year
17 shall not be less than 50 percent of the capital gain net
18 income which would result from combining his capital
19 gain net income for such year (determined without re-
20 gard to this paragraph) with the capital gain net income
21 for such year (similarly determined) of the individual
22 with whom he is required by paragraph (2) to combine
23 his income and deductions for such year.

24 "(4) COMMUNITY INCOME ATTRIBUTABLE TO
25 SERVICES.—In the case of amounts which constitute
26 earned income (within the meaning of section 911 (b))

1 and are community income under community property
2 laws applicable to such income—
3 "(A) the amount taken into account for any
4 base period year for purposes of determining base
5 period income shall not be less than the amount
6 which would be taken into account if such amounts
7 did not constitute community income, and
8 "(B) the amount taken into account for pur-
9 poses of determining adjusted taxable income for
10 the computation year shall not exceed the amount
11 which would be taken into account if such amounts
12 did not constitute community income.
13 "(5) MARITAL STATUS.—For purposes of this
14 subsection, section 143 shall apply in determining
15 whether an individual is married for any taxable year.
16 "(d) DOLLAR LIMITATIONS IN CASE OF JOINT RE-
17 TURNS.—In the case of a joint return, the $3,000 figure con-
18 tained in section 1301 shall be applied to the aggregate
19 averagable income, and the $3,000 figure contained in sec-
20 tion 1302 (b) (2) (C) shall be applied to the aggregate net
21 incomes.
22 "(e) SPECIAL RULES WHERE THERE ARE CAPITAL
23 GAINS.—
24 "(1) TREATMENT OF CAPITAL GAINS IN COMPU-
25 TATION YEAR.—In the case of any taxpayer who has
26 capital gain net income for the computation year, the

1 tax imposed by section 1 for the computation year
2 which is attributable to the amount of such net income
3 shall be computed—
4 "(A) by adding so much of the amount thereof
5 as does not exceed average base period capital
6 gain net income above 133⅓ percent of average base
7 period income, and
8 "(B) by adding the remainder (if any) of
9 such net income above the 20 percent of the aver-
10 agable income as taken into account for purposes
11 of computing the tax imposed by section 1 (and
12 above the amounts (if any) referred to in subsec-
13 tion (f) (1)).
14 "(2) COMPUTATION OF ALTERNATIVE TAX.—In
15 the case of any taxpayer who has capital gain net in-
16 come for the computation year, section 1201 (b) shall
17 be treated as imposing a tax equal to the tax imposed
18 by section 1, reduced by the amount (if any) by
19 which—
20 "(A) the tax imposed by section 1 and at-
21 tributable to the capital gain net income for the
22 computation year (determined under paragraph
23 (1)), exceeds
24 "(B) the sum of—
25 "(i) 21 percent of the adjusted class A
26 capital gain, and

1 "(ii) 25 percent of the adjusted class B
2 capital gain.
3 "(f) TREATMENT OF CERTAIN OTHER ITEMS.—
4 "(1) GIFT OR WAGERING INCOME.—The tax im-
5 posed by section 1 for the computation year which is
6 attributable to the amounts subtracted from taxable in-
7 come under paragraphs (2) and (3) of section
8 1302(b) shall equal the increase in tax under section
9 1 which results from adding such amounts above the 20
10 percent of the averagable income as taken into account
11 for purposes of computing the tax imposed thereon by
12 section 1.
13 "(2) SECTION 72(m)(5).—Section 72(m)(5)
14 (relating to penalties applicable to certain amounts
15 received by owner-employees) shall be applied as if this
16 part had not been enacted.
17 "(3) OTHER ITEMS.—Except as otherwise provided
18 in this part, the order and manner in which items of in-
19 come shall be taken into account in computing the tax
20 imposed by this chapter on the income of any eligible
21 individual to whom section 1301 applies for any compu-
22 tation year shall be determined under regulations pre-
23 scribed by the Secretary or his delegate.
24 "(g) SHORT TAXABLE YEARS.—In the case of any
25 computation year or base period year which is a short tax-

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1 able year, this part shall be applied in the manner provided
2 in regulations prescribed by the Secretary or his delegate.

3 **"SEC. 1305. REGULATIONS.**

4 "The Secretary or his delegate shall prescribe such regu-
5 lations as may be necessary to carry out the purposes of this
6 part."

7 (b) REPEAL OF SECTION 72(e)(3).—Section 72
8 (e)(3) (relating to limit on tax attributable to receipt of
9 lump sum) is hereby repealed.

10 (c) STATUTE OF LIMITATIONS.—Section 6511(d)(2)
11 (B) (relating to special period of limitation with respect to
12 net operating loss carrybacks) is amended to read as follows:

13 "(B) APPLICABLE RULES.—

14 "(i) If the allowance of a credit or refund
15 of an overpayment of tax attributable to a net
16 operating loss carryback is otherwise prevented
17 by the operation of any law or rule of law other
18 than section 7122, relating to compromises,
19 such credit or refund may be allowed or made,
20 if claim therefor is filed within the period pro-
21 vided in subparagraph (A) of this paragraph.
22 If the allowance of an application, credit, or re-
23 fund of a decrease in tax determined under sec-
24 tion 6411(b) is otherwise prevented by the
25 operation of any law or rule of law other than
26 section 7122, such application, credit, or refund

1 may be allowed or made if application for a tentative carryback adjustment is made within the period provided in section 6411 (a). In the case of any such claim for credit or refund or any such application for a tentative carryback adjustment, the determination by any court, including the Tax Court, in any proceeding in which the decision of the court has become final, shall be conclusive except with respect to the net operating loss deduction, and the effect of such deduction, to the extent that such deduction is affected by a carryback which was not in issue in such proceeding.

"(ii) A claim for credit or refund for a computation year (as defined in section 1302 (e) (1)) shall be determined to relate to an overpayment attributable to a net operating loss carryback when such carryback relates to any base period year (as defined in section 1302 (e) (3))."

(d) TECHNICAL AMENDMENTS.—The following provisions are amended by striking out "except that section 72 (e) (3) shall not apply":

(1) The first sentence of section 402 (a) (1) (relating to general rule for taxability of beneficiary of exempt trust).

1 (2) The second sentence of section 402(b) (re-
2 lating to taxability of beneficiary of non-exempt trust).
3 (3) The second sentence of section 402(d) (re-
4 lating to certain employees' annuities).
5 (4) Section 403(a)(1) (relating to the general
6 rule for taxability of a beneficiary under a qualified
7 annuity plan).
8 (5) The second sentence of section 403(b)(1)
9 (relating to general rule for taxability of beneficiary,
10 etc.).
11 (6) The second sentence of section 403(c) (re-
12 lating to taxability of beneficiary under a nonqualified
13 annuity).
14 (e) Clerical Amendments.—
15 (1) Subsection (f) of section 4 (relating to cross
16 references to rules for optional tax) is amended by
17 adding at the end thereof the following new paragraph:

"(3) For rule that optional tax is not to apply if individual chooses the benefits of income averaging, see section 1304(b)."

18 (2) Subsection (b) of section 5 (relating to cross
19 references to special limitations on tax) is amended to
20 read as follows:

1 "(b) SPECIAL LIMITATIONS ON TAX.—

"(1) For limitation on surtax attributable to sales of oil or gas properties, see section 632.
"(2) For limitation on tax in case of income of members of Armed Forces on death, see section 692.
"(3) For limitation on tax where an individual chooses the benefits of income averaging, see section 1301.
"(4) For computation of tax where taxpayer restores substantial amount held under claim of right, see section 1341.
"(5) For limitation on surtax attributable to claims against the United States involving acquisitions of property, see section 1347."

2 (3) The table of parts for subchapter Q of chapter
3 1 is amended by striking out

"Part I. Income attributable to several taxable years."

4 and inserting in lieu thereof

"Part I. Income averaging."

5 (f) EFFECTIVE DATE.—
6 (1) GENERAL RULE.—Except as provided in para-
7 graph (2), the amendments made by this section shall
8 apply with respect to taxable years beginning after
9 December 31, 1963.
10 (2) INCOME FROM AN EMPLOYMENT.—If, in a
11 taxable year beginning after December 31, 1963, an in-
12 dividual or partnership receives or accrues compensa-
13 tion from an employment (as defined by section 1301
14 (b) of the Internal Revenue Code of 1954 as in effect

1 immediately before the enactment of this Act) and the
2 employment began before February 6, 1963, the tax
3 attributable to such compensation may, at the election of
4 the taxpayer, be computed under the provisions of sec-
5 tions 1301 and 1307 of such Code as in effect immedi-
6 ately before the enactment of this Act. If a taxpayer
7 so elects (at such time and in such manner as the Secre-
8 tary of the Treasury or his delegate by regulations pre-
9 scribes), he may not choose for such taxable year the
10 benefits provided by part I of subchapter Q of chapter 1
11 of such Code (relating to income averaging) as amended
12 by this Act.

13 **SEC. 222. REPEAL OF ADDITIONAL 2-PERCENT TAX FOR**
14 **CORPORATIONS FILING CONSOLDATED RE-**
15 **TURNS.**

16 (a) REPEAL OF TAX.—Subsection (a) of section 1503
17 (relating to computation and payment of tax in case of con-
18 solidated returns) is amended to read as follows:

19 "(a) GENERAL RULE.—In any case in which a con-
20 solidated return is made or is required to be made, the tax
21 shall be determined, computed, assessed, collected, and ad-
22 justed in accordance with the regulations under section 1502
23 prescribed before the last day prescribed by law for the filing
24 of such return."

25 (b) TECHNICAL AND CONFORMING AMENDMENTS.—
26 (1) Section 1503 is amended by striking out sub-

1 sections (b) and (c) and by relettering subsection (d)
2 as subsection (b).
3 (2) Paragraph (3) of section 1503 (b) (as re-
4 lettered by paragraph (1)) is amended to read as
5 follows:
6 "(3) SPECIAL RULES.—
7 "(A) For purposes of paragraph (2), a cor-
8 poration is a regulated public utility only if it
9 is a regulated public utility within the meaning of
10 subparagraph (A) (other than clauses (ii) and
11 (iii) thereof) or (D) of section 7701 (a) (33).
12 For purposes of the preceding sentence, the limita-
13 tion contained in the last two sentences of section
14 7701 (a) (33) shall be applied as if subparagraphs
15 (A) through (F), inclusive, of section 7701 (a)
16 (33) were limited to subparagraphs (A) (i) and
17 (D) thereof.
18 "(B) For purposes of paragraph (2), the
19 foreign countries referred to in this subparagraph
20 include only any country from which any public
21 utility referred to in the first sentence of paragraph
22 (2) derives the principal part of its income.
23 "(C) For purposes of this subsection, the term
24 'consolidated taxable income' means the consolidated
25 taxable income computed without regard to the

1 deduction provided by section 242 for partially tax-
2 exempt interest."
3 (3) Section 7701(a) (relating to definitions) is
4 amended by adding at the end thereof the following
5 new paragraph:
6 "(33) REGULATED PUBLIC UTILITY.—The term
7 'regulated public utility' means—
8 "(A) A corporation engaged in the furnishing
9 or sale of—
10 "(i) electric energy, gas, water, or sewer-
11 age disposal services, or
12 "(ii) transportation (not included in sub-
13 paragraph (C)) on an intrastate, suburban,
14 municipal, or interurban electric railroad, on an
15 intrastate, municipal, or suburban trackless
16 trolley system, or on a municipal or suburban
17 bus system, or
18 "(iii) transportation (not included in
19 clause (ii)) by motor vehicle—
20 if the rates for such furnishing or sale, as the case
21 may be, have been established or approved by a
22 State or political subdivision thereof, by an agency
23 or instrumentality of the United States, by a public
24 service or public utility commission or other similar
25 body of the District of Columbia or of any State or
26 political subdivision thereof, or by a foreign country

1 or an agency or instrumentality or political sub-
2 division thereof.

3 "(B) A corporation engaged as a common car-
4 rier in the furnishing or sale of transportation of gas
5 by pipe line, if subject to the jurisdiction of the
6 Federal Power Commission.

7 "(C) A corporation engaged as a common car-
8 rier (i) in the furnishing or sale of transportation by
9 railroad, if subject to the jurisdiction of the Inter-
10 state Commerce Commission, or (ii) in the furnish-
11 ing or sale of transportation of oil or other petroleum
12 products (including shale oil) by pipe line, if sub-
13 ject to the jurisdiction of the Interstate Commerce
14 Commission or if the rates for such furnishing or sale
15 are subject to the jurisdiction of a public service or
16 public utility commission or other similar body of
17 the District of Columbia or of any State.

18 "(D) A corporation engaged in the furnishing
19 or sale of telephone or telegraph service, if the rates
20 for such furnishing or sale meet the requirements of
21 subparagraph (A).

22 "(E) A corporation engaged in the furnishing
23 or sale of transportation as a common carrier by air,
24 subject to the jurisdiction of the Civil Aeronautics
25 Board.

1 "(F) A corporation engaged in the furnishing
2 or sale of transportation by common carrier by
3 water, subject to the jurisdiction of the Interstate
4 Commerce Commission under part III of the Inter-
5 state Commerce Act, or subject to the jurisdiction
6 of the Federal Maritime Board under the Inter-
7 coastal Shipping Act, 1933.
8 "(G) A railroad corporation subject to part I
9 of the Interstate Commerce Act, if (i) substan-
10 tially all of its railroad properties have been leased
11 to another such railroad corporation or corporations
12 by an agreement or agreements entered into before
13 January 1, 1954, (ii) each lease is for a term
14 of more than 20 years, and (iii) at least 80 per-
15 cent or more of its gross income (computed with-
16 out regard to dividends and capital gains and losses)
17 for the taxable year is derived from such leases
18 and from sources described in subparagraphs (A)
19 through (F), inclusive. For purposes of the pre-
20 ceding sentence, an agreement for lease of railroad
21 properties entered into before January 1, 1954,
22 shall be considered to be a lease including such term
23 as the total number of years of such agreement may,
24 unless sooner terminated, be renewed or continued
25 under the terms of the agreement, and any such
26 renewal or continuance under such agreement shall

1 be considered part of the lease entered into before
2 January 1, 1954.

3 "(H) A common parent corporation which is
4 a common carrier by railroad subject to part I of
5 the Interstate Commerce Act if at least 80 percent
6 of its gross income (computed without regard to
7 capital gains or losses) is derived directly or indi-
8 rectly from sources described in subparagraphs (A)
9 through (F), inclusive. For purposes of the pre-
10 ceding sentence, dividends and interest, and income
11 from leases described in subparagraph (G), received
12 from a regulated public utility shall be considered
13 as derived from sources described in subparagraphs
14 (A) through (F), inclusive, if the regulated public
15 utility is a member of an affiliated group (as defined
16 in section 1504) which includes the common parent
17 corporation.

18 The term 'regulated public utility' does not (except as
19 provided in subparagraphs (G) and (H)) include a
20 corporation described in subparagraphs (A) through
21 (F), inclusive, unless 80 percent or more of its gross
22 income (computed without regard to dividends and
23 capital gains and losses) for the taxable year is derived
24 from sources described in subparagraphs (A) through
25 (F), inclusive. If the taxpayer establishes to the satis-
26 faction of the Secretary or his delegate that (i) its

1 revenue from regulated rates described in subparagraph
2 (A) or (D) and its revenue derived from unregulated
3 rates are derived from the operation of a single inter-
4 connected and coordinated system or from the operation
5 of more than one such system, and (ii) the unregulated
6 rates have been and are substantially as favorable to
7 users and consumers as are the regulated rates, then such
8 revenue from such unregulated rates shall be considered,
9 for purposes of the preceding sentence, as income derived
10 from sources described in subparagraph (A) or (D)."
11 (4) Section 12 (8) (relating to cross reference to
12 additional tax for corporations filing consolidated re-
13 turns) is hereby repealed.
14 (5) Paragraphs (1) and (2) of section 172 (j)
15 (relating to carryover of net operating loss for certain
16 regulated transportation corporations) are amended to
17 read as follows:
18 "(1) DEFINITION.—For purposes of subsection
19 (b) (1) (C), the term 'regulated transportation corpo-
20 ration' means a corporation—
21 "(A) 80 percent or more of the gross income
22 of which (computed without regard to dividend
23 and capital gains and losses) for the taxable year
24 is derived from the furnishing or sale of transporta-
25 tion described in subparagraph (A), (C) (i),

1 (E), or (F) of section 7701 (a) (33) and taken
2 into account for purposes of the limitation contained
3 in the last two sentences of section 7701 (a) (33).
4 "(B) which is described in subparagraph (G)
5 or (H) of section 7701 (a) (33), or
6 "(C) which is a member of a regulated trans-
7 portation system.
8 "(2) REGULATED TRANSPORTATION SYSTEM.—
9 For purposes of this subsection, a corporation shall be
10 treated as a member of a regulated transportation system
11 for a taxable year if—
12 "(A) it is a member of an affiliated group of
13 corporations making a consolidated return for such
14 taxable year, and
15 "(B) 80 percent or more of the aggregate
16 gross income of the members of such affiliated group
17 (computed without regard to dividends and capital
18 gains and losses) for such taxable year is derived
19 from sources described in paragraph (1) (A).
20 For purposes of subparagraph (B), income derived by
21 a corporation described in subparagraph (G) or (H)
22 of section 7701 (a) (33) from leases described in sub-
23 paragraph (G) thereof shall be considered as derived
24 from sources described in paragraph (1) (A)."
25 (6) Section 904 (g) (2) (relating to cross refer-

1 ences for purposes of the limitation on the foreign tax
2 credit) is amended by striking out "section 1503(d)"
3 and inserting in lieu thereof "section 1503(b)".
4 (7) Section 1341(b)(2) (relating to special
5 rules for the computation of tax where taxpayer restores
6 substantial amount held under claim of right) is amended
7 by striking out "(as defined in section 1503(c) without
8 regard to paragraph (2) thereof)" and inserting in lieu
9 thereof "(as defined in section 7701(a)(33) without
10 regard to the limitation contained in the last two sen-
11 tences thereof)".
12 (8) Section 1552(a)(3) (relating to the alloca-
13 tion of tax liability among members of an affiliated group
14 of corporations filing consolidated returns) is amended
15 by striking out "(determined without regard to the 2
16 percent increase provided by section 1503(a))".
17 (c) EFFECTIVE DATE.—The amendments made by
18 subsections (a) and (b) shall apply with respect to taxable
19 years beginning after December 31, 1963.

20 **SEC. 223. REDUCTION OF SURTAX EXEMPTION IN CASE OF**
21 **CERTAIN CONTROLLED CORPORATIONS, ETC.**

22 (a) IN GENERAL.—Subchapter B of chapter 6 (related
23 rules for consolidated returns) is amended by adding at the
24 end thereof the following new part:

1 "PART II—CERTAIN CONTROLLED CORPORATIONS

"Sec. 1561. Surtax exemptions in case of certain controlled corporations.
"Sec. 1562. Privilege of groups to elect multiple surtax exemptions.
"Sec. 1563. Definitions and special rules.

2 "SEC. 1561. SURTAX EXEMPTIONS IN CASE OF CERTAIN
3 CONTROLLED CORPORATIONS.

4 "(a) GENERAL RULE.—If a corporation is a component
5 member of a controlled group of corporations on a Decem-
6 ber 31, then for purposes of this subtitle the surtax exemp-
7 tion of such corporation for the taxable year which includes
8 such December 31 shall be an amount equal to—
9 "(1) $25,000 divided by the number of corpora-
10 tions which are component members of such group on
11 such December 31, or
12 "(2) if all such component members consent (at
13 such time and in such manner as the Secretary or his
14 delegate shall by regulations prescribe) to an apportion-
15 ment plan, such portion of $25,000 as is apportioned
16 to such member in accordance with such plan.
17 The sum of the amounts apportioned under paragraph (2)
18 among the component members of any controlled group
19 shall not exceed $25,000.
20 "(b) CERTAIN SHORT TAXABLE YEARS.—If a cor-
21 poration—

1 "(1) has a short taxable year which does not in-
2 clude a December 31, and
3 "(2) is a component member of a controlled group
4 of corporations with respect to such taxable year,
5 then for purposes of this subtitle the surtax exemption of
6 such corporation for such taxable year shall be an amount
7 equal to $25,000 divided by the number of corporations
8 which are component members of such group on the last
9 day of such taxable year. For purposes of the preceding
10 sentence, section 1563(b) shall be applied as if such last
11 day were substituted for December 31.

12 **"SEC. 1562. PRIVILEGE OF GROUPS TO ELECT MULTIPLE**
13 **SURTAX EXEMPTIONS.**

14 "(a) ELECTION OF MULTIPLE SURTAX EXEMP-
15 TIONS.—
16 "(1) IN GENERAL.—A controlled group of corpora-
17 tions shall (subject to the provisions of this section) have
18 the privilege of electing to have each of its component
19 members make its returns without regard to section 1561.
20 Such election shall be made with respect to a specified
21 December 31 and shall be valid only if—
22 "(A) each corporation which is a component
23 member of such group on such December 31, and
24 "(B) each other corporation which is a com-
25 ponent member of such group on any succeeding De-

1 cember 31 before the day on which the election is
2 filed,
3 consents to such election.
4 "(2) YEARS FOR WHICH EFFECTIVE.—An election
5 by a controlled group of corporations under paragraph
6 (1) shall be effective with respect to the taxable year of
7 each component member of such group which includes
8 the specified December 31, and each taxable year of each
9 corporation which is a component member of such group
10 (or a successor group) on a succeeding December 31 in-
11 cluded within such taxable year, unless the election is
12 terminated under subsection (c).
13 "(3) EFFECT OF ELECTION.—If an election by a
14 controlled group of corporations under paragraph (1) is
15 effective with respect to any taxable year of a corpora-
16 tion—
17 "(A) section 1561 shall not apply to such
18 corporation for such taxable year, but
19 "(B) the additional tax imposed by subsection
20 (b) shall apply to such corporation for such taxable
21 year.
22 "(b) ADDITIONAL TAX IMPOSED.—
23 "(1) GENERAL RULE.—If an election under sub-
24 section (a) (1) by a controlled group of corporations is
25 effective with respect to the taxable year of a corporation,

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1 there is hereby imposed for such taxable year on the
2 taxable income of such corporation a tax equal to 6 per-
3 cent of so much of such corporation's taxable income
4 for such taxable year as does not exceed $25,000.
5 This paragraph shall not apply to the taxable year of a
6 corporation if no other corporation which is a com-
7 ponent member of such controlled group on the Decem-
8 ber 31 included in such corporation's taxable year has
9 taxable income for its taxable year including such
10 December 31.

11 "(2) TAX TREATED AS IMPOSED BY SECTION 11,
12 ETC.—If for the taxable year of a corporation a tax is
13 imposed by section 11 on the taxable income of such
14 corporation, the additional tax imposed by this sub-
15 section shall be treated for purposes of this title as a
16 tax imposed by section 11. If for the taxable year of
17 a corporation a tax is imposed on the taxable income
18 of such corporation which is computed under any other
19 section by reference to section 11, the additional tax
20 imposed by this subsection shall be treated for purposes
21 of this title as imposed by such other section.

22 "(3) TAXABLE INCOME DEFINED.—For purposes
23 of this subsection, the term 'taxable income' means—

24 "(A) in the case of a corporation subject to
25 tax under section 511, its unrelated business tax-
26 able income (within the meaning of section 512);

1 "(B) in the case of a life insurance company,
2 its life insurance company taxable income (within
3 the meaning of section 802 (b));
4 "(C) in the case of a regulated investment
5 company, its investment company taxable income
6 (within the meaning of section 852 (b) (2)); and
7 "(D) in the case of a real estate investment
8 trust, its real estate investment trust taxable income
9 (within the meaning of section 857 (b) (2)).
10 "(4) SPECIAL RULES.—If for the taxable year
11 an additional tax is imposed on the taxable income of a
12 corporation by this subsection, then sections 244 (re-
13 lating to dividends received on certain preferred stock),
14 247 (relating to dividends paid on certain preferred
15 stock of public utilities), 804 (a) (3) (relating to deduc-
16 tion for partially tax-exempt interest in the case of a
17 life insurance company), and 922 (relating to special
18 deduction for Western Hemisphere trade corporations)
19 shall be applied without regard to the additional tax
20 imposed by this subsection.
21 "(c) TERMINATION OF ELECTION.—An election by a
22 controlled group of corporations under subsection (a) shall
23 terminate with respect to such group—
24 "(1) CONSENT OF THE MEMBERS.—If such group
25 files a termination of such election with respect to a
26 specified December 31, and—

1 "(A) each corporation which is a component
2 member of such group on such December 31, and
3 "(B) each other corporation which is a com-
4 ponent member of such group on any succeeding
5 December 31 before the day on which the termi-
6 nation is filed,
7 consents to such termination.
8 "(2) REFUSAL BY NEW MEMBER TO CONSENT.—
9 If on December 31 of any year such group includes a
10 component member which—
11 "(A) on the immediately preceding January
12 1 was not a member of such group, and
13 "(B) within the time and in the manner pro-
14 vided by regulations prescribed by the Secretary
15 or his delegate, files a statement that it does not
16 consent to the election.
17 "(3) CONSOLIDATED RETURNS.—If—
18 "(A) a corporation is a component member
19 (determined without regard to section 1563(b)
20 (3)) of such group on a December 31 included
21 within a taxable year ending on or after January 1,
22 1964, and
23 "(B) such corporation is a member of an
24 affiliated group of corporations which makes a con-

1 solidated return under this chapter (sec. 1501 and
2 following) for such taxable year.
3 "(4) CONTROLLED GROUP NO LONGER IN EXIST-
4 ENCE.—If such group is considered as no longer in
5 existence with respect to any December 31.
6 Such termination shall be effective with respect to the
7 December 31 referred to in paragraph (1) (A), (2), (3),
8 or (4), as the case may be.
9 "(d) ELECTION AFTER TERMINATION.—If an election
10 by a controlled group of corporations is terminated under
11 subsection (c), such group (and any successor group) shall
12 not be eligible to make an election under subsection (a) with
13 respect to any December 31 before the sixth December 31
14 after the December 31 with respect to which such termina-
15 tion was effective.
16 "(e) MANNER AND TIME OF GIVING CONSENT AND
17 MAKING ELECTION, ETC.—An election under subsection
18 (a) (1) or a termination under subsection (c) (1) (and
19 the consent of each member of a controlled group of corpo-
20 rations which is required with respect to such election
21 or termination) shall be made in such manner as the Secre-
22 tary or his delegate shall by regulations prescribe, and shall
23 be made at any time before the expiration of 3 years after—

1 "(1) in the case of such an election, the
2 date when the income tax return for the tax-
3 able year of the component member of the controlled
4 group which has the taxable year ending first on or after
5 the specified December 31, is required to be filed (with-
6 out regard to any extensions of time), and
7 "(2) in the case of such a termination, the spec-
8 ified December 31 with respect to which such termina-
9 tion was made.
10 Any consent to such an election or termination, and a failure
11 by a component member to file a statement that it does not
12 consent to an election under this section, shall be deemed
13 to be a consent to the application of subsection (g) (1)
14 (relating to tolling of statute of limitations on assessment
15 of deficiencies).
16 "(f) SPECIAL RULES.—For purposes of this section—
17 "(1) CONTINUING AND SUCCESSOR CONTROLLED
18 GROUPS.—The determination of whether a controlled
19 group of corporations—
20 "(A) is considered as no longer in existence
21 with respect to any December 31, or
22 "(B) is a successor to another controlled
23 group of corporations (and the effect of such deter-
24 mination with respect to any election or termina-
25 tion),

1 shall be made under regulations prescribed by the Sec-
2 retary or his delegate. For purposes of subparagraph
3 (B), such regulations shall be based on the continuation
4 (or termination) of predominant equitable ownership.
5 "(2) CERTAIN SHORT TAXABLE YEARS.—If one or
6 more corporations have short taxable years which do not
7 include a December 31 and are component members of
8 a controlled group of corporations with respect to such
9 taxable years (determined by applying section 1563 (b)
10 as if the last day of each such taxable year were sub-
11 stituted for December 31), then an election by such
12 group under this section shall apply with respect to
13 such corporations with respect to such taxable years if—
14 "(A) such election is in effect with respect to
15 both the December 31 immediately preceding such
16 taxable years and the December 31 immediately
17 succeeding such taxable years, or
18 "(B) such election is in effect with respect to
19 the December 31 immediately preceding or succeed-
20 ing such taxable years and each such corporation
21 files a consent to the application of such election
22 to its short taxable year at such time and in such
23 manner as the Secretary or his delegate shall pre-
24 scribe by regulations.
25 "(g) TOLLING OF STATUTE OF LIMITATIONS.—In any

1 case in which a controlled group of corporations makes an
2 election or termination under this section—
3 "(1) the statutory period for assessment of any
4 deficiency against a corporation which is a component
5 member of such group for any taxable year, to the
6 extent such deficiency is attributable to the application
7 of this part, shall not expire before the expiration of
8 one year after the date such election or termination
9 is made; and
10 "(2) if credit or refund of any overpayment of tax
11 by a corporation which is a component member of such
12 group for any taxable year is prevented, at any time on
13 or before the expiration of one year after the date such
14 election or termination is made, by the operation of any
15 law or rule of law, credit or refund of such overpayment
16 may, nevertheless, be allowed or made, to the extent
17 such overpayment is attributable to the application of
18 this part, if claim therefor is filed on or before the ex-
19 piration of such one-year period.
20 **"SEC. 1563. DEFINITIONS AND SPECIAL RULES.**
21 "(a) CONTROLLED GROUP OF CORPORATIONS.—For
22 purposes of this part, the term 'controlled group of corpora-
23 tions' means any group of—

1 "(1) PARENT-SUBSIDIARY CONTROLLED GROUP.—
2 One or more chains of corporations connected through
3 stock ownership with a common parent corporation if—
4 "(A) stock possessing at least 80 percent of
5 the total combined voting power of all classes of
6 stock entitled to vote or at least 80 percent of the
7 total value of shares of all classes of stock of each of
8 the corporations, except the common parent cor-
9 poration, is owned (within the meaning of subsec-
10 tion (d)(1)) by one or more of the other corpora-
11 tions; and
12 "(B) the common parent corporation owns
13 (within the meaning of subsection (d)(1))
14 stock possessing at least 80 percent of the total com-
15 bined voting power of all classes of stock entitled to
16 vote or at least 80 percent of the total value of
17 shares of all classes of stock of at least one of the
18 other corporations, excluding, in computing such
19 voting power or value, stock owned directly by
20 such other corporations.
21 "(2) BROTHER-SISTER CONTROLLED GROUP.—
22 Two or more corporations if stock possessing at least
23 80 percent of the total combined voting power of all

1 classes of stock entitled to vote or at least 80 percent of
2 the total value of shares of all classes of stock of each
3 of the corporations is owned (within the meaning of
4 subsection (d) (2)) by one person who is an individ-
5 ual, estate, or trust.

6 "(3) COMBINED GROUP.—Three or more corpora-
7 tions each of which is a member of a group of corpora-
8 tions described in paragraph (1) or (2), and one of
9 which—

10 "(A) is a common parent corporation included
11 in a group of corporations described in paragraph
12 (1), and also

13 "(B) is included in a group of corporations
14 described in paragraph (2).

15 "(4) CERTAIN INSURANCE COMPANIES.—Two
16 or more insurance companies subject to taxation under
17 section 802 which are members of a controlled group
18 of corporations described in paragraph (1), (2), or
19 (3). Such insurance companies shall be treated as a con-
20 trolled group of corporations separate from any other cor-
21 porations which are members of the controlled group of
22 corporations described in paragraph (1), (2), or (3).

23 "(b) COMPONENT MEMBER.—

24 "(1) GENERAL RULE.—For purposes of this part,
25 a corporation is a component member of a controlled

1 group of corporations on a December 31 of any taxable
2 year (and with respect to the taxable year which in-
3 cludes such December 31) if such corporation—
4 "(A) is a member of such controlled group of
5 corporations on the December 31 included in such
6 year and is not treated as an excluded member
7 under paragraph (2), or
8 "(B) is not a member of such controlled group
9 of corporations on the December 31 included in such
10 year but is treated as an additional member under
11 paragraph (3).
12 "(2) EXCLUDED MEMBERS.—A corporation which
13 is a member of a controlled group of corporations on
14 December 31 of any taxable year shall be treated as an
15 excluded member of such group for the taxable year
16 including such December 31 if such corporation—
17 "(A) is a member of such group for less than
18 one-half the number of days in such taxable year
19 which precede such December 31,
20 "(B) is exempt from taxation under section
21 501(a) (except a corporation which is subject to
22 tax on its unrelated business taxable income under
23 section 511) for such taxable year,
24 "(C) is a foreign corporation subject to tax
25 under section 881 for such taxable year,

1 "(D) is an insurance company subject to
2 taxation under section 802 or section 821 (other
3 than an insurance company which is a member of a
4 controlled group described in subsection (a) (4)),
5 or

6 "(E) is a franchised corporation, as defined
7 in subsection (f) (4).

8 "(3) ADDITIONAL MEMBERS.—A corporation
9 which—

10 "(A) was a member of a controlled group of
11 corporations at any time during a calendar year,

12 "(B) is not a member of such group on De-
13 cember 31 of such calendar year, and

14 "(C) is not described, with respect to such
15 group, in subparagraph (B), (C), (D), or (E)
16 of paragraph (2),

17 shall be treated as an additional member of such group
18 on December 31 for its taxable year including such
19 December 31 if it was a member of such group for
20 one-half (or more) of the number of days in such tax-
21 able year which precede such December 31.

22 "(4) OVERLAPPING GROUPS.—If a corporation is
23 a component member of more than one controlled group
24 of corporations with respect to any taxable year, such

1 corporation shall be treated as a component member of
2 only one controlled group. The determination as to the
3 group of which such corporation is a component member
4 shall be made under regulations prescribed by the Secre-
5 tary or his delegate which are consistent with the pur-
6 poses of this part.
7 "(c) CERTAIN STOCK EXCLUDED.—
8 "(1) GENERAL RULE.—For purposes of this part,
9 the term 'stock' does not include—
10 "(A) nonvoting stock which is limited and
11 preferred as to dividends,
12 "(B) treasury stock, and
13 "(C) stock which is treated as 'excluded stock'
14 under paragraph (2).
15 "(2) STOCK TREATED AS 'EXCLUDED STOCK'.—
16 "(A) PARENT-SUBSIDIARY CONTROLLED
17 GROUP.—For purposes of subsection (a) (1), if a
18 corporation (referred to in this paragraph as 'parent
19 corporation') owns (within the meaning of subsec-
20 tions (d) (1) and (e) (4)), 50 percent or more of
21 the total combined voting power of all classes of
22 stock entitled to vote or 50 percent or more of the
23 total value of shares of all classes of stock in another
24 corporation (referred to in this paragraph as 'sub-

1 sidiary corporation'), the following stock of the sub-
2 sidiary corporation shall be treated as excluded
3 stock—
4 "(i) stock in the subsidiary corporation
5 held by a trust which is part of a plan of de-
6 ferred compensation for the benefit of the em-
7 ployees of the parent corporation or the
8 subsidiary corporation,
9 "(ii) stock in the subsidiary corporation
10 owned by an individual (within the meaning
11 of subsection (d) (2), but not including stock
12 owned by the parent corporation which is con-
13 structively owned by such individual) who is
14 a principal stockholder or officer of the parent
15 corporation. For purposes of this clause, the
16 term 'principal stockholder' of a corporation
17 means an individual who owns (within the
18 meaning of subsection (d) (2)) 5 percent or
19 more of the total combined voting power of all
20 classes of stock entitled to vote or 5 percent
21 or more of the total value of shares of all
22 classes of stock in such corporation; or
23 "(iii) stock in the subsidiary corporation
24 owned (within the meaning of subsection (d)
25 (2)) by an employee of the subsidiary corpora-

1 tion if such stock is subject to conditions which
2 run in favor of such parent (or subsidiary) cor-
3 poration and which substantially restrict or limit
4 the employee's right (or if the employee con-
5 structively owns such stock, the direct owner's
6 right) to dispose of such stock.

7 "(B) BROTHER-SISTER CONTROLLED GROUP.—
8 For purposes of subsection (a) (2), if a person who
9 is an individual, estate, or trust (referred to in this
10 paragraph as 'common owner') owns (within the
11 meaning of subsection (d) (2)), 50 percent or
12 more of the total combined voting power of all
13 classes of stock entitled to vote or 50 percent or
14 more of the total value of shares of all classes of
15 stock in a corporation, the following stock of such
16 corporation shall be treated as excluded stock—

17 "(i) stock in such corporation held by
18 an employees' trust described in section 401 (a)
19 which is exempt from tax under section 501
20 (a), if such trust is for the benefit of the em-
21 ployees of such corporation, or

22 "(ii) stock in such corporation owned
23 (within the meaning of subsection (d) (2)) by
24 an employee of the corporation if such stock is
25 subject to conditions which run in favor of such

1 common owner (or such corporation) and
2 which substantially restrict or limit the em-
3 ployee's right (or if the employee construc-
4 tively owns such stock, the direct owner's
5 right) to dispose of such stock. If a condition
6 which limits or restricts the employee's right
7 (or the direct owner's right) to dispose of such
8 stock also applies to the stock held by the com-
9 mon owner pursuant to a bona fide reciprocal
10 stock purchase arrangement, such condition
11 shall not be treated as one which restricts or
12 limits the employee's right to dispose of such
13 stock.
14 "(d) RULES FOR DETERMINING STOCK OWNERSHIP.—
15 "(1) PARENT-SUBSIDIARY CONTROLLED GROUP.—
16 For purposes of determining whether a corporation
17 is a member of a parent-subsidiary controlled group
18 of corporations (within the meaning of subsection
19 (a) (1)), stock owned by a corporation means—
20 "(A) stock owned directly by such corpora-
21 tion, and
22 "(B) stock owned with the application of sub-
23 section (e) (1).
24 "(2) BROTHER-SISTER CONTROLLED GROUP.—
25 For purposes of determining whether a corporation is

1 a member of a brother-sister controlled group of
2 corporations (within the meaning of subsection (a)
3 (2)), stock owned by a person who is an individual,
4 estate, or trust means—
5 "(A) stock owned directly by such person,
6 and
7 "(B) stock owned with the application of
8 subsection (e).
9 "(e) CONSTRUCTIVE OWNERSHIP.—
10 "(1) OPTIONS.—If any person has an option to
11 acquire stock, such stock shall be considered as owned by
12 such person. For purposes of this paragraph, an option
13 to acquire such an option, and each one of a series of
14 such options, shall be considered as an option to acquire
15 such stock.
16 "(2) ATTRIBUTION FROM PARTNERSHIPS.—Stock
17 owned, directly or indirectly, by or for a partnership
18 shall be considered as owned by any partner having an
19 interest of 5 percent or more in either the capital or
20 profits of the partnership in proportion to his interest in
21 capital or profits, whichever such proportion is the
22 greater.
23 "(3) ATTRIBUTION FROM ESTATES OR TRUSTS.—
24 "(A) Stock owned, directly or indirectly, by
25 or for an estate or trust shall be considered as owned

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1 by any beneficiary who has an actuarial interest of 5
2 percent or more in such stock, to the extent of such
3 actuarial interest. For purposes of this clause, the
4 actuarial interest of each beneficiary shall be deter-
5 mined by assuming the maximum exercise of dis-
6 cretion by the fiduciary in favor of such beneficiary
7 and the maximum use of such stock to satisfy his
8 rights as a beneficiary.

9 "(B) Stock owned, directly or indirectly, by
10 or for any portion of a trust of which a person is
11 considered the owner under subpart E of part I of
12 subchapter J (relating to grantors and others treated
13 as substantial owners) shall be considered as owned
14 by such person.

15 "(C) This paragraph shall not apply to
16 stock owned by any employees' trust described in
17 section 401 (a) which is exempt from tax under
18 section 501 (a).

19 "(4) ATTRIBUTION FROM CORPORATIONS.—Stock
20 owned, directly or indirectly, by or for a corporation
21 shall be considered as owned by any person who owns
22 (within the meaning of subsection (d)) 5 percent
23 or more in value of its stock in that proportion which
24 the value of the stock which such person so owns bears
25 to the value of all the stock in such corporation.

1 "(5) SPOUSE.—An individual shall be considered
2 as owning stock in a corporation owned, directly or indi-
3 rectly, by or for his spouse (other than a spouse who is
4 legally separated from the individual under a decree of
5 divorce whether interlocutory or final, or a decree of
6 separate maintenance), except in the case of a corpora-
7 tion with respect to which each of the following condi-
8 tions is satisfied for its taxable year—
9 "(A) The individual does not, at any time
10 during such taxable year, own directly any stock
11 in such corporation;
12 "(B) The individual is not a director or em-
13 ployee and does not participate in the management
14 of such corporation at any time during such taxable
15 year;
16 "(C) Not more than 50 percent of such corpo-
17 ration's gross income for such taxable year was
18 derived from royalties, rents, dividends, interest,
19 and annuities; and
20 "(D) The stock in such corporation is not, at
21 any time during such taxable year, subject to con-
22 ditions which substantially restrict or limit the
23 spouse's right to dispose of such stock and which
24 run in favor of the individual or his children who
25 have not attained the age of 21 years.

1 "(6) CHILDREN, GRANDCHILDREN, PARENTS, AND
2 GRANDPARENTS.—
3 "(A) MINOR CHILDREN.—An individual shall
4 be considered as owning stock owned, directly or
5 indirectly, by or for his children who have not
6 attained the age of 21 years, and, if the individual
7 has not attained the age of 21 years, the stock
8 owned, directly or indirectly, by or for his parents.
9 "(B) ADULT CHILDREN AND GRANDCHIL-
10 DREN.—An individual who owns (within the mean-
11 ing of subsection (d) (2), but without regard to
12 this subparagraph) more than 50 percent of the
13 total combined voting power of all classes of stock
14 entitled to vote or more than 50 percent of the
15 total value of shares of all classes of stock in a cor-
16 poration shall be considered as owning the stock
17 in such corporation owned, directly or indirectly,
18 by or for his parents, grandparents, grandchildren,
19 and children who have attained the age of 21 years.
20 For purposes of this section, a legally adopted child of an
21 individual shall be treated as a child of such individual by
22 blood.

1 "(f) OTHER DEFINITIONS AND RULES.—
2 "(1) EMPLOYEE DEFINED.—For purposes of this
3 section the term 'employee' has the same meaning such
4 term is given in section 3306(i).
5 "(2) OPERATING RULES.—
6 "(A) IN GENERAL.—Except as provided in
7 subparagraph (B), stock constructively owned by
8 a person by reason of the application of paragraph
9 (1), (2), (3), (4), (5), or (6) of subsection
10 (e) shall, for purposes of applying such paragraphs,
11 be treated as actually owned by such person.
12 "(B) MEMBERS OF FAMILY.—Stock construc-
13 tively owned by an individual by reason of the ap-
14 plication of paragraph (5) or (6) of subsection
15 (e) shall not be treated as owned by him for pur-
16 poses of again applying such paragraphs in order
17 to make another the constructive owner of such
18 stock.
19 "(3) SPECIAL RULES.—For purposes of this
20 section—
21 "(A) If stock may be considered as owned by
22 a person under subsection (e)(1) and under

1 any other paragraph of subsection (e), it shall be
2 considered as owned by him under subsection
3 (e) (1).
4 "(B) If stock is owned (within the meaning
5 of subsection (d)) by two or more persons, such
6 stock shall be considered as owned by the person
7 whose ownership of such stock results in the cor-
8 poration being a component member of a controlled
9 group. If by reason of the preceding sentence, a
10 corporation would (but for this sentence) become a
11 component member of two controlled groups, it
12 shall be treated as a component member of one
13 controlled group. The determination as to the
14 group of which such corporation is a component
15 member shall be made under regulations prescribed
16 by the Secretary or his delegate which are con-
17 sistent with the purposes of this part.
18 "(4) FRANCHISED CORPORATION.—If—
19 "(A) a parent corporation (as defined in sub-
20 section (c) (2) (A)), or a common owner (as de-
21 fined in subsection (c) (2) (B)), of a controlled
22 group of corporations is under a duty (arising out
23 of a written agreement) to sell stock of a cor-
24 poration (referred to in this paragraph as 'fran-
25 chised corporation') which is franchised to sell the

1 products of another member, or the common owner,
2 of such controlled group;
3 "(B) such stock is to be sold to an employee
4 (or employees) of such franchised corporation pur-
5 suant to a bona fide plan designed to eliminate the
6 stock ownership of the parent corporation or of the
7 common owner in the franchised corporation;
8 "(C) such plan—
9 "(i) provides a reasonable selling price for
10 such stock, and
11 "(ii) requires that a portion of the em-
12 ployee's share of the profits of such corporation
13 (whether received as compensation or as a
14 dividend) be applied to the purchase of such
15 stock (or the purchase of notes, bonds, de-
16 bentures or other similar evidence of indebted-
17 ness of such franchised corporation held by
18 such parent corporation or common owner);
19 "(D) such employee (or employees) owns
20 directly more than 20 percent of the total value
21 of shares of all classes of stock in such franchised
22 corporation;
23 "(E) more than 50 percent of the inventory
24 of such franchised corporation is acquired from

1 members of the controlled group, the common
2 owner, or both; and
3 "(F) all of the conditions contained in sub-
4 paragraphs (A), (B), (C), (D), and (E) have
5 been met for one-half (or more) of the number
6 of days preceding the December 31 included within
7 the taxable year (or if the taxable year does not
8 include December 31, the last day of such year)
9 of the franchised corporation,
10 then such franchised corporation shall be treated as an
11 excluded member of such group, under subsection (b)
12 (2), for such taxable year."
13 (b) DISALLOWANCE OF SURTAX EXEMPTION AND
14 ACCUMULATED EARNINGS CREDIT.—Section 1551 (relat-
15 ing to disallowance of surtax exemption and accumulated
16 earnings credit) is amended to read as follows:

17 **"SEC. 1551. DISALLOWANCE OF SURTAX EXEMPTION AND**
18 **ACCUMULATED EARNINGS CREDIT.**

19 "(a) IN GENERAL.—If—
20 "(1) any corporation transfers, on or after Janu-
21 ary 1, 1951, and on or before June 12, 1963, all or
22 part of its property (other than money) to a transferee
23 corporation,
24 "(2) any corporation transfers, directly or indi-

1 rectly, after June 12, 1963, all or part of its property
2 (other than money) to a transferee corporation, or
3 "(3) five or fewer individuals who are in control
4 of a corporation transfer, directly or indirectly, after
5 June 12, 1963, property (other than money) to a
6 transferee corporation,
7 and the transferee corporation was created for the purpose
8 of acquiring such property or was not actively engaged in
9 business at the time of such acquisition, and if after such
10 transfer the transferor or transferors are in control of such
11 transferee corporation during any part of the taxable year
12 of such transferee corporation, then for such taxable year of
13 such transferee corporation the Secretary or his delegate
14 may (except as may be otherwise determined under
15 subsection (d)) disallow the surtax exemption (as defined
16 in section 11(d)), or the $100,000 accumulated earnings
17 credit provided in paragraph (2) or (3) of section 535(c),
18 unless such transferee corporation shall establish by the clear
19 preponderance of the evidence that the securing of such
20 exemption or credit was not a major purpose of such
21 transfer.
22 "(b) CONTROL.—For purposes of subsection (a), the
23 term 'control' means—
24 "(1) With respect to a transferee corporation de-

1 scribed in subsection (a) (1) or (2), the ownership by
2 the transferor corporation, its shareholders, or both, of
3 stock possessing at least 80 percent of the total combined
4 voting power of all classes of stock entitled to vote or at
5 least 80 percent of the total value of shares of all classes
6 of the stock; or

7 "(2) With respect to each corporation described in
8 subsection (a) (3), the ownership by the five or fewer
9 individuals described in such subsection of stock possess-
10 ing—

11 "(A) at least 80 percent of the total combined
12 voting power of all classes of stock entitled to vote or
13 at least 80 percent of the total value of shares of all
14 classes of the stock of each corporation, and

15 "(B) more than 50 percent of the total combined
16 voting power of all classes of stock entitled to vote
17 or at least 50 percent of the total value of shares
18 of all classes of stock of each corporation, taking
19 into account the stock ownership of each such in-
20 dividual only to the extent such stock ownership is
21 identical with respect to each such corporation.

1 For purposes of this subsection, section 1563 (e) shall apply
2 in determining the ownership of stock.
3 "(c) CORPORATIONS ELECTING MULTIPLE SURTAX
4 EXEMPTIONS.—If the surtax exemption is disallowed to a
5 transferee corporation for any taxable year, section 1562 (b)
6 shall not apply with respect to such transferee corporation
7 for such taxable year.
8 "(d) AUTHORITY OF THE SECRETARY UNDER THIS
9 SECTION.—The provisions of section 269 (b), and the au-
10 thority of the Secretary under such section, shall, to the ex-
11 tent not inconsistent with the provisions of this section, be
12 applicable to this section."
13 (c) TECHNICAL AMENDMENTS.—
14 (1) AMENDMENT OF SECTION 802.—The second
15 sentence of section 802 (a) (1) (relating to tax on life
16 insurance companies) is amended to read as follows:
17 "Such tax shall consist of a normal tax and surtax com-
18 puted as provided in section 11 as though the life insur-
19 ance company taxable income were the taxable income
20 referred to in section 11."

1 (2) AMENDMENT OF SECTION 269.—Section 269
2 (a) (relating to acquisitions made to evade or avoid
3 income tax) is amended—
4 (A) by striking out "then such deduction,
5 credit, or other allowance shall not be allowed" at
6 the end of the first sentence and inserting in lieu
7 thereof "then the Secretary or his delegate may
8 disallow such deduction, credit, or other allow-
9 ance"; and
10 (B) by adding at the end thereof the follow-
11 ing new subsection:
12 "(d) CORPORATIONS ELECTING MULTIPLE SURTAX
13 EXEMPTIONS.—If the surtax exemption is disallowed to an
14 acquired corporation under subsection (a) for any taxable
15 year, section 1562(b) shall not apply with respect to such
16 acquired corporation for such taxable year."
17 (3) SPECIAL RULE FOR 52–53–WEEK YEAR.—Sec-
18 tion 441(f)(2)(A) (relating to effective date with
19 respect to special rules for 52–53–week year) is amended

1 by striking out "In any case in which the effective date
2 or the applicability of any provision of this title is ex-
3 pressed in terms of taxable years beginning or ending
4 with reference to a specified date" and inserting in lieu
5 thereof "In any case in which the effective date or the
6 applicability of any provision of this title is expressed
7 in terms of taxable years beginning, including, or ending
8 with reference to a specified date".
9 (4) Subchapter B of chapter 6 is amended by
10 inserting after the heading and before the table of
11 sections the following:

"Part I. In general.
"Part II. Certain controlled corporations.

12 **"PART I—IN GENERAL"**

13 (d) EFFECTIVE DATE.—The amendments made by sub-
14 sections (a) and (c) shall apply with respect to taxable
15 years ending after December 31, 1963. The amendment
16 made by subsection (b) shall apply with respect to transfers
17 made after June 12, 1963.

1 # Title III—Optional Tax On Individuals;
2 Collection Of Income Tax At Source
3 On Wages

4 **SEC. 301. OPTIONAL TAX IF ADJUSTED GROSS INCOME IS**
5 **LESS THAN $5,000.**

6 (a) OPTIONAL TAX.—Section 3 (relating to optional
7 tax if adjusted gross income is less than $5,000) is amended
8 to read as follows:

9 **"SEC. 3. OPTIONAL TAX IF ADJUSTED GROSS INCOME IS**
10 **LESS THAN $5,000.**

11 "(a) TAXABLE YEARS BEGINNING IN 1964.—In lieu
12 of the tax imposed by section 1, there is hereby imposed for
13 each taxable year beginning on or after January 1, 1964,
14 and before January 1, 1965, on the taxable income of every
15 individual whose adjusted gross income for such year is less
16 than $5,000 and who has elected for such year to pay the
17 tax imposed by this section, a tax as follows:

"Table I—Single Person—NOT Head of Household

"Taxable Years Beginning in 1964

If adjusted gross income is—		And the number of exemptions is—			
At least	But less than	1	2	3	4 or more
		The tax is—			
$0	$900	$0	$0	$0	$0
900	925	2	0	0	0
925	950	6	0	0	0
950	975	10	0	0	0
975	1,000	14	0	0	0
1,000	1,025	18	0	0	0
1,025	1,050	22	0	0	0
1,050	1,075	26	0	0	0
1,075	1,100	30	0	0	0
1,100	1,125	34	0	0	0
1,125	1,150	38	0	0	0
1,150	1,175	42	0	0	0
1,175	1,200	46	0	0	0
1,200	1,225	50	0	0	0
1,225	1,250	54	0	0	0
1,250	1,275	58	0	0	0
1,275	1,300	62	0	0	0
1,300	1,325	66	0	0	0
1,325	1,350	70	0	0	0
1,350	1,375	74	0	0	0
1,375	1,400	78	0	0	0
1,400	1,425	82	0	0	0
1,425	1,450	86	0	0	0
1,450	1,475	90	0	0	0
1,475	1,500	94	0	0	0
1,500	1,525	99	0	0	0
1,525	1,550	103	0	0	0
1,550	1,575	107	0	0	0
1,575	1,600	111	0	0	0
1,600	1,625	115	2	0	0
1,625	1,650	119	6	0	0
1,650	1,675	123	10	0	0
1,675	1,700	127	14	0	0
1,700	1,725	132	18	0	0
1,725	1,750	136	22	0	0
1,750	1,775	140	26	0	0
1,775	1,800	144	30	0	0
1,800	1,825	148	34	0	0
1,825	1,850	152	38	0	0
1,850	1,875	156	42	0	0
1,875	1,900	160	46	0	0
1,900	1,925	165	50	0	0
1,925	1,950	169	54	0	0
1,950	1,975	173	58	0	0
1,975	2,000	178	62	0	0
2,000	2,025	182	66	0	0
2,025	2,050	187	70	0	0
2,050	2,075	191	74	0	0
2,075	2,100	195	78	0	0
2,100	2,125	200	82	0	0
2,125	2,150	204	86	0	0
2,150	2,175	208	90	0	0
2,175	2,200	213	94	0	0
2,200	2,225	217	99	0	0
2,225	2,250	222	103	0	0
2,250	2,275	226	107	0	0
2,275	2,300	230	111	0	0
2,300	2,325	235	115	2	0
2,325	2,350	239	119	6	0
2,350	2,375	243	123	10	0
2,375	2,400	248	127	14	0
2,400	2,425	252	132	18	0
2,425	2,450	257	136	22	0

If adjusted gross income is—		And the number of exemptions is—						
At least	But less than	1	2	3	4	5	6	7 or more
		The tax is—						
$2,450	$2,475	$261	$140	$26	$0	$0	$0	$0
2,475	2,500	266	144	30	0	0	0	0
2,500	2,525	270	148	34	0	0	0	0
2,525	2,550	275	152	38	0	0	0	0
2,550	2,575	279	156	42	0	0	0	0
2,575	2,600	284	160	46	0	0	0	0
2,600	2,625	288	165	50	0	0	0	0
2,625	2,650	293	169	54	0	0	0	0
2,650	2,675	297	173	58	0	0	0	0
2,675	2,700	302	178	62	0	0	0	0
2,700	2,725	306	182	66	0	0	0	0
2,725	2,750	311	187	70	0	0	0	0
2,750	2,775	315	191	74	0	0	0	0
2,775	2,800	320	195	78	0	0	0	0
2,800	2,825	324	200	82	0	0	0	0
2,825	2,850	329	204	86	0	0	0	0
2,850	2,875	333	208	90	0	0	0	0
2,875	2,900	338	213	94	0	0	0	0
2,900	2,925	343	217	99	0	0	0	0
2,925	2,950	348	222	103	0	0	0	0
2,950	2,975	353	226	107	0	0	0	0
2,975	3,000	358	230	111	0	0	0	0
3,000	3,050	365	237	117	4	0	0	0
3,050	3,100	374	246	125	12	0	0	0
3,100	3,150	383	255	134	20	0	0	0
3,150	3,200	392	264	142	28	0	0	0
3,200	3,250	401	273	150	36	0	0	0
3,250	3,300	410	282	158	44	0	0	0
3,300	3,350	419	291	167	52	0	0	0
3,350	3,400	428	300	176	60	0	0	0
3,400	3,450	437	309	184	68	0	0	0
3,450	3,500	446	318	193	76	0	0	0
3,500	3,550	455	327	202	84	0	0	0
3,550	3,600	464	336	211	92	0	0	0
3,600	3,650	473	345	219	101	0	0	0
3,650	3,700	482	355	228	109	0	0	0
3,700	3,750	491	365	237	117	4	0	0
3,750	3,800	500	375	246	125	12	0	0
3,800	3,850	509	385	255	134	20	0	0
3,850	3,900	518	395	264	142	28	0	0
3,900	3,950	527	405	273	150	36	0	0
3,950	4,000	536	415	282	158	44	0	0
4,000	4,050	545	425	291	167	52	0	0
4,050	4,100	554	434	300	176	60	0	0
4,100	4,150	563	443	309	184	68	0	0
4,150	4,200	572	452	318	193	76	0	0
4,200	4,250	581	461	327	202	84	0	0
4,250	4,300	590	470	336	211	92	0	0
4,300	4,350	599	479	345	219	101	0	0
4,350	4,400	608	488	355	228	109	0	0
4,400	4,450	617	497	365	237	117	4	0
4,450	4,500	626	506	375	246	125	12	0
4,500	4,550	635	515	385	255	134	20	0
4,550	4,600	644	524	395	264	142	28	0
4,600	4,650	653	533	405	273	150	36	0
4,650	4,700	662	542	415	282	158	44	0
4,700	4,750	671	551	425	291	167	52	0
4,750	4,800	680	560	435	300	176	60	0
4,800	4,850	689	569	445	309	184	68	0
4,850	4,900	698	578	455	318	193	76	0
4,900	4,950	707	587	465	327	202	84	0
4,950	5,000	716	596	475	336	211	92	0

"Table II—Head of Household

"Taxable Years Beginning in 1964

If adjusted gross income is—		And the number of exemptions is—			
At least	But less than	1	2	3	4 or more
		The tax is—			
$0	$900	$0	$0	$0	$0
900	925	2	0	0	0
925	950	6	0	0	0
950	975	10	0	0	0
975	1,000	14	0	0	0
1,000	1,025	18	0	0	0
1,025	1,050	22	0	0	0
1,050	1,075	26	0	0	0
1,075	1,100	30	0	0	0
1,100	1,125	34	0	0	0
1,125	1,150	38	0	0	0
1,150	1,175	42	0	0	0
1,175	1,200	46	0	0	0
1,200	1,225	50	0	0	0
1,225	1,250	54	0	0	0
1,250	1,275	58	0	0	0
1,275	1,300	62	0	0	0
1,300	1,325	66	0	0	0
1,325	1,350	70	0	0	0
1,350	1,375	74	0	0	0
1,375	1,400	78	0	0	0
1,400	1,425	82	0	0	0
1,425	1,450	86	0	0	0
1,450	1,475	90	0	0	0
1,475	1,500	94	0	0	0
1,500	1,525	98	0	0	0
1,525	1,550	102	0	0	0
1,550	1,575	106	0	0	0
1,575	1,600	110	0	0	0
1,600	1,625	114	2	0	0
1,625	1,650	118	6	0	0
1,650	1,675	122	10	0	0
1,675	1,700	126	14	0	0
1,700	1,725	130	18	0	0
1,725	1,750	134	22	0	0
1,750	1,775	138	26	0	0
1,775	1,800	142	30	0	0
1,800	1,825	146	34	0	0
1,825	1,850	150	38	0	0
1,850	1,875	154	42	0	0
1,875	1,900	158	46	0	0
1,900	1,925	162	50	0	0
1,925	1,950	167	54	0	0
1,950	1,975	171	58	0	0
1,975	2,000	175	62	0	0
2,000	2,025	180	66	0	0
2,025	2,050	184	70	0	0
2,050	2,075	188	74	0	0
2,075	2,100	193	78	0	0
2,100	2,125	197	82	0	0
2,125	2,150	202	86	0	0
2,150	2,175	206	90	0	0
2,175	2,200	210	94	0	0
2,200	2,225	215	98	0	0
2,225	2,250	219	102	0	0
2,250	2,275	223	106	0	0
2,275	2,300	228	110	0	0
2,300	2,325	232	114	2	0
2,325	2,350	237	118	6	0
2,350	2,375	241	122	10	0
2,375	2,400	245	126	14	0
2,400	2,425	250	130	18	0
2,425	2,450	254	134	22	0

If adjusted gross income is—		And the number of exemptions is—						
At least	But less than	1	2	3	4	5	6	7 or more
		The tax is—						
$2,450	$2,475	$258	$138	$26	$0	$0	$0	$0
2,475	2,500	263	142	30	0	0	0	0
2,500	2,525	267	146	34	0	0	0	0
2,525	2,550	272	150	38	0	0	0	0
2,550	2,575	276	154	42	0	0	0	0
2,575	2,600	280	158	46	0	0	0	0
2,600	2,625	285	162	50	0	0	0	0
2,625	2,650	289	167	54	0	0	0	0
2,650	2,675	293	171	58	0	0	0	0
2,675	2,700	298	175	62	0	0	0	0
2,700	2,725	302	180	66	0	0	0	0
2,725	2,750	307	184	70	0	0	0	0
2,750	2,775	311	188	74	0	0	0	0
2,775	2,800	315	193	78	0	0	0	0
2,800	2,825	320	197	82	0	0	0	0
2,825	2,850	324	202	86	0	0	0	0
2,850	2,875	328	206	90	0	0	0	0
2,875	2,900	333	210	94	0	0	0	0
2,900	2,925	337	215	98	0	0	0	0
2,925	2,950	342	219	102	0	0	0	0
2,950	2,975	347	223	106	0	0	0	0
2,975	3,000	352	228	110	0	0	0	0
3,000	3,050	358	234	116	4	0	0	0
3,050	3,100	367	243	124	12	0	0	0
3,100	3,150	375	252	132	20	0	0	0
3,150	3,200	384	261	140	28	0	0	0
3,200	3,250	392	269	148	36	0	0	0
3,250	3,300	401	278	156	44	0	0	0
3,300	3,350	410	287	164	52	0	0	0
3,350	3,400	418	296	173	60	0	0	0
3,400	3,450	427	304	182	68	0	0	0
3,450	3,500	435	313	191	76	0	0	0
3,500	3,550	444	322	199	84	0	0	0
3,550	3,600	452	331	208	92	0	0	0
3,600	3,650	461	340	217	100	0	0	0
3,650	3,700	469	349	226	108	0	0	0
3,700	3,750	478	359	234	116	4	0	0
3,750	3,800	487	368	243	124	12	0	0
3,800	3,850	495	378	252	132	20	0	0
3,850	3,900	504	387	261	140	28	0	0
3,900	3,950	512	397	269	148	36	0	0
3,950	4,000	521	406	278	156	44	0	0
4,000	4,050	529	415	287	164	52	0	0
4,050	4,100	538	424	296	173	60	0	0
4,100	4,150	546	432	304	182	68	0	0
4,150	4,200	555	441	313	191	76	0	0
4,200	4,250	563	449	322	199	84	0	0
4,250	4,300	572	458	331	208	92	0	0
4,300	4,350	581	467	340	217	100	0	0
4,350	4,400	589	475	349	226	108	0	0
4,400	4,450	598	484	359	234	116	4	0
4,450	4,500	606	492	368	243	124	12	0
4,500	4,550	615	501	378	252	132	20	0
4,550	4,600	623	509	387	261	140	28	0
4,600	4,650	632	518	397	269	148	36	0
4,650	4,700	640	526	406	278	156	44	0
4,700	4,750	649	535	416	287	164	52	0
4,750	4,800	658	544	425	296	173	60	0
4,800	4,850	666	552	435	304	182	68	0
4,850	4,900	675	561	444	313	191	76	0
4,900	4,950	683	569	454	322	199	84	0
4,950	5,000	692	578	463	331	208	92	0

"Table III—Married Persons Filing JOINT Returns

"Taxable Years Beginning in 1964

If adjusted gross income is—		And the number of exemptions is—			If adjusted gross income is—		And the number of exemptions is—					
At least	But less than	2	3	4 or more	At least	But less than	2	3	4	5	6	7 or more
		The tax is—					The tax is—					
$0	$1,600	$0	$0	$0	$2,800	$2,825	$195	$82	$0	$0	$0	$0
1,600	1,625	2	0	0	2,825	2,850	199	86	0	0	0	0
1,625	1,650	6	0	0	2,850	2,875	203	90	0	0	0	0
1,650	1,675	10	0	0	2,875	2,900	207	94	0	0	0	0
1,675	1,700	14	0	0	2,900	2,925	212	98	0	0	0	0
1,700	1,725	18	0	0	2,925	2,950	216	102	0	0	0	0
1,725	1,750	22	0	0	2,950	2,975	220	106	0	0	0	0
1,750	1,775	26	0	0	2,975	3,000	224	110	0	0	0	0
1,775	1,800	30	0	0	3,000	3,050	230	116	4	0	0	0
1,800	1,825	34	0	0	3,050	3,100	238	124	12	0	0	0
1,825	1,850	38	0	0	3,100	3,150	247	132	20	0	0	0
1,850	1,875	42	0	0	3,150	3,200	255	140	28	0	0	0
1,875	1,900	46	0	0	3,200	3,250	263	148	36	0	0	0
1,900	1,925	50	0	0	3,250	3,300	271	156	44	0	0	0
1,925	1,950	54	0	0	3,300	3,350	280	164	52	0	0	0
, 950	1,975	58	0	0	3,350	3,400	288	172	60	0	0	0
1,975	2,000	62	0	0	3,400	3,450	296	181	68	0	0	0
2,000	2,025	66	0	0	3,450	3,500	304	189	76	0	0	0
2,025	2,050	70	0	0	3,500	3,550	313	197	84	0	0	0
2,050	2,075	74	0	0	3,550	3,600	321	205	92	0	0	0
2,075	2,100	78	0	0	3,600	3,650	329	214	100	0	0	0
2,100	2,125	82	0	0	3,650	3,700	338	222	108	0	0	0
2,125	2,150	86	0	0	3,700	3,750	347	230	116	4	0	0
2,150	2,175	90	0	0	3,750	3,800	356	238	124	12	0	0
2,175	2,200	94	0	0	3,800	3,850	364	247	132	20	0	0
2,200	2,225	98	0	0	3,850	3,900	373	255	140	28	0	0
2,225	2,250	102	0	0	3,900	3,950	382	263	148	36	0	0
2,250	2,275	106	0	0	3,950	4,000	391	271	156	44	0	0
2,275	2,300	110	0	0	4,000	4,050	399	280	164	52	0	0
2,300	2,325	114	2	0	4,050	4,100	407	288	172	60	0	0
2,325	2,350	118	6	0	4,100	4,150	415	296	181	68	0	0
2,350	2,375	122	10	0	4,150	4,200	423	304	189	76	0	0
2,375	2,400	126	14	0	4,200	4,250	430	313	197	84	0	0
2,400	2,425	130	18	0	4,250	4,300	438	321	205	92	0	0
2,425	2,450	134	22	0	4,300	4,350	446	329	214	100	0	0
2,450	2,475	138	26	0	4,350	4,400	454	338	222	108	0	0
2,475	2,500	142	30	0	4,400	4,450	462	347	230	116	4	0
2,500	2,525	146	34	0	4,450	4,500	470	356	238	124	12	0
2,525	2,550	150	38	0	4,500	4,550	478	364	247	132	20	0
2,550	2,575	154	42	0	4,550	4,600	486	373	255	140	28	0
2,575	2,600	158	46	0	4,600	4,650	493	382	263	148	36	0
2,600	2,625	162	50	0	4,650	4,700	501	391	271	156	44	0
2,625	2,650	166	54	0	4,700	4,750	509	399	280	164	52	0
2,650	2,675	170	58	0	4,750	4,800	518	408	288	172	60	0
2,675	2,700	174	62	0	4,800	4,850	526	417	296	181	68	0
2,700	2,725	179	66	0	4,850	4,900	534	426	304	189	76	0
2,725	2,750	183	70	0	4,900	4,950	542	434	313	197	84	0
2,750	2,775	187	74	0	4,950	5,000	550	443	321	205	92	0
2,775	2,800	191	78	0								

"Table IV—Married Persons Filing SEPARATE Returns

"10 PERCENT STANDARD DEDUCTION

"Taxable Years Beginning in 1964

If adjusted gross income is—		And the number of exemptions is—				If adjusted gross income is—		And the number of exemptions is—							
At least	But less than	1	2	3	4 or more	At least	But less than	1	2	3	4	5	6	7	8 or more
		The tax is—						The tax is—							
$0	$675	$0	$0	$0	$0	$2,325	$2,350	$251	$147	$49	$0	$0	$0	$0	$0
675	700	3	0	0	0	2,350	2,375	255	150	52	0	0	0	0	0
700	725	7	0	0	0	2,375	2,400	259	154	56	0	0	0	0	0
725	750	10	0	0	0	2,400	2,425	263	158	59	0	0	0	0	0
750	775	14	0	0	0	2,425	2,450	267	161	63	0	0	0	0	0
775	800	17	0	0	0	2,450	2,475	271	165	67	0	0	0	0	0
800	825	21	0	0	0	2,475	2,500	275	169	70	0	0	0	0	0
825	850	25	0	0	0	2,500	2,525	279	173	74	0	0	0	0	0
850	875	28	0	0	0	2,525	2,550	283	177	77	0	0	0	0	0
875	900	32	0	0	0	2,550	2,575	287	181	81	0	0	0	0	0
900	925	35	0	0	0	2,575	2,600	291	185	85	0	0	0	0	0
925	950	39	0	0	0	2,600	2,625	295	189	88	0	0	0	0	0
950	975	43	0	0	0	2,625	2,650	299	193	92	0	0	0	0	0
975	1,000	46	0	0	0	2,650	2,675	303	197	96	0	0	0	0	0
1,000	1,025	50	0	0	0	2,675	2,700	307	201	100	3	0	0	0	0
1,025	1,050	53	0	0	0	2,700	2,725	311	205	103	7	0	0	0	0
1,050	1,075	57	0	0	0	2,725	2,750	315	209	107	10	0	0	0	0
1,075	1,100	61	0	0	0	2,750	2,775	320	213	111	14	0	0	0	0
1,100	1,125	64	0	0	0	2,775	2,800	324	217	114	17	0	0	0	0
1,125	1,150	68	0	0	0	2,800	2,825	328	220	118	21	0	0	0	0
1,150	1,175	71	0	0	0	2,825	2,850	332	224	122	25	0	0	0	0
1,175	1,200	75	0	0	0	2,850	2,875	336	228	126	28	0	0	0	0
1,200	1,225	79	0	0	0	2,875	2,900	340	232	129	32	0	0	0	0
1,225	1,250	82	0	0	0	2,900	2,925	344	236	133	35	0	0	0	0
1,250	1,275	86	0	0	0	2,925	2,950	349	240	137	39	0	0	0	0
1,275	1,300	90	0	0	0	2,950	2,975	353	244	140	43	0	0	0	0
1,300	1,325	93	0	0	0	2,975	3,000	358	248	144	46	0	0	0	0
1,325	1,350	97	1	0	0	3,000	3,050	365	254	150	52	0	0	0	0
1,350	1,375	101	4	0	0	3,050	3,100	374	262	157	59	0	0	0	0
1,375	1,400	105	8	0	0	3,100	3,150	383	270	165	66	0	0	0	0
1,400	1,425	108	11	0	0	3,150	3,200	392	278	173	73	0	0	0	0
1,425	1,450	112	15	0	0	3,200	3,250	401	286	180	80	0	0	0	0
1,450	1,475	116	19	0	0	3,250	3,300	410	295	188	88	0	0	0	0
1,475	1,500	119	22	0	0	3,300	3,350	419	303	196	95	0	0	0	0
1,500	1,525	123	26	0	0	3,350	3,400	428	311	204	103	6	0	0	0
1,525	1,550	127	29	0	0	3,400	3,450	437	319	212	110	13	0	0	0
1,550	1,575	131	33	0	0	3,450	3,500	446	327	220	118	20	0	0	0
1,575	1,600	134	37	0	0	3,500	3,550	455	335	228	125	28	0	0	0
1,600	1,625	138	40	0	0	3,550	3,600	464	344	236	132	35	0	0	0
1,625	1,650	142	44	0	0	3,600	3,650	473	353	243	140	42	0	0	0
1,650	1,675	145	47	0	0	3,650	3,700	482	362	251	147	49	0	0	0
1,675	1,700	149	51	0	0	3,700	3,750	491	371	259	155	56	0	0	0
1,700	1,725	153	55	0	0	3,750	3,800	500	380	268	162	64	0	0	0
1,725	1,750	157	58	0	0	3,800	3,850	509	389	276	170	71	0	0	0
1,750	1,775	160	62	0	0	3,850	3,900	518	398	284	178	78	0	0	0
1,775	1,800	164	65	0	0	3,900	3,950	527	407	292	186	85	0	0	0
1,800	1,825	168	69	0	0	3,950	4,000	536	416	300	194	93	0	0	0
1,825	1,850	172	73	0	0	4,000	4,050	545	425	308	201	100	4	0	0
1,850	1,875	176	76	0	0	4,050	4,100	554	434	316	209	108	11	0	0
1,875	1,900	180	80	0	0	4,100	4,150	563	443	324	217	115	18	0	0
1,900	1,925	184	84	0	0	4,150	4,200	572	452	332	225	122	25	0	0
1,925	1,950	188	87	0	0	4,200	4,250	581	461	341	233	130	32	0	0
1,950	1,975	192	91	0	0	4,250	4,300	590	470	350	241	137	40	0	0
1,975	2,000	196	95	0	0	4,300	4,350	599	479	359	249	145	47	0	0
2,000	2,025	199	98	2	0	4,350	4,400	608	488	368	257	152	54	0	0
2,025	2,050	203	102	5	0	4,400	4,450	617	497	377	265	160	61	0	0
2,050	2,075	207	106	9	0	4,450	4,500	626	506	386	273	167	68	0	0
2,075	2,100	211	109	13	0	4,500	4,550	635	515	395	281	175	76	0	0
2,100	2,125	215	113	16	0	4,550	4,600	644	524	404	289	183	83	0	0
2,125	2,150	219	117	20	0	4,600	4,650	653	533	413	297	191	90	0	0
2,150	2,175	223	121	23	0	4,650	4,700	662	542	422	305	199	98	1	0
2,175	2,200	227	124	27	0	4,700	4,750	671	551	431	313	207	105	8	0
2,200	2,225	231	128	31	0	4,750	4,800	680	560	440	322	215	113	16	0
2,225	2,250	235	132	34	0	4,800	4,850	689	569	449	330	222	120	23	0
2,250	2,275	239	135	38	0	4,850	4,900	698	578	458	338	230	127	30	0
2,275	2,300	243	139	41	0	4,900	4,950	707	587	467	347	238	135	37	0
2,300	2,325	247	143	45	0	4,950	5,000	716	596	476	356	246	142	44	0

"Table V—Married Persons Filing SEPARATE Returns

"MINIMUM STANDARD DEDUCTION

"Taxable Years Beginning in 1964

If adjusted gross income is—		And the number of exemptions is—			
At least	But less than	1	2	3	4 or more
		The tax is—			
$0	$800	$0	$0	$0	$0
800	825	2	0	0	0
825	850	6	0	0	0
850	875	10	0	0	0
875	900	14	0	0	0
900	925	18	0	0	0
925	950	22	0	0	0
950	975	26	0	0	0
975	1,000	30	0	0	0
1,000	1,025	34	0	0	0
1,025	1,050	38	0	0	0
1,050	1,075	42	0	0	0
1,075	1,100	46	0	0	0
1,100	1,125	50	0	0	0
1,125	1,150	54	0	0	0
1,150	1,175	58	0	0	0
1,175	1,200	62	0	0	0
1,200	1,225	66	0	0	0
1,225	1,250	70	0	0	0
1,250	1,275	74	0	0	0
1,275	1,300	78	0	0	0
1,300	1,325	82	0	0	0
1,325	1,350	86	0	0	0
1,350	1,375	90	0	0	0
1,375	1,400	94	0	0	0
1,400	1,425	99	0	0	0
1,425	1,450	103	0	0	0
1,450	1,475	107	0	0	0
1,475	1,500	111	0	0	0
1,500	1,525	115	2	0	0
1,525	1,550	119	6	0	0
1,550	1,575	123	10	0	0
1,575	1,600	127	14	0	0
1,600	1,625	132	18	0	0
1,625	1,650	136	22	0	0
1,650	1,675	140	26	0	0
1.675	1,700	144	30	0	0
1,700	1,725	148	34	0	0
1,725	1,750	152	38	0	0
1,750	1,775	156	42	0	0
1,775	1.800	160	46	0	0
1,800	1,825	165	50	0	0
1,825	1,850	169	54	0	0
1,850	1,875	173	58	0	0
1,875	1,900	178	62	0	0
1,900	1,925	182	66	0	0
1,925	1,950	187	70	0	0
1,950	1,975	191	74	0	0
1,975	2,000	195	78	0	0
2,000	2,025	200	82	0	0
2,025	2,050	204	86	0	0
2,050	2,075	208	90	0	0
2,075	2,100	213	94	0	0
2,100	2,125	217	99	0	0
2,125	2.150	222	103	0	0
2,150	2,175	226	107	0	0
2,175	2,200	230	111	0	0
2,200	2,225	235	115	2	0
2,225	2,250	239	119	6	0
2,250	2,275	243	123	10	0
2,275	2,300	248	127	14	0
2,300	2,325	252	132	18	0
2,325	2,350	257	136	22	0
2,350	2,375	261	140	26	0
2,375	2,400	266	144	30	0

If adjusted gross income is—		And the number of exemptions is—							
At least	But less than	1	2	3	4	5	6	7	8 or more
		The tax is—							
$2,400	$2,425	$270	$148	$34	$0	$0	$0	$0	$0
2,425	2,450	275	152	38	0	0	0	0	0
2,450	2,475	279	156	42	0	0	0	0	0
2,475	2,500	284	160	46	0	0	0	0	0
2,500	2,525	288	165	50	0	0	0	0	0
2,525	2,550	293	169	54	0	0	0	0	0
2,550	2,575	297	173	58	0	0	0	0	0
2,575	2,600	302	178	62	0	0	0	0	0
2,600	2,625	306	182	66	0	0	0	0	0
2,625	2,650	311	187	70	0	0	0	0	0
2,650	2,675	315	191	74	0	0	0	0	0
2,675	2,700	320	195	78	0	0	0	0	0
2,700	2,725	324	200	82	0	0	0	0	0
2,725	2,750	329	204	86	0	0	0	0	0
2,750	2,775	333	208	90	0	0	0	0	0
2,775	2,800	338	213	94	0	0	0	0	0
2,800	2,825	343	217	99	0	0	0	0	0
2,825	2,850	348	222	103	0	0	0	0	0
2,850	2,875	353	226	107	0	0	0	0	0
2,875	2,900	358	230	111	0	0	0	0	0
2,900	2,925	363	235	115	2	0	0	0	0
2,925	2,950	368	239	119	6	0	0	0	0
2,950	2,975	373	243	123	10	0	0	0	0
2,975	3,000	378	248	127	14	0	0	0	0
3,000	3,050	385	255	134	20	0	0	0	0
3,050	3,100	395	264	142	28	0	0	0	0
3,100	3,150	405	273	150	36	0	0	0	0
3,150	3,200	415	282	158	44	0	0	0	0
3,200	3,250	425	291	167	52	0	0	0	0
3,250	3,300	435	300	176	60	0	0	0	0
3,300	3,350	445	309	184	68	0	0	0	0
3,350	3,400	455	318	193	76	0	0	0	0
3,400	3,450	465	327	202	84	0	0	0	0
3,450	3,500	475	336	211	92	0	0	0	0
3.500	3,550	485	345	219	101	4	0	0	0
3,550	3,600	495	355	228	109	12	0	0	0
3,600	3,650	505	365	237	117	20	0	0	0
3,650	3,700	515	375	246	125	28	0	0	0
3,700	3,750	525	385	255	134	36	0	0	0
3,750	3,800	535	395	264	142	44	0	0	0
3.800	3,850	545	405	273	150	52	0	0	0
3,850	3.900	555	415	282	158	60	0	0	0
3.900	3,950	565	425	291	167	68	0	0	0
3,950	4,000	575	435	300	176	76	0	0	0
4,000	4,050	585	445	309	184	84	0	0	0
4,050	4,100	595	455	318	193	92	0	0	0
4.100	4,150	605	465	327	202	101	4	0	0
4.150	4,200	615	475	336	211	109	12	0	0
4.200	4,250	625	485	345	219	117	20	0	0
4,250	4,300	635	495	355	228	125	28	0	0
4.300	4.350	645	505	365	237	134	36	0	0
4,350	4.400	655	515	375	246	142	44	0	0
4,400	4,450	665	525	385	255	150	52	0	0
4,450	4,500	675	535	395	264	158	60	0	0
4,500	4.550	685	545	405	273	167	68	0	0
4,550	4,600	695	555	415	282	176	76	0	0
4,600	4,650	705	565	425	291	184	84	0	0
4,650	4,700	715	575	435	300	193	92	0	0
4.700	4,750	725	585	445	309	202	101	4	0
4.750	4,800	735	595	455	318	211	109	12	0
4,800	4,850	746	605	465	327	219	117	20	0
4,850	4,900	758	615	475	336	228	125	28	0
4,900	4,950	769	625	485	345	237	134	36	0
4.950	5,000	781	635	495	355	246	142	44	0

1 "(b) TAXABLE YEARS BEGINNING AFTER DECEM-
2 BER 31, 1964.—In lieu of the tax imposed by section 1,
3 there is hereby imposed for each taxable year beginning

1 after December 31, 1964, on the taxable income of every
2 individual whose adjusted gross income for such year is
3 less than $5,000 and who has elected for such year to pay
4 the tax imposed by this section a tax as follows:

"Table I—Single Person—NOT Head of Household

"Taxable Years Beginning After December 31, 1964

If adjusted gross income is—		And the number of exemptions is—			
At least	But less than	1	2	3	4 or more
		The tax is—			
$0	$900	$0	$0	$0	$0
900	925	2	0	0	0
925	950	5	0	0	0
950	975	9	0	0	0
975	1,000	12	0	0	0
1,000	1,025	16	0	0	0
1,025	1,050	19	0	0	0
1,050	1,075	23	0	0	0
1,075	1,100	26	0	0	0
1,100	1,125	30	0	0	0
1,125	1,150	33	0	0	0
1,150	1,175	37	0	0	0
1,175	1,200	40	0	0	0
1,200	1,225	44	0	0	0
1,225	1,250	47	0	0	0
1,250	1,275	51	0	0	0
1,275	1,300	54	0	0	0
1,300	1,325	58	0	0	0
1,325	1,350	61	0	0	0
1,350	1,375	65	0	0	0
1,375	1,400	68	0	0	0
1,400	1,425	72	0	0	0
1,425	1,450	76	0	0	0
1,450	1,475	79	0	0	0
1,475	1,500	83	0	0	0
1,500	1,525	87	0	0	0
1,525	1,550	91	0	0	0
1,550	1,575	94	0	0	0
1,575	1,600	98	0	0	0
1,600	1,625	102	2	0	0
1,625	1,650	106	5	0	0
1,650	1,675	109	9	0	0
1,675	1,700	113	12	0	0
1,700	1,725	117	16	0	0
1,725	1,750	121	19	0	0
1,750	1,775	124	23	0	0
1,775	1,800	128	26	0	0
1,800	1,825	132	30	0	0
1,825	1,850	136	33	0	0
1,850	1,875	139	37	0	0
1,875	1,900	143	40	0	0
1,900	1,925	147	44	0	0
1,925	1,950	151	47	0	0
1,950	1,975	155	51	0	0
1,975	2,000	159	54	0	0
2,000	2,025	163	58	0	0
2,025	2,050	167	61	0	0
2,050	2,075	171	65	0	0
2,075	2,100	175	68	0	0
2,100	2,125	179	72	0	0
2,125	2,150	183	76	0	0
2,150	2,175	187	79	0	0
2,175	2,200	191	83	0	0
2,200	2,225	195	87	0	0
2,225	2,250	199	91	0	0
2,250	2,275	203	94	0	0
2,275	2,300	207	98	0	0
2,300	2,325	211	102	2	0
2,325	2,350	215	106	5	0
2,350	2,375	219	109	9	0
2,375	2,400	223	113	12	0
2,400	2,425	227	117	16	0
2,425	2,450	231	121	19	0

If adjusted gross income is—		And the number of exemptions is—						
At least	But less than	1	2	3	4	5	6	7 or more
		The tax is—						
$2,450	$2,475	$236	$124	$23	$0	$0	$0	$0
2,475	2,500	240	128	26	0	0	0	0
2,500	2,525	244	132	30	0	0	0	0
2,525	2,550	248	136	33	0	0	0	0
2,550	2,575	253	139	37	0	0	0	0
2,575	2,600	257	143	40	0	0	0	0
2,600	2,625	261	147	44	0	0	0	0
2,625	2,650	265	151	47	0	0	0	0
2,650	2,675	270	155	51	0	0	0	0
2,675	2,700	274	159	54	0	0	0	0
2,700	2,725	278	163	58	0	0	0	0
2,725	2,750	282	167	61	0	0	0	0
2,750	2,775	287	171	65	0	0	0	0
2,775	2,800	291	175	68	0	0	0	0
2,800	2,825	295	179	72	0	0	0	0
2,825	2,850	299	183	76	0	0	0	0
2,850	2,875	304	187	79	0	0	0	0
2,875	2,900	308	191	83	0	0	0	0
2,900	2,925	312	195	87	0	0	0	0
2,925	2,950	317	199	91	0	0	0	0
2,950	2,975	322	203	94	0	0	0	0
2,975	3,000	327	207	98	0	0	0	0
3,000	3,050	333	213	104	4	0	0	0
3,050	3,100	342	221	111	11	0	0	0
3,100	3,150	350	229	119	18	0	0	0
3,150	3,200	359	238	126	25	0	0	0
3,200	3,250	367	246	134	32	0	0	0
3,250	3,300	376	255	141	39	0	0	0
3,300	3,350	385	263	149	46	0	0	0
3,350	3,400	393	272	157	53	0	0	0
3,400	3,450	402	280	165	60	0	0	0
3,450	3,500	410	289	173	67	0	0	0
3,500	3,550	419	297	181	74	0	0	0
3,550	3,600	427	306	189	81	0	0	0
3,600	3,650	436	315	197	89	0	0	0
3,650	3,700	444	324	205	96	0	0	0
3,700	3,750	453	334	213	104	4	0	0
3,750	3,800	462	343	221	111	11	0	0
3,800	3,850	470	353	229	119	18	0	0
3,850	3,900	479	362	238	126	25	0	0
3,900	3,950	487	372	246	134	32	0	0
3,950	4,000	496	381	255	141	39	0	0
4,000	4,050	504	390	263	149	46	0	0
4,050	4,100	513	399	272	157	53	0	0
4,100	4,150	521	407	280	165	60	0	0
4,150	4,200	530	416	289	173	67	0	0
4,200	4,250	538	424	297	181	74	0	0
4,250	4,300	547	433	306	189	81	0	0
4,300	4,350	556	442	315	197	89	0	0
4,350	4,400	564	450	324	205	96	0	0
4,400	4,450	573	459	334	213	104	4	0
4,450	4,500	581	467	343	221	111	11	0
4,500	4,550	590	476	353	229	119	18	0
4,550	4,600	598	484	362	238	126	25	0
4,600	4,650	607	493	372	246	134	32	0
4,650	4,700	615	501	381	255	141	39	0
4,700	4,750	624	510	391	263	149	46	0
4,750	4,800	633	519	400	272	157	53	0
4,800	4,850	641	527	410	280	165	60	0
4,850	4,900	650	536	419	289	173	67	0
4,900	4,950	658	544	429	297	181	74	0
4,950	5,000	667	553	438	306	189	81	0

"Table II—Head of Household

"Taxable Years Beginning After December 31, 1964

If adjusted gross income is—		And the number of exemptions is—				If adjusted gross income is—		And the number of exemptions is—						
At least	But less than	1	2	3	4 or more	At least	But less than	1	2	3	4	5	6	7 or more
		The tax is—						The tax is—						
$0	$900	$0	$0	$0	$0	$2,450	$2,475	$230	$121	$23	$0	$0	$0	$0
900	925	2	0	0	0	2,475	2,500	234	124	26	0	0	0	0
925	950	5	0	0	0	2,500	2,525	238	128	30	0	0	0	0
950	975	9	0	0	0	2,525	2,550	242	131	33	0	0	0	0
975	1,000	12	0	0	0	2,550	2,575	246	135	37	0	0	0	0
1,000	1,025	16	0	0	0	2,575	2,600	250	138	40	0	0	0	0
1,025	1,050	19	0	0	0	2,600	2,625	254	142	44	0	0	0	0
1,050	1,075	23	0	0	0	2,625	2,650	258	146	47	0	0	0	0
1,075	1,100	26	0	0	0	2,650	2,675	262	150	51	0	0	0	0
1,100	1,125	30	0	0	0	2,675	2,700	266	154	54	0	0	0	0
1,125	1,150	33	0	0	0	2,700	2,725	270	158	58	0	0	0	0
1,150	1,175	37	0	0	0	2,725	2,750	274	162	61	0	0	0	0
1,175	1,200	40	0	0	0	2,750	2,775	278	166	65	0	0	0	0
1,200	1,225	44	0	0	0	2,775	2,800	282	170	68	0	0	0	0
1,225	1,250	47	0	0	0	2,800	2,825	286	174	72	0	0	0	0
1,250	1,275	51	0	0	0	2,825	2,850	290	178	75	0	0	0	0
1,275	1,300	54	0	0	0	2,850	2,875	294	182	79	0	0	0	0
1,300	1,325	58	0	0	0	2,875	2,900	298	186	82	0	0	0	0
1,325	1,350	61	0	0	0	2,900	2,925	302	190	86	0	0	0	0
1,350	1,375	65	0	0	0	2,925	2,950	307	194	89	0	0	0	0
1,375	1,400	68	0	0	0	2,950	2,975	311	198	93	0	0	0	0
1,400	1,425	72	0	0	0	2,975	3,000	316	202	96	0	0	0	0
1,425	1,450	75	0	0	0	3,000	3,050	322	208	102	4	0	0	0
1,450	1,475	79	0	0	0	3,050	3,100	330	216	109	11	0	0	0
1,475	1,500	82	0	0	0	3,100	3,150	338	224	116	18	0	0	0
1,500	1,525	86	0	0	0	3,150	3,200	346	232	123	25	0	0	0
1,525	1,550	89	0	0	0	3,200	3,250	354	240	130	32	0	0	0
1,550	1,575	93	0	0	0	3,250	3,300	363	248	137	39	0	0	0
1,575	1,600	96	0	0	0	3,300	3,350	371	256	144	46	0	0	0
1,600	1,625	100	2	0	0	3,350	3,400	379	264	152	53	0	0	0
1,625	1,650	103	5	0	0	3,400	3,450	387	272	160	60	0	0	0
1,650	1,675	107	9	0	0	3,450	3,500	395	280	168	67	0	0	0
1,675	1,700	110	12	0	0	3,500	3,550	403	288	176	74	0	0	0
1,700	1,725	114	16	0	0	3,550	3,600	411	296	184	81	0	0	0
1,725	1,750	117	19	0	0	3,600	3,650	419	305	192	88	0	0	0
1,750	1,775	121	23	0	0	3,650	3,700	427	314	200	95	0	0	0
1,775	1,800	124	26	0	0	3,700	3,750	435	323	208	102	4	0	0
1,800	1,825	128	30	0	0	3,750	3,800	444	332	216	109	11	0	0
1,825	1,850	131	33	0	0	3,800	3,850	452	341	224	116	18	0	0
1,850	1,875	135	37	0	0	3,850	3,900	460	350	232	123	25	0	0
1,875	1,900	138	40	0	0	3,900	3,950	468	359	240	130	32	0	0
1,900	1,925	142	44	0	0	3,950	4,000	476	368	248	137	39	0	0
1,925	1,950	146	47	0	0	4,000	4,050	484	376	256	144	46	0	0
1,950	1,975	150	51	0	0	4,050	4,100	492	384	264	152	53	0	0
1,975	2,000	154	54	0	0	4,100	4,150	500	392	272	160	60	0	0
2,000	2,025	158	58	0	0	4,150	4,200	508	400	280	168	67	0	0
2,025	2,050	162	61	0	0	4,200	4,250	516	408	288	176	74	0	0
2,050	2,075	166	65	0	0	4,250	4,300	525	417	296	184	81	0	0
2,075	2,100	170	68	0	0	4,300	4,350	533	425	305	192	88	0	0
2,100	2,125	174	72	0	0	4,350	4,400	541	433	314	200	95	0	0
2,125	2,150	178	75	0	0	4,400	4,450	549	441	323	208	102	4	0
2,150	2,175	182	79	0	0	4,450	4,500	557	449	332	216	109	11	0
2,175	2,200	186	82	0	0	4,500	4,550	565	457	341	224	116	18	0
2,200	2,225	190	86	0	0	4,550	4,600	573	465	350	232	123	25	0
2,225	2,250	194	89	0	0	4,600	4,650	581	473	359	240	130	32	0
2,250	2,275	198	93	0	0	4,650	4,700	589	481	368	248	137	39	0
2,275	2,300	202	96	0	0	4,700	4,750	597	489	377	256	144	46	0
2,300	2,325	206	100	2	0	4,750	4,800	606	498	386	264	152	53	0
2,325	2,350	210	103	5	0	4,800	4,850	614	506	395	272	160	60	0
2,350	2,375	214	107	9	0	4,850	4,900	622	514	404	280	168	67	0
2,375	2,400	218	110	12	0	4,900	4,950	630	522	413	288	176	74	0
2,400	2,425	222	114	16	0	4,950	5,000	638	530	422	296	184	81	0
2,425	2,450	226	117	19	0									

"Table III—Married Persons Filing JOINT Returns

"Taxable Years Beginning After December 31, 1964

If adjusted gross income is—		And the number of exemptions is—			If adjusted gross income is—		And the number of exemptions is—					
At least	But less than	2	3	4 or more	At least	But less than	2	3	4	5	6	7 or more
		The tax is—					The tax is—					
$0	$1,600	$0	$0	$0	$2,800	$2,825	$172	$72	$0	$0	$0	$0
1,600	1,625	2	0	0	2,825	2,850	176	75	0	0	0	0
1,625	1,650	5	0	0	2,850	2,875	179	79	0	0	0	0
1,650	1,675	9	0	0	2,875	2,900	183	82	0	0	0	0
1,675	1,700	12	0	0	2,900	2,925	187	86	0	0	0	0
1,700	1,725	16	0	0	2,925	2,950	191	89	0	0	0	0
1,725	1,750	19	0	0	2,950	2,975	194	93	0	0	0	0
1,750	1,775	23	0	0	2,975	3,000	198	96	0	0	0	0
1,775	1,800	26	0	0	3,000	3,050	204	102	4	0	0	0
1,800	1,825	30	0	0	3,050	3,100	211	109	11	0	0	0
1,825	1,850	33	0	0	3,100	3,150	219	116	18	0	0	0
1,850	1,875	37	0	0	3,150	3,200	226	123	25	0	0	0
1,875	1,900	40	0	0	3,200	3,250	234	130	32	0	0	0
1,900	1,925	44	0	0	3,250	3,300	241	137	39	0	0	0
1,925	1,950	47	0	0	3,300	3,350	249	144	46	0	0	0
1,950	1,975	51	0	0	3,350	3,400	256	151	53	0	0	0
1,975	2,000	54	0	0	3,400	3,450	264	159	60	0	0	0
2,000	2,025	58	0	0	3,450	3,500	271	166	67	0	0	0
2,025	2,050	61	0	0	3,500	3,550	279	174	74	0	0	0
2,050	2,075	65	0	0	3,550	3,600	286	181	81	0	0	0
2,075	2,100	68	0	0	3,600	3,650	294	189	88	0	0	0
2,100	2,125	72	0	0	3,650	3,700	302	196	95	0	0	0
2,125	2,150	75	0	0	3,700	3,750	310	204	102	4	0	0
2,150	2,175	79	0	0	3,750	3,800	318	211	109	11	0	0
2,175	2,200	82	0	0	3,800	3,850	326	219	116	18	0	0
2,200	2,225	86	0	0	3,850	3,900	334	226	123	25	0	0
2,225	2,250	89	0	0	3,900	3,950	342	234	130	32	0	0
2,250	2,275	93	0	0	3,950	4,000	350	241	137	39	0	0
2,275	2,300	96	0	0	4,000	4,050	358	249	144	46	0	0
2,300	2,325	100	2	0	4,050	4,100	365	256	151	53	0	0
2,325	2,350	103	5	0	4,100	4,150	372	264	159	60	0	0
2,350	2,375	107	9	0	4,150	4,200	379	271	166	67	0	0
2,375	2,400	110	12	0	4,200	4,250	386	279	174	74	0	0
2,400	2,425	114	16	0	4,250	4,300	394	286	181	81	0	0
2,425	2,450	117	19	0	4,300	4,350	401	294	189	88	0	0
2,450	2,475	121	23	0	4,350	4,400	408	302	196	95	0	0
2,475	2,500	124	26	0	4,400	4,450	415	310	204	102	4	0
2,500	2,525	128	30	0	4,450	4,500	422	318	211	109	11	0
2,525	2,550	131	33	0	4,500	4,550	430	326	219	116	18	0
2,550	2,575	135	37	0	4,550	4,600	437	334	226	123	25	0
2,575	2,600	138	40	0	4,600	4,650	444	342	234	130	32	0
2,600	2,625	142	44	0	4,650	4,700	451	350	241	137	39	0
2,625	2,650	146	47	0	4,700	4,750	459	358	249	144	46	0
2,650	2,675	149	51	0	4,750	4,800	467	366	256	151	53	0
2,675	2,700	153	54	0	4,800	4,850	474	374	264	159	60	0
2,700	2,725	157	58	0	4,850	4,900	482	382	271	166	67	0
2,725	2,750	161	61	0	4,900	4,950	490	390	279	174	74	0
2,750	2,775	164	65	0	4,950	5,000	497	398	286	181	81	0
2,775	2,800	168	68	0								

"Table IV—Married Persons Filing SEPARATE Returns

"10 PERCENT STANDARD DEDUCTION

"Taxable Years Beginning After December 31, 1964

If adjusted gross income is—		And the number of exemptions is—				If adjusted gross income is—		And the number of exemptions is—							
At least	But less than	1	2	3	4 or more	At least	But less than	1	2	3	4	5	6	7	8 or more
		The tax is—						The tax is—							
$0	$675	$0	$0	$0	$0	$2,325	$2,350	$226	$131	$43	$0	$0	$0	$0	$0
675	700	3	0	0	0	2,350	2,375	229	134	46	0	0	0	0	0
700	725	6	0	0	0	2,375	2,400	233	137	49	0	0	0	0	0
725	750	9	0	0	0	2,400	2,425	237	141	52	0	0	0	0	0
750	775	12	0	0	0	2,425	2,450	241	144	55	0	0	0	0	0
775	800	15	0	0	0	2,450	2,475	245	148	58	0	0	0	0	0
800	825	18	0	0	0	2,475	2,500	249	151	61	0	0	0	0	0
825	850	22	0	0	0	2,500	2,525	252	155	65	0	0	0	0	0
850	875	25	0	0	0	2,525	2,550	256	158	68	0	0	0	0	0
875	900	28	0	0	0	2,550	2,575	260	162	71	0	0	0	0	0
900	925	31	0	0	0	2,575	2,600	264	166	74	0	0	0	0	0
925	950	34	0	0	0	2,600	2,625	268	169	78	0	0	0	0	0
950	975	37	0	0	0	2,625	2,650	272	173	81	0	0	0	0	0
975	1,000	40	0	0	0	2,650	2,675	275	176	84	0	0	0	0	0
1,000	1,025	44	0	0	0	2,675	2,700	279	180	88	3	0	0	0	0
1,025	1,050	47	0	0	0	2,700	2,725	283	184	91	6	0	0	0	0
1,050	1,075	50	0	0	0	2,725	2,750	287	187	95	9	0	0	0	0
1,075	1,100	53	0	0	0	2,750	2,775	291	191	98	12	0	0	0	0
1,100	1,125	56	0	0	0	2,775	2,800	294	194	101	15	0	0	0	0
1,125	1,150	59	0	0	0	2,800	2,825	298	198	105	18	0	0	0	0
1,150	1,175	62	0	0	0	2,825	2,850	302	202	108	22	0	0	0	0
1,175	1,200	66	0	0	0	2,850	2,875	306	205	111	25	0	0	0	0
1,200	1,225	69	0	0	0	2,875	2,900	310	209	115	28	0	0	0	0
1,225	1,250	72	0	0	0	2,900	2,925	314	212	118	31	0	0	0	0
1,250	1,275	75	0	0	0	2,925	2,950	318	216	122	34	0	0	0	0
1,275	1,300	79	0	0	0	2,950	2,975	323	220	125	37	0	0	0	0
1,300	1,325	82	0	0	0	2,975	3,000	327	223	128	40	0	0	0	0
1,325	1,350	86	1	0	0	3,000	3,050	333	229	133	45	0	0	0	0
1,350	1,375	89	4	0	0	3,050	3,100	342	236	140	51	0	0	0	0
1,375	1,400	92	7	0	0	3,100	3,150	350	244	147	58	0	0	0	0
1,400	1,425	96	10	0	0	3,150	3,200	359	252	154	64	0	0	0	0
1,425	1,450	99	13	0	0	3,200	3,250	367	259	161	70	0	0	0	0
1,450	1,475	102	16	0	0	3,250	3,300	376	267	169	77	0	0	0	0
1,475	1,500	106	19	0	0	3,300	3,350	385	275	176	84	0	0	0	0
1,500	1,525	109	23	0	0	3,350	3,400	393	282	183	91	5	0	0	0
1,525	1,550	113	26	0	0	3,400	3,450	402	290	190	97	12	0	0	0
1,550	1,575	116	29	0	0	3,450	3,500	410	298	197	104	18	0	0	0
1,575	1,600	119	32	0	0	3,500	3,550	419	305	205	111	24	0	0	0
1,600	1,625	123	35	0	0	3,550	3,600	427	313	212	118	30	0	0	0
1,625	1,650	126	38	0	0	3,600	3,650	436	322	219	124	37	0	0	0
1,650	1,675	129	41	0	0	3,650	3,700	444	330	226	131	43	0	0	0
1,675	1,700	133	45	0	0	3,700	3,750	453	339	234	138	49	0	0	0
1,700	1,725	136	48	0	0	3,750	3,800	462	348	242	145	56	0	0	0
1,725	1,750	140	51	0	0	3,800	3,850	470	356	249	152	62	0	0	0
1,750	1,775	143	54	0	0	3,850	3,900	479	365	257	159	68	0	0	0
1,775	1,800	146	57	0	0	3,900	3,950	487	373	265	166	75	0	0	0
1,800	1,825	150	60	0	0	3,950	4,000	496	382	272	173	82	0	0	0
1,825	1,850	154	64	0	0	4,000	4,050	504	390	280	181	88	3	0	0
1,850	1,875	157	67	0	0	4,050	4,100	513	399	287	188	95	9	0	0
1,875	1,900	161	70	0	0	4,100	4,150	521	407	295	195	102	16	0	0
1,900	1,925	164	73	0	0	4,150	4,200	530	416	303	202	109	22	0	0
1,925	1,950	168	77	0	0	4,200	4,250	538	424	310	209	115	28	0	0
1,950	1,975	172	80	0	0	4,250	4,300	547	433	319	217	122	35	0	0
1,975	2,000	175	83	0	0	4,300	4,350	556	442	328	224	129	41	0	0
2,000	2,025	179	87	2	0	4,350	4,400	564	450	336	231	136	47	0	0
2,025	2,050	182	90	5	0	4,400	4,450	573	459	345	239	142	54	0	0
2,050	2,075	186	93	8	0	4,450	4,500	581	467	353	247	149	60	0	0
2,075	2,100	190	97	11	0	4,500	4,550	590	476	362	254	157	66	0	0
2,100	2,125	193	100	14	0	4,550	4,600	598	484	370	262	164	73	0	0
2,125	2,150	197	104	17	0	4,600	4,650	607	493	379	270	171	79	0	0
2,150	2,175	200	107	20	0	4,650	4,700	615	501	387	277	178	86	1	0
2,175	2,200	204	110	24	0	4,700	4,750	624	510	396	285	185	93	7	0
2,200	2,225	208	114	27	0	4,750	4,800	633	519	405	293	193	100	14	0
2,225	2,250	211	117	30	0	4,800	4,850	641	527	413	300	200	106	20	0
2,250	2,275	215	120	33	0	4,850	4,900	650	536	422	308	207	113	26	0
2,275	2,300	218	124	36	0	4,900	4,950	658	544	430	316	214	120	33	0
2,300	2,325	222	127	39	0	4,950	5,000	667	553	439	325	221	127	39	0

"Table V—Married Persons Filing SEPARATE Returns

"MINIMUM STANDARD DEDUCTION

"Taxable Years Beginning After December 31, 1964

If adjusted gross income is—		And the number of exemptions is—			
At least	But less than	1	2	3	4 or more
		The tax is—			
$0	$800	$0	$0	$0	$0
800	825	2	0	0	0
825	850	5	0	0	0
850	875	9	0	0	0
875	900	12	0	0	0
900	925	16	0	0	0
925	950	19	0	0	0
950	975	23	0	0	0
975	1,000	26	0	0	0
1,000	1,025	30	0	0	0
1,025	1,050	33	0	0	0
1,050	1,075	37	0	0	0
1,075	1,100	40	0	0	0
1,100	1,125	44	0	0	0
1,125	1,150	47	0	0	0
1,150	1,175	51	0	0	0
1,175	1,200	54	0	0	0
1,200	1,225	58	0	0	0
1,225	1,250	61	0	0	0
1,250	1,275	65	0	0	0
1,275	1,300	68	0	0	0
1,300	1,325	72	0	0	0
1,325	1,350	76	0	0	0
1,350	1,375	79	0	0	0
1,375	1,400	83	0	0	0
1,400	1,425	87	0	0	0
1,425	1,450	91	0	0	0
1,450	1,475	94	0	0	0
1,475	1,500	98	0	0	0
1,500	1,525	102	2	0	0
1,525	1,550	106	5	0	0
1,550	1,575	109	9	0	0
1,575	1,600	113	12	0	0
1,600	1,625	117	16	0	0
1,625	1,650	121	19	0	0
1,650	1,675	124	23	0	0
1,675	1,700	128	26	0	0
1,700	1,725	132	30	0	0
1,725	1,750	136	33	0	0
1,750	1,775	139	37	0	0
1,775	1,800	143	40	0	0
1,800	1,825	147	44	0	0
1,825	1,850	151	47	0	0
1,850	1,875	155	51	0	0
1,875	1,900	159	54	0	0
1,900	1,925	163	58	0	0
1,925	1,950	167	61	0	0
1,950	1,975	171	65	0	0
1,975	2,000	175	68	0	0
2,000	2,025	179	72	0	0
2,025	2,050	183	76	0	0
2,050	2,075	187	79	0	0
2,075	2,100	191	83	0	0
2,100	2,125	195	87	0	0
2,125	2,150	199	91	0	0
2,150	2,175	203	94	0	0
2,175	2,200	207	98	0	0
2,200	2,225	211	102	2	0
2,225	2,250	215	106	5	0
2,250	2,275	219	109	9	0
2,275	2,300	223	113	12	0
2,300	2,325	227	117	16	0
2,325	2,350	231	121	19	0
2,350	2,375	236	124	23	0
2,375	2,400	240	128	26	0

If adjusted gross income is—		And the number of exemptions is—							
At least	But less than	1	2	3	4	5	6	7	8 or more
		The tax is—							
$2,400	$2,425	$244	$132	$30	$0	$0	$0	$0	$0
2,425	2,450	248	136	33	0	0	0	0	0
2,450	2,475	253	139	37	0	0	0	0	0
2,475	2,500	257	143	40	0	0	0	0	0
2,500	2,525	261	147	44	0	0	0	0	0
2,525	2,550	265	151	47	0	0	0	0	0
2,550	2,575	270	155	51	0	0	0	0	0
2,575	2,600	274	159	54	0	0	0	0	0
2,600	2,625	278	163	58	0	0	0	0	0
2,625	2,650	282	167	61	0	0	0	0	0
2,650	2,675	287	171	65	0	0	0	0	0
2,675	2,700	291	175	68	0	0	0	0	0
2,700	2,725	295	179	72	0	0	0	0	0
2,725	2,750	299	183	76	0	0	0	0	0
2,750	2,775	304	187	79	0	0	0	0	0
2,775	2,800	308	191	83	0	0	0	0	0
2,800	2,825	312	195	87	0	0	0	0	0
2,825	2,850	317	199	91	0	0	0	0	0
2,850	2,875	322	203	94	0	0	0	0	0
2,875	2,900	327	207	98	0	0	0	0	0
2,900	2,925	331	211	102	2	0	0	0	0
2,925	2,950	336	215	106	5	0	0	0	0
2,950	2,975	341	219	109	9	0	0	0	0
2,975	3,000	346	223	113	12	0	0	0	0
3,000	3,050	353	229	119	18	0	0	0	0
3,050	3,100	362	238	126	25	0	0	0	0
3,100	3,150	372	246	134	32	0	0	0	0
3,150	3,200	381	255	141	39	0	0	0	0
3,200	3,250	391	263	149	46	0	0	0	0
3,250	3,300	400	272	157	53	0	0	0	0
3,300	3,350	410	280	165	60	0	0	0	0
3,350	3,400	419	289	173	67	0	0	0	0
3,400	3,450	429	297	181	74	0	0	0	0
3,450	3,500	438	306	189	81	0	0	0	0
3,500	3,550	448	315	197	89	4	0	0	0
3,550	3,600	457	324	205	96	11	0	0	0
3,600	3,650	467	334	213	104	18	0	0	0
3,650	3,700	476	343	221	111	25	0	0	0
3,700	3,750	486	353	229	119	32	0	0	0
3,750	3,800	495	362	238	126	39	0	0	0
3,800	3,850	505	372	246	134	46	0	0	0
3,850	3,900	514	381	255	141	53	0	0	0
3,900	3,950	524	391	263	149	60	0	0	0
3,950	4,000	533	400	272	157	67	0	0	0
4,000	4,050	543	410	280	165	74	0	0	0
4,050	4,100	552	419	289	173	81	0	0	0
4,100	4,150	562	429	297	181	89	4	0	0
4,150	4,200	571	438	306	189	96	11	0	0
4,200	4,250	581	448	315	197	104	18	0	0
4,250	4,300	590	457	324	205	111	25	0	0
4,300	4,350	600	467	334	213	119	32	0	0
4,350	4,400	609	476	343	221	126	39	0	0
4,400	4,450	619	486	353	229	134	46	0	0
4,450	4,500	628	495	362	238	141	53	0	0
4,500	4,550	638	505	372	246	149	60	0	0
4,550	4,600	647	514	381	255	157	67	0	0
4,600	4,650	657	524	391	263	165	74	0	0
4,650	4,700	666	533	400	272	173	81	0	0
4,700	4,750	676	543	410	280	181	89	4	0
4,750	4,800	685	552	419	289	189	96	11	0
4,800	4,850	696	562	429	297	197	104	18	0
4,850	4,900	707	571	438	306	205	111	25	0
4,900	4,950	718	581	448	315	213	119	32	0
4,950	5,000	729	590	457	324	221	126	39	0"

1 (b) RULES FOR OPTIONAL TAX.—

2 (1) HUSBAND OR WIFE FILING SEPARATE RE-
3 TURNS.—Subsection (c) of section 4 (relating to rules
4 for optional tax) is amended to read as follows:

5 "(c) HUSBAND OR WIFE FILING SEPARATE RE-
6 TURN.—

7 "(1) A husband or wife may not elect to pay the
8 optional tax imposed by section 3 if the tax of the other
9 spouse is determined under section 1 on the basis of tax-
10 able income computed without regard to the standard
11 deduction.

12 "(2) Except as otherwise provided in this subsec-
13 tion, in the case of a husband or wife filing a separate
14 return the tax imposed by section 3 shall be—

15 "(A) for taxable years beginning in 1964, the
16 lesser of the tax shown in Table IV or Table V of
17 section 3 (a), and

18 "(B) for taxable years beginning after Decem-
19 ber 31, 1964, the lesser of the tax shown in Table
20 IV or Table V of section 3 (b).

1 "(3) Neither Table V of section 3 (a) nor Table V
2 of section 3 (b) shall apply in the case of a husband
3 or wife filing a separate return if the tax of the other
4 spouse is determined with regard to the 10-percent
5 standard deduction; except that an individual described
6 in section 141 (d) (2) may elect (under regulations
7 prescribed by the Secretary or his delegate)—
8 "(A) to pay the tax shown in Table V of
9 section 3 (a) in lieu of the tax shown in Table IV
10 of section 3 (a), and
11 "(B) to pay the tax shown in Table V of
12 section 3 (b) in lieu of the tax shown in Table IV
13 of section 3 (b).
14 For purposes of this title, an election under the pre-
15 ceding sentence shall be treated as an election made
16 under section 141 (d) (2).
17 "(4) For purposes of this subsection, determination
18 of marital status shall be made under section 143."
19 (2) AMENDMENT OF SECTION 6014.—Section
20 6014 (a) (relating to income tax return—tax not com-
21 puted by taxpayer) is amended by adding at the end
22 thereof the following new sentence: "In the case of a
23 married individual filing a separate return and electing

1 the benefits of this subsection, neither Table V in section
2 3 (a) nor Table V in section 3 (b) shall apply."
3 (3) TECHNICAL AMENDMENTS.—
4 (A) Subsection (a) of section 4 (relating to
5 rules for optional tax) is amended by striking out
6 "table" and inserting in lieu thereof "tables".
7 (B) Section 4 (f) (relating to cross references)
8 is amended by adding at the end thereof the follow-
9 ing new paragraph:

"(4) For nonapplicability of Table V in section 3(a) and Table V in section 3(b) in case where tax is not computed by taxpayer, see section 6014(a)."

10 (c) EFFECTIVE DATE.—Except for purposes of section
11 21 of the Internal Revenue Code of 1954 (relating to effect
12 of changes in rates during a taxable year), the amendments
13 made by this section shall apply to taxable years beginning
14 after December 31, 1963.

15 **SEC. 302. INCOME TAX COLLECTED AT SOURCE.**

16 (a) PERCENTAGE METHOD OF WITHHOLDING.—Sub-
17 section (a) of section 3402 (relating to requirement of with-
18 holding) is amended to read as follows:
19 "(a) REQUIREMENT OF WITHHOLDING.—Every em-
20 ployer making payment of wages shall deduct and withhold

1 upon such wages (except as provided in subsection (j)) a
2 tax equal to the following percentage of the amount by
3 which the wages exceed the number of withholding exemp-
4 tions claimed, multiplied by the amount of one such exemp-
5 tion as shown in subsection (b) (1):
6 "(1) 15 percent in the case of wages paid during
7 the calendar year 1964, and
8 "(2) 14 percent in the case of wages paid after
9 December 31, 1964."
10 (b) WAGE BRACKET WITHHOLDING.—Paragraph (1)
11 of section 3402 (c) (relating to wage bracket withholding)
12 is amended to read as follows:
13 "(1) (A) WAGES PAID DURING CALENDAR YEAR
14 1964.—At the election of the employer with respect to
15 any employee, the employer shall deduct and withhold
16 upon the wages paid to such employee during the cal-
17 endar year 1964 a tax determined in accordance with
18 the following tables, which shall be in lieu of the tax
19 required to be deducted and withheld under subsection
20 (a):

"If the payroll period with respect to an employee is weekly

And the wages are—		And the number of withholding exemptions claimed is—										
At least—	But less than—	0	1	2	3	4	5	6	7	8	9	10 or more
		The amount of income tax to be withheld shall be—										
$0	$13	15% of wages	$0	$0	$0	$0	$0	$0	$0	$0	$0	$0
$13	$14	$2.00	.10	0	0	0	0	0	0	0	0	0
$14	$15	2.20	.30	0	0	0	0	0	0	0	0	0
$15	$16	2.30	.40	0	0	0	0	0	0	0	0	0
$16	$17	2.50	.60	0	0	0	0	0	0	0	0	0
$17	$18	2.60	.70	0	0	0	0	0	0	0	0	0
$18	$19	2.80	.90	0	0	0	0	0	0	0	0	0
$19	$20	2.90	1.00	0	0	0	0	0	0	0	0	0
$20	$21	3.10	1.20	0	0	0	0	0	0	0	0	0
$21	$22	3.20	1.30	0	0	0	0	0	0	0	0	0
$22	$23	3.40	1.50	0	0	0	0	0	0	0	0	0
$23	$24	3.50	1.60	0	0	0	0	0	0	0	0	0
$24	$25	3.70	1.80	0	0	0	0	0	0	0	0	0
$25	$26	3.80	1.90	0	0	0	0	0	0	0	0	0
$26	$27	4.00	2.10	.10	0	0	0	0	0	0	0	0
$27	$28	4.10	2.20	.30	0	0	0	0	0	0	0	0
$28	$29	4.30	2.40	.40	0	0	0	0	0	0	0	0
$29	$30	4.40	2.50	.60	0	0	0	0	0	0	0	0
$30	$31	4.60	2.70	.70	0	0	0	0	0	0	0	0
$31	$32	4.70	2.80	.90	0	0	0	0	0	0	0	0
$32	$33	4.90	3.00	1.00	0	0	0	0	0	0	0	0
$33	$34	5.00	3.10	1.20	0	0	0	0	0	0	0	0
$34	$35	5.20	3.30	1.30	0	0	0	0	0	0	0	0
$35	$36	5.30	3.40	1.50	0	0	0	0	0	0	0	0
$36	$37	5.50	3.60	1.60	0	0	0	0	0	0	0	0
$37	$38	5.60	3.70	1.80	0	0	0	0	0	0	0	0
$38	$39	5.80	3.90	1.90	0	0	0	0	0	0	0	0
$39	$40	5.90	4.00	2.10	.20	0	0	0	0	0	0	0
$40	$41	6.10	4.20	2.20	.30	0	0	0	0	0	0	0
$41	$42	6.20	4.30	2.40	.50	0	0	0	0	0	0	0
$42	$43	6.40	4.50	2.50	.60	0	0	0	0	0	0	0
$43	$44	6.50	4.60	2.70	.80	0	0	0	0	0	0	0
$44	$45	6.70	4.80	2.80	.90	0	0	0	0	0	0	0
$45	$46	6.80	4.90	3.00	1.10	0	0	0	0	0	0	0
$46	$47	7.00	5.10	3.10	1.20	0	0	0	0	0	0	0
$47	$48	7.10	5.20	3.30	1.40	0	0	0	0	0	0	0
$48	$49	7.30	5.40	3.40	1.50	0	0	0	0	0	0	0
$49	$50	7.40	5.50	3.60	1.70	0	0	0	0	0	0	0
$50	$51	7.60	5.70	3.70	1.80	0	0	0	0	0	0	0
$51	$52	7.70	5.80	3.90	2.00	0	0	0	0	0	0	0
$52	$53	7.90	6.00	4.00	2.10	.20	0	0	0	0	0	0
$53	$54	8.00	6.10	4.20	2.30	.30	0	0	0	0	0	0
$54	$55	8.20	6.30	4.30	2.40	.50	0	0	0	0	0	0
$55	$56	8.30	6.40	4.50	2.60	.60	0	0	0	0	0	0
$56	$57	8.50	6.60	4.60	2.70	.80	0	0	0	0	0	0
$57	$58	8.60	6.70	4.80	2.90	.90	0	0	0	0	0	0
$58	$59	8.80	6.90	4.90	3.00	1.10	0	0	0	0	0	0
$59	$60	8.90	7.00	5.10	3.20	1.20	0	0	0	0	0	0
$60	$62	9.20	7.20	5.30	3.40	1.50	0	0	0	0	0	0
$62	$64	9.50	7.50	5.60	3.70	1.80	0	0	0	0	0	0
$64	$66	9.80	7.80	5.90	4.00	2.10	.10	0	0	0	0	0
$66	$68	10.10	8.10	6.20	4.30	2.40	.40	0	0	0	0	0
$68	$70	10.40	8.40	6.50	4.60	2.70	.70	0	0	0	0	0
$70	$72	10.70	8.70	6.80	4.90	3.00	1.00	0	0	0	0	0
$72	$74	11.00	9.00	7.10	5.20	3.30	1.30	0	0	0	0	0
$74	$76	11.30	9.30	7.40	5.50	3.60	1.60	0	0	0	0	0
$76	$78	11.60	9.60	7.70	5.80	3.90	1.90	0	0	0	0	0
$78	$80	11.90	9.90	8.00	6.10	4.20	2.20	.30	0	0	0	0
$80	$82	12.20	10.20	8.30	6.40	4.50	2.50	.60	0	0	0	0
$82	$84	12.50	10.50	8.60	6.70	4.80	2.80	.90	0	0	0	0
$84	$86	12.80	10.80	8.90	7.00	5.10	3.10	1.20	0	0	0	0
$86	$88	13.10	11.10	9.20	7.30	5.40	3.40	1.50	0	0	0	0
$88	$90	13.40	11.40	9.50	7.60	5.70	3.70	1.80	0	0	0	0
$90	$92	13.70	11.70	9.80	7.90	6.00	4.00	2.10	.20	0	0	0
$92	$94	14.00	12.00	10.10	8.20	6.30	4.30	2.40	.50	0	0	0
$94	$96	14.30	12.30	10.40	8.50	6.60	4.60	2.70	.80	0	0	0
$96	$98	14.60	12.60	10.70	8.80	6.90	4.90	3.00	1.10	0	0	0
$98	$100	14.90	12.90	11.00	9.10	7.20	5.20	3.30	1.40	0	0	0
$100	$105	15.40	13.50	11.50	9.60	7.70	5.80	3.80	1.90	0	0	0
$105	$110	16.10	14.20	12.30	10.40	8.40	6.50	4.60	2.70	.70	0	0
$110	$115	16.90	15.00	13.00	11.10	9.20	7.30	5.30	3.40	1.50	0	0
$115	$120	17.60	15.70	13.80	11.90	9.90	8.00	6.10	4.20	2.20	.30	0
$120	$125	18.40	16.50	14.50	12.60	10.70	8.80	6.80	4.90	3.00	1.10	0
$125	$130	19.10	17.20	15.30	13.40	11.40	9.50	7.60	5.70	3.70	1.80	0
$130	$135	19.90	18.00	16.00	14.10	12.20	10.30	8.30	6.40	4.50	2.60	.60
$135	$140	20.60	18.70	16.80	14.90	12.90	11.00	9.10	7.20	5.20	3.30	1.40
$140	$145	21.40	19.50	17.50	15.60	13.70	11.80	9.80	7.90	6.00	4.10	2.10
$145	$150	22.10	20.20	18.30	16.40	14.40	12.50	10.60	8.70	6.70	4.80	2.90
$150	$160	23.30	21.30	19.40	17.50	15.60	13.60	11.70	9.80	7.90	5.90	4.00
$160	$170	24.80	22.80	20.90	19.00	17.10	15.10	13.20	11.30	9.40	7.40	5.50
$170	$180	26.30	24.30	22.40	20.50	18.60	16.60	14.70	12.80	10.90	8.90	7.00
$180	$190	27.80	25.80	23.90	22.00	20.10	18.10	16.20	14.30	12.40	10.40	8.50
$190	$200	29.30	27.30	25.40	23.50	21.60	19.60	17.70	15.80	13.90	11.90	10.00
		15 percent of the excess over $200 plus—										
$200 and over		30.00	28.10	26.20	24.20	22.30	20.40	18.50	16.50	14.60	12.70	10.80

"If the payroll period with respect to an employee is biweekly

And the wages are—		And the number of withholding exemptions claimed is—										
At least—	But less than—	0	1	2	3	4	5	6	7	8	9	10 or more
		The amount of income tax to be withheld shall be—										
$0	$26	15% of wages	$0	$0	$0	$0	$0	$0	$0	$0	$0	$0
$26	$28	$4.10	.20	0	0	0	0	0	0	0	0	0
$28	$30	4.40	.50	0	0	0	0	0	0	0	0	0
$30	$32	4.70	.80	0	0	0	0	0	0	0	0	0
$32	$34	5.00	1.10	0	0	0	0	0	0	0	0	0
$34	$36	5.30	1.40	0	0	0	0	0	0	0	0	0
$36	$38	5.60	1.70	0	0	0	0	0	0	0	0	0
$38	$40	5.90	2.00	0	0	0	0	0	0	0	0	0
$40	$42	6.20	2.30	0	0	0	0	0	0	0	0	0
$42	$44	6.50	2.60	0	0	0	0	0	0	0	0	0
$44	$46	6.80	2.90	0	0	0	0	0	0	0	0	0
$46	$48	7.10	3.20	0	0	0	0	0	0	0	0	0
$48	$50	7.40	3.50	0	0	0	0	0	0	0	0	0
$50	$52	7.70	3.80	0	0	0	0	0	0	0	0	0
$52	$54	8.00	4.10	.30	0	0	0	0	0	0	0	0
$54	$56	8.30	4.40	.60	0	0	0	0	0	0	0	0
$56	$58	8.60	4.70	.90	0	0	0	0	0	0	0	0
$58	$60	8.90	5.00	1.20	0	0	0	0	0	0	0	0
$60	$62	9.20	5.30	1.50	0	0	0	0	0	0	0	0
$62	$64	9.50	5.60	1.80	0	0	0	0	0	0	0	0
$64	$66	9.80	5.90	2.10	0	0	0	0	0	0	0	0
$66	$68	10.10	6.20	2.40	0	0	0	0	0	0	0	0
$68	$70	10.40	6.50	2.70	0	0	0	0	0	0	0	0
$70	$72	10.70	6.80	3.00	0	0	0	0	0	0	0	0
$72	$74	11.00	7.10	3.30	0	0	0	0	0	0	0	0
$74	$76	11.30	7.40	3.60	0	0	0	0	0	0	0	0
$76	$78	11.60	7.70	3.90	0	0	0	0	0	0	0	0
$78	$80	11.90	8.00	4.20	.30	0	0	0	0	0	0	0
$80	$82	12.20	8.30	4.50	.60	0	0	0	0	0	0	0
$82	$84	12.50	8.60	4.80	.90	0	0	0	0	0	0	0
$84	$86	12.80	8.90	5.10	1.20	0	0	0	0	0	0	0
$86	$88	13.10	9.20	5.40	1.50	0	0	0	0	0	0	0
$88	$90	13.40	9.50	5.70	1.80	0	0	0	0	0	0	0
$90	$92	13.70	9.80	6.00	2.10	0	0	0	0	0	0	0
$92	$94	14.00	10.10	6.30	2.40	0	0	0	0	0	0	0
$94	$96	14.30	10.40	6.60	2.70	0	0	0	0	0	0	0
$96	$98	14.60	10.70	6.90	3.00	0	0	0	0	0	0	0
$98	$100	14.90	11.00	7.20	3.30	0	0	0	0	0	0	0
$100	$102	15.20	11.30	7.50	3.60	0	0	0	0	0	0	0
$102	$104	15.50	11.60	7.80	3.90	.10	0	0	0	0	0	0
$104	$106	15.80	11.90	8.10	4.20	.40	0	0	0	0	0	0
$106	$108	16.10	12.20	8.40	4.50	.70	0	0	0	0	0	0
$108	$110	16.40	12.50	8.70	4.80	1.00	0	0	0	0	0	0
$110	$112	16.70	12.80	9.00	5.10	1.30	0	0	0	0	0	0
$112	$114	17.00	13.10	9.30	5.40	1.60	0	0	0	0	0	0
$114	$116	17.30	13.40	9.60	5.70	1.90	0	0	0	0	0	0
$116	$118	17.60	13.70	9.90	6.00	2.20	0	0	0	0	0	0
$118	$120	17.90	14.00	10.20	6.30	2.50	0	0	0	0	0	0
$120	$124	18.30	14.50	10.60	6.80	2.90	0	0	0	0	0	0
$124	$128	18.90	15.10	11.20	7.40	3.50	0	0	0	0	0	0
$128	$132	19.50	15.70	11.80	8.00	4.10	.30	0	0	0	0	0
$132	$136	20.10	16.30	12.40	8.60	4.70	.90	0	0	0	0	0
$136	$140	20.70	16.90	13.00	9.20	5.30	1.50	0	0	0	0	0
$140	$144	21.30	17.50	13.60	9.80	5.90	2.10	0	0	0	0	0
$144	$148	21.90	18.10	14.20	10.40	6.50	2.70	0	0	0	0	0
$148	$152	22.50	18.70	14.80	11.00	7.10	3.30	0	0	0	0	0
$152	$156	23.10	19.30	15.40	11.60	7.70	3.90	0	0	0	0	0
$156	$160	23.70	19.90	16.00	12.20	8.30	4.50	.60	0	0	0	0
$160	$164	24.30	20.50	16.60	12.80	8.90	5.10	1.20	0	0	0	0
$164	$168	24.90	21.10	17.20	13.40	9.50	5.70	1.80	0	0	0	0
$168	$172	25.50	21.70	17.80	14.00	10.10	6.30	2.40	0	0	0	0
$172	$176	26.10	22.30	18.40	14.60	10.70	6.90	3.00	0	0	0	0
$176	$180	26.70	22.90	19.00	15.20	11.30	7.50	3.60	0	0	0	0
$180	$184	27.30	23.50	19.60	15.80	11.90	8.10	4.20	.40	0	0	0
$184	$188	27.90	24.10	20.20	16.40	12.50	8.70	4.80	1.00	0	0	0
$188	$192	28.50	24.70	20.80	17.00	13.10	9.30	5.40	1.60	0	0	0
$192	$196	29.10	25.30	21.40	17.60	13.70	9.90	6.00	2.20	0	0	0
$196	$200	29.70	25.90	22.00	18.20	14.30	10.50	6.60	2.80	0	0	0
$200	$210	30.80	26.90	23.10	19.20	15.40	11.50	7.70	3.80	0	0	0
$210	$220	32.30	28.40	24.60	20.70	16.90	13.00	9.20	5.30	1.50	0	0
$220	$230	33.80	29.90	26.10	22.20	18.40	14.50	10.70	6.80	3.00	0	0
$230	$240	35.30	31.40	27.60	23.70	19.90	16.00	12.20	8.30	4.50	.60	0
$240	$250	36.80	32.90	29.10	25.20	21.40	17.50	13.70	9.80	6.00	2.10	0
$250	$260	38.30	34.40	30.60	26.70	22.90	19.00	15.20	11.30	7.50	3.60	0
$260	$270	39.80	35.90	32.10	28.20	24.40	20.50	16.70	12.80	9.00	5.10	1.30
$270	$280	41.30	37.40	33.60	29.70	25.90	22.00	18.20	14.30	10.50	6.60	2.80
$280	$290	42.80	38.90	35.10	31.20	27.40	23.50	19.70	15.80	12.00	8.10	4.30
$290	$300	44.30	40.40	36.60	32.70	28.90	25.00	21.20	17.30	13.50	9.60	5.80
$300	$320	46.50	42.70	38.80	35.00	31.10	27.30	23.40	19.60	15.70	11.90	8.00
$320	$340	49.50	45.70	41.80	38.00	34.10	30.30	26.40	22.60	18.70	14.90	11.00
$340	$360	52.50	48.70	44.80	41.00	37.10	33.30	29.40	25.60	21.70	17.90	14.00
$360	$380	55.50	51.70	47.80	44.00	40.10	36.30	32.40	28.60	24.70	20.90	17.00
$380	$400	58.50	54.70	50.80	47.00	43.10	39.30	35.40	31.60	27.70	23.90	20.00
		15 percent of the excess over $400 plus—										
$400 and over		60.00	56.20	52.30	48.50	44.60	40.80	36.90	33.10	29.20	25.40	21.50

"If the payroll period with respect to an employee is semimonthly

And the wages are—		And the number of withholding exemptions claimed is—										
At least—	But less than—	0	1	2	3	4	5	6	7	8	9	10 or more
		The amount of income tax to be withheld shall be—										
$0	$28	15% of wages	$0	$0	$0	$0	$0	$0	$0	$0	$0	$0
$28	$30	$4.40	.20	0	0	0	0	0	0	0	0	0
$30	$32	4.70	.50	0	0	0	0	0	0	0	0	0
$32	$34	5.00	.80	0	0	0	0	0	0	0	0	0
$34	$36	5.30	1.10	0	0	0	0	0	0	0	0	0
$36	$38	5.60	1.40	0	0	0	0	0	0	0	0	0
$38	$40	5.90	1.70	0	0	0	0	0	0	0	0	0
$40	$42	6.20	2.00	0	0	0	0	0	0	0	0	0
$42	$44	6.50	2.30	0	0	0	0	0	0	0	0	0
$44	$46	6.80	2.60	0	0	0	0	0	0	0	0	0
$46	$48	7.10	2.90	0	0	0	0	0	0	0	0	0
$48	$50	7.40	3.20	0	0	0	0	0	0	0	0	0
$50	$52	7.70	3.50	0	0	0	0	0	0	0	0	0
$52	$54	8.00	3.80	0	0	0	0	0	0	0	0	0
$54	$56	8.30	4.10	0	0	0	0	0	0	0	0	0
$56	$58	8.60	4.40	.20	0	0	0	0	0	0	0	0
$58	$60	8.90	4.70	.50	0	0	0	0	0	0	0	0
$60	$62	9.20	5.00	.80	0	0	0	0	0	0	0	0
$62	$64	9.50	5.30	1.10	0	0	0	0	0	0	0	0
$64	$66	9.80	5.60	1.40	0	0	0	0	0	0	0	0
$66	$68	10.10	5.90	1.70	0	0	0	0	0	0	0	0
$68	$70	10.40	6.20	2.00	0	0	0	0	0	0	0	0
$70	$72	10.70	6.50	2.30	0	0	0	0	0	0	0	0
$72	$74	11.00	6.80	2.60	0	0	0	0	0	0	0	0
$74	$76	11.30	7.10	2.90	0	0	0	0	0	0	0	0
$76	$78	11.60	7.40	3.20	0	0	0	0	0	0	0	0
$78	$80	11.90	7.70	3.50	0	0	0	0	0	0	0	0
$80	$82	12.20	8.00	3.80	0	0	0	0	0	0	0	0
$82	$84	12.50	8.30	4.10	0	0	0	0	0	0	0	0
$84	$86	12.80	8.60	4.40	.30	0	0	0	0	0	0	0
$86	$88	13.10	8.90	4.70	.60	0	0	0	0	0	0	0
$88	$90	13.40	9.20	5.00	.90	0	0	0	0	0	0	0
$90	$92	13.70	9.50	5.30	1.20	0	0	0	0	0	0	0
$92	$94	14.00	9.80	5.60	1.50	0	0	0	0	0	0	0
$94	$96	14.30	10.10	5.90	1.80	0	0	0	0	0	0	0
$96	$98	14.60	10.40	6.20	2.10	0	0	0	0	0	0	0
$98	$100	14.90	10.70	6.50	2.40	0	0	0	0	0	0	0
$100	$102	15.20	11.00	6.80	2.70	0	0	0	0	0	0	0
$102	$104	15.50	11.30	7.10	3.00	0	0	0	0	0	0	0
$104	$106	15.80	11.60	7.40	3.30	0	0	0	0	0	0	0
$106	$108	16.10	11.90	7.70	3.60	0	0	0	0	0	0	0
$108	$110	16.40	12.20	8.00	3.90	0	0	0	0	0	0	0
$110	$112	16.70	12.50	8.30	4.20	0	0	0	0	0	0	0
$112	$114	17.00	12.80	8.60	4.50	.30	0	0	0	0	0	0
$114	$116	17.30	13.10	8.90	4.80	.60	0	0	0	0	0	0
$116	$118	17.60	13.40	9.20	5.10	.90	0	0	0	0	0	0
$118	$120	17.90	13.70	9.50	5.40	1.20	0	0	0	0	0	0
$120	$124	18.30	14.10	10.00	5.80	1.60	0	0	0	0	0	0
$124	$128	18.90	14.70	10.60	6.40	2.20	0	0	0	0	0	0
$128	$132	19.50	15.30	11.20	7.00	2.80	0	0	0	0	0	0
$132	$136	20.10	15.90	11.80	7.60	3.40	0	0	0	0	0	0
$136	$140	20.70	16.50	12.40	8.20	4.00	0	0	0	0	0	0
$140	$144	21.30	17.10	13.00	8.80	4.60	.50	0	0	0	0	0
$144	$148	21.90	17.70	13.60	9.40	5.20	1.10	0	0	0	0	0
$148	$152	22.50	18.30	14.20	10.00	5.80	1.70	0	0	0	0	0
$152	$156	23.10	18.90	14.80	10.60	6.40	2.30	0	0	0	0	0
$156	$160	23.70	19.50	15.40	11.20	7.00	2.90	0	0	0	0	0
$160	$164	24.30	20.10	16.00	11.80	7.60	3.50	0	0	0	0	0
$164	$168	24.90	20.70	16.60	12.40	8.20	4.10	0	0	0	0	0
$168	$172	25.50	21.30	17.20	13.00	8.80	4.70	.50	0	0	0	0
$172	$176	26.10	21.90	17.80	13.60	9.40	5.30	1.10	0	0	0	0
$176	$180	26.70	22.50	18.40	14.20	10.00	5.90	1.70	0	0	0	0
$180	$184	27.30	23.10	19.00	14.80	10.60	6.50	2.30	0	0	0	0
$184	$188	27.90	23.70	19.60	15.40	11.20	7.10	2.90	0	0	0	0
$188	$192	28.50	24.30	20.20	16.00	11.80	7.70	3.50	0	0	0	0
$192	$196	29.10	24.90	20.80	16.60	12.40	8.30	4.10	0	0	0	0
$196	$200	29.70	25.50	21.40	17.20	13.00	8.90	4.70	.50	0	0	0
$200	$210	30.80	26.60	22.40	18.30	14.10	9.90	5.80	1.60	0	0	0
$210	$220	32.30	28.10	23.90	19.80	15.60	11.40	7.30	3.10	0	0	0
$220	$230	33.80	29.60	25.40	21.30	17.10	12.90	8.80	4.60	.40	0	0
$230	$240	35.30	31.10	26.90	22.80	18.60	14.40	10.30	6.10	1.90	0	0
$240	$250	36.80	32.60	28.40	24.30	20.10	15.90	11.80	7.60	3.40	0	0
$250	$260	38.30	34.10	29.90	25.80	21.60	17.40	13.30	9.10	4.90	.80	0
$260	$270	39.80	35.60	31.40	27.30	23.10	18.90	14.80	10.60	6.40	2.30	0
$270	$280	41.30	37.10	32.90	28.80	24.60	20.40	16.30	12.10	7.90	3.80	0
$280	$290	42.80	38.60	34.40	30.30	26.10	21.90	17.80	13.60	9.40	5.30	1.10
$290	$300	44.30	40.10	35.90	31.80	27.60	23.40	19.30	15.10	10.90	6.80	2.60
$300	$320	46.50	42.30	38.20	34.00	29.80	25.70	21.50	17.30	13.20	9.00	4.80
$320	$340	49.50	45.30	41.20	37.00	32.80	28.70	24.50	20.30	16.20	12.00	7.80
$340	$360	52.50	48.30	44.20	40.00	35.80	31.70	27.50	23.30	19.20	15.00	10.80
$360	$380	55.50	51.30	47.20	43.00	38.80	34.70	30.50	26.30	22.20	18.00	13.80
$380	$400	58.50	54.30	50.20	46.00	41.80	37.70	33.50	29.30	25.20	21.00	16.80
$400	$420	61.50	57.30	53.20	49.00	44.80	40.70	36.50	32.30	28.20	24.00	19.80
$420	$440	64.50	60.30	56.20	52.00	47.80	43.70	39.50	35.30	31.20	27.00	22.80
$440	$460	67.50	63.30	59.20	55.00	50.80	46.70	42.50	38.30	34.20	30.00	25.80
$460	$480	70.50	66.30	62.20	58.00	53.80	49.70	45.50	41.30	37.20	33.00	28.80
$480	$500	73.50	69.30	65.20	61.00	56.80	52.70	48.50	44.30	40.20	36.00	31.80
		15 percent of the excess over $500 plus—										
$500 and over		75.00	70.80	66.70	62.50	58.30	54.20	50.00	45.80	41.70	37.50	33.30

"If the payroll period with respect to an employee is monthly

And the wages are—		And the number of withholding exemptions claimed is—										
At least—	But less than—	0	1	2	3	4	5	6	7	8	9	10 or more
		The amount of income tax to be withheld shall be—										
$0	$56	15% of wages	$0	$0	$0	$0	$0	$0	$0	$0	$0	$0
$56	$60	$8.70	.40	0	0	0	0	0	0	0	0	0
$60	$64	9.30	1.00	0	0	0	0	0	0	0	0	0
$64	$68	9.90	1.60	0	0	0	0	0	0	0	0	0
$68	$72	10.50	2.20	0	0	0	0	0	0	0	0	0
$72	$76	11.10	2.80	0	0	0	0	0	0	0	0	0
$76	$80	11.70	3.40	0	0	0	0	0	0	0	0	0
$80	$84	12.30	4.00	0	0	0	0	0	0	0	0	0
$84	$88	12.90	4.60	0	0	0	0	0	0	0	0	0
$88	$92	13.50	5.20	0	0	0	0	0	0	0	0	0
$92	$96	14.10	5.80	0	0	0	0	0	0	0	0	0
$96	$100	14.70	6.40	0	0	0	0	0	0	0	0	0
$100	$104	15.30	7.00	0	0	0	0	0	0	0	0	0
$104	$108	15.90	7.60	0	0	0	0	0	0	0	0	0
$108	$112	16.50	8.20	0	0	0	0	0	0	0	0	0
$112	$116	17.10	8.80	.40	0	0	0	0	0	0	0	0
$116	$120	17.70	9.40	1.00	0	0	0	0	0	0	0	0
$120	$124	18.30	10.00	1.60	0	0	0	0	0	0	0	0
$124	$128	18.90	10.60	2.20	0	0	0	0	0	0	0	0
$128	$132	19.50	11.20	2.80	0	0	0	0	0	0	0	0
$132	$136	20.10	11.80	3.40	0	0	0	0	0	0	0	0
$136	$140	20.70	12.40	4.00	0	0	0	0	0	0	0	0
$140	$144	21.30	13.00	4.60	0	0	0	0	0	0	0	0
$144	$148	21.90	13.60	5.20	0	0	0	0	0	0	0	0
$148	$152	22.50	14.20	5.80	0	0	0	0	0	0	0	0
$152	$156	23.10	14.80	6.40	0	0	0	0	0	0	0	0
$156	$160	23.70	15.40	7.00	0	0	0	0	0	0	0	0
$160	$164	24.30	16.00	7.60	0	0	0	0	0	0	0	0
$164	$168	24.90	16.60	8.20	0	0	0	0	0	0	0	0
$168	$172	25.50	17.20	8.80	.50	0	0	0	0	0	0	0
$172	$176	26.10	17.80	9.40	1.10	0	0	0	0	0	0	0
$176	$180	26.70	18.40	10.00	1.70	0	0	0	0	0	0	0
$180	$184	27.30	19.00	10.60	2.30	0	0	0	0	0	0	0
$184	$188	27.90	19.60	11.20	2.90	0	0	0	0	0	0	0
$188	$192	28.50	20.20	11.80	3.50	0	0	0	0	0	0	0
$192	$196	29.10	20.80	12.40	4.10	0	0	0	0	0	0	0
$196	$200	29.70	21.40	13.00	4.70	0	0	0	0	0	0	0
$200	$204	30.30	22.00	13.60	5.30	0	0	0	0	0	0	0
$204	$208	30.90	22.60	14.20	5.90	0	0	0	0	0	0	0
$208	$212	31.50	23.20	14.80	6.50	0	0	0	0	0	0	0
$212	$216	32.10	23.80	15.40	7.10	0	0	0	0	0	0	0
$216	$220	32.70	24.40	16.00	7.70	0	0	0	0	0	0	0
$220	$224	33.30	25.00	16.60	8.30	0	0	0	0	0	0	0
$224	$228	33.90	25.60	17.20	8.90	.60	0	0	0	0	0	0
$228	$232	34.50	26.20	17.80	9.50	1.20	0	0	0	0	0	0
$232	$236	35.10	26.80	18.40	10.10	1.80	0	0	0	0	0	0
$236	$240	35.70	27.40	19.00	10.70	2.40	0	0	0	0	0	0
$240	$248	36.60	28.30	19.90	11.60	3.30	0	0	0	0	0	0
$248	$256	37.80	29.50	21.10	12.80	4.50	0	0	0	0	0	0
$256	$264	39.00	30.70	22.30	14.00	5.70	0	0	0	0	0	0
$264	$272	40.20	31.90	23.50	15.20	6.90	0	0	0	0	0	0
$272	$280	41.40	33.10	24.70	16.40	8.10	0	0	0	0	0	0
$280	$288	42.60	34.30	25.90	17.60	9.30	.90	0	0	0	0	0
$288	$296	43.80	35.50	27.10	18.80	10.50	2.10	0	0	0	0	0
$296	$304	45.00	36.70	28.30	20.00	11.70	3.30	0	0	0	0	0
$304	$312	46.20	37.90	29.50	21.20	12.90	4.50	0	0	0	0	0
$312	$320	47.40	39.10	30.70	22.40	14.10	5.70	0	0	0	0	0
$320	$328	48.60	40.30	31.90	23.60	15.30	6.90	0	0	0	0	0
$328	$336	49.80	41.50	33.10	24.80	16.50	8.10	0	0	0	0	0
$336	$344	51.00	42.70	34.30	26.00	17.70	9.30	1.00	0	0	0	0
$344	$352	52.20	43.90	35.50	27.20	18.90	10.50	2.20	0	0	0	0
$352	$360	53.40	45.10	36.70	28.40	20.10	11.70	3.40	0	0	0	0
$360	$368	54.60	46.30	37.90	29.60	21.30	12.90	4.60	0	0	0	0
$368	$376	55.80	47.50	39.10	30.80	22.50	14.10	5.80	0	0	0	0
$376	$384	57.00	48.70	40.30	32.00	23.70	15.30	7.00	0	0	0	0
$384	$392	58.20	49.90	41.50	33.20	24.90	16.50	8.20	0	0	0	0
$392	$400	59.40	51.10	42.70	34.40	26.10	17.70	9.40	1.10	0	0	0
$400	$420	61.50	53.20	44.80	36.50	28.20	19.80	11.50	3.20	0	0	0
$420	$440	64.50	56.20	47.80	39.50	31.20	22.80	14.50	6.20	0	0	0
$440	$460	67.50	59.20	50.80	42.50	34.20	25.80	17.50	9.20	.80	0	0
$460	$480	70.50	62.20	53.80	45.50	37.20	28.80	20.50	12.20	3.80	0	0
$480	$500	73.50	65.20	56.80	48.50	40.20	31.80	23.50	15.20	6.80	0	0
$500	$520	76.50	68.20	59.80	51.50	43.20	34.80	26.50	18.20	9.80	1.50	0
$520	$540	79.50	71.20	62.80	54.50	46.20	37.80	29.50	21.20	12.80	4.50	0
$540	$560	82.50	74.20	65.80	57.50	49.20	40.80	32.50	24.20	15.80	7.50	0
$560	$580	85.50	77.20	68.80	60.50	52.20	43.80	35.50	27.20	18.80	10.50	2.20
$580	$600	88.50	80.20	71.80	63.50	55.20	46.80	38.50	30.20	21.80	13.50	5.20
$600	$640	93.00	84.70	76.30	68.00	59.70	51.30	43.00	34.70	26.30	18.00	9.70
$640	$680	99.00	90.70	82.30	74.00	65.70	57.30	49.00	40.70	32.30	24.00	15.70
$680	$720	105.00	96.70	88.30	80.00	71.70	63.30	55.00	46.70	38.30	30.00	21.70
$720	$760	111.00	102.70	94.30	86.00	77.70	69.30	61.00	52.70	44.30	36.00	27.70
$760	$800	117.00	108.70	100.30	92.00	83.70	75.30	67.00	58.70	50.30	42.00	33.70
$800	$840	123.00	114.70	106.30	98.00	89.70	81.30	73.00	64.70	56.30	48.00	39.70
$840	$880	129.00	120.70	112.30	104.00	95.70	87.30	79.00	70.70	62.30	54.00	45.70
$880	$920	135.00	126.70	118.30	110.00	101.70	93.30	85.00	76.70	68.30	60.00	51.70
$920	$960	141.00	132.70	124.30	116.00	107.70	99.30	91.00	82.70	74.30	66.00	57.70
$960	$1,000	147.00	138.70	130.30	122.00	113.70	105.30	97.00	88.70	80.30	72.00	63.70
		15 percent of the excess over $1,000 plus—										
$1,000 and over		150.00	141.70	133.30	125.00	116.70	108.30	100.00	91.70	83.30	75.00	66.70

"If the payroll period with respect to an employee is a daily payroll period or a miscellaneous payroll period—

And the wages divided by the number of days in such period are—		And the number of withholding exemptions claimed is—										
		0	1	2	3	4	5	6	7	8	9	10 or more
At least—	But less than—	The amount of tax to be withheld shall be the following amount multiplied by the number of days in such period—										
$0	$2.00	15% of wages	$0	$0	$0	$0	$0	$0	$0	$0	$0	$0
$2.00	$2.25	$0.30	.05	0	0	0	0	0	0	0	0	0
$2.25	$2.50	.35	.10	0	0	0	0	0	0	0	0	0
$2.50	$2.75	.40	.10	0	0	0	0	0	0	0	0	0
$2.75	$3.00	.45	.15	0	0	0	0	0	0	0	0	0
$3.00	$3.25	.45	.20	0	0	0	0	0	0	0	0	0
$3.25	$3.50	.50	.25	0	0	0	0	0	0	0	0	0
$3.50	$3.75	.55	.25	0	0	0	0	0	0	0	0	0
$3.75	$4.00	.60	.30	.05	0	0	0	0	0	0	0	0
$4.00	$4.25	.60	.35	.05	0	0	0	0	0	0	0	0
$4.25	$4.50	.65	.40	.10	0	0	0	0	0	0	0	0
$4.50	$4.75	.70	.40	.15	0	0	0	0	0	0	0	0
$4.75	$5.00	.75	.45	.20	0	0	0	0	0	0	0	0
$5.00	$5.25	.75	.50	.20	0	0	0	0	0	0	0	0
$5.25	$5.50	.80	.55	.25	0	0	0	0	0	0	0	0
$5.50	$5.75	.85	.55	.30	0	0	0	0	0	0	0	0
$5.75	$6.00	.90	.60	.35	.05	0	0	0	0	0	0	0
$6.00	$6.25	.90	.65	.35	.10	0	0	0	0	0	0	0
$6.25	$6.50	.95	.70	.40	.15	0	0	0	0	0	0	0
$6.50	$6.75	1.00	.70	.45	.15	0	0	0	0	0	0	0
$6.75	$7.00	1.05	.75	.50	.20	0	0	0	0	0	0	0
$7.00	$7.25	1.05	.80	.50	.25	0	0	0	0	0	0	0
$7.25	$7.50	1.10	.85	.55	.30	0	0	0	0	0	0	0
$7.50	$7.75	1.15	.85	.60	.30	.05	0	0	0	0	0	0
$7.75	$8.00	1.20	.90	.65	.35	.10	0	0	0	0	0	0
$8.00	$8.25	1.20	.95	.65	.40	.10	0	0	0	0	0	0
$8.25	$8.50	1.25	1.00	.70	.45	.15	0	0	0	0	0	0
$8.50	$8.75	1.30	1.00	.75	.45	.20	0	0	0	0	0	0
$8.75	$9.00	1.35	1.05	.80	.50	.25	0	0	0	0	0	0
$9.00	$9.25	1.35	1.10	.80	.55	.25	0	0	0	0	0	0
$9.25	$9.50	1.40	1.15	.85	.60	.30	.05	0	0	0	0	0
$9.50	$9.75	1.45	1.15	.90	.60	.35	.05	0	0	0	0	0
$9.75	$10.00	1.50	1.20	.95	.65	.40	.10	0	0	0	0	0
$10.00	$10.50	1.55	1.25	1.00	.70	.45	.15	0	0	0	0	0
$10.50	$11.00	1.60	1.35	1.05	.80	.50	.25	0	0	0	0	0
$11.00	$11.50	1.70	1.40	1.15	.85	.60	.30	.05	0	0	0	0
$11.50	$12.00	1.75	1.50	1.20	.95	.65	.40	.10	0	0	0	0
$12.00	$12.50	1.85	1.55	1.30	1.00	.75	.45	.20	0	0	0	0
$12.50	$13.00	1.90	1.65	1.35	1.10	.80	.55	.25	0	0	0	0
$13.00	$13.50	2.00	1.70	1.45	1.15	.90	.60	.35	.05	0	0	0
$13.50	$14.00	2.05	1.80	1.50	1.25	.95	.70	.40	.15	0	0	0
$14.00	$14.50	2.15	1.85	1.60	1.30	1.05	.75	.50	.20	0	0	0
$14.50	$15.00	2.20	1.95	1.65	1.40	1.10	.85	.55	.30	0	0	0
$15.00	$15.50	2.30	2.00	1.75	1.45	1.20	.90	.65	.35	.10	0	0
$15.50	$16.00	2.35	2.10	1.80	1.55	1.25	1.00	.70	.45	.15	0	0
$16.00	$16.50	2.45	2.15	1.90	1.60	1.35	1.05	.80	.50	.25	0	0
$16.50	$17.00	2.50	2.25	1.95	1.70	1.40	1.15	.85	.60	.30	.05	0
$17.00	$17.50	2.60	2.30	2.05	1.75	1.50	1.20	.95	.65	.40	.10	0
$17.50	$18.00	2.65	2.40	2.10	1.85	1.55	1.30	1.00	.75	.45	.20	0
$18.00	$18.50	2.75	2.45	2.20	1.90	1.65	1.35	1.10	.80	.55	.25	0
$18.50	$19.00	2.80	2.55	2.25	2.00	1.70	1.45	1.15	.90	.60	.35	.05
$19.00	$19.50	2.90	2.60	2.35	2.05	1.80	1.50	1.25	.95	.70	.40	.15
$19.50	$20.00	2.95	2.70	2.40	2.15	1.85	1.60	1.30	1.05	.75	.50	.20
$20.00	$21.00	3.10	2.80	2.55	2.25	2.00	1.70	1.45	1.15	.90	.60	.35
$21.00	$22.00	3.25	2.95	2.70	2.40	2.15	1.85	1.60	1.30	1.05	.75	.50
$22.00	$23.00	3.40	3.10	2.85	2.55	2.30	2.00	1.75	1.45	1.20	.90	.65
$23.00	$24.00	3.55	3.25	3.00	2.70	2.45	2.15	1.90	1.60	1.35	1.05	.80
$24.00	$25.00	3.70	3.40	3.15	2.85	2.60	2.30	2.05	1.75	1.50	1.20	.95
$25.00	$26.00	3.85	3.55	3.30	3.00	2.75	2.45	2.20	1.90	1.65	1.35	1.10
$26.00	$27.00	4.00	3.70	3.45	3.15	2.90	2.60	2.35	2.05	1.80	1.50	1.25
$27.00	$28.00	4.15	3.85	3.60	3.30	3.05	2.75	2.50	2.20	1.95	1.65	1.40
$28.00	$29.00	4.30	4.00	3.75	3.45	3.20	2.90	2.65	2.35	2.10	1.80	1.55
$29.00	$30.00	4.45	4.15	3.90	3.60	3.35	3.05	2.80	2.50	2.25	1.95	1.70
		15 percent of the excess over $30 plus—										
$30 and over		4.50	4.25	3.95	3.70	3.40	3.15	2.85	2.60	2.30	2.05	1.75

1 "(B) WAGES PAID AFTER DECEMBER 31, 1964.—
2 At the election of the employer with respect to any
3 employee, the employer shall deduct and withhold upon
4 the wages paid to such employee after December 31,
5 1964, a tax determined in accordance with the follow-
6 ing tables, which shall be in lieu of the tax required to be
7 deducted and withheld under subsection (a):

"If the payroll period with respect to an employee is weekly—

And the wages are—		And the number of withholding exemptions claimed is—										
At least—	But less than—	0	1	2	3	4	5	6	7	8	9	10 or more
		The amount of income tax to be withheld shall be—										
$0	$13	14% of wages	$0	$0	$0	$0	$0	$0	$0	$0	$0	$0
$13	$14	$1.90	.10	0	0	0	0	0	0	0	0	0
$14	$15	2.00	.20	0	0	0	0	0	0	0	0	0
$15	$16	2.20	.40	0	0	0	0	0	0	0	0	0
$16	$17	2.30	.50	0	0	0	0	0	0	0	0	0
$17	$18	2.50	.70	0	0	0	0	0	0	0	0	0
$18	$19	2.60	.80	0	0	0	0	0	0	0	0	0
$19	$20	2.70	.90	0	0	0	0	0	0	0	0	0
$20	$21	2.90	1.10	0	0	0	0	0	0	0	0	0
$21	$22	3.00	1.20	0	0	0	0	0	0	0	0	0
$22	$23	3.20	1.40	0	0	0	0	0	0	0	0	0
$23	$24	3.30	1.50	0	0	0	0	0	0	0	0	0
$24	$25	3.40	1.60	0	0	0	0	0	0	0	0	0
$25	$26	3.60	1.80	0	0	0	0	0	0	0	0	0
$26	$27	3.70	1.90	.10	0	0	0	0	0	0	0	0
$27	$28	3.90	2.10	.30	0	0	0	0	0	0	0	0
$28	$29	4.00	2.20	.40	0	0	0	0	0	0	0	0
$29	$30	4.10	2.30	.50	0	0	0	0	0	0	0	0
$30	$31	4.30	2.50	.70	0	0	0	0	0	0	0	0
$31	$32	4.40	2.60	.80	0	0	0	0	0	0	0	0
$32	$33	4.60	2.80	1.00	0	0	0	0	0	0	0	0
$33	$34	4.70	2.90	1.10	0	0	0	0	0	0	0	0
$34	$35	4.80	3.00	1.20	0	0	0	0	0	0	0	0
$35	$36	5.00	3.20	1.40	0	0	0	0	0	0	0	0
$36	$37	5.10	3.30	1.50	0	0	0	0	0	0	0	0
$37	$38	5.30	3.50	1.70	0	0	0	0	0	0	0	0
$38	$39	5.40	3.60	1.80	0	0	0	0	0	0	0	0
$39	$40	5.50	3.70	1.90	.10	0	0	0	0	0	0	0
$40	$41	5.70	3.90	2.10	.30	0	0	0	0	0	0	0
$41	$42	5.80	4.00	2.20	.40	0	0	0	0	0	0	0
$42	$43	6.00	4.20	2.40	.60	0	0	0	0	0	0	0
$43	$44	6.10	4.30	2.50	.70	0	0	0	0	0	0	0
$44	$45	6.20	4.40	2.60	.80	0	0	0	0	0	0	0
$45	$46	6.40	4.60	2.80	1.00	0	0	0	0	0	0	0
$46	$47	6.50	4.70	2.90	1.10	0	0	0	0	0	0	0
$47	$48	6.70	4.90	3.10	1.30	0	0	0	0	0	0	0
$48	$49	6.80	5.00	3.20	1.40	0	0	0	0	0	0	0
$49	$50	6.90	5.10	3.30	1.50	0	0	0	0	0	0	0
$50	$51	7.10	5.30	3.50	1.70	0	0	0	0	0	0	0
$51	$52	7.20	5.40	3.60	1.80	0	0	0	0	0	0	0
$52	$53	7.40	5.60	3.80	2.00	.20	0	0	0	0	0	0
$53	$54	7.50	5.70	3.90	2.10	.30	0	0	0	0	0	0
$54	$55	7.60	5.80	4.00	2.20	.50	0	0	0	0	0	0
$55	$56	7.80	6.00	4.20	2.40	.60	0	0	0	0	0	0
$56	$57	7.90	6.10	4.30	2.50	.70	0	0	0	0	0	0
$57	$58	8.10	6.30	4.50	2.70	.90	0	0	0	0	0	0
$58	$59	8.20	6.40	4.60	2.80	1.00	0	0	0	0	0	0
$59	$60	8.30	6.50	4.70	2.90	1.20	0	0	0	0	0	0
$60	$62	8.50	6.70	5.00	3.20	1.40	0	0	0	0	0	0
$62	$64	8.80	7.00	5.20	3.40	1.60	0	0	0	0	0	0
$64	$66	9.10	7.30	5.50	3.70	1.90	.10	0	0	0	0	0
$66	$68	9.40	7.60	5.80	4.00	2.20	.40	0	0	0	0	0
$68	$70	9.70	7.90	6.10	4.30	2.50	.70	0	0	0	0	0
$70	$72	9.90	8.10	6.40	4.60	2.80	1.00	0	0	0	0	0
$72	$74	10.20	8.40	6.60	4.80	3.00	1.20	0	0	0	0	0
$74	$76	10.50	8.70	6.90	5.10	3.30	1.50	0	0	0	0	0
$76	$78	10.80	9.00	7.20	5.40	3.60	1.80	0	0	0	0	0
$78	$80	11.10	9.30	7.50	5.70	3.90	2.10	.30	0	0	0	0
$80	$82	11.30	9.50	7.80	6.00	4.20	2.40	.60	0	0	0	0
$82	$84	11.60	9.80	8.00	6.20	4.40	2.60	.90	0	0	0	0
$84	$86	11.90	10.10	8.30	6.50	4.70	2.90	1.10	0	0	0	0
$86	$88	12.20	10.40	8.60	6.80	5.00	3.20	1.40	0	0	0	0
$88	$90	12.50	10.70	8.90	7.10	5.30	3.50	1.70	0	0	0	0
$90	$92	12.70	10.90	9.20	7.40	5.60	3.80	2.00	.20	0	0	0
$92	$94	13.00	11.20	9.40	7.60	5.80	4.00	2.30	.50	0	0	0
$94	$96	13.30	11.50	9.70	7.90	6.10	4.30	2.50	.70	0	0	0
$96	$98	13.60	11.80	10.00	8.20	6.40	4.60	2.80	1.00	0	0	0
$98	$100	13.90	12.10	10.30	8.50	6.70	4.90	3.10	1.30	0	0	0
$100	$105	14.40	12.60	10.80	9.00	7.20	5.40	3.60	1.80	0	0	0
$105	$110	15.10	13.30	11.50	9.70	7.90	6.10	4.30	2.50	.70	0	0
$110	$115	15.80	14.00	12.20	10.40	8.60	6.80	5.00	3.20	1.40	0	0
$115	$120	16.50	14.70	12.90	11.10	9.30	7.50	5.70	3.90	2.10	.30	0
$120	$125	17.20	15.40	13.60	11.80	10.00	8.20	6.40	4.60	2.80	1.00	0
$125	$130	17.90	16.10	14.30	12.50	10.70	8.90	7.10	5.30	3.50	1.70	0
$130	$135	18.60	16.80	15.00	13.20	11.40	9.60	7.80	6.00	4.20	2.40	.60
$135	$140	19.30	17.50	15.70	13.90	12.10	10.30	8.50	6.70	4.90	3.10	1.30
$140	$145	20.00	18.20	16.40	14.60	12.80	11.00	9.20	7.40	5.60	3.80	2.00
$145	$150	20.70	18.90	17.10	15.30	13.50	11.70	9.90	8.10	6.30	4.50	2.70
$150	$160	21.70	19.90	18.10	16.30	14.50	12.70	10.90	9.10	7.30	5.50	3.80
$160	$170	23.10	21.30	19.50	17.70	15.90	14.10	12.30	10.50	8.70	6.90	5.20
$170	$180	24.50	22.70	20.90	19.10	17.30	15.50	13.70	11.90	10.10	8.30	6.60
$180	$190	25.90	24.10	22.30	20.50	18.70	16.90	15.10	13.30	11.50	9.70	8.00
$190	$200	27.30	25.50	23.70	21.90	20.10	18.30	16.50	14.70	12.90	11.10	9.40
		14 percent of the excess over $200 plus—										
$200 and over		28.00	26.20	24.40	22.60	20.80	19.00	17.20	15.40	13.60	11.80	10.10

"If the payroll period with respect to an employee is biweekly—

And the wages are—		And the number of withholding exemptions claimed is—										
At least—	But less than—	0	1	2	3	4	5	6	7	8	9	10 or more
		The amount of income tax to be withheld shall be—										
$0	$26	14% of wages	$0	$0	$0	$0	$0	$0	$0	$0	$0	$0
$26	$28	$3.80	.20	0	0	0	0	0	0	0	0	0
$28	$30	4.10	.50	0	0	0	0	0	0	0	0	0
$30	$32	4.30	.80	0	0	0	0	0	0	0	0	0
$32	$34	4.60	1.00	0	0	0	0	0	0	0	0	0
$34	$36	4.90	1.30	0	0	0	0	0	0	0	0	0
$36	$38	5.20	1.60	0	0	0	0	0	0	0	0	0
$38	$40	5.50	1.90	0	0	0	0	0	0	0	0	0
$40	$42	5.70	2.20	0	0	0	0	0	0	0	0	0
$42	$44	6.00	2.40	0	0	0	0	0	0	0	0	0
$44	$46	6.30	2.70	0	0	0	0	0	0	0	0	0
$46	$48	6.60	3.00	0	0	0	0	0	0	0	0	0
$48	$50	6.90	3.30	0	0	0	0	0	0	0	0	0
$50	$52	7.10	3.60	0	0	0	0	0	0	0	0	0
$52	$54	7.40	3.80	.20	0	0	0	0	0	0	0	0
$54	$56	7.70	4.10	.50	0	0	0	0	0	0	0	0
$56	$58	8.00	4.40	.80	0	0	0	0	0	0	0	0
$58	$60	8.30	4.70	1.10	0	0	0	0	0	0	0	0
$60	$62	8.50	5.00	1.40	0	0	0	0	0	0	0	0
$62	$64	8.80	5.20	1.60	0	0	0	0	0	0	0	0
$64	$66	9.10	5.50	1.90	0	0	0	0	0	0	0	0
$66	$68	9.40	5.80	2.20	0	0	0	0	0	0	0	0
$68	$70	9.70	6.10	2.50	0	0	0	0	0	0	0	0
$70	$72	9.90	6.40	2.80	0	0	0	0	0	0	0	0
$72	$74	10.20	6.60	3.00	0	0	0	0	0	0	0	0
$74	$76	10.50	6.90	3.30	0	0	0	0	0	0	0	0
$76	$78	10.80	7.20	3.60	0	0	0	0	0	0	0	0
$78	$80	11.10	7.50	3.90	.30	0	0	0	0	0	0	0
$80	$82	11.30	7.80	4.20	.60	0	0	0	0	0	0	0
$82	$84	11.60	8.00	4.40	.90	0	0	0	0	0	0	0
$84	$86	11.90	8.30	4.70	1.10	0	0	0	0	0	0	0
$86	$88	12.20	8.60	5.00	1.40	0	0	0	0	0	0	0
$88	$90	12.50	8.90	5.30	1.70	0	0	0	0	0	0	0
$90	$92	12.70	9.20	5.60	2.00	0	0	0	0	0	0	0
$92	$94	13.00	9.40	5.80	2.30	0	0	0	0	0	0	0
$94	$96	13.30	9.70	6.10	2.50	0	0	0	0	0	0	0
$96	$98	13.60	10.00	6.40	2.80	0	0	0	0	0	0	0
$98	$100	13.90	10.30	6.70	3.10	0	0	0	0	0	0	0
$100	$102	14.10	10.60	7.00	3.40	0	0	0	0	0	0	0
$102	$104	14.40	10.80	7.20	3.70	.10	0	0	0	0	0	0
$104	$106	14.70	11.10	7.50	3.90	.30	0	0	0	0	0	0
$106	$108	15.00	11.40	7.80	4.20	.60	0	0	0	0	0	0
$108	$110	15.30	11.70	8.10	4.50	.90	0	0	0	0	0	0
$110	$112	15.50	12.00	8.40	4.80	1.20	0	0	0	0	0	0
$112	$114	15.80	12.20	8.60	5.10	1.50	0	0	0	0	0	0
$114	$116	16.10	12.50	8.90	5.30	1.70	0	0	0	0	0	0
$116	$118	16.40	12.80	9.20	5.60	2.00	0	0	0	0	0	0
$118	$120	16.70	13.10	9.50	5.90	2.30	0	0	0	0	0	0
$120	$124	17.10	13.50	9.90	6.30	2.70	0	0	0	0	0	0
$124	$128	17.60	14.10	10.50	6.90	3.30	0	0	0	0	0	0
$128	$132	18.20	14.60	11.00	7.40	3.80	.30	0	0	0	0	0
$132	$136	18.80	15.20	11.60	8.00	4.40	.80	0	0	0	0	0
$136	$140	19.30	15.70	12.10	8.60	5.00	1.40	0	0	0	0	0
$140	$144	19.90	16.30	12.70	9.10	5.50	1.90	0	0	0	0	0
$144	$148	20.40	16.90	13.30	9.70	6.10	2.50	0	0	0	0	0
$148	$152	21.00	17.40	13.80	10.20	6.60	3.10	0	0	0	0	0
$152	$156	21.60	18.00	14.40	10.80	7.20	3.60	0	0	0	0	0
$156	$160	22.10	18.50	14.90	11.40	7.80	4.20	.60	0	0	0	0
$160	$164	22.70	19.10	15.50	11.90	8.30	4.70	1.10	0	0	0	0
$164	$168	23.20	19.70	16.10	12.50	8.90	5.30	1.70	0	0	0	0
$168	$172	23.80	20.20	16.60	13.00	9.40	5.90	2.30	0	0	0	0
$172	$176	24.40	20.80	17.20	13.60	10.00	6.40	2.80	0	0	0	0
$176	$180	24.90	21.30	17.70	14.20	10.60	7.00	3.40	0	0	0	0
$180	$184	25.50	21.90	18.30	14.70	11.10	7.50	3.90	.40	0	0	0
$184	$188	26.00	22.50	18.90	15.30	11.70	8.10	4.50	.90	0	0	0
$188	$192	26.60	23.00	19.40	15.80	12.20	8.70	5.10	1.50	0	0	0
$192	$196	27.20	23.60	20.00	16.40	12.80	9.20	5.60	2.00	0	0	0
$196	$200	27.70	24.10	20.50	17.00	13.40	9.80	6.20	2.60	0	0	0
$200	$210	28.70	25.10	21.50	17.90	14.30	10.80	7.20	3.60	0	0	0
$210	$220	30.10	26.50	22.90	19.30	15.70	12.20	8.60	5.00	1.40	0	0
$220	$230	31.50	27.90	24.30	20.70	17.10	13.60	10.00	6.40	2.80	0	0
$230	$240	32.90	29.30	25.70	22.10	18.50	15.00	11.40	7.80	4.20	.60	0
$240	$250	34.30	30.70	27.10	23.50	19.90	16.40	12.80	9.20	5.60	2.00	0
$250	$260	35.70	32.10	28.50	24.90	21.30	17.80	14.20	10.60	7.00	3.40	0
$260	$270	37.10	33.50	29.90	26.30	22.70	19.20	15.60	12.00	8.40	4.80	1.20
$270	$280	38.50	34.90	31.30	27.70	24.10	20.60	17.00	13.40	9.80	6.20	2.60
$280	$290	39.90	36.30	32.70	29.10	25.50	22.00	18.40	14.80	11.20	7.60	4.00
$290	$300	41.30	37.70	34.10	30.50	26.90	23.40	19.80	16.20	12.60	9.00	5.40
$300	$320	43.40	39.80	36.20	32.60	29.00	25.50	21.90	18.30	14.70	11.10	7.50
$320	$340	46.20	42.60	39.00	35.40	31.80	28.30	24.70	21.10	17.50	13.90	10.30
$340	$360	49.00	45.40	41.80	38.20	34.60	31.10	27.50	23.90	20.30	16.70	13.10
$360	$380	51.80	48.20	44.60	41.00	37.40	33.90	30.30	26.70	23.10	19.50	15.90
$380	$400	54.60	51.00	47.40	43.80	40.20	36.70	33.10	29.50	25.90	22.30	18.70
		14 percent of the excess over $400 plus—										
$400 and over		56.00	52.40	48.80	45.20	41.60	38.10	34.50	30.90	27.30	23.70	20.10

"If the payroll period with respect to an employee is semimonthly—

And the wages are—		And the number of withholding exemptions claimed is—										
At least—	But less than—	0	1	2	3	4	5	6	7	8	9	10 or more
		The amount of income tax to be withheld shall be—										
$0	$28	14% of wages	$0	$0	$0	$0	$0	$0	$0	$0	$0	$0
$28	$30	$4.10	.20	0	0	0	0	0	0	0	0	0
$30	$32	4.30	.50	0	0	0	0	0	0	0	0	0
$32	$34	4.60	.70	0	0	0	0	0	0	0	0	0
$34	$36	4.90	1.00	0	0	0	0	0	0	0	0	0
$36	$38	5.20	1.30	0	0	0	0	0	0	0	0	0
$38	$40	5.50	1.60	0	0	0	0	0	0	0	0	0
$40	$42	5.70	1.90	0	0	0	0	0	0	0	0	0
$42	$44	6.00	2.10	0	0	0	0	0	0	0	0	0
$44	$46	6.30	2.40	0	0	0	0	0	0	0	0	0
$46	$48	6.60	2.70	0	0	0	0	0	0	0	0	0
$48	$50	6.90	3.00	0	0	0	0	0	0	0	0	0
$50	$52	7.10	3.30	0	0	0	0	0	0	0	0	0
$52	$54	7.40	3.50	0	0	0	0	0	0	0	0	0
$54	$56	7.70	3.80	0	0	0	0	0	0	0	0	0
$56	$58	8.00	4.10	.20	0	0	0	0	0	0	0	0
$58	$60	8.30	4.40	.50	0	0	0	0	0	0	0	0
$60	$62	8.50	4.70	.80	0	0	0	0	0	0	0	0
$62	$64	8.80	4.90	1.00	0	0	0	0	0	0	0	0
$64	$66	9.10	5.20	1.30	0	0	0	0	0	0	0	0
$66	$68	9.40	5.50	1.60	0	0	0	0	0	0	0	0
$68	$70	9.70	5.80	1.90	0	0	0	0	0	0	0	0
$70	$72	9.90	6.10	2.20	0	0	0	0	0	0	0	0
$72	$74	10.20	6.30	2.40	0	0	0	0	0	0	0	0
$74	$76	10.50	6.60	2.70	0	0	0	0	0	0	0	0
$76	$78	10.80	6.90	3.00	0	0	0	0	0	0	0	0
$78	$80	11.10	7.20	3.30	0	0	0	0	0	0	0	0
$80	$82	11.30	7.50	3.60	0	0	0	0	0	0	0	0
$82	$84	11.60	7.70	3.80	0	0	0	0	0	0	0	0
$84	$86	11.90	8.00	4.10	.20	0	0	0	0	0	0	0
$86	$88	12.20	8.30	4.40	.50	0	0	0	0	0	0	0
$88	$90	12.50	8.60	4.70	.80	0	0	0	0	0	0	0
$90	$92	12.70	8.90	5.00	1.10	0	0	0	0	0	0	0
$92	$94	13.00	9.10	5.20	1.40	0	0	0	0	0	0	0
$94	$96	13.30	9.40	5.50	1.60	0	0	0	0	0	0	0
$96	$98	13.60	9.70	5.80	1.90	0	0	0	0	0	0	0
$98	$100	13.90	10.00	6.10	2.20	0	0	0	0	0	0	0
$100	$102	14.10	10.30	6.40	2.50	0	0	0	0	0	0	0
$102	$104	14.40	10.50	6.60	2.80	0	0	0	0	0	0	0
$104	$106	14.70	10.80	6.90	3.00	0	0	0	0	0	0	0
$106	$108	15.00	11.10	7.20	3.30	0	0	0	0	0	0	0
$108	$110	15.30	11.40	7.50	3.60	0	0	0	0	0	0	0
$110	$112	15.50	11.70	7.80	3.90	0	0	0	0	0	0	0
$112	$114	15.80	11.90	8.00	4.20	.30	0	0	0	0	0	0
$114	$116	16.10	12.20	8.30	4.40	.50	0	0	0	0	0	0
$116	$118	16.40	12.50	8.60	4.70	.80	0	0	0	0	0	0
$118	$120	16.70	12.80	8.90	5.00	1.10	0	0	0	0	0	0
$120	$124	17.10	13.20	9.30	5.40	1.50	0	0	0	0	0	0
$124	$128	17.60	13.80	9.90	6.00	2.10	0	0	0	0	0	0
$128	$132	18.20	14.30	10.40	6.50	2.60	0	0	0	0	0	0
$132	$136	18.80	14.90	11.00	7.10	3.20	0	0	0	0	0	0
$136	$140	19.30	15.40	11.50	7.70	3.80	0	0	0	0	0	0
$140	$144	19.90	16.00	12.10	8.20	4.30	.40	0	0	0	0	0
$144	$148	20.40	16.60	12.70	8.80	4.90	1.00	0	0	0	0	0
$148	$152	21.00	17.10	13.20	9.30	5.40	1.60	0	0	0	0	0
$152	$156	21.60	17.70	13.80	9.90	6.00	2.10	0	0	0	0	0
$156	$160	22.10	18.20	14.30	10.50	6.60	2.70	0	0	0	0	0
$160	$164	22.70	18.80	14.90	11.00	7.10	3.20	0	0	0	0	0
$164	$168	23.20	19.40	15.50	11.60	7.70	3.80	0	0	0	0	0
$168	$172	23.80	19.90	16.00	12.10	8.20	4.40	.50	0	0	0	0
$172	$176	24.40	20.50	16.60	12.70	8.80	4.90	1.00	0	0	0	0
$176	$180	24.90	21.00	17.10	13.30	9.40	5.50	1.60	0	0	0	0
$180	$184	25.50	21.60	17.70	13.80	9.90	6.00	2.10	0	0	0	0
$184	$188	26.00	22.20	18.30	14.40	10.50	6.60	2.70	0	0	0	0
$188	$192	26.60	22.70	18.80	14.90	11.00	7.20	3.30	0	0	0	0
$192	$196	27.20	23.30	19.40	15.50	11.60	7.70	3.80	0	0	0	0
$196	$200	27.70	23.80	19.90	16.10	12.20	8.30	4.40	.50	0	0	0
$200	$210	28.70	24.80	20.90	17.00	13.10	9.30	5.40	1.50	0	0	0
$210	$220	30.10	26.20	22.30	18.40	14.50	10.70	6.80	2.90	0	0	0
$220	$230	31.50	27.60	23.70	19.80	15.90	12.10	8.20	4.30	.40	0	0
$230	$240	32.90	29.00	25.10	21.20	17.30	13.50	9.60	5.70	1.80	0	0
$240	$250	34.30	30.40	26.50	22.60	18.70	14.90	11.00	7.10	3.20	0	0
$250	$260	35.70	31.80	27.90	24.00	20.10	16.30	12.40	8.50	4.60	.70	0
$260	$270	37.10	33.20	29.30	25.40	21.50	17.70	13.80	9.90	6.00	2.10	0
$270	$280	38.50	34.60	30.70	26.80	22.90	19.10	15.20	11.30	7.40	3.50	0
$280	$290	39.90	36.00	32.10	28.20	24.30	20.50	16.60	12.70	8.80	4.90	1.00
$290	$300	41.30	37.40	33.50	29.60	25.70	21.90	18.00	14.10	10.20	6.30	2.40
$300	$320	43.40	39.50	35.60	31.70	27.80	24.00	20.10	16.20	12.30	8.40	4.50
$320	$340	46.20	42.30	38.40	34.50	30.60	26.80	22.90	19.00	15.10	11.20	7.30
$340	$360	49.00	45.10	41.20	37.30	33.40	29.60	25.70	21.80	17.90	14.00	10.10
$360	$380	51.80	47.90	44.00	40.10	36.20	32.40	28.50	24.60	20.70	16.80	12.90
$380	$400	54.60	50.70	46.80	42.90	39.00	35.20	31.30	27.40	23.50	19.60	15.70
$400	$420	57.40	53.50	49.60	45.70	41.80	38.00	34.10	30.20	26.30	22.40	18.50
$420	$440	60.20	56.30	52.40	48.50	44.60	40.80	36.90	33.00	29.10	25.20	21.30
$440	$460	63.00	59.10	55.20	51.30	47.40	43.60	39.70	35.80	31.90	28.00	24.10
$460	$480	65.80	61.90	58.00	54.10	50.20	46.40	42.50	38.60	34.70	30.80	26.90
$480	$500	68.60	64.70	60.80	56.90	53.00	49.20	45.30	41.40	37.50	33.60	29.70
		14 percent of the excess over $500 plus—										
$500 and over		70.00	66.10	62.20	58.30	54.40	50.60	46.70	42.80	38.90	35.00	31.10

"If the payroll period with respect to an employee is monthly—

And the wages are—		And the number of withholding exemptions claimed is—										
At least—	But less than—	0	1	2	3	4	5	6	7	8	9	10 or more
		The amount of income tax to be withheld shall be—										
$0	$56	14% of wages	$0	$0	$0	$0	$0	$0	$0	$0	$0	$0
$56	$60	$8.10	.30	0	0	0	0	0	0	0	0	0
$60	$64	8.70	.90	0	0	0	0	0	0	0	0	0
$64	$68	9.20	1.50	0	0	0	0	0	0	0	0	0
$68	$72	9.80	2.00	0	0	0	0	0	0	0	0	0
$72	$76	10.40	2.60	0	0	0	0	0	0	0	0	0
$76	$80	10.90	3.10	0	0	0	0	0	0	0	0	0
$80	$84	11.50	3.70	0	0	0	0	0	0	0	0	0
$84	$88	12.00	4.30	0	0	0	0	0	0	0	0	0
$88	$92	12.60	4.80	0	0	0	0	0	0	0	0	0
$92	$96	13.20	5.40	0	0	0	0	0	0	0	0	0
$96	$100	13.70	5.90	0	0	0	0	0	0	0	0	0
$100	$104	14.30	6.50	0	0	0	0	0	0	0	0	0
$104	$108	14.80	7.10	0	0	0	0	0	0	0	0	0
$108	$112	15.40	7.60	0	0	0	0	0	0	0	0	0
$112	$116	16.00	8.20	.40	0	0	0	0	0	0	0	0
$116	$120	16.50	8.70	1.00	0	0	0	0	0	0	0	0
$120	$124	17.10	9.30	1.50	0	0	0	0	0	0	0	0
$124	$128	17.60	9.90	2.10	0	0	0	0	0	0	0	0
$128	$132	18.20	10.40	2.60	0	0	0	0	0	0	0	0
$132	$136	18.80	11.00	3.20	0	0	0	0	0	0	0	0
$136	$140	19.30	11.50	3.80	0	0	0	0	0	0	0	0
$140	$144	19.90	12.10	4.30	0	0	0	0	0	0	0	0
$144	$148	20.40	12.70	4.90	0	0	0	0	0	0	0	0
$148	$152	21.00	13.20	5.40	0	0	0	0	0	0	0	0
$152	$156	21.60	13.80	6.00	0	0	0	0	0	0	0	0
$156	$160	22.10	14.30	6.60	0	0	0	0	0	0	0	0
$160	$164	22.70	14.90	7.10	0	0	0	0	0	0	0	0
$164	$168	23.20	15.50	7.70	0	0	0	0	0	0	0	0
$168	$172	23.80	16.00	8.20	.50	0	0	0	0	0	0	0
$172	$176	24.40	16.60	8.80	1.00	0	0	0	0	0	0	0
$176	$180	24.90	17.10	9.40	1.60	0	0	0	0	0	0	0
$180	$184	25.50	17.70	9.90	2.10	0	0	0	0	0	0	0
$184	$188	26.00	18.30	10.50	2.70	0	0	0	0	0	0	0
$188	$192	26.60	18.80	11.00	3.30	0	0	0	0	0	0	0
$192	$196	27.20	19.40	11.60	3.80	0	0	0	0	0	0	0
$196	$200	27.70	19.90	12.20	4.40	0	0	0	0	0	0	0
$200	$204	28.30	20.50	12.70	4.90	0	0	0	0	0	0	0
$204	$208	28.80	21.10	13.30	5.50	0	0	0	0	0	0	0
$208	$212	29.40	21.60	13.80	6.10	0	0	0	0	0	0	0
$212	$216	30.00	22.20	14.40	6.60	0	0	0	0	0	0	0
$216	$220	30.50	22.70	15.00	7.20	0	0	0	0	0	0	0
$220	$224	31.10	23.30	15.50	7.70	0	0	0	0	0	0	0
$224	$228	31.60	23.90	16.10	8.30	.50	0	0	0	0	0	0
$228	$232	32.20	24.40	16.60	8.90	1.10	0	0	0	0	0	0
$232	$236	32.80	25.00	17.20	9.40	1.60	0	0	0	0	0	0
$236	$240	33.30	25.50	17.80	10.00	2.20	0	0	0	0	0	0
$240	$248	34.20	26.40	18.60	10.80	3.00	0	0	0	0	0	0
$248	$256	35.30	27.50	19.70	11.90	4.20	0	0	0	0	0	0
$256	$264	36.40	28.60	20.80	13.10	5.30	0	0	0	0	0	0
$264	$272	37.50	29.70	22.00	14.20	6.40	0	0	0	0	0	0
$272	$280	38.60	30.90	23.10	15.30	7.50	0	0	0	0	0	0
$280	$288	39.80	32.00	24.20	16.40	8.60	.90	0	0	0	0	0
$288	$296	40.90	33.10	25.30	17.50	9.80	2.00	0	0	0	0	0
$296	$304	42.00	34.20	26.40	18.70	10.90	3.10	0	0	0	0	0
$304	$312	43.10	35.30	27.60	19.80	12.00	4.20	0	0	0	0	0
$312	$320	44.20	36.50	28.70	20.90	13.10	5.40	0	0	0	0	0
$320	$328	45.40	37.60	29.80	22.00	14.20	6.50	0	0	0	0	0
$328	$336	46.50	38.70	30.90	23.10	15.40	7.60	0	0	0	0	0
$336	$344	47.60	39.80	32.00	24.30	16.50	8.70	.90	0	0	0	0
$344	$352	48.70	40.90	33.20	25.40	17.60	9.80	2.10	0	0	0	0
$352	$360	49.80	42.10	34.30	26.50	18.70	11.00	3.20	0	0	0	0
$360	$368	51.00	43.20	35.40	27.60	19.80	12.10	4.30	0	0	0	0
$368	$376	52.10	44.30	36.50	28.70	21.00	13.20	5.40	0	0	0	0
$376	$384	53.20	45.40	37.60	29.90	22.10	14.30	6.50	0	0	0	0
$384	$392	54.30	46.50	38.80	31.00	23.20	15.40	7.70	0	0	0	0
$392	$400	55.40	47.70	39.90	32.10	24.30	16.60	8.80	1.00	0	0	0
$400	$420	57.40	49.60	41.80	34.10	26.30	18.50	10.70	3.00	0	0	0
$420	$440	60.20	52.40	44.60	36.90	29.10	21.30	13.50	5.80	0	0	0
$440	$460	63.00	55.20	47.40	39.70	31.90	24.10	16.30	8.60	.80	0	0
$460	$480	65.80	58.00	50.20	42.50	34.70	26.90	19.10	11.40	3.60	0	0
$480	$500	68.60	60.80	53.00	45.30	37.50	29.70	21.90	14.20	6.40	0	0
$500	$520	71.40	63.60	55.80	48.10	40.30	32.50	24.70	17.00	9.20	1.40	0
$520	$540	74.20	66.40	58.60	50.90	43.10	35.30	27.50	19.80	12.00	4.20	0
$540	$560	77.00	69.20	61.40	53.70	45.90	38.10	30.30	22.60	14.80	7.00	0
$560	$580	79.80	72.00	64.20	56.50	48.70	40.90	33.10	25.40	17.60	9.80	2.00
$580	$600	82.60	74.80	67.00	59.30	51.50	43.70	35.90	28.20	20.40	12.60	4.80
$600	$640	86.80	79.00	71.20	63.50	55.70	47.90	40.10	32.40	24.60	16.80	9.00
$640	$680	92.40	84.60	76.80	69.10	61.30	53.50	45.70	38.00	30.20	22.40	14.60
$680	$720	98.00	90.20	82.40	74.70	66.90	59.10	51.30	43.60	35.80	28.00	20.20
$720	$760	103.60	95.80	88.00	80.30	72.50	64.70	56.90	49.20	41.40	33.60	25.80
$760	$800	109.20	101.40	93.60	85.90	78.10	70.30	62.50	54.80	47.00	39.20	31.40
$800	$840	114.80	107.00	99.20	91.50	83.70	75.90	68.10	60.40	52.60	44.80	37.00
$840	$880	120.40	112.60	104.80	97.10	89.30	81.50	73.70	66.00	58.20	50.40	42.60
$880	$920	126.00	118.20	110.40	102.70	94.90	87.10	79.30	71.60	63.80	56.00	48.20
$920	$960	131.60	123.80	116.00	108.30	100.50	92.70	84.90	77.20	69.40	61.60	53.80
$960	$1,000	137.20	129.40	121.60	113.90	106.10	98.30	90.50	82.80	75.00	67.20	59.40
		14 percent of the excess over $1,000 plus—										
$1,000 and over		140.00	132.20	124.40	116.70	108.90	101.10	93.30	85.60	77.80	70.00	62.20

"If the payroll period with respect to an employee is a daily payroll period or a miscellaneous payroll period—

And the wages divided by the number of days in such period are—		And the number of withholding exemptions claimed is—										
		0	1	2	3	4	5	6	7	8	9	10 or more
At least—	But less than—	The amount of tax to be withheld shall be the following amount multiplied by the number of days in such period—										
$0	$2.00	14% of wages	$0	$0	$0	$0	$0	$0	$0	$0	$0	$0
$2.00	$2.25	$.30	.05	0	0	0	0	0	0	0	0	
$2.25	$2.50	.35	.10	0	0	0	0	0	0	0	0	0
$2.50	$2.75	.35	.10	0	0	0	0	0	0	0	0	0
$2.75	$3.00	.40	.15	0	0	0	0	0	0	0	0	0
$3.00	$3.25	.45	.20	0	0	0	0	0	0	0	0	0
$3.25	$3.50	.45	.20	0	0	0	0	0	0	0	0	0
$3.50	$3.75	.50	.25	0	0	0	0	0	0	0	0	0
$3.75	$4.00	.55	.30	.05	0	0	0	0	0	0	0	0
$4.00	$4.25	.60	.30	.05	0	0	0	0	0	0	0	0
$4.25	$4.50	.60	.35	.10	0	0	0	0	0	0	0	0
$4.50	$4.75	.65	.40	.15	0	0	0	0	0	0	0	0
$4.75	$5.00	.70	.45	.15	0	0	0	0	0	0	0	0
$5.00	$5.25	.70	.45	.20	0	0	0	0	0	0	0	0
$5.25	$5.50	.75	.50	.25	0	0	0	0	0	0	0	0
$5.50	$5.75	.80	.55	.30	0	0	0	0	0	0	0	0
$5.75	$6.00	.80	.55	.30	.05	0	0	0	0	0	0	0
$6.00	$6.25	.85	.60	.35	.10	0	0	0	0	0	0	0
$6.25	$6.50	.90	.65	.40	.15	0	0	0	0	0	0	0
$6.50	$6.75	.95	.65	.40	.15	0	0	0	0	0	0	0
$6.75	$7.00	.95	.70	.45	.20	0	0	0	0	0	0	0
$7.00	$7.25	1.00	.75	.50	.25	0	0	0	0	0	0	0
$7.25	$7.50	1.05	.80	.50	.25	0	0	0	0	0	0	0
$7.50	$7.75	1.05	.80	.55	.30	.05	0	0	0	0	0	0
$7.75	$8.00	1.10	.85	.60	.35	.10	0	0	0	0	0	0
$8.00	$8.25	1.15	.90	.65	.35	.10	0	0	0	0	0	0
$8.25	$8.50	1.15	.90	.65	.40	.15	0	0	0	0	0	0
$8.50	$8.75	1.20	.95	.70	.45	.20	0	0	0	0	0	0
$8.75	$9.00	1.25	1.00	.75	.50	.20	0	0	0	0	0	0
$9.00	$9.25	1.30	1.00	.75	.50	.25	0	0	0	0	0	0
$9.25	$9.50	1.30	1.05	.80	.55	.30	.05	0	0	0	0	0
$9.50	$9.75	1.35	1.10	.85	.60	.30	.05	0	0	0	0	0
$9.75	$10.00	1.40	1.15	.85	.60	.35	.10	0	0	0	0	0
$10.00	$10.50	1.45	1.20	.90	.65	.40	.15	0	0	0	0	0
$10.50	$11.00	1.50	1.25	1.00	.75	.50	.25	0	0	0	0	0
$11.00	$11.50	1.60	1.30	1.05	.80	.55	.30	.05	0	0	0	0
$11.50	$12.00	1.65	1.40	1.15	.90	.60	.35	.10	0	0	0	0
$12.00	$12.50	1.70	1.45	1.20	.95	.70	.45	.20	0	0	0	0
$12.50	$13.00	1.80	1.55	1.25	1.00	.75	.50	.25	0	0	0	0
$13.00	$13.50	1.85	1.60	1.35	1.10	.85	.60	.30	.05	0	0	0
$13.50	$14.00	1.95	1.65	1.40	1.15	.90	.65	.40	.15	0	0	0
$14.00	$14.50	2.00	1.75	1.50	1.25	.95	.70	.45	.20	0	0	0
$14.50	$15.00	2.05	1.80	1.55	1.30	1.05	.80	.55	.30	0	0	0
$15.00	$15.50	2.15	1.90	1.60	1.35	1.10	.85	.60	.35	.10	0	0
$15.50	$16.00	2.20	1.95	1.70	1.45	1.20	.95	.65	.40	.15	0	0
$16.00	$16.50	2.30	2.00	1.75	1.50	1.25	1.00	.75	.50	.25	0	0
$16.50	$17.00	2.35	2.10	1.85	1.60	1.30	1.05	.80	.55	.30	.05	0
$17.00	$17.50	2.40	2.15	1.90	1.65	1.40	1.15	.90	.65	.35	.10	0
$17.50	$18.00	2.50	2.25	1.95	1.70	1.45	1.20	.95	.70	.45	.20	0
$18.00	$18.50	2.55	2.30	2.05	1.80	1.55	1.30	1.00	.75	.50	.25	0
$18.50	$19.00	2.65	2.35	2.10	1.85	1.60	1.35	1.10	.85	.60	.30	.05
$19.00	$19.50	2.70	2.45	2.20	1.95	1.65	1.40	1.15	.90	.65	.40	.15
$19.50	$20.00	2.75	2.50	2.25	2.00	1.75	1.50	1.25	1.00	.70	.45	.20
$20.00	$21.00	2.85	2.60	2.35	2.10	1.85	1.60	1.35	1.10	.80	.55	.30
$21.00	$22.00	3.00	2.75	2.50	2.25	2.00	1.75	1.50	1.20	.95	.70	.45
$22.00	$23.00	3.15	2.90	2.65	2.40	2.15	1.85	1.60	1.35	1.10	.85	.60
$23.00	$24.00	3.30	3.05	2.80	2.50	2.25	2.00	1.75	1.50	1.25	1.00	.75
$24.00	$25.00	3.45	3.15	2.90	2.65	2.40	2.15	1.90	1.65	1.40	1.15	.85
$25.00	$26.00	3.55	3.30	3.05	2.80	2.55	2.30	2.05	1.80	1.50	1.25	1.00
$26.00	$27.00	3.70	3.45	3.20	2.95	2.70	2.45	2.20	1.90	1.65	1.40	1.15
$27.00	$28.00	3.85	3.60	3.35	3.10	2.85	2.55	2.30	2.05	1.80	1.55	1.30
$28.00	$29.00	4.00	3.75	3.50	3.20	2.95	2.70	2.45	2.20	1.95	1.70	1.45
$29.00	$30.00	4.15	3.85	3.60	3.35	3.10	2.85	2.60	2.35	2.10	1.85	1.55
		14 percent of the excess over $30 plus—										
$30 and over		4.20	3.95	3.70	3.45	3.20	2.90	2.65	2.40	2.15	1.90	1.65"

1 (c) WITHHOLDING OF TAX ON CERTAIN NONRESIDENT
2 ALIENS.—
3 (1) Section 1441 (a) (relating to general rule) is
4 amended by striking out "the tax shall be equal to 18
5 percent of such item." and inserting in lieu thereof:
6 "the tax shall be equal to—
7 "(1) 15 percent in the case of payments made dur-
8 ing the calendar year 1964, and
9 "(2) 14 percent in the case of payments made after
10 December 31, 1964."
11 (2) Section 1441 (b) (relating to income items)
12 is amended by striking out "18 percent" and by insert-
13 ing in lieu thereof "15 percent or 14 percent (as the
14 case may be)".
15 (d) EFFECTIVE DATES.—The amendments made by sub-
16 sections (a) and (b) of this section shall apply with re-
17 spect to remuneration paid after December 31, 1963. The
18 amendment made by subsection (c) of this section shall
19 apply with respect to payments made after December 31,
20 1963.

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COMMITTEE REPORT

REVENUE ACT OF 1963

REPORT

OF THE

COMMITTEE ON WAYS AND MEANS
HOUSE OF REPRESENTATIVES

TO ACCOMPANY

H.R. 8363

A BILL TO AMEND THE INTERNAL REVENUE CODE OF 1954 TO REDUCE INDIVIDUAL AND CORPORATE INCOME TAXES, TO MAKE CERTAIN STRUCTURAL CHANGES WITH RESPECT TO THE INCOME TAX, AND FOR OTHER PURPOSES

SEPTEMBER 13, 1963.—Committed to the Committee of the Whole House on the State of the Union and ordered to be printed

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88TH CONGRESS 1st Session } HOUSE OF REPRESENTATIVES { REPORT No. 749

REVENUE ACT OF 1963

SEPTEMBER 13, 1963.—Committed to the Committee of the Whole House on the State of the Union and ordered to be printed

Mr. MILLS, from the Committee on Ways and Means, submitted the following

REPORT

[To accompany H.R. 8363]

The Committee on Ways and Means, to whom was referred the bill (H.R. 8363) to amend the Internal Revenue Code of 1954 to reduce individual and corporate income taxes, to make certain structural changes with respect to the income tax, and for other purposes, having considered the same, report favorably thereon without amendment and recommend that the bill do pass.

I. SUMMARY

This bill, H.R. 8363, provides the largest tax reduction ever reported by your committee. In addition, it represents the second major revision of the Federal tax system reported by your committee in a 2-year period.

As indicated by part II of this report, the principal purpose of this bill is to lower tax rates so that our free enterprise system can itself generate the higher rate of growth which our economy requires. The purpose of this bill also is to improve the equity of the tax laws by removing or altering features of the tax provisions which are generally considered to be unfair and by meeting certain hardships which exist under the present structure.

(a) Revenue impact.—This bill over a 2-year period is expected to reduce tax liabilities by $11.1 billion—$2.3 billion of corporate and $8.8 billion of individual tax liabilities. In the fiscal year 1964 this is expected to result in a revenue reduction of $2.2 billion and in the fiscal year 1965 a reduction of $7.4 billion (including the $2.2 billion reduction in 1964). This is without regard to any stimulative effect these reductions may have. Taking into account the Treasury Department's estimate of the stimulative effect, the bill is expected to reduce revenues by $1.8 billion in the fiscal year 1964 and by $3.5 billion in the fiscal year 1965. Further details on revenue estimates are shown in part III of this report.

(b) Study of proposals.—On January 24, 1963, the President sent to Congress a message containing his proposals for tax rate reductions for both individuals and corporations as well as a series of proposals for the revision of the present tax laws. Your committee on February 6, 1963, began hearings on the President's proposals. The hearings lasted until March 27 and included 27 days on which your committee heard testimony; this material is contained in 7 volumes of over 4,000 pages. Following the public hearings, your committee studied the President's proposals in executive sessions over a period of many weeks, reaching tentative decisions for incorporation in a draft bill. After the preparation of a bill incorporating these tentative decisions, your committee again reviewed this tentative bill, making such modifications as they deemed appropriate. The bill as modified has been reported by your committee.

(c) Rate reductions.—Under this bill individual income tax rates are reduced, from the present rates of 20 to 91 percent, to rates ranging from 14 to 70 percent in 1965. Rates ranging from 16 to 77 percent make about two-thirds of this reduction available for 1964. Closely related to the individual income tax rate reduction is the minimum standard deduction provided by the bill which, in effect, when coupled with personal exemptions, sets an income floor. Individuals with income levels below the specified amounts will have no income tax payments to make.

The tax rate for corporations in 1964 is reduced from 52 to 50 percent and is further reduced in 1965 to 48 percent. In addition, the rate

applicable to the first $25,000 of corporate income beginning in 1964 is reduced from 30 percent to 22 percent. Furthermore, corporations are placed on a full pay-as-you-go basis so that ultimately all of their tax liability above $100,000 is to be payable in the year in which it is earned. This is achieved over a 7-year period so that it will not increase corporate tax payments in the transitional period. Further details with respect to these changes are presented in part IV A below.

(d) Structural changes.—In addition to the rate changes referred to above, your committee's bill includes 23 sections providing structural changes in the tax laws. For an explanation of these provisions, see part IV B of the report. The following represents a thumbnail sketch of these structural changes:

1. ***Dividend credit and exclusion.***—The 4-percent dividend received credit is reduced by the bill to 2 percent for 1964, and repealed for subsequent years. The $50-dividend exclusion is increased to $100 (usually $200 in the case of married couples) for 1964 and subsequent years.

2. ***Investment credit.***—In the case of the investment credit, the bill (*a*) repeals the provision requiring a 7-percent downward adjustment in the basis of property eligible for depreciation to the extent that the investment credit applies; (*b*) prevents regulatory commissions in certain cases from requiring the "flow through" of the benefits of the investment credit to the customers of regulated industries; and (*c*) makes other revisions in the investment credit.

3. ***Group term insurance.***—The bill limits the employee exclusion for premiums on group term insurance furnished through the employer to premiums paid for the first $30,000 of coverage; it also provides a special deduction for employees who are in effect paying part of someone else's insurance costs in the case of coverage above $30,000.

4. ***Reimbursed medical expenses.***—The bill includes, in gross income, reimbursed medical expenses to the extent the reimbursement exceeds the actual medical expenses incurred with respect to the illness or accident.

5. ***Sick pay exclusion.***—The bill restricts the sick pay exclusion, of up to $100 a week, to those who are out of work for more than 30 days (and makes the exclusion available only for the period beyond that time).

6. ***Sale of residence by aged taxpayer.***—The bill provides an exclusion from the tax base for the gain on up to $20,000 of the sales price of a personal residence in the case of an individual aged 65 or over.

7. ***Deduction of certain State and local taxes.***—The bill denies a deduction in computing income subject to Federal tax for State and local taxes other than property, income, and general sales taxes (the principal taxes for which a deduction is denied are gasoline, auto license, alcoholic beverage, cigarette, and selected excise taxes).

8. ***Casualty loss deduction.***—The deduction for personal casualty and theft losses is limited to the amount in excess of $100 per loss (similar to "$100 deductible" insurance).

9. ***Charitable contribution deduction.***—Several changes are made in the charitable contribution deduction: (*a*) The 30-percent maximum deduction is made available generally for contributions to organizations other than private foundations; (*b*) the 2-year carryover

of charitable contributions for corporations is extended to 5 years; and (*c*) charitable contributions deductions for future interests in tangible personal property are denied until the gifts are completed except where the property is retained for the life or lives of the donor or donors.

10. ***Medical expense deduction.***—The 1-percent limitation, or floor, on medicines and drugs which must be taken into account in determining deductible medical expenses is made inapplicable where the taxpayer and his wife are over 65 and also to their parents where they are over 65.

11. ***Child-care expense deduction.***—The child-care deduction is revised: (*a*) to make it available in the case of a wife who is "institutionalized" or "incapacitated"; (*b*) to make it available with respect to care for children up to age 13 (instead of 12); and (*c*) the maximum deduction allowable where there are two or more children is increased from $600 to $900.

12. ***Moving expense deduction.***—A deduction for certain moving expenses—transportation of the household goods and the persons involved, and also their meals and lodging while in transit—is allowed for employees who are not reimbursed for these expenses and also for new employees (an exclusion for these items is already available in the case of old employees who are reimbursed).

13. ***"Bank loan" insurance.***—An interest deduction is denied for amounts borrowed under a systematic plan to pay premiums on life insurance (certain exceptions are provided).

14. ***Stock options.***—The present tax treatment of employee stock options is further restricted, the principal additional restrictions being that (*a*) the stock when acquired must be held for 3 years or more; (*b*) the option must not be for a period of more than 5 years; (*c*) the option price must at least equal the market price of the stock when issued; (*d*) stockholders' approval for the options must be obtained; and (*e*) the extent to which new options may be exercised when the old options are outstanding is restricted. Separate tax treatment is provided for employee stock purchase plans which are available to all employees on a nondiscriminatory basis under rules which are substantially the same as under present law.

15. ***Interest on certain deferred payments.***—Where property is sold on an installment basis and either no, or very low, interest is charged on the installments, the bill provides that an appropriate amount of each installment is to be treated as if it were an interest payment.

16. ***Personal holding companies.***—The tax treatment of personal holding companies is made considerably more restrictive. For example, the percentage of passive income which may result in a company being classified as a personal holding company is reduced from 80 to 60 percent and amendments are made so that the tax cannot be avoided by using rental or oil or gas or mineral royalties (or working interests) to shelter substantial amounts of investment income, such as dividends and interest, from the personal holding company tax. A number of other restrictive amendments are also made. On the other hand, relief is provided for those companies which are not now personal holding companies, but which would be under the new definitions. They are permitted favorable liquidation treatment in certain cases and also permitted a deduction, in computing the personal

holding company income, for paying off existing debts. An amendment is also added relating to foreign personal holding companies permitting an increase in the basis of the stock of such a company at the time of the shareholder's death for death taxes attributable to the appreciation in such stock. A similar increase in basis is allowed in the case of property representing distributions from such a company, under certain conditions.

17. ***Aggregation of oil and gas properties.***—For the future, oil and gas leases or acquisitions are no longer to be aggregated in determining what constitutes a property for purposes of computing the percentage depletion deduction.

18. ***Iron ore royalties.***—The bill provides capital gains treatment for iron ore royalty payments.

19. ***Taxation of capital gains.***—The present capital gains treatment for individuals is revised by the bill so that in the case of most assets held more than 2 years, 40 percent (rather than 50 percent) of the gain will be included in the tax base and the alternative rate of tax on this is to be 21 percent (rather than 25 percent). Certain types of income given capital gains treatment today which are not actually capital gains will continue to be treated as they are today (50 percent inclusion or 25 percent alternative rate). The bill also provides an unlimited (instead of 5-year) carryover of capital losses in the case of individuals.

20. ***Sale of depreciable real estate.***—In the case of real estate sold at a gain in the future, depreciation deductions, generally to the extent these deductions exceed depreciation allowable under the "straight line" method (to the extent of the gain), will be treated by the bill as giving rise to ordinary income. However, in the case of property held more than 20 months the amount treated as ordinary income will be reduced by 1 percent for each month of holding over 20, with the result that no amount will be treated as ordinary income in the case of real property held more than 10 years.

21. ***Averaging of income.***—The bill in effect provides for the averaging of income over a 5-year period where the income in the current year exceeds the average of the 4 prior years by more than one-third and this excess equals at least $3,000.

22. ***Repeal of consolidated returns tax.***—The 2-percent penalty tax, which must presently be paid by corporations for the privilege of filing consolidated returns, is repealed.

23. ***Multiple surtax exemption.***—For corporations where there is common control to the extent of 80 percent or more, the corporations involved generally are limited to one $25,000 surtax exemption for the group or alternatively required to pay a special tax of 6 percent on the first $25,000 of their income. No penalty tax is imposed where a consolidated return is filed for the group.

II. REASONS FOR BILL

The principal purpose of the revenue bill of 1963 is to remove from the private sector of the American economy its present high-tax strait-jacket; that is, to lessen restraints which prevent the American free-enterprise system from itself generating necessary growth. A purpose of this bill also is to improve the equity of the tax laws; that is, to remove features of the tax code which generally are considered to be unfair and to revise others to remove inequities. Thus, it is intended that the influence of tax provisions on business decisions be minimized.

(*a*) *Lowering of tax rates.*—With the present high tax encumbrances imposed upon our economy it would be difficult, if not impossible, to achieve the economic expansion necessary to provide a fully employed economy. It is to meet these problems that this bill undertakes a major lowering of tax burdens on both individuals and the business community. For individuals this is the largest tax rate reduction of all time—a rate reduction of nearly $9.5 billion, or an average reduction in individual tax rates of 20 percent. For corporations this is a reduction of $2.2 billion, or when coupled with the investment credit reduction and depreciation reforms provided last year, a reduction of approximately $4.5 billion.

The present individual income tax rate pattern was established during World War II when some of the objectives of the rate structure were quite different from what they are today. At that time the rates were made steeply progressive in the upper brackets to assure equality of sacrifice. At the same time, heavy rates were imposed at the lower end of the rate structure, both because of the need for revenue and also because it was intended that these rates have a dampening effect on consumer purchasing. Today it is essential that the rate structure not inhibit initiative on the part of individuals, either as employees or as managers or owners of business. It is especially important that the youth of the country have both the opportunity and the incentive to devote their full talents, abilities, and energies to the building of a stronger society. Moreover, today, with our unused plant capacity and underemployment, we cannot justify the continuance of these tax rates which encourage operation at less than full capacity. Instead we need rates which will not place a brake on investments and consumer purchases.

(*b*) *Increasing revenues.*—As indicated by the first section of this bill, it is your committee's opinion that this bill will stimulate the economy, and—after a brief transitional period—raise revenues, rather than lower them. Moreover, it is intended that the additional revenues resulting from this bill be used first to eliminate the deficits which have been consistently plaguing the Federal Government's budget for an extended period of time, and then to reduce the public debt.

It is recognized that to many it may seem inconsistent to think of cutting taxes as a way of increasing revenues. Nevertheless, past

experience demonstrates that this can happen; in fact, given today's conditions it can be expected to happen. The events of the period 1954-56 demonstrate how this can occur. In 1954 Congress allowed the individual income tax increases imposed during the Korean war to expire, made certain excise tax reductions, allowed the excess profits tax to expire and made certain other tax reductions as well. The total of these reductions amounted to about $7.4 billion. Yet, only 2 years later, in 1956, receipts were $3.2 billion above the level existing before the reductions were made. However, these reductions did not get to the root of the matter, the high World War II rates, with the result that the poor economic performance of the economy since 1956 has left a heavy mark on the Federal debt. The initial budget forecast for each of the fiscal years 1958 to 1963 was for a budgetary surplus. The actual outcome in 5 of the 6 years, however, was a deficit, averaging over $6 billion a year. The major factor accounting for each of these deficits was the failure of the economy to expand as anticipated.

Your committee's bill will stimulate the economy both by improving the environment for investment and also by increasing consumer purchasing power.

The environment for business investment is improved by the 4-percentage-point corporate tax rate reduction and the 8-percentage-point drop in the rate applicable to small business. This becomes especially significant when added to the investment credit and depreciation rate reform provided last year, which, taken together with the rate reduction, mean an aggregate reduction of approximately $4.5 billion. Additional factors improving the environment for business investment and providing more funds for investment, are the reduced individual income tax rate in the middle and upper income rate brackets, together with the increased demand for the products of business stemming from the increased consumer purchasing power provided by the bill. Increased consumer purchasing power is added primarily by the individual income tax rate reductions, particularly those in the lower brackets, and also by the minimum standard deduction. In this respect, the 38-percent reduction for adjusted gross incomes of $3,000 and less is particularly important.

The reduction in individual income tax rates provided by this bill, in addition to the incentive effect, also will have an important stimulative effect on the economy in that it will leave income with consumers which presently is taken from them in taxes. Based upon normal consumer spending habits, it can be anticipated that 92 to 94 percent of this additional income left in the hands of consumers will be spent on consumer goods and services. This will result in further income which in turn will generate still further rounds of increased consumer expenditures. In addition, the bill can be expected to substantially increase expenditures by business for items such as plant and equipment and inventory. This increased investment on the part of business can be expected also to add income to the pockets of consumers and this also will lead to further rounds of increased consumer spending. Moreover, the additional consumption expenditures made possible by this bill can also be expected to further increase the demand for products leading to further investment expenditures to provide the plant, equipment and inventory these expenditures make necessary.

It is on this basis that the Treasury Department has indicated to your committee that the reduced rates provided by this bill will generate sufficient additional income so that with the resulting enlargement in revenues it is to be expected that the Federal Government's budget can be balanced sooner than would be the case in the absence of a tax cut.

(*c*) *Expenditure control.*—Your committee recognizes, however, that if Congress is to provide the tax reductions included in this bill a tighter rein than previously must be kept on expenditures. Moreover, the effect of the tax reduction provided by this bill in raising the level of economic activity and in reducing unemployment and idle men and plant and equipment is a complete answer to the argument offered by some for increasing Government expenditures in order to overcome unemployment. If a solution to unemployment and related problems is to be sought by tax reduction, it is all the more important for Government expenditures to be brought more closely under control than in the past. There certainly can be no argument in such a case for undertaking new Government programs which are not in and of themselves essential, merely because they might contribute to Government spending. By the same token, the principles of good fiscal management make it all the more important to shun wastefulness in Government expenditure programs under these conditions. It was for these reasons that your committee in section 1 of the bill states:

> To further the objective of obtaining balanced budgets in the near future, Congress by this action, recognizes the importance of taking all reasonable means to restrain Government spending and urges the President to declare his accord with this objective.

In this regard, it should be noted that the President, in a recent letter (shown in full in Part V. Appendix) to your committee's chairman, states:

> First, our long-range goal remains a balanced budget in a balanced full-employment economy. It is clear that this goal cannot be achieved without a substantial tax reduction and the greater national income it will produce.
>
> Second, tax reduction must also, therefore, be accompanied by the exercise of an even tighter rein on Federal expenditures, limiting outlays to only those expenditures which meet strict criteria of national need.
>
> Third, consistent with these policies, as the tax cut becomes fully effective and the economy climbs toward full employment, a substantial part of the increased tax revenues will be applied toward a reduction in the transitional deficits which accompany the initial cut in tax rates.
>
> Fourth, assuming enactment of the tax program incorporated in your committee's bill with a consequent loss of revenue of $5 billion more in fiscal 1965 than in fiscal 1964, I nevertheless expect—in strict accordance with the above policies, and in the absence of any unforeseen slowdown in the economy or any serious international contingency for the next 5 months—to be able to submit next January a budget for 1965 involving an estimated deficit of less than

> the $9.2 billion forecast for fiscal 1964 by the Secretary of the Treasury in your executive sessions last week.

Thus, the President committed himself to preventing expenditure increases from exhausting the additional revenue which arises as the economy expands under the impetus generated by the tax reduction.

It should be noted that there already have been significant achievements in reducing the governmental deficit through economical management. The deficit of $8.8 billion predicted last January for the fiscal year 1963 was held down to $6.2 billion through improved tax receipts, increased sale of Government-held financial assets, and economies in the expenditure programs. In addition, the Secretary of the Treasury recently told your committee that the deficit for the current fiscal year now is expected to be about $9.2 billion, assuming the passage of this bill. This is nearly $3 billion below the budget forecast of this last January.

Your committee believes, however, that a greater effort needs to be made, both by the executive departments and by Congress, in holding down Government spending. When Congress reduces the revenues for the highly desirable purpose of bringing the tax rates down, all of us recognize that there is implicit in this action the need to screen with meticulous care all requests for authorizations and expenditures of funds—for top priority cannot be given both to tax reductions and to spending at the same time. It is for this reason that in section 1 of this bill Congress is asked by this action to recognize the importance of taking all reasonable means to restrain Government spending and to urge the President to declare his accord with this objective. Your committee firmly believes that Government spending can be so restrained in view of the importance which is so widely attached to the desirability of obtaining a tax reduction at this time.

(*d*) *The problem of unemployment.*—Balancing the budget is only one of the major national objectives with which this bill is concerned. The same growth in the economy which this bill provides as a means of balancing the budget will at the same time reduce unemployment. Unemployment has amounted to 5 percent or more of the labor force for every month for more than 5 years and has on several occasions been close to 7 percent. Currently, the unemployment rate is 5.5 percent. The unemployment rate for several recent years is as follows:

	Percent		*Percent*
1954	5.6	1961	6.7
1956	4.2	1962	5.6
1958	6.8	1963 (6 months seasonally adjusted)	5.8
1960	5.6		

In large part, this unemployment stems from a lack of sufficient growth in the economy. It is recognized, of course, that structural unemployment may also be a factor in the size of the unemployed. However, your committee's bill by providing greater opportunity for growth in the private sector of the economy will increase the incentives of private business to provide retraining programs and to search out those in other locations who may fill their employment needs.

The upsurge which is sure to occur in the size of the labor force in the years immediately ahead makes this problem all the more sig-

nificant. To achieve full employment between now and 1966, 5.5 million new jobs would have to be created, in addition to providing the jobs necessary to reemploy those displaced by automation or changing markets. Maintaining the 3-percent rate of growth as the United States has done since 1956, not only will fail to eliminate the present excessive unemployment, but unemployment will continue to rise as the increasing numbers of children born during the war and early postwar years reach employment age. The faster rate of growth which this bill will provide must play a key role in meeting this problem.

(*e*) *Unused plant and equipment capacity.*—Closely related to the problem of excessive unemployment has been the problem of excessive unused plant and equipment capacity. The rate of operation for all manufacturing for selected recent years according to the McGraw Hill survey is as follows:

	Percent		Percent
1954	84	1960	77
1955	92	1962	83
1957	78	Preferred rate of operation for 1962	92
1959	85		

This problem of excess capacity has plagued American industry since 1957, the same period during which plant and equipment investment have lagged, despite the growth in the economy. For example, business expenditures on new plant and equipment has fallen from 8.3 percent of the gross national product in 1956–57 to 6.7 percent in 1962. Unused capacity in plant and equipment is largely attributable to the absence of two factors: adequate profit margins and a sufficient demand for goods and services. The stimulation provided by this bill for investment, both directly through lower rates of tax on business—and therefore higher profit rates after tax—and also indirectly through increased purchasing power—which will increase the demand for goods and services—will aid in raising the level of investment, in the same manner as it aids in reducing unemployment.

(*f*) *Balance-of-payments problem.*—The tax reduction provided by this bill is also needed to help in reducing the persistent balance-of-payments deficit. As President Kennedy recently stated, tax reduction and revision "is the single most important step that can be taken to achieve balance abroad as well as growth here at home." Poor domestic growth stifles productivity and inhibits the introduction of new products that can compete effectively in export markets. It also reduces domestic investment opportunities compared with those abroad. These conditions which have worked against the elimination of the payments deficit will be substantially improved by the tax program incorporated in your committee's bill.

While the increased incomes stemming from the tax reduction may also tend to increase somewhat the demand for imports, the effect of the tax cut on exports and on making domestic investments more attractive can be expected to outweigh the higher demand for imports. Experience in Europe, where rapidly growing and modernizing economies have produced balance-of-payment surpluses, confirms the fact that a healthy domestic economy, attractive to foreign and domestic capital, and capable of increasing productivity, can reinforce the external strength of the currency.

(*g*) *The bill is not inflationary.*—While this bill will increase the demand for the products of American business, it will not lead to inflation. As indicated above, the U.S. economy now has substantial unused resources, both of labor and plant capacity. These resources are sufficient to meet the increased demand to be expected from the tax reductions made by this bill, with increased output and without inducing any price spiral. This is well demonstrated by recent experience. Despite increases in consumer demand in 1959 and 1960 and again in late 1961 and 1962, since 1957 there has been a period of unusual price stability. The wholesale price index for manufactured goods is virtually unchanged from 5 years ago, while the consumer price index has increased on the average only about 1 percent a year since 1958.

Any lingering doubt that there might be as to any inflationary impact of this bill should be dissipated by the fact that the tax reduction provided by your committee's bill—both the individual and corporate reductions—is spread over 2 years, rather than being concentrated in a single year. This provides an opportunity to gear up for the increased demand in any areas where the labor and plant capacity may not already be available.

(*h*) *Impact of structural changes.*—While much of the above discussion has been based upon the incentive aspect of the tax rate reductions provided by this bill, the structural changes as well can be expected to have a salutary effect. First, revenue increasing measures provide $1.1 billion of additional tax liability which make it possible to provide $320 million for a minimum standard deduction and $165 million for other structural improvements, while leaving $595 million which was used to provide further reductions in the marginal tax rates than could otherwise be made. The revision in the area of capital gains taxation also will contribute to new investment and economic growth. The lower 40-percent inclusion factor provided for gains from the sale or exchange of capital assets held over 2 years will be a major factor in providing a stimulus to the economy.

The structural changes are probably more important, however, in improving the equity of the tax laws. Only if the notion is generally held that the tax burden is distributed fairly can it be expected that individuals and the business community will be willing to bear the tax burdens which our defense requirements makes necessary today. The present tax bill, supplements the significant strides made by Congress last year in improving the confidence of the American people in the fairness of the present tax system.

III. REVENUE ESTIMATES

The revenue effect of your committee's bill is shown in tables 1 through 4 below. Tables 1 and 2 are based on income levels estimated for the calendar year 1963 but do not take into account any "feedback" to the economy anticipated from this bill. Table 1 shows the estimated impact of the various provisions contained in your committee's bill upon calendar year 1964 and 1965 tax liabilities. Table 2 shows the estimated effect of your committee's bill upon receipts in the fiscal years 1964 and 1965.

Table 1 indicates that your committee's bill can be expected to decrease calendar year 1964 tax liabilities by slightly over $7 billion and calendar year 1965 liabilities by slightly over $11 billion (the latter figure includes the $7 billion reduction). To a substantial degree, the calendar year 1965 effect represents the long-term effect of the bill before taking into account any impact of the reductions upon the economy. Of the $11 billion reduction in 1965, $8.8 billion will go to individuals, or nearly 80 percent of the total. Revenue raising structural changes for the calendar year 1965 amount to slightly over $1 billion but are partially offset by other liberalizing provisions reducing the net increase to $595 million.

TABLE 1.—*Estimated decrease (−) and increase (+) (before feedback) of tax liabilites* [1] *for the calendar years 1964 and 1965 as a result of the provisions of your committee's bill*

[In millions of dollars]

	Calendar year 1964			Calendar year 1965		
	Individual	Corporate	Total	Individual	Corporate	Total
A. 1963 tax program: Rate changes	−6,310	−1,320	−7,630	−9,470	−2,190	−11,660
Structural changes: (*a*) Revenue raising:						
1. Group term insurance	+5		+5	+5		+5
2. Bank loan insurance	+5		+5	+5		+5
3. Sick pay exclusion	+110		+110	+110		+110
4. Deduction of personal taxes	+520		+520	+520		+520
5. Casualty loss deduction	+50		+50	+50		+50
6. Aggregation of mineral properties		+40	+40		+40	+40
7. Personal holding companies	+15		+15	+15		+15
8. Repeal of dividend credit and increase in exclusion	+120		+120	+300		+300
9. Multiple corporation penalty tax		+35	+35		+35	+35
10. Gifts of future interest	(2)		(2)	(2)		(2)
Total, revenue raising	+825	+75	+900	+1,005	+75	+1,080

See footnotes at end of table, p. 13.

TABLE 1.—*Estimated decrease (−) and increase (+) (before feedba k) of tax liabilites*[1] *for the calendar years 1964 and 1965 as a result of the provisions*[2] *of your your committee's bill*—Continued

[In millions of dollars]

	Calendar year 1964			Calendar year 1965[3]		
	Individual	Corporate	Total	Individual	Corporate	Total
A. 1963 tax program—Continued						
Structural changes—Continued						
(b) Revenue reducing:						
11. Medical expense deduction	−10		−10	−10		−10
12. Child care allowance	−5		−5	−5		−5
13. Moving expenses	−60		−60	−60		−60
14. Income averaging	−40		−40	−40		−40
15. Minimum standard deduction	−320		−320	−320		−320
16. Repeal 2-percent tax on consolidated returns		−50	−50		−50	−50
17. Charitable deductions	(²)		(²)	(²)		(²)
Total, revenue reducing	−435	−50	−485	−435	−50	−485
Total, structural changes	+390	+25	+415	+570	+25	+595
Total, rate and structural changes, 1963 tax program	−5, 920	−1, 295	−7, 215	−8, 900	−2, 165	−11, 065
Capital gains revision (including induced effects):						
1. 50- to 40-percent inclusion	+340		+340	+210		+210
2. Sale or exchange of real estate		(²)	(²)		+5	+5
3. Carryover of losses	−30		−30	−30		−30
4. Sales of residences by taxpayers aged 65 or over	−10		−10	−10		−10
5. Capital gains treatment of iron ore royalties		−5	−5		−5	−5
6. Stock options	(²)		(²)	(²)		(²)
Total, capital gains revision	+300	−5	+295	+170	0	+170
Total, 1963 tax program	−5, 620	−1, 300	−6, 920	−8, 730	−2, 165	−10, 895
B. Revision of 1962 legislation:						
1. Repeal requirement to reduce basis by investment credit	−20	−125	−145	−25	−160	−185
2. Allow investment credit for elevators and escalators		−10	−10		−10	−10
Total, revision of 1962 legislation	−20	−135	−155	−25	−170	−195
C. Total	−5, 640	−1, 435	−7, 075	−8, 755	−2, 335	−11, 090

[1] At levels of income estimated for the calendar year 1963.
[2] Less than $2.5 million.

Table 2 shows that your committee's bill will decrease revenues in the fiscal year 1964 by $2.2 billion and in the fiscal year 1965 by $7.4 billion (the latter figure includes the $2.2 billion reduction). These figures are considerably lower than the calendar year liability figures for the same year; first, because of the fact that the fiscal year ends in the middle of the calendar year; and, second, because the calendar year data are shown on the basis of liability rather than receipts. Liabilities indicate the amount of tax liability attributable to income of the

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year in which it is earned; receipts show the actual amount collected in the year in question. Since collection tends to lag behind the accruing of the liability, tax reductions show up in later years when shown on a "receipt" basis than when shown on a "liability" basis.

It is important to note that it is not expected that actual tax revenues in the fiscal year 1964 and future years will be reduced by the full $2.2 or $7.4 billion referred to above. It is anticipated that income levels in these years will be substantially higher as a result of the economic stimulus of the tax cut and will generate revenues significantly offsetting the budgetary impact of these rate reductions.

TABLE 2.—*Estimated decrease* [1] (−) *and increase* (+) (*before feedback*) *of tax receipts for the fiscal years 1964 and 1965 resulting from your committee's bill*

[In millions of dollars]

	Fiscal year 1964			Fiscal year 1965		
	Individual	Corporate	Total	Individual	Corporate	Total
A. 1963 tax program:						
Rate changes	−2,430		−2,430	−7,530	−1,320	−8,850
Acceleration of payments		+260	+260		+900	+900
Total	−2,430	+260	−2,170	−7,530	−420	−7,950
Structural changes:						
(a) Revenue raising:						
1. Group term insurance				+5		+5
2. Bank loan insurance				+5		+5
3. Sick pay exclusion				+110		+110
4. Deduction of personal taxes				+520		+520
5. Casualty loss deduction				+50		+50
6. Aggregation of mineral properties					+40	+40
7. Personal holding companies				+15		+15
8. Repeal of dividend credit and increase in exclusion				+120		+120
9. Multiple corporation penalty tax					+35	+35
10. Gifts of future interest				[2]		[2]
Total, revenue raising				+825	+75	+900
(b) Revenue reducing:						
11. Medical expense deduction				−10		−10
12. Child care allowance				−5		−5
13. Moving expenses				−60		−60
14. Income averaging				−40		−40
15. Minimum standard deduction				−320		−320
16. Repeal 2-percent tax on consolidated returns					−50	−50
17. Charitable deductions				[2]		[2]
Total, revenue reducing				−435	−50	−485
Total, structural changes				+390	+25	+415
Total rate and structural changes, 1963 tax program	−2,430	+260	−2,170	−7,140	−395	−7,535
Capital gains revision (including induced effects):						
1. 50 to 40 percent inclusion				+340		+340
2. Sale or exchange of real estate					[2]	[2]
3. Carryover of losses				−30		−30
4. Sales of residences by taxpayers aged 65 or over				−10		−10

See footnotes at end of table, p. 15.

TABLE 2.—*Estimated decrease*[1] (−) *and increase* (+) (*before feedback*) *of tax receipts for the fiscal years 1964 and 1965 resulting from your committee's bill*—Continued

[In millions of dollars]

	Fiscal year 1964			Fiscal year 1965		
	Individual	Corporate	Total	Individual	Corporate	Total
A. 1963 tax program—Continued						
Capital gains revision (including induced effects)—Continued						
5. Capital gains treatment of iron ore royalties					−5	−5
6. Stock options				(2)		(2)
Total, capital gains revision				+300	−5	+295
Total, 1963 tax program	−2,430	+260	−2,170	−6,840	−400	−7,240
B. Revision of 1962 legislation:						
1. Repeal requirement to reduce basis by investment credit		−15	−15	−20	−125	−145
2. Allowing investment credit for elevators and escalators		−5	−5		−10	−10
Total, revision of 1962 legislation		−20	−20	−20	−135	−155
C. Total	−2,430	+240	−2,190	−6,860	−535	−7,395

[1] At levels of income estimated for the calendar year 1963.
[2] Less than $2,500,000.

The stimulative effects of the tax reduction are expected to produce, according to the Treasury Department, relatively modest amounts of increased income in the first months, with the result that the "feedback" effect on the fiscal year 1964 revenues is expected to amount to only $400 million. As a result, the gross tax loss of $2.2 billion for the fiscal year 1964 is expected to be reduced to $1.8 billion after the "feedback" effect. The Treasury Department has estimated that the increased revenues from the rise of income, however, will amount to about $4 billion in the fiscal year 1965. Thus, the Treasury estimates that while reduced tax rates during that year would lose an estimated $7.4 billion of revenue at existing income levels, the net cost after allowing for the revenues generated by the expansion in income and profits induced by the tax program, would be limited to approximately $3.5 billion. The expansionary effect of the tax reductions on future years' revenues can be expected to be considerably larger than for the first 2 years. The order of magnitude was indicated in the discussion in part II.

Table 3 shows by adjusted gross income class the distribution of changes in estimated tax liabilities for individuals when your committee's bill is fully effective. This table shows this distribution for each of the major rate and structural changes. These data are shown both in terms of amount of tax liability involved and the percentage change each of these is of present tax liability. It indicates that the rate changes alone would decrease tax liability by 20 percent while the structural changes would increase tax liability by 1.2 percent, resulting in the net reduction of 18.8 percent.

In table 3 the impact of the capital gains provisions is excluded because of the difficulty of showing these changes by adjusted gross income classes. Therefore, table 4 shows the revenue effect of each of the capital gain and loss provisions and shows the distribution of this revenue between individuals and corporations. The table also shows the anticipated temporary pickup in revenues expected as the result of the induced sales of securities occurring because of the lower inclusion factor and capital gains alternative tax for assets already held over 2 years.

TABLE 3.—*Change in estimated tax liability resulting from rate and structural changes*[1] *provided for individuals by your committee's bill when fully effective*

[In millions of dollars]

Adjusted gross income class	Rate change	Structural changes												Total
		Group term and other insurance	Sick pay exclusion	Limitation of deductions	Casualty loss deduction	Personal holding companies	Dividend credit and exclusion	Medical care deduction (aged)	Child care allowance	Moving expenses	Income averaging	Minimum standard deduction	Total	
0 to $3,000	−400	([2])	5	10	([2])	([2])	([2])	([2])	([2])	([2])		−170	−155	−555
$3,000 to $5,000	−1,020	([2])	20	50	5	([2])	10	([2])	−5	−15		−100	−35	−1,055
$5,000 to $10,000	−3,905	([2])	55	220	25	([2])	30	([2])	([2])	−25	([2])	−50	+255	−3,650
$10,000 to $20,000	−2,285	([2])	25	130	15	([2])	50	([2])	([2])	−15	−10		+195	−2,090
$20,000 to $50,000	−1,150	5	5	60	5	([2])	85	−5	([2])	−5	−20		+130	−1,020
$50,000 and over	−710	10	([2])	50	([2])	15	125	−5	([2])	([2])	−10		+185	−525
Total	−9,470	15	110	520	50	15	300	−10	−5	−60	−40	−320	+575	−8,895
	Change as a percent of present tax													
0 to $3,000	−27.6	([2])	0.3	0.7	([2])	([2])	([2])	([2])	([2])	([2])		−11.7	−10.7	−38.3
$3,000 to $5,000	−25.3	([2])	.5	1.2	0.1	([2])	0.2	([2])	−0.1	−0.4		−2.5	−.9	−26.2
$5,000 to $10,000	−21.3	([2])	.3	1.2	.1	([2])	.2	([2])	([2])	−.1	([2])	−.3	+1.4	−19.9
$10,000 to $20,000	−18.0	([2])	.2	1.0	.1	([2])	.4	([2])	([2])	−.1	−0.1		+1.5	−16.4
$20,000 to $50,000	−17.0	0.1	.1	.9	.1	([2])	1.3	−0.1	([2])	−.1	−.3		+1.9	−15.1
$50,000 and over	−17.0	.2	([2])	1.2	([2])	0.4	3.0	−.1	([2])	([2])	−.2		+4.4	−12.6
Total	−20.0	([2])	.2	1.1	.1	([2])	.6	([2])	([2])	−.1	−.1	−.7	+1.2	−18.8

[1] Excluding capital gains.

[2] Less than $2.5 million or 0.05 percent.

TABLE 4.—*Revision in taxation of capital gains and losses when all provisions of your committee's bill are fully effective (1965)*

[In millions of dollars]

	Individual	Corporate	Total
Direct effects:			
1. Reduced inclusion percentage	−230		−230
2. Unlimited loss carryforward	−30		−30
3. Sale or exchange of real estate		+15	+15
4. Sales of residences by taxpayers aged 65 or over	−10		−10
5. Treatment of iron ore royalties		−5	−5
Total direct effects	−270	+10	−260
Induced effects:			
1(*a*) Reduced inclusion percentage—induced unlocking	+450		+450
1(*b*) Deferral effect on gains between 6 months and 2 years	−10		−10
Total induced effects	+440		+440
Total effects	+170	+10	+180

IV. GENERAL EXPLANATION

A. RATE CHANGES

1. Individual income tax rates (sec. 111 of the bill and sec. 1 of the code)

The most important change made by this bill is the individual income tax rate reduction. The bill provides an individual income tax reduction of $9.47 billion spread over the 2 calendar years, 1964 and 1965. Over this 2-year period, the present rates, which range from 20 percent on the first $2,000 or $4,000 (the former for single persons and the latter for married couples) and 91 percent on incomes over $200,000 or $400,000 are reduced to a range of from 14 percent on the first $500 or $1,000 to 70 percent on incomes over $100,000 or $200,000. This represents an average rate reduction of 20 percent. Approximately two-thirds of this reduction is made effective in 1964 and the remaining one-third in 1965.

Table 5 shows the individual income tax rates under present law and under your committee's bill, both for 1964 and for subsequent years. A separate table with rates, as nearly as possible halfway between those applicable for single persons and for married couples, is provided for heads of households. The withholding tax rate of 18 percent under present law is reduced to 15 percent for the calendar year 1964 and to 14 percent for 1965 and subsequent years. Wage bracket withholding tables provided by the bill reflect similar reductions in withholding tax rates. The 14 (or 15) percent withholding tax rate is designed to withhold the appropriate amount of tax at an income level of $2,000 for a single person, or $4,000 in the case of a married couple using the standard deduction.

TABLE 5.—*Individual income tax rates under present law and schedules provided by committee's bill for 1964 and 1965*

Taxable income brackets (in thousands of dollars)		Present rates	Rates provided under committee bill—	
Single person	Married (joint)		1964 [1]	1965
		Percent	*Percent*	*Percent*
0 to 0.5	0 to 1	20	16.0	14
0.5 to 1	1 to 2	20	16.5	15
1 to 1.5	2 to 3	20	17.5	16
1.5 to 2	3 to 4	20	18.0	17
2 to 4	4 to 8	22	20.0	19
4 to 6	8 to 12	26	23.5	22
6 to 8	12 to 16	30	27.0	25
8 to 10	16 to 20	34	30.5	28
10 to 12	20 to 24	38	34.0	32
12 to 14	24 to 28	43	37.5	36
14 to 16	28 to 32	47	41.0	39
16 to 18	32 to 36	50	44.5	42
18 to 20	36 to 40	53	47.5	45
20 to 22	40 to 44	56	50.5	48
22 to 26	44 to 52	59	53.5	50
26 to 32	52 to 64	62	56.0	53
32 to 38	64 to 76	65	58.5	55
38 to 44	76 to 88	69	61.0	58
44 to 50	88 to 100	72	63.5	60
50 to 60	100 to 120	75	66.0	62
60 to 70	120 to 140	78	68.5	64
70 to 80	140 to 160	81	71.0	66
80 to 90	160 to 180	84	73.5	68
90 to 100	180 to 200	87	75.0	69
100 to 150	200 to 300	89	76.5	70
150 to 200	300 to 400	90	76.5	70
200 and over	400 and over	91	77.0	70

[1] Provides ⅔ of tax cut in 1964.

The rate brackets provided by your committee's bill differ from those under present law in that what is now the first bracket is divided into four brackets:

Single persons	*Married couples*
$0 to $500	$0 to $1,000
$500 to $1,000	$1,000 to $2,000
$1,000 to $1,500	$2,000 to $3,000
$1,500 to $2,000	$3,000 to $4,000

Splitting this first bracket into four brackets has several advantages. First, it makes it possible to have a lower starting rate than would otherwise be possible, given the same revenue loss. Only splitting this first bracket into four parts makes it possible to provide a 30-percent tax reduction for those with the lowest taxable income, who need the tax cut the most. Second, it makes it possible to provide some progression in the portion of the rate structure where none has been provided before. The significance of this is that over half of the taxpayers presently are subject only to the first bracket rate. As among taxpayers in this major group, the present rate structure provides no differentiation in applicable tax rates.

Table 6 shows the percentage of tax rate reduction provided in each rate bracket for 1965 and subsequent years. This table indicates that the new 14-percent rate represents a 30-percent reduction; the 15-percent rate, a 25-percent cut; and the 16-percent rate, a 20-percent cut. The average reduction in these first four brackets is 22.5 percent. Above this level the percentage reductions, up to a taxable income level of about $50,000 for single persons or $100,000 for married couples, is as nearly a uniform 15-percent rate reduction as practicable for a smooth progression. Above this $50,000 or $100,000 taxable income level, the rate reductions again gradually increase until the top rate is reached at $200,000 or $400,000 where a 23-percent rate reduction is provided. This rate schedule, therefore, provides a minimum reduction of approximately 15 percent for all tax brackets. In addition, it provides extra reductions in the very lowest tax brackets where the impact of the present taxes is the most heavy. It also provides larger reductions in the very highest bracket where it is quite clear the present rates are too steeply graduated. These rates, which were developed during World War II to assure equality of sacrifice, are no longer appropriate under today's conditions.

TABLE 6.—*Individual income tax rate schedules*

SCHEDULES UNDER PRESENT LAW AND UNDER COMMITTEE BILL FOR 1965

Taxable income bracket (thousands of dollars)		Present law rate	Committee bill	
Single person	Married (joint)		Rate for 1965 and subsequent years	Percentage reduction from present law rates
		Percent	*Percent*	*Percent*
0 to 0.5	0 to 1	20	14	30 } 22.5
0.5 to 1	1 to 2	20	15	25
1 to 1.5	2 to 3	20	16	20
1.5 to 2	3 to 4	20	17	15
2 to 4	4 to 8	22	19	14
4 to 6	8 to 12	26	22	15
6 to 8	12 to 16	30	25	17
8 to 10	16 to 20	34	28	18
10 to 12	20 to 24	38	32	16
12 to 14	24 to 28	43	36	16
14 to 16	28 to 32	47	39	17
16 to 18	32 to 36	50	42	16
18 to 20	36 to 40	53	45	15
20 to 22	40 to 44	56	48	14
22 to 26	44 to 52	59	50	15
26 to 32	52 to 64	62	53	15
32 to 38	64 to 76	65	55	15
38 to 44	76 to 88	69	58	16
44 to 50	88 to 100	72	60	17
50 to 60	100 to 120	75	62	17
60 to 70	120 to 140	78	64	18
70 to 80	140 to 160	81	66	19
80 to 90	160 to 180	84	68	19
90 to 100	180 to 200	87	69	21
100 to 150	200 to 300	89	70	21
150 to 200	300 to 400	90	70	22
200 and over	400 and over	91	70	23

The rate reductions found in table 6 reflect only the marginal rate reduction, or the rate reduction in each bracket. From the standpoint of the reduction in the total tax burden, however, it is important to realize that all taxpayers benefit from the rate reductions in all of the tax brackets below their top, or marginal, bracket. Thus, every taxpayer receives the benefit of the 30-percent reduction in the first bracket, either on his entire taxable income or on his first $500 or $1,000 of taxable income. Table 7 reflects this accumulative effect of the rate reduction provided by your committee's bill. This is accomplished by showing for the top of each rate bracket—both for married couples and for single persons—the total tax under present law and under your committee's bill for 1965, together with the decrease, in terms of dollars and also percentages, which this represents in present tax liability. This indicates that on an accumulative basis the large rate reduction in the bottom bracket has an important effect on income up to $8,000 for married couples (or $4,000 for single persons) and is of some significance for income levels up to about $40,000 for married couples (or $20,000 for single persons).

TABLE 7-A.—*Comparison of individual income tax liability under present law and under your committee's bill*

MARRIED COUPLE FILING JOINTLY

Amount of taxable income	Tax		Decrease in tax in committee bill	
	Present law	Committee bill	Amount	Percent
$1,000	$200	$140	$60	30.0
$2,000	400	290	110	27.5
$3,000	600	450	150	25.0
$4,000	800	620	180	22.5
$8,000	1,680	1,380	300	17.9
$12,000	2,720	2,260	460	16.9
$16,000	3,920	3,260	660	16.8
$20,000	5,280	4,380	900	17.0
$24,000	6,800	5,660	1,140	16.8
$28,000	8,520	7,100	1,420	16.7
$32,000	10,400	8,660	1,740	16.7
$36,000	12,400	10,340	2,060	16.6
$40,000	14,520	12,140	2,380	16.4
$44,000	16,760	14,060	2,700	16.1
$52,000	21,480	18,060	3,420	15.9
$64,000	28,920	24,420	4,500	15.6
$76,000	36,720	31,020	5,700	15.5
$88,000	45,000	37,980	7,020	15.6
$100,000	53,640	45,180	8,460	15.8
$120,000	68,640	57,580	11,060	16.1
$140,000	84,240	70,380	13,860	16.5
$160,000	100,440	83,580	16,860	16.8
$180,000	117,240	97,180	20,060	17.1
$200,000	134,640	110,980	23,660	17.6
$300,000	223,640	180,980	42,660	19.1
$400,000	313,640	250,980	62,660	20.0

TABLE 7-B.—*Comparison of individual income tax liability under present law and under your committee's bill*

SINGLE PERSONS

Amount of taxable income	Tax		Decrease in tax in committee bill	
	Present law	Committee bill	Amount	Percent
$500	$100	$70	$30	30.0
$1,000	200	145	55	27.5
$1,500	300	225	75	25.0
$2,000	400	310	90	22.5
$4,000	840	690	150	17.9
$6,000	1,360	1,130	230	16.9
$8,000	1,960	1,630	330	16.8
$10,000	2,640	2,190	450	17.0
$12,000	3,400	2,830	570	16.8
$14,000	4,260	3,550	710	16.7
$16,000	5,200	4,330	870	16.7
$18,000	6,200	5,170	1,030	16.6
$20,000	7,260	6,070	1,190	16.4
$22,000	8,380	7,030	1,350	16.1
$26,000	10,740	9,030	1,710	15.9
$32,000	14,460	12,210	2,250	15.6
$38,000	18,360	15,510	2,850	15.5
$44,000	22,500	18,990	3,510	15.6
$50,000	26,820	22,590	4,230	15.8
$60,000	34,320	28,790	5,530	16.1
$70,000	42,120	35,190	6,930	16.5
$80,000	50,220	41,790	8,430	16.8
$90,000	58,620	48,590	10,030	17.1
$100,000	67,320	55,490	11,830	17.6
$150,000	111,820	90,490	21,330	19.1
$200,000	156,820	125,490	31,330	20.0

Table 8 shows the distribution by adjusted gross income classes (as distinguished from taxable income classes) of both the rate and structural changes provided by the bill when these changes are fully effective. This table also shows the number of taxable returns and tax liability under present law, together with the tax liability which will remain when the rate reductions and other changes provided by this bill are fully effective. The table further shows the percentage distribution of the rate, structural, and total changes made by this bill (expressed as a percentage of present tax liability by income class). This indicates that the rate changes on the average represent a 20-percent reduction. The percentage reductions vary within the various income classes from 17 percent for adjusted gross income above $20,000 up to 27.6 percent for incomes below $3,000. Taking the structural changes into account, the overall reduction averages 18.8 percent and varies from a reduction of 12.6 percent for incomes over $50,000 up to a reduction of 38.3 percent for those incomes of $3,000 or less.

TABLE 8.—*Distribution by adjusted gross income class of the full-year effect of all tax changes* [1] *made by your committee's bill which directly affect individuals*

Adjusted gross income class (thousands of dollars)	Number of taxable returns (millions)	Tax liability under present law	Effect of your committee's bill			Total tax under your committee's bill
			Rate change	Structural changes	Total	
		In millions of dollars				
0 to 3	9.7	1,450	−400	−155	−555	895
3 to 5	10.5	4,030	−1,020	−35	−1,055	2,975
5 to 10	22.9	18,300	−3,905	+255	−3,650	14,650
10 to 20	6.7	12,710	−2,285	+195	−2,090	10,620
20 to 50	1.0	6,760	−1,150	+130	−1,020	5,740
50 and over	.2	4,170	−710	+185	−525	3,645
Total	51.0	47,420	−9,470	+575	−8,895	38,525
		Percent of tax liability under present law				
0 to 3		100.0	−27.6	−10.7	−38.3	61.7
3 to 5		100.0	−25.3	−.9	−26.2	73.8
5 to 10		100.0	−21.3	+1.4	−19.9	80.1
10 to 20		100.0	−18.0	+1.5	−16.4	83.6
20 to 50		100.0	−17.0	+1.9	−15.1	84.9
50 and over		100.0	−17.0	+4.4	−12.6	87.4
Total		100.0	−20.0	+1.2	−18.8	81.2

[1] Excluding capital gains.

The tax rate reductions described above take effect as of January 1, 1964 and January 1, 1965. For taxpayers with fiscal years falling partially in either the calendar year 1963 or the calendar year 1964, the bill provides for the proration of the rates applicable in the 2 years involved, according to the number of days in the fiscal year in question which falls in each calendar year.

The tax rate changes provided for individuals by this bill are expected to decrease tax liabilities in the calendar year 1964 by $6.3 billion and in the calendar year 1965 by $9.5 billion. The latter reduction is cumulative and includes the reduction of $6.31 billion for the calendar year 1964.

2. Minimum standard deduction (sec. 112 of the bill and sec. 141 of the code)

(*a*) *Present law.*—Under present law, single taxpayers who take the standard deduction, if they have no dependents, become taxable on income above $667. This represents a standard deduction of 10 percent ($67) plus the personal exemption ($600). For a married couple filing a joint return under present law, income becomes taxable above $1,333. This represents a 10-percent standard deduction ($133) plus two $600 exemptions. Similarly, a married couple with one child becomes taxable on income above $2,000 (a standard deduction of $200 plus three $600 exemptions).

(*b*) *General reasons for proposal.*—In addition to the rate reductions described above, your committee concluded that it was desirable to remove from the tax rolls those persons with minimum incomes and also to provide those with incomes just slightly above these levels a somewhat larger tax reduction than is made available generally through the rate cuts.

The minimum standard reduction that your committee has adopted, and which is described below, removes 1.5 million taxpayers, with very low incomes, from the tax rolls entirely.

The tax relief provided under this provision is almost entirely concentrated in the adjusted gross income classes of $5,000 or less, with much of it concentrated in income levels below $3,000. The total revenue loss anticipated from the minimum standard deduction of $320 million, for example, is distributed as follows:

Adjusted gross income class (thousands of dollars)	Change in tax liability from minimum standard deduction (millions of dollars)	Percentage change in present tax liability
0 to 3	−170	−11.7
3 to 5	−100	−2.5
5 to 10	−50	−.3
10 and over	0	0
Total	−320	−.7

The minimum standard deduction relieves persons at or near the subsistence level of much or all of their tax liability. In this respect the provision is much more economical than a personal exemption increase. The minimum standard deduction in your committee's bill provides a floor of $300 above his exemption for a single person, a floor of $400 above exemptions for a married couple, and one of $600 above exemptions for a married couple with two children. Yet an increase in exemptions of only $100 would cost $2.6 billion, and one of $200 would cost $5 billion in lieu of the $320 million cost entailed in the minimum standard deduction.

(*c*) *General explanation of proposal.*—Your committee's bill provides that taxpayers who use the standard deduction may use either the regular 10-percent deduction or a minimum standard deduction, whichever is the larger. The minimum standard deduction in effect is $300 for the first exemption and $100 for each additional exemption. In the case of a married person filing a separate return, however, the

minimum standard deduction is $200 for the first exemption and $100 for each additional exemption.[1] As under present law, the standard deduction, whether a "10-percent" deduction or a "minimum" deduction, may not exceed $1,000 (or $500 in the case of a married person filing a separate return).

Under your committee's bill, a single person would be allowed a minimum standard deduction of $300 which, together with the personal exemption of $600, would mean that he would have no tax to pay until his income exceeded $900. Similarly, a married couple with no children would be allowed a minimum standard deduction of $400 ($300 for the first exemption, plus $100 for the second exemption). As a result, the married couple would pay tax on income only in excess of $1,600. A head of a household with one dependent also would be subject to tax only on income above $1,600, since the minimum standard deduction in this case also would be $300, plus $100 for the dependent. A married couple, both over age 65, would receive a minimum standard deduction of $600; i.e., $300 with respect to the first exemption, and $100 with respect to the three additional exemptions. This together with their four exemptions would mean they would pay no tax on the first $3,000 of income. This would also be true of blind persons with double exemptions.

The income levels under present law and under your committee's bill at, or below, which there would be no tax, are as follows:

Status of taxpayer	Present law with 10 percent standard deduction	Minimum standard deduction provided by bill
Single person	[1] $667	$900
Married couple, no dependents or head of household, 1 dependent	[1] 1,333	1,600
Married couple, 1 dependent or head of household, 2 dependents	[1] 2,000	2,300
Married couple, 2 dependents or head of household, 3 dependents	[1] 2,667	3,000
Married couple, 3 dependents or head of household, 4 dependents	[1] 3,333	3,700
Married couple, 4 dependents or head of household, 5 dependents	[1] 4,000	4,400
Married couple, 5 dependents or head of household, 6 dependents	[1] 4,667	5,100
Married couple, 6 dependents or head of household, 7 dependents	5,333	5,800

[1] The amounts shown above assume that the income level under existing law is reached at exactly the level which would apply if a uniform 10 percent standard deduction were used. However, under present law for taxpayers with income below $5,000, a tax table with brackets is substituted for the uniform 10 percent. This modifies slightly all of the figures noted above. The income levels in these cases according to the tax table are: $674, $1,324, $1,999, $2,674, $3,349, $3,999, and $4,649 respectively.

Under your committee's bill, taxpayers have the right to change their election with respect to the minimum standard deduction at any time within the period in which they can amend their tax return, that is, generally within the period ending 3 years after the due date filing for a given return.

(*c*)(*i*) *Effective date.*—Generally, the minimum standard deduction applies to taxable years ending after December 31, 1963. However, for taxpayers with fiscal years straddling this date, the bill provides for a portion of the benefits of the minimum standard deduction in the same way as rate reductions, in accordance with the number of days before and after December 31, 1963, in such years.

(*d*) *Revenue effect.*—The minimum standard deduction provided by this bill is expected to reduce revenues in a full year of operation by $320 million.

[1] In the case of married couples, where 1 takes the 10-percent standard deduction, rather than the minimum standard deduction, the other spouse must also take the 10-percent standard deduction. However, both may, if they so desire, elect to take the minimum standard deduction, which, as indicated above, is $200 for the 1st exemption and $100 for each additional exemption in the case of married persons filing separate returns.

3. Amendments related to individual income tax rate reductions (sec. 113 of the bill and secs. 37 and 871 of the code)

(*a*) *Retirement income credit.*—Present law provides a tax credit on retirement for passive investment or pension income received by persons generally over age 65. However, the income taken into account for this credit must be reduced for tax exempt social security, or railroad retirement income, and for those under age 72 for income derived from work above a specified income level. In computing the credit, present law provides that the income eligible for the credit is to be multiplied by the "rate provided in section 1 for the first $2,000 of taxable income." Under present law, this rate is 20 percent. Under your committee's bill, however, since this bracket has been split into four brackets, there are four rates ranging from 14 to 17 percent, applicable to different segments of this first $2,000 of taxable income.

Your committee's bill provides that the rate of tax to be used in computing this credit in the future is to be 15 percent. This is as near the middle of the four rates applicable to the first $2,000 of income as is possible, without the use of fractional rates.

(*b*) *Tax on nonresident aliens.*—Under present law, nonresident aliens receiving income from sources within the United States, such as interest, dividends, rents, salaries, wages, etc., are taxed on this income at a flat 30-percent rate (unless applicable tax treaties provide some other rates). However, present law also provides that if the nonresident alien receives more than $15,400 from the specified sources within the United States, then the regular individual income tax will apply with respect to the nonresident aliens' income from sources within the United States (if this results in a higher tax than the flat rate 30-percent tax).

The income level of $15,400 in present law is the point at which a 30-percent flat tax rate with one exemption would be likely to approximate the regular income tax rate with exemptions and with progressive rates. Because of the rate reductions provided by your committee's bill, this income level of proximate equality rises, and has been established in the bill at $21,200.

4. Corporate rate reductions (sec. 121 of the bill and sec. 11 of the code)

Under present law, the total, or combined, corporate income tax rate is 52 percent. It consists of a 30-percent normal tax rate, applying to all corporate income, and a 22-percent surtax rate applying to corporate income in excess of $25,000. Thus, corporations are taxed at a 30-percent rate on the first $25,000 of their taxable income and at a 52-percent rate on their taxable income above that level.

Your committee's bill makes two basic changes in the rate structure provided by present law. First, it lowers the overall rate from 52 to 50 percent for 1964, and to 48 percent for 1965 and subsequent years. Second, it "reverses" the normal and surtax rate in order to provide greater relief for small business. Thus, it provides that the normal tax rate is to be 22 percent instead of 30 percent for 1964 and subsequent years. The surtax rate then, for 1964, is to be 28 percent, and for 1965 and subsequent years, 26 percent. Thus, your committee's bill provides a tax rate of 22 percent (in place of 30 percent) on the first $25,000 of a corporation's taxable income for both 1964 and subsequent years and a tax rate of 50 percent in 1964 and 48 percent in

1965 and subsequent years for the portion of a corporation's income over $25,000 (in lieu of the present 52 percent rate).

This reduction in corporate rates is important because it reverses the trend toward higher and higher corporate rates and also because it again makes the government a "junior," rather than "senior," partner in any venture a corporation may undertake, insofar as the sharing of corporate income before tax is concerned. This tax rate reduction should be an important factor in improving the rate of profitability for corporations and, therefore, should provide an incentive for business investment and economic modernization and growth. It should also aid corporations in the export market in competing with corporations in other countries, where the corporate rates may not be as high as in the United States.

This tax cut for corporations, when fully effective, will amount to $2.2 billion a year. It should, of course, be viewed in connection with the reduction provided by Congress last year in the form of an investment credit and the reform provided last year in the depreciation guidelines. These taken, together, provide corporations with a tax reduction of approximately $4½ billion.

The "reversal" of the corporate rates should be a substantial benefit to small business. The substitution of a 22-percent rate for the 30-percent rate represents a rate reduction of nearly 27 percent on the first $25,000 of income, as contrasted to the rate reduction for above $25,000 of slightly less than 8 percent. Moreover, as indicated in table 6, the benefit of this rate reduction on the first $25,000 of income is appreciable for income levels up to $100,000.

TABLE 9.—*Revenue effect* [1]

Surtax net income class (dollars)	Number of taxable corporations	Computed tax liability, present rates [2] (million)	Normal tax to 22 percent and combined rate to 48 percent	
			Amount of reduction (million)	Percent reduction
$0 to $25,000	467,500	$874	$233	26.7
25,000 to 50,000	54,000	636	126	19.8
50,000 to 100,000	25,000	759	94	12.4
100,000 to 1,000,000	25,500	3,427	299	8.7
1,000,000 and over	4,000	18,664	1,438	7.7
Total	576,000	24,360	2,190	9.0

[1] At 1963 levels of income.
[2] Excluding capital gains presently taxed at the alternative rate.

Your committee believes that it is important to provide a greater rate reduction for small businesses because of their importance in maintaining competitive prices in our economy, and also because of the greater difficulty small businesses have in finding outside funds to finance their expansion. As a result, they have traditionally found it necessary to expand largely out of income remaining after tax.

The rate reductions provided by your committee's bill for corporations apply to taxable years beginning after December 31, 1963, in the case of the reversal of the normal and surtax rates and also in the case of the reduction of the general rate to 50 percent. The reduction in the corporate rate from 50 to 48 percent applies to taxable years

beginning after December 31, 1964. For fiscal year taxpayers, with years straddling either of these two dates, the bill provides that the reductions are to be prorated in accordance with the portion of the corporate year occurring after December 31, 1963 or after December 31, 1964.

The decrease of corporate rate from 52 to 50 percent in the calendar year 1964, and the reversal of the normal and surtax rates, is expected to decrease corporate tax liabilities for that year by $1.3 billion. The reduction in corporate tax liabilities for the calendar year 1965 and subsequent years (when the corporate rate will be further reduced to 48 percent) is expected to amount to $2.2 billion. This estimate is cumulative and includes the $1.3 billion loss referred to with respect to 1964 corporate tax liabilities.

5. Current tax payments by corporations (sec. 122 of the bill and secs. 6074 and 6154 of the code)

(*a*) *Present law.*—Under present law a calendar year corporation is required to pay 25 percent of its estimated tax in excess of $100,000 in the third quarter of the year in which the tax liability actually arises, or on September 15. Another one-fourth of this estimated tax is paid in the fourth quarter of the year of liability, or on December 15. The remainder of the tax is paid in two equal installments in the following year, the first installment being due at the same time as the tax return for that year, or on March 15, and the second and final installment being due on June 15. Comparable dates are provided for fiscal year corporations.

This system of paying two quarterly installments with respect to tax liability in excess of $100,000 in the same year in which the liability arises, was initially provided at the time of the adoption of the Internal Revenue Code of 1954. Before that time Congress had, in 1950, provided, in the case of calendar year corporations, that the tax was to be paid in two installments of 50 percent each on March 15 at the time for filing the return and on the following June 15, both of these payment dates being in the year immediately following the year in which the tax liability arose. (Comparable dates were provided for fiscal year corporations.) Prior to 1950, corporate taxes were payable in four installments of 25 percent each, the first two for calendar year corporations being on the dates specified above, and the last two on the following September 15 and December 15—both dates being in the year following the year in which the tax liabiliy arose.

(*b*) *General reasons for provisions.*—As indicated above, corporations presently are only on a partial pay-as-you-go basis. Individuals, on the other hand, either through withholding or through declarations, are on a full pay-as-you-go basis. Your committee's bill, with respect to tax liability in excess of $100,000, places corporations on essentially the same pay-as-you-go basis as is already true in the case of individuals. This is to be accomplished gradually over a 7-year period. With the corporate rate reduction also provided by this bill, spreading the acceleration in corporate payments over this 7-year period can be accomplished without raising any corporation's income tax payment above its tax for 1963 (assuming the same income level throughout).

At the present time, the larger corporations appear to have sufficient funds to meet their investment requirements. In fact, many of the larger corporations customarily fund their tax liabilities by investing currently in Treasury tax notes or other types of short-term debt.

Moreover, the cash and other liquid assets of corporations in 1962 amounted to $68.5 billion, or some five times the aggregate tax liability of these corporations. In any event, since in each year the acceleration in payments is offset or more than offset by the tax reduction, the speedup of corporate payments will not decrease internal funds available at the corporate level for investment. At the same time, the reduction in the rate of corporate tax will increase the profitability of investments, thus encouraging further expansion.

Since the acceleration of the corporate payments has no effect if tax liabilities are $100,000 or less, the smaller corporations which, in many cases, may have a shortage of internal funds available for investment, will not be affected by this provision. Such corporations will have additional funds available for investment through the general 4 percentage point corporate rate cut, and more especially through the 8 percentage point reduction in the tax applying to the first $25,000 of income.

(c) *General explanation of provision.*—Over the 7-year period, 1964 through 1970, your committee's bill, in effect, provides, in the case of calendar year corporations, that the two installment payments due on March 15 and June 15 of the year following the year of liability are to be advanced to April 15 and June 15 of the year of liability, leaving the September 15 and December 15 installment payments of 25 percent still due at the same time as under present law. (A comparable advance is made for fiscal year corporations.) Any liability, to the extent that it is not paid by estimated tax payments (for example, does not exceed $100,000), will still be payable in two installments after the close of the year of liability, on March 15 and June 15, in the same manner as under present law. The following tabulation shows the change in the percentage payment dates from present law to the system set forth in your committee's bill when it is fully effective in 1970 and subsequent years:

	Percentage payments	
	Present law	Under bill when fully effective in 1970
Payments in year of liability:		
Apr. 15	0	25
June 15	0	25
Sept. 15	25	25
Dec. 15	25	25
Payments in year following year of liability:		
Mar. 15	25	(1)
June 15	25	(1)

[1] Payments will still be due on these 2 dates with respect to tax liability on the 1st $100,000 of tax and on any amount of underestimates.

The advance in corporate payments described above is achieved under your committee's bill over a 7-year period, commencing in 1964, with respect to tax liabilities arising in that year. For corporations with tax liabilities in excess of $100,000, the bill requires that they make first and second quarterly current payments of 1964 tax in excess of $100,000 of 1 percent in April and June of 1964 (assuming they are calendar year corporations), with these quarterly percentages

increasing to 4 percent in 1965, 9 percent in 1966, 14 percent in 1967, 19 percent in 1968, 22 percent in 1969, and then 25 percent in 1970 and subsequent years. These percentages apply only with respect to the portion of the corporations' tax liabilities which exceed $100,000. This gradual shift of the corporate tax payments, with respect to tax liability above $100,000, can perhaps best be seen by the following tabulation.

	Percent of estimated tax to be paid on the 15th day of the—				Percent of tax to be paid on the 15th day of—	
	4th month	6th month	9th month	12th month	3d month	6th month
	of the year of liability				of the year following the year of liability	
1964	1	1	25	25	24	24
1965	4	4	25	25	21	21
1966	9	9	25	25	16	16
1967	14	14	25	25	11	11
1968	19	19	25	25	6	6
1969	22	22	25	25	3	3
1970 and any subsequent year	25	25	25	25	(1)	(1)

[1] Payments will still be due on these 2 dates with respect to tax liability on the 1st $100,000 of tax and on any amount of underestimates.

The percentages of the tax liabilities to be accelerated for each of the years, 1964 through 1970, were selected so that the speedup in corporate payments would not exceed the reduction in tax liabilities provided by the bill. The effect of the speedup on corporate tax liabilities for a calendar year corporation having a $10 million tax liability is shown in table 10. As indicated by this table, the combined effect of the rate reduction with the acceleration of corporate payments in all years results in a net reduction in tax payments, even for a corporation with a taxable income of $10 million. Corporations with smaller incomes would fare still more favorably in this respect.

The present provisions exempting corporations from any additional charges for failure to comply with the provisions of the declarations of estimated tax are continued as under present law. Present law provides an additional charge equal to 6 percent per annum for underpayments only if the estimated tax payments fail to come under one of the following four categories:

(1) they amount to 70 percent of the tax shown on the final return after subtracting $100,000 and allowing credits;

(2) they amount to as much as the previous year's tax reduced by $100,000;

(3) they are equal to what last year's tax (less $100,000 and allowable credits) would have been had current rates been applicable to that year's income; or

(4) the installment with respect to the declaration for any quarter is equal to 70 percent of the tax (less $100,000 and allowable credits) due on the basis of the income received to date, placed on an annual basis.

TABLE 10.—*Example of the combined effect on a calendar year corporation of current tax payments and the tax rate reductions provided by your committee's bill (corporation assumed to have $10 million of taxable income and to base its estimates on 75 percent of this income* [1])

Calendar year	Corporation payments		Calendar year	Corporation payments	
	Dollars	Percent of 1963		Dollars	Percent of 1963
1963	5, 194, 500	100. 0	1968	5, 145, 513	99. 1
1964	5, 192, 332	99. 9	1969	5, 004, 707	96. 3
1965	5, 126, 402	98. 7	1970	5, 004, 707	96. 3
1966	5, 145, 512	99. 1	1971	4, 793, 500	92. 3
1967	5, 145, 513	99. 1			

[1] Your committee's bill provides for (1) a reduction of the normal tax rate to 22 percent in 1964; of surtax rate of 28 percent in 1964 and 26 percent in 1965; and (2) 1st and 2d quarter current payments in 1964 and 6 succeeding years of 1, 4, 9, 14, 19, 22, and 25 percent.

(*c*)(*i*) *Effective date.*—The changes described above with respect to the acceleration of corporate tax payments start in taxable years beginning after December 31, 1963, and will become fully effective for taxable years beginning after December 31, 1969.

(*d*) *Revenue effects.*—It has been estimated that this proposal will increase revenues in the fiscal year 1964 by $260 million and in the fiscal year 1965 by $900 million.

IV. GENERAL EXPLANATION

B. STRUCTURAL CHANGES

1. *Dividend credit and exclusion (sec. 201 of the bill and secs. 34 and 116 of the code)*

(*a*) *Present law.*—Under present law, individuals are allowed to exclude from their tax base the first $50 of dividend income. If a husband and wife each have dividend income (or if they have such income jointly), the exclusion claimed on a joint return may amount to as much as $100 of dividend income. In addition, under present law, a credit of 4 percent is allowed against tax for any dividends remaining after the $50 or $100 exclusion. This credit may not, however, exceed 4 percent of taxable income.[1]

(*b*) *General reasons for proposal.*—In 1954 when the present dividend credit and exclusions were adopted, the committee report indicated that these relief measures were provided because the earnings of a corporation are taxed twice, once as corporate income and again as dividend income when paid out to the shareholders. It was stated that in addition to this being a double tax on this type of income, it also was a deterrent to investment in corporations. The report in 1954 particularly stressed the effect of the penalty of double taxation in channeling investments in the form of indebtedness rather than equity capital or stock.

In fact, the reduction in the corporate rate by 4 percentage points provided by this bill probably does as much to remove any double taxation involved with respect to corporate distributions as would the continuance of the present 4 percent dividend credit. Moreover, from the standpoint of making funds available for investment in corporate enterprises, this reduction in tax with respect to retained earnings can be expected to have a more important impact on corporate investment than any reduction directed solely toward corporate income which is distributed. This greater encouragement for corporate investment has been provided not only by the corporate rate cut in this bill, but also by the investment credit allowed with respect to business investment in the Revenue Act of 1962. Your committee's action in this bill, in making this investment credit available without reduction in the depreciation base, provides still further inducements for business investment.

In addition, the notion that the dividend credit would encourage equity financing does not seem to be borne out by the events which have occurred since 1954. As pointed out to your committee by the Secretary of the Treasury in the hearings before your committee on this bill, the ratio of equity to debt financing by corporations has not increased despite the presence of the 4-percent credit.

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[1] The dividend exclusion and credit are not allowed for dividends received from foreign corporations, China Trade Act corporations, exempt corporations, corporations deriving most of their income from U.S. possessions, real estate investment trusts, life insurance dividends, dividends from mutual savings banks, domestic building and loan associations, etc., and capital gains dividends from regulated investment companies.

The form of the present dividend credit, in any event, is undesirable since it reduces any double taxation by a much larger percentage for the higher income bracket stockholders than it does for those in the lower bracket. Information presented by the Secretary of the Treasury to your committee indicated that the dividend credit, even combined with the present exclusion, reduces the extra burden of double taxation by 10.4 percent in the highest income bracket, while reducing it by only 4.3 percent for those subject to the first bracket rate.

In view of these considerations, your committee concluded that it would be better to concentrate relief from any double taxation which it is possible to provide in a dividend exclusion rather than in a dividend credit. The dividend exclusion, in the area operative, completely removes any double taxation. Moreover, increasing the exclusion, as your committee's bill provides, will tend to encourage a broader stock ownership among those with relatively low income. At the same time, the repeal of the credit removes the discrimination in present law in favor of high bracket shareholders. Furthermore, removing the credit even though doubling the exemption available has the effect of raising $300 million of revenue in the calendar year 1965 and subsequent years, which your committee has devoted to further individual income tax rate reductions than would otherwise be possible.

(*c*) *General explanation of provision.*—In view of the consideration referred to above, your committee's bill decreases from 4 to 2 percent the credit against tax allowed for dividends received during the calendar year 1964. With respect to dividends received in 1965 and subsequent years, the credit is repealed altogether. Consistent with the treatment provided when the tax credit was 4 percent of the dividend income, the dividend credit allowable during the calendar year 1964 is to be limited to 2 percent of taxable income received by an individual during that year.

Your committee's bill provides that with respect to dividends received in the calendar year 1964 and subsequent years the maximum exclusion per individual with respect to dividends received from a domestic corporation is to be $100, in lieu of the $50 available at the present time. In the case of married couples, where each owns stock separately or where stock is owned jointly and joint returns are filed, the maximum exclusion will be $200 in place of the $100 applicable under present law.

(*c*)(*i*) *Effective date.*—As indicated above, the dividend credit is reduced from 4 percent to 2 percent with respect to dividends received in the calendar year 1964 and is repealed with respect to dividends received in 1965 and subsequent years. The dividend exclusion is doubled with respect to amounts received in the calendar year 1964 and subsequent years.

(*d*) *Revenue effect.*—The combined effect of the reduction and then repeal of the credit and the increase of the exclusion is expected to increase tax liabilities by about $120 million for the calendar year 1964 and by $300 million in the calendar year 1965 and subsequent years when the repeal of the credit becomes fully effective.

2. *Investment credit: Repeal of provision reducing basis of property by 7 percent and other amendments* (*sec. 202 of the bill and secs. 48 and 1245 of the code*)

(*a*) *Present law.*—Last year in enacting an investment credit, Congress in general allowed a credit equal to 7 percent of certain types of investment (3 percent in effect in the case of most public utilities). This amount may be offset in full against tax liability up to $25,000 and against one-quarter of the tax liability above this level. Property with an estimated useful life of 8 years or more is fully taken into account in computing this credit, property with an estimated life from 6 to 8 years is taken into account at two-thirds of its cost, while property with an estimated life from 4 years up to 6 years is taken into account at one-third of its cost. The credit for the most part is limited to purchases of tangible personal property. As a result machinery and equipment are the principal types of investment eligible for the credit.

As finally enacted in the Revenue Act of 1962, it was further provided that the base on which depreciation may be taken in the case of assets eligible for the investment credit was to be reduced by the amount of the credit. Thus, for example, where a taxpayer purchased a $100 asset and $7 of this purchase price was allowed as an investment credit, the basis on which depreciation could be computed with respect to the asset was decreased from $100 to $93.

(*b*) *General reasons for provisions.*—Although the investment credit enacted last year appears to have been successful in stimulating investment, several problems have arisen with respect to this credit which are dealt with in this bill.

First and most important of the changes made is the repeal of the requirement that the basis of property eligibie for the investment credit be reduced by 7 percent of the qualified investment. This provision requires that if property costing $100 and eligible for an investment credit of $7 was acquired, the basis of this property for purposes of depreciation (or gain or loss on sale) was to be reduced from $100 to $93.

This provision has proved troublesome to taxpayers since it requires a downward basis adjustment with respect to eligible property, whether or not an investment credit is claimed for the property. Moreover, making this adjustment has presented recordkeeping problems for taxpayers, and also severely complicated the statutory language of the investment credit provision.

In addition, this basis adjustment for property severely restricted the incentive effect of the investment credit. In effect, this amendment converted the 7-percent credit into a 3½-percent credit for corporations, plus a 7-percent initial depreciation allowance. This result occurs because the decrease in basis of the asset which may be written off means that the equivalent of approximately one-half of the investment credit is recouped over the life of the asset in substantially the same manner as an initial depreciation allowance. This effect substantially reduces the incentive effect of the credit, since it means that approximately half of the benefits must be restored over the useful life of the asset. In effect, this transforms one-half of the credit into an interest-free loan.

To remove the recordkeeping and accounting problems which have arisen in connection with the basis adjustment provision and also to

provide a greater stimulus with respect to the investment credit, your committee's bill repeals this basis adjustment provision with respect to property placed in service after June 30, 1963. It also provides a means whereby over a period of time taxpayers may recoup their basis adjustments already made. The repeal of this provision restores the investment credit to the position taken by the House in 1962 with respect to this credit.

A second problem presented with respect to the investment credit arises in determining the amount of the credit in certain situations in the case of leased property. Under present law a lessor may pass on the benefits of any investment credit with respect to his purchases or other acquisitions to the lessee of the property. This was provided on the grounds that it was the lessee in such cases who was creating the additional market for investment. The existing provision in this respect provides that the amount of the investment credit, if the property is constructed by the lessor, is to be the appropriate percentage of the "fair market value" of the property. However, in all other cases involving leases the investment credit is to be the appropriate percentage of the basis of the property to the lessor. In practice, this has discriminated in favor of manufacturers of equipment relative to independent distributors. Thus, in the case of equipment leased by the manufacturer having a fair market value of $1,000 the investment credit passed through to the lessee in this case will be 7 percent of $1,000 or $70. However, if the same equipment is purchased from the manufacturer by an independent distributor at a dealer's discount of perhaps 25 percent, the basis of the property to the dealer would be $750. Thus, he could pass on an investment credit of only $52.50 instead of the $70. As a result, it is more advantageous for customers to lease the property directly from manufacturers, rather than from independent distributors. Your committee's bill removes this discrimination by basing the credit in both cases upon the fair market value of the property.

A third problem arises with respect to the treatment of escalators and elevators in the case of the investment credit. Among the categories of property not eligible for the investment credit are buildings and their structural components. The House committee report indicated that the term "structural components" of a building included such parts of a building as central air conditioning and heating systems, plumbing, and electrical wiring and lighting fixtures relating to the operation and maintenance of the building. The proposed regulations issued by the Treasury Department with respect to the term "structural components" provide an extensive list of the type of items considered to be structural components and therefore not eligible for the investment credit. Among these items are escalators and elevators. While these regulations are an accurate interpretation of the intention of Congress last year in this respect, nevertheless your committee believes that it is appropriate to reconsider the treatment of escalators and elevators for purposes of the investment credit. Escalators and elevators are closely akin to assets "accessory to the operation" of a business which presently are eligible for the investment credit. These assets include machinery, printing presses, transportation or office equipment, refrigerators, individual air-conditioning units, grocery counters, etc. Your committee further believes that new elevator

and escalator equipment represents an important aspect of modernization of plant and facilities.

For the reasons cited above, your committee has concluded that new elevators and escalators installed after June 30, 1963, and modernization of existing elevators after that date should be eligible for the investment credit. This, of course, also means that elevators and escalators will be treated as coming under the recapture provision enacted last year. This in general provides that depreciation deductions taken with respect to such equipment in the future are to give rise to ordinary income to the extent of any gain recognized on the sale of such property.

A fourth modification in the investment credit relates to the treatment of the credit by regulatory bodies. Both the House and Senate committee reports on the investment credit, as well as the statement of the managers on the part of the House with respect to the conference (and the floor statement on the Senate with respect to the conference report) state that the purpose of the investment credit was to stimulate investment by reducing the net cost of acquiring depreciable assets. This is shown by the following quotations. First, in the report of your committee on that bill:

> The investment credit will stimulate investments because—as a direct offset against the tax otherwise payable—it will reduce the cost of acquiring depreciable assets. This reduced cost will stimulate additional investment as it increases the expected return from their use. The investment credit will also encourage investment because it increases the funds available for investment. * * *

In the report of the Finance Committee of the Senate it was stated:

> The investment credit will stimulate investment, first by reducing the net cost of acquiring depreciable assets, which in turn increases the rate of return after taxes arising from their acquisition. * * *
>
> The objective of the credit is to reduce the net cost of acquiring new equipment; this will have the effect of increasing the earnings of new facilities over their productive lives and increasing the profitability of productive investment. It is your committee's intent that the financial assistance represented by the credit should itself be used for new investment, thereby further advancing the economy.

Again, in the statement of the managers on the part of the House with respect to the conference committee, it was stated:

> It is the understanding of the conferees on the part of both the House and Senate that the purpose of the credit for investment in certain depreciable property, in the case of both regulated and nonregulated industries, is to encourage modernization and expansion of the Nation's productive facilities and to improve its economic potential by reducing the net cost of acquiring new equipment, thereby increasing the earnings of new facilities over their productive lives.

Despite the statements cited above, the Federal Communications Commission has indicated that it is its policy that any benefits from

the investment credit made available by the Revenue Act of 1962 should "flow through" immediately to the customers. In addition, the staff of the Federal Power Commission has recommended the same position. This is clearly contrary to the intent of Congress in enacting this provision and as a result your committee has added a provision to this bill reasserting its position that it was and is not its intention that the Federal regulatory agencies require the benefit of the investment credit to "flow through" in this manner.

(c) *General explanation of repeal of basis adjustment provision.*—In the case of property placed in service after June 30, 1963, your committee's bill repeals the provision in existing law requiring a downward adjustment in the basis of property by 7 percent of the qualified investment.

In addition, the bill provides that the basis of property eligible for the investment credit which was placed in service before July 1, 1963, is to be increased by 7 percent of the qualified investment for such property, as of the first day of the taxpayer's first taxable year beginning after June 30, 1963—January 1, 1964, with respect to a calendar-year taxpayer.[1]

Where the lessor passed the benefit of the investment credit on to the lessee, present law provides that the deductions allowed to the lessee for payments to the lessor under the lease contract are to be adjusted downward to reflect an amount similar to the amount of basis denied in the case of other than lease property. The bill provides that where this has occurred the Treasury is to provide for upward adjustment in the deductions allowed to the lessee for amounts paid to the lessor to similarly reflect the restoration of basis adjustments in these cases.

The effect of the provisions described above is to provide for no downward adjustment in basis with respect to property placed in service after June 30, 1963. With respect to property placed in service before that time but in 1962 or 1963 and still on hand at the beginning of the taxpayer's first year beginning after that time (January 1, 1964, in case of calendar-year taxpayers) the basis on which depreciation is taken (or gain or loss in the case of sale) for property which was eligible for the investment credit is to be increased by the same 7 percent by which the basis was reduced when the property was acquired. This addition to basis in the case of those computing depreciation on a straight-line basis will be recouped ratably by the taxpayer over the remaining life of the assets. In the case of double declining balance depreciation the recoupment will occur somewhat more rapidly. This method of handling the restoration of the basis in the case of previously acquired investment credit assets makes the taxpayer "whole" without the necessity of refunds.

(c) (*i*) *Credit for leased property to lessee.*—As indicated above, present law provides that when the investment credit is passed through from the lessor to the lessee the investment credit is to be based on the fair market value of the property if the property was constructed by the lessor, but otherwise is to be determined from the basis of the property to the lessor. Your committee's bill provides that the investment credit in these lease cases is to be based on the

[1] The restoration of basis referred to above is to be reduced with respect to any previous restoration which may have arisen because the property was no longer eligible for the investment credit or because of conversion of industrial property to public utility use, therefore no longer being eligible for the full investment credit.

fair market value of the property, whether or not the lessor created the property. An exception to this rule is provided, however, where the property is leased by a corporation which is a member of an affiliated group to another member of the same affiliated group. In this latter case, since there is no lease to an "outsider," the investment credit will still be determined on the basis of the cost of the property to the lessor. This amendment applies to property, the possession of which is transferred to a lessee on or after the date of enactment of this bill.

(*c*) (*ii*) *Treatment of elevators and escalators.*—Elevators and escalators have not, up to this time, been eligible for the 7 percent investment credit, since they have been classified as structural components of a building which specifically were not eligible for the investment credit. Your committee's bill, however, modifies this rule. It provides in the case of elevators and escalators that where their construction, reconstruction or erection is completed after June 30, 1963, or the elevator or escalator is new in the hands of the taxpayer and is acquired after that date, then the cost of the elevator or escalator (or a reconstruction) is to be eligible for the investment credit.

In view of the fact that the investment in elevators and escalators is to be eligible for the investment credit, they also are to be treated as subject to the recapture provision (sec. 1245) enacted by Congress last year. However, only depreciation deductions taken with respect to periods after June 30, 1963, are to be subject to this ordinary income recapture where the elevator or escalator subsequently is sold at a gain (and then only to the extent of this gain are these depreciation deductions to be treated as ordinary income). This provision applies only to elevators and escalators sold after December 31, 1963.

(*c*)(*iii*) *Treatment of investment credit by Federal regulatory agencies.*—Your committee has added a provision to the bill making it clear that it was the intent of Congress in providing an investment credit last year, and that it is the intent of Congress this year in repealing the reduction in basis required with respect to investment credit assets, to provide an incentive for the modernization and growth of private industry, including regulated industries.

As a result, the bill specifies in two paragraphs the intent of Congress as to the treatment of the investment credit by Federal regulatory agencies. It states in the case of public utility property that these regulatory agencies are not, without the taxpayer's consent, for the purpose of establishing the cost of service of the taxpayer, to treat more than a proportionate part of an investment credit (determined with reference to the useful life of the property) as reducing the taxpayer's Federal income tax liabilities. Nor are they to accomplish a similar result by any other method. Public utility property for this purpose includes property of electric, gas, water, telephone, and telegraph public utilities which under present law is eligible for what in effect amounts to a credit of 3 percent.

The bill also provides restrictions for Federal regulatory agencies in the case of other regulated companies—such as natural gas pipelines, railroads, airlines, truck and bus operators, and other types of public carriers—which receive an investment credit of 7 percent of the investment in qualified property. It provides that Federal regulatory agencies are not, without the taxpayer's consent, for purposes of establishing the cost of service of the taxpayer, to treat any invest-

ment credit allowed him as reducing his Federal income taxes. Nor are the agencies to accomplish a similar result by any other method.

As indicated above in the case of the public utility property Congress is merely directing the Federal regulatory agencies not to "flow" the benefits of the investment credit "through" to the customers over any period shorter than the useful lives of the property involved. In the case of the other property Congress is directing the Federal regulatory agencies not to "flow" this benefit "through" at any time. This difference in treatment is attributable to the fact that Congress provided what in effect is a 3-percent credit for the public utility property rather than 7-percent credit because last year it was recognized that in their case part of the benefit from the investment credit would be likely to be passed on eventually to the customers in lower rates.

(*c*)(*iv*) *Effective dates.*—As indicated previously, the repeal of the basis adjustment is to apply with respect to property placed in service after June 30, 1963. However, property placed in service before that time, with respect to which a basis adjustment has already been taken, if still in the hands of the taxpayer on the first day of his taxable year beginning after June 30, 1963, is to receive an upward adjustment in basis.

The amendment concerning the amount of the investment credit in the case of leased property is to apply with respect to property transferred to a lessee on or after the date of enactment of this bill. The amendment made with respect to escalators and elevators in the case of the investment credit applies to those acquired or constructed after June 30, 1963. The recapture rule with respect to these assets applies to dispositions of escalators or elevators after December 31, 1963.

(*d*) *Revenue effect.*—The repeal of the basis adjustment with respect to the investment credit is expected to reduce tax liabilities by $145 million in the calendar year 1964 and by $185 million in the calendar year 1965 with gradually greater reductions in successive years. Making elevators and escalators eligible for the investment credit is expected to result in an additional $10 million of loss in the calendar year 1964 and subsequent years.

3. Group term life insurance purchased for employees (sec. 203 of the bill and secs. 79 and 218 of the code)

(*a*) *Present law.*—Under present law, employees are required to include in their income the amount of premiums paid by their employers to provide them with individual life insurance or group permanent life insurance which carries a loan or surrender value. However, the regulations (1.61–2(d)(2)) have provided that the cost of group term life insurance purchased for employees is not includible in their income as compensation although the employer receives deductions for the amounts he pays to provide this protection.

(*b*) *General reasons for provisions.*—As indicated above, this tax-free status for employer-financed group term life insurance is inconsistent with the tax treatment of other types of life insurance protection furnished employees by their employers. While this complete exclusion might have been considered relatively insignificant when tax rates were low, the present relatively high rates as well as the growing volume of group term life insurance now provided makes

it particularly inequitable to continue this complete exclusion. The employee in such case receives a substantial economic benefit from this insurance protection whether or not the policy for a specific year leads to a payment to his beneficiary. The provision of this insurance by the employer relieves the employee of substantial costs of providing his own insurance protection for his family which he would otherwise have to provide out of tax-paid dollars.

Despite the fact that the entire cost of this insurance protection represents compensation to the employee, your committee has provided an exemption with respect to the premiums paid on the first $30,000 of such insurance because it believes, from the standpoint of the economy as a whole, that it is desirable to encourage employers to provide life insurance protection for their employees. Provision of such a basic amount of insurance does much to keep together family units where the principal breadwinner dies prematurely.

(*c*) *General explanation of provisions.*—For the reasons given above, your committee's bill provides that the gross income of an employee for tax purposes is to include the cost of any group term life insurance provided him under a policy carried directly or indirectly by his employer to the extent that the insurance coverage provided is in excess of $30,000. However, the employee will not be charged with any portion of this insurance protection over $30,000 which he provides himself through his own contributions, since insurance protection provided in this manner is paid for out of tax-paid dollars. Moreover, all contributions made by the employee are applied against insurance protection above the $30,000 exclusion level.

The cost of protection above $30,000 is taxed to an employee if it is provided under a plan arranged for by the employer whether the protection the employee receives (over and above that provided by his own contributions) is provided directly by the employer, or indirectly by the employer's charging more than the cost of the insurance to other employees (such as those in younger age brackets) and less to those in the older age brackets, such as the specific employee in question.

(*c*)(*i*) *Exception for retired employees, etc.*—Your committee's bill provides an exception to the general rule described above where the individual's employment has been terminated and either he has reached the normal retirement age (under the practice followed by his employer) or he has become disabled. In both of these cases your committee concluded that it would be undesirable to tax the aged or disabled individual who is no longer working for group term life insurance protection provided to him by his former employer.

Two other exceptions are also provided where the insurance protection provided by the employer will not be treated as compensation to the employee, even though in excess of the $30,000 coverage exclusion. First, it will not be taxed to the employee where the employer directly or indirectly is the beneficiary of the policy since in such cases the employer is in reality providing for his own rather than his employee's interest.

Secondly, the costs of the insurance protection in excess of $30,000 will not be taxed to the employee where the beneficiary of the policy is a charitable organization (of the type described in sec. 170(c) of the code). An exception is provided for such cases because it is recognized that where an employer provides protection for all of his em-

ployees, a few of them may not have natural heirs and, therefore, if left to their own choice, might not purchase insurance protection. It was concluded that in such cases, it would be unfair to tax such employees on the cost of insurance protection provided by employers. For this reason, it was thought that where the employee demonstrated his own personal disinterest in the protection by naming a charity as the beneficiary, no portion of the cost of such protection should be considered as income to him. It is not intended, however, that he receive any deduction for a charitable contribution with respect to such assignment.

(c)(*ii*) *Determining the cost of the insurance.*—Your committee's bill provides that the cost of the insurance protection can be determined under either of two methods. It can be determined by using a uniform table or by using the actual cost of the policy. In either case, the cost of the insurance is averaged out on the basis of 5-year age brackets, in order to simplify computations which must be made by the employer in informing the employee as to the amount of taxable income.

Where cost is determined on the basis of the uniform table referred to above, it will be determined on the basis of a table published in the Treasury Regulations on this provision.

This table will reflect costs of such protection based upon insurance company experience and, of course, will be changed from time to time as mortality experience or other factors indicate that this is appropriate. Until provided otherwise by regulation, however, the cost per $1,000 of group term life insurance protection can be determined from table 11 below.

TABLE 11.—*Uniform 1-year term premiums for $1,000 of life insurance protection*

[Cost per $1,000 of protection]

Age:	
15 to 19	$1.44
20 to 24	1.73
25 to 29	2.11
30 to 34	2.72
35 to 39	3.65
40 to 44	5.10
45 to 49	7.36
50 to 54	10.87
55 to 59	16.29
60 to 64 [1]	24.67

[1] Those age 65 and over whose employment is not terminated will also have their insurance cost computed on the basis of the 60 to 64 age category.

The second method which an employer may use in computing the cost of his employee's protection for tax purposes is the actual cost of the policy to him and the employees. In this case also, the same 5-year age brackets as provided under the uniform premium table are to be used. However, in any case where the cost of the insurance protection is not computed on the basis of the individual ages of the employees or on the basis of the same age brackets as provided under the uniform premium table, this second method of determining the cost of insurance protection may not be used.

Your committee's bill provides that in the case of employees (not retired) who are over age 64, the cost of this protection is not to be increased in such cases but instead is to continue to be computed on the same basis as those in the age bracket 60 to 64.

(c)(*iii*) *Deduction for certain contributions.*—Your committee recognizes that under some group term insurance plans the younger em-

ployees under the plan in effect pay for insurance protection provided for those in higher age brackets. This usually occurs where a uniform rate of contribution is required of all employees regardless of age. Sometimes the cost of the protection for those who are relatively young may not equal the contribution made by the employee. Your committee believed that since the cost of group term insurance protection above the $30,000 level would be taxable to an employee if in excess of his contributions, it is only appropriate to provide deductions to him where he contributes more than the cost of the protection provided him.

As a result, your committee has provided a special deduction in computing taxable income for contributions by the employee toward the purchase of group term insurance protection above the $30,000 level. For this purpose his contributions toward the purchase of group term insurance below the $30,000 level are not taken into account, since such insurance protection is below the taxable level. Also not taken into account are premiums paid for any insurance, the cost of which would not be includible in the employee's gross income if it exceeded $30,000 and he made no contribution.

(*c*)(*iv*) *Example of method of computation.*—To illustrate the method of computing the taxable cost of group term insurance it is first assumed that the employee makes no contribution toward this protection himself, and then that he makes a contribution of $2 per $1,000 of coverage. The method of computing the inclusion in the employee's gross income is illustrated by an employee age 41 who is provided with $70,000 of group term life insurance protection.

Where employee makes no contribution

Portion of insurance coverage taken into account ($70,000−$30,000)	$40, 000. 00
Cost of insurance protection per $1,000 for individual age 41 assuming uniform premium table is used	5. 10
Amount to be included in income tax base by employee ($5.10×40)	204. 00

Where employee makes contribution

Portion of insurance coverage taken into account ($70,000−$30,000)	$40, 000. 00
Cost of insurance protection per $1,000 for individual age 41 assuming uniform premium table is used	5. 10
Total cost of insurance attributable to employee's contribution ($2.00×70)	140. 00
Cost of insurance protection above $30,000 exclusion ($5.10×40)	204. 00
Amount to be included in income tax base by employee ($204−$140)	64. 00

The special deduction given employees where they contribute more than the cost of their own insurance also can be illustrated if one change is made in the assumed facts presented: Assume that the contribution made by the 41-year-old individual is $6 per $1,000 of insurance coverage rather than $2.

Where employee makes excess contribution

Portion of insurance coverage taken into account ($70,000−$30,000)	$40, 000. 00
Cost of insurance protection per $1,000 for an individual age 41 assuming uniform premium table is used	5. 10
Contribution of employee per $1,000 of insurance	6. 00
Contribution of employee per $1,000 in excess of cost of insurance ($6−$5.10)	. 90
Deduction available to employee ($40×$0.90)	36. 00

(*c*)(*v*) *Withholding.*—Your committee's bill also amends the income tax withholding provision of present law to provide that the cost of group term life insurance, to the extent the cost of this insurance is taxable, is to be subject to regular income tax withholding. However, where an individual is employed by two or more persons, each employer is to compute the taxable amount subject to withholding on the assumption that he is the only employer. Thus, each employer will report for form W–2 purposes for the employee, only that portion of the insurance protection provided in excess of $30,000 coverage. This may, where there are two or more employers, understate the taxable amount for the employee but this cannot be avoided since one employer cannot be expected to have knowledge of the compensation received by an employee from another employer.

(*c*)(*vi*) *Effective date.*—The tax treatment provided with respect to group term insurance as described above is to apply with respect to such insurance protection provided after December 31, 1963. The withholding with respect to this insurance will apply to remuneration paid after December 31, 1963, in the form of group term insurance provided after that date.

(*d*) *Revenue effect.*—It has been estimated that the enactment of the group term life insurance provision described above will result in an increase of $5 million in revenues in a year when this provision is fully effective.

4. Reimbursement of medical expenses in excess of such expenses (*sec. 204 of the bill and sec. 80 of the code*)

(*a*) *Present law.*—Present law provides that gross income is not to include amounts received through accident or health insurance for medical expenses for personal injuries or sickness (sec. 104(a)(3) and 105(b) of the code).[1] At the same time medical expense deductions may be claimed (if they exceed the 3-percent floor) for accident or health insurance premium payments.

(*b*) *General reasons for provision.*—Cases have been called to the attention of your committee where individuals have been covered by more than one accident or health insurance program. This occurs on occasion when the individual himself carries more than one policy, and occurs in other cases when the individual may carry a policy and also his employer may provide the payment of medical care either through an insurance policy or through self insurance. In these cases, the employee may receive double payments with respect to the same expenses incurred with respect to a given injury or sickness. Where this occurs, the individual has, in fact, bettered his economic position and your committee sees no reason why this excess over the actual expenses incurred should not be treated as income received by the individual.

(*c*) *General explanation of provision.*—For the reasons given above, your committee's bill provides that amounts received through accident or health insurance for medical expenses (but not, for example, specific amounts with respect to the loss of a limb) are to be included in the gross income of the individual to the extent the total amount received with respect to any personal injury or sickness exceeds the total

[1] An exception to this rule provides that amounts received under accident or health insurance policies are to be included in gross income to the extent they represent medical expense deductions allowed in previous years.

medical expenses payable by the taxpayer with respect to this personal injury or sickness.

Under this provision, payments received by an individual with respect to an injury or sickness are viewed in aggregate as of the close of each taxable year and only when the total amount received exceeds the total amount of medical expenses incurred is any amount treated as income. Thus, for example, an individual might be paid under two different policies with respect to a given hospital bill for the same illness but if the individual also had a doctor's bill to pay with respect to the same illness upon which he was not reimbursed, then even though the insurance received for hospital expenses exceeded the amount of the hospital bill, to the extent this excess did not exceed the doctor's bill, no amount would be included in the individual's income.

(c)(i) *Effective date.*—The amendments made by this provision apply to taxable years beginning after December 31, 1963.

(d) *Revenue effect.*—This provision is expected to result in a negligible increase in revenues.

5. *Sick pay exclusion (sec. 205 of the bill and sec. 105(d) of the code)*

(a) *Present law.*—Under the present law amounts paid to an employee by his employer to continue his wage payments when he is absent from work because he is sick or injured are excludable from the employee's gross income under certain conditions (although deductible by his employer). The exclusion in any case is available only up to $100 per week. In the case of absence from work due to personal injuries, this $100 is the only limitation at the present time. In the case of sickness, however, the exclusion is available only after the first 7 days of absence, unless the employee is hospitalized because of the sickness for at least 1 day during his absence.

(b) *General reasons for provision.*—Your committee does not believe that this sick pay exclusion in its present form is justified. The amounts received by the employee in this case are substitutes for regular wages or salaries which, had they been received as such, would be fully taxable. The wage substitutes in this case are wholly unrelated to the costs involved as a result of illness or injury. Amounts paid by the employer for the medical expense of the employee already are excludable by the employee under other provisions of law (sec. 105(b)) and amounts paid by the employee himself for medical expenses also are deductible elsewhere under present law (sec. 213 of the code) to the extent that they exceed what is considered to be the normal level of medical expenses.

The present exclusion also tends to encourage malingering because it treats the employee who stays at home better than another employee also is easily abused because an employee who stays home because of a minor injury or illness may obtain an exclusion substantially in excess of any additional expenses he may incur.

Your committee believes, however, that those who have become permanently disabled or who have had long, continuing illnesses or accidents should continue to receive the advantage of this provision. Such persons are likely to have their earnings substantially decreased, at the same time they also may be faced with large medical bills. Moreover, in such cases, the ordinary family financial requirements are likely to continue at their usual level, presenting larger problems for the individual as the period of absence from work becomes longer.

(*c*) *General explanation.*—For the reasons presented above, your committee has amended the sick pay exclusion of present law to provide that wage continuation payments are not to be excludable to the extent they are attributable to the first 30 days of absence because of personal injury or sickness. This means, of course, that this exclusion will be available after the first 30 days of injury or sickness for the long, continuing illness and also in the case of those receiving permanent disability pensions before the normal retirement age.

Under present law employers who make wage continuation payments which are not excludable from the employee's income (e.g., payments in excess of $100 a week or payments for the first 7 days in the case of sickness where there is no hospitalization) are required to include these amounts in income subject to withholding and reporting on form W–2. This practice will be continued under the revised provision with the withholding and reporting applying to a larger proportion of the wage continuation payments. Where these payments are made by someone other than the employer, such as an insurance company or a pension trust, the Treasury does not presently require withholding and it is your committee's intention that this practice be continued. However, these payments are (if made on behalf of the employer) to be included on the W–2 form prepared by the employer and shown on this form as wages or salary.

(*c*)(*i*) *Effective date.*—The amendment made by your committee under this provision will apply to wage payments attributable to periods of absence commencing after December 31, 1963.

(*d*) *Revenue effects.*—It is estimated that the provision described above, when fully effective, will result in an increase in revenues of $110 million a year.

6. Exclusion for gain on the sale of a residence by an individual age 65 or over (sec. 206 of the bill, sec. 121 of the code)

(*a*) *Present law.*—Under present law (sec. 1034) where an individual sells his old residence and, within a year of that sale, purchases a new residence (or within 18 months thereafter builds a new residence), the gain on the sale of the old residence is not recognized to the extent that it, plus the cost or other basis of the old residence, is invested in the new residence. This postponement of the taxation of the gain is available only where the new residence is purchased or built within the time specified.

(*b*) *General reasons for the provisions.*—While present law generally provides adequately for the younger individual who is for one reason or another changing residences, it does not do so for the elderly person whose family has grown and who no longer has need for the family homestead. Such an individual may desire to purchase a less expensive home or move to an apartment or to a rental property at another location. He may also require some or all of the funds obtained from the sale of the old residence to meet his and his wife's living expenses. Nevertheless, under present law, such an individual must tie up all of his investment from the old residence in a new residence, if he is to avoid taxation on any of the gain which may be involved.

Your committee concluded that this is an undesirable burden on our elderly taxpayers.

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(c) *General explanation.*—For the reasons given above, your committee's bill provides an exclusion from gross income for a limited amount of gain received from the sale or exchange of a personal residence in the case of taxpayers who have reached age 65 before the sale or exchange occurs. To be eligible for this treatment, they must have owned and used the property involved as their principal residence for 5 out of the last 8 years before the sale or exchange.

(c)(*i*) *Limitations.*—In adding this provision, your committee was concerned primarily with the average and smaller homestead selling for $20,000 or less. For that reason, it limited the application of this section so that it provides a full exclusion only for the gain attributable to the first $20,000 of the sales price.[1] Where the sale price of the residence does not exceed $20,000, the entire gain is excluded from income for tax purposes. Where the sale price exceeds $20,000, a proportion of the gain is excluded. The proportion excluded is in the ratio of $20,000 to the actual sale price; for example, if a residence is sold for $60,000 and the gain is $10,000, then the portion of this $10,000 gain which will not be taxable is determined as follows:

Actual sale price	$60, 000
Ratio of $20,000 to sale price ($20,000/$60,000)	⅓
Proportion of $10,000 gain to be excluded from taxable income (⅓ of $10,000)	$3, 333. 33
Remaining gain subject to tax	$6, 666. 67

To prevent taxpayers over age 65 from reusing this section and obtaining numerous exclusions for gains on personal residences, your committee's bill provides that this exclusion is available to a taxpayer and his spouse only once in their lifetimes.

(c)(*ii*) *Other rules.*—Since a taxpayer and his spouse may claim the exemption under this provision only once in their lifetimes, the bill provides that the exclusion is elective and may be made or revoked at any time before the expiration of the period for making a claim for credit or refund of tax, generally about 3 years after the year of the sale or exchange. It also was necessary to provide a number of other special rules for the application of this provision. These rules may be described briefly as follows:

1. Where property is held jointly by a husband and wife either as joint tenants, tenants by the entirety or as community property, if a joint return is filed by the husband and wife and one of them satisfies the age requirement of 65 and has held and used the property for the required 5 out of the last 8 years, then both the husband and wife are treated as meeting these requirements.

2. Where the spouse of an individual has died and that spouse held and used the property as a personal residence for 5 out of the last 8 years and had not previously claimed an exemption under this provision, then the individual who is still living will be treated as satisfying these holding and use requirements. (However, the surviving spouse must be age 65 for the exclusion to apply.)

3. The bill provides that for purposes of this provision tenant stockholders in a cooperative housing corporation who sell their right to occupy the house or apartment are to be treated in the same manner

[1] Actually the determination is made on the basis of adjusted sales price which as provided elsewhere in the code is the gross sales price less any so-called fix-up expenses incurred in selling the property. In this regard, see sec. 1034(b)(1).

for purposes of this provision as those who own their residence outright.

4. Any gain realized from the destruction, theft, seizure, requisition, or condemnation of a personal residence is to be eligible for this provision in the same manner as if the residence had been sold.

5. Where a part of a property is used as a personal residence and the remainder as a business or income producing property, the exclusion provided under this provision upon the sale of the property is to be available to the extent that the gain is attributable to the portion of the property owned and used by the taxpayer as his personal residence.

6. In applying this provision, an individual is to be considered as married or single according to his status on the date of the sale or exchange. An individual who is separated under a decree of divorce or separate maintenance on the date of the sale is not considered as married for purposes of this provision.

7. In the case of involuntary conversions and in the case of the sale or exchange of one personal residence for another, gain is not recognized under present law where the total amount realized from the conversion or sale is reinvested within a specified period of time. In addition, the basis of the new property so acquired in such cases remains the same (except for any additional investments over and above the sales price) as the property previously held. Where both the exclusion available for taxpayers over age 65 and either of these two provisions may be applied with respect to the same transaction, the bill provides that the exclusion for those over age 65 is to be applied first. Thus, in the case of the involuntary conversion or the sale of a personal residence and the purchase of another, by a taxpayer who is over age 65, any gain which might be realized upon the involuntary conversion or sale of the residence will be reduced by any exclusion available to the taxpayer under this section. In addition, the basis of the taxpayer in the newly acquired residence will be his basis for the old residence increased by any exclusion of gain obtained by him under the provision (and, of course, increased by any additional funds which he may have invested over and above the amount realized from the first residence).

8. In determining whether an individual has gross income of $600 or more (or $1,200 or more in the case of those over age 65) any exclusion provided under this provision will for that purpose alone be treated as gross income. This assures that the Government will receive proper reporting on amounts claimed as exclusions under this provision.

(*c*)(*iii*) *Effective date.*—This provision applies to sales, exchanges, and other dispositions after December 31, 1963.

(*d*) *Revenue effects.*—This provision is expected to result in an annual revenue loss of $10 million.

7. Denial of deduction for certain State, local, and foreign taxes (sec. 207 of the bill and secs. 164 and 275 of the code)

(*a*) *Present law.*—The general rule under present law is that taxes paid or accrued by a taxpayer are deductible for Federal income tax purposes. However, an exception to this rule provides that no deduction is to be allowed for certain specified taxes, principally Federal

taxes. The categories of taxes which may not be deducted under present law are:

1. Federal income taxes.
2. Federal war profits and excess profits taxes.
3. Federal import duties and Federal excise and stamp taxes (except that these taxes may be deductible as business expenses or taken into account as expenses incurred in the production of income).
4. Estate, inheritance, gift, and similar taxes.
5. Most local improvement taxes.
6. Foreign income and excess profits taxes and similar taxes imposed by U.S. possessions (if the taxpayer elects to take a foreign tax credit for these taxes in lieu of a deduction).

The practical effect of the above listing of taxes is to deny any deduction for Federal taxes paid by the taxpayer (except to the extent that taxes listed in category 3 above qualify as business expenses or expenses incurred in the production of income).

State and local taxes on the other hand generally are deductible, except death and gift taxes and most local improvement taxes. The most important State and local taxes, and the revenues derived from them by State and local governments in 1961, are as follows:

1. Real and personal property taxes, $18 billion.
2. Income taxes, $3.9 billion.
3. General sales and gross receipts taxes, $5.4 billion.

The three categories of taxes indicated above account for $7.5 billion of the total $10 billion of taxes taken as non-business deductions on taxable returns for Federal income tax purposes in 1960. The principal remaining State and local taxes, for which deductions may presently be taken, together with revenues derived from them by State and local governments in 1961, are as follows:

1. Gasoline taxes, $3.5 billion.
2. Alcoholic beverage taxes, $0.7 billion.
3. Tobacco taxes, $1.1 billion.
4. Auto and drivers' licenses, $1.8 billion.
5. Selective sales or excise taxes not included above (such as those on admissions, room occupancy, etc.), $1.8 billion.

(*b*) *General reasons for the provision.*—Your committee recognized that there were important reasons for continuing the deductibility of property taxes, income taxes, and general sales taxes. The burden of property taxes varies widely among individuals according to whether or not they are homeowners. Thus, any denial of deductions in such cases would result in an important shift in the distribution of Federal income taxes between homeowners and nonhomeowners.

In the case of State and local income taxes, continued deductibility represents an important means of accommodation where both the State and local governments on one hand and the Federal Government on the other hand tap this same revenue source, in some cases to an important degree. A failure to provide deductions in this case, could mean that the combined burden of the State, local, and Federal income taxes might be extremely heavy.

If property and income taxes are to be deductible in computing income subject to Federal income tax, it also becomes important to allow the deduction of general sales taxes as well. These are the three major sources of State and local government revenue, and were the

Federal Government to allow the deduction of some but not all of these taxes, it would be encouraging State and local governments to use one or more of the other types of taxes. Since your committee believes that it is important for the Federal Government to remain neutral as to the relative use made of these three forms of State or local revenue sources, it in this bill has continued a deduction of these three types of taxes.

The same reasoning does not, however, apply to other State or local taxes which presently are deductible. Moreover, the remaining State and local taxes, which are deductible, for the most part are troublesome for taxpayers to keep track of, and because of this difficulty it is believed that they frequently are unintentionally reported inaccurately. Deductions for property and income taxes can be relatively easily claimed, since the taxpayer in these cases usually can pick out one or two figures from his records for this purpose. In the case of general sales taxes, the Internal Revenue Service has prepared tables which make it possible for a taxpayer to pick from the table the deduction for general sales taxes which the Internal Revenue Service considers to be an appropriate estimate for an individual with a given income. As a result, this deduction also no longer represents a major problem of computation for taxpayers. In the case of the remaining excise taxes, however, consumer use varies so widely that it has been impossible for the Service to develop estimates which may appropriately be used by taxpayers in determining the size of these tax deductions. For this reason, the taxpayer who accurately determines his deductions for gasoline taxes, alcoholic beverage taxes, tobacco taxes, and other selective sales or excise taxes, must actually keep a record of taxes paid, purchase by purchase. Since this is virtually impossible for most taxpayers, deductions in these cases usually represent, at best, mere approximations. Many taxpayers who report their income carefully for tax purposes are not satisfied with this type of approximation, and, therefore, forgo the deduction of these taxes altogether.

Also, it should be noted that some of these taxes are deductible if paid in some States and not in others depending on the form of the State law. Sales taxes, to be deductible under Federal law, must be either imposed upon the purchaser, or else be separately stated. In the case of cigarette and tobacco taxes, 26 States levy taxes which comply with these rules and, therefore, are deductible. However, 21 States and the District of Columbia have laws which do not meet these conditions and thus in these States no deductions are available for these taxes.[1] There also is a wide variation among the States as to the deductibility of alcoholic beverage taxes. In six States, these taxes are imposed on the consumer and, therefore, are deductible. In addition, in 10 other States, where alcoholic beverages are sold through State liquor stores, the tax also generally is deductible. In all other States, however, the tax is not deductible.[2] This variation as to the Federal tax treatment of these various excise taxes is discriminatory as between taxpayers in different States. Moreover, it further complicates the already difficult problem of reporting deductible taxes in these cases.

[1] Three States, Colorado, North Carolina, and Oregon, do not levy cigarette taxes.

[2] Seven States do not levy taxes on liquor except beer and in some cases wine. The beer and wine taxes of these States are not deductible.

Your committee concluded from the above considerations that in the interest of tax equity and ease of compliance it would be appropriate in the case of these latter taxes to deny deductions for Federal income tax purposes, devoting any revenue gain derived from the denial of these deductions to further tax rate reductions. This denial of deduction was, therefore, taken into account by your committee in providing the large tax rate reductions established by this bill. When records of deductions are difficult or impossible to maintain, the committee thought that most taxpayers would be willing to forgo these deductions if the tax rates in the same bill are reduced so that in all cases lower tax payments result. Your committee would not have considered the denial of these deductions were it not possible to convert this amount into rate reductions.

(c) *General explanation of provision.*—For the reasons given above, your committee's bill provides as a general rule that only the following taxes may be taken as deductions:

1. State and local personal property taxes;
2. State and local, and foreign, real property taxes;
3. State and local, and foreign, income, war profits, and excess profits taxes; and
4. State and local general sales taxes.

The fact that only these taxes may be deducted as taxes does not mean that other State, local, and foreign taxes may not be deducted to the extent they represent trade or business expenses or expenses incurred in the production of income. A sentence added to the code on this point makes it clear that these other State, local, and foreign taxes may be deducted as taxes when they are of a business nature or for the production of income even though otherwise they might have to be capitalized.

(c)(i) *Taxes which in no event may be deducted.*—Under present law certain taxes, largely Federal taxes, may not be deducted in any case either as taxes or as business expenses or as expenses incurred in the production of income. To make clear the distinction between these taxes for which presently no deduction may be claimed and the other taxes which may be deducted if they represent expenses of a business or in the production of income, your committee's bill adds a new section (sec. 275) providing that no deduction, at all, may be taken for certain specified taxes. The taxes listed in this section are listed as exceptions in section 164 of the code under present law, and are moved to the new location in the code merely to emphasize the fact that these taxes cannot in any event be claimed as a deduction.

These taxes are as follows:

1. Federal income taxes;
2. Federal war profits and excess profits taxes; and
3. Estate, inheritance, legacy, succession, and gift taxes;
4. Income, war profits, and excess profits taxes imposed by a foreign country or a possession of the United States if the taxpayer chooses to take a foreign tax credit with respect to these taxes; and
5. Taxes on real property which the code requires to be treated as being imposed on another taxpayer.

(c)(ii) *Definitions of certain deductible taxes.*—Your committee's bill defines a personal property tax which may be deducted as an ad valorem tax imposed on an annual basis in respect of personal property.

A general sales tax is defined as a tax imposed at one rate with respect to the sale at retail of a broad range of classes of items. The bill specifies, however, that the fact that food, clothing, medical supplies, and motor vehicles either are exempt from a sales tax or are taxed at a lower rate is not to result in any given tax being classified as not applying to a "broad range of classes of items." However, if any of these specified items are taxed at a higher rate than the general rate applying to other items, or if any other item is taxed at a different rate, no deduction is to be permitted for the tax on these items.

As under present law, deductions may be taken for general sales taxes not only where they are imposed on the consumer as such, but also where they are separately stated and where the tax is in fact paid by the consumer.

Included in the definition of a deductible general sales tax by your committee's bill is a "compensating use tax." A compensating use tax, as its name implies, is generally a tax imposed on items brought in from another taxing jurisdiction. In this case, the tax is imposed on the "use, storage, or consumption of the item" since the sale as such does not occur in the taxing jurisdiction in question. For such a tax to be deductible, similar items must be subject to a deductible general retail sales tax in the taxing jurisdiction in question.

(*c*)(*iii*) *Certain local improvement taxes.*—Under present law, local improvement taxes generally are not deductible (although interest or maintenance charges may otherwise be deductible). However, presently an exception is made and a deduction is permitted for local improvement taxes levied by a special taxing district where the district covers at least one entire county, at least 1,000 persons are subject to the tax levied by the district, and the district levies its assessment annually at a uniform rate on the same assessed value for real property as is used generally for purposes of the real property tax. This deduction is of quite limited application and your committee believed that provision for such deductions is no longer desirable. Accordingly, the bill deletes the provision which grants this deduction.

(*c*)(*iv*) *Effective date.*—The changes made by the above provisions relating to taxes apply to taxable years beginning after December 31, 1963.

(*d*) *Revenue effect.*—The changes made by this section in the deduction of taxes are expected to increase revenues by $520 million in a full year of operation.

8. Personal casualty and theft losses (sec. 208 of the bill and sec. 165(c)(3) of the code)

(*a*) *Present law.*—Under present law, taxpayers may claim a deduction for losses of property not connected with a trade or business if these losses arise from fire, storm, shipwreck, or other casualty, or from theft. Under present law, these deductions are available without limitation to all taxpayers who itemize their personal deductions.

In addition, under present law, losses incurred in a taxpayer's trade or business or losses incurred in connection with transactions entered into for profit are deductible. The change made by this bill with respect to casualty losses described below does not affect the continued

full deduction of these losses as business expenses or as expenses incurred in the production of income.

(*b*) *General reasons for provision.*—Your committee believes that in the case of nonbusiness casualty and theft losses, it is appropriate in computing taxable income to allow the deduction only of those losses which may be considered extraordinary, nonrecurring losses, and which go beyond the average or usual losses incurred by most taxpayers in day-to-day living. In view of this, your committee believes that it is appropriate to limit the casualty loss deduction to those losses or thefts above a minimum amount. The minimum selected by your committee was $100 per casualty loss, since this corresponds approximately with the "$100 deductible" insurance carried by many individuals in the United States with respect to such losses. This means that no deduction will be allowed in the case of an ordinary "fender bending" accident or casualty, but that casualty and theft losses will continue to be deductible (over the $100) in those cases where they are sufficient in size to have a significant effect upon an individual's ability to pay Federal income taxes.

(*c*) *General explanation of provision.*—The amendment made by your committee's bill limits the deductibility of personal losses (as distinct from those associated with a trade or business or transactions entered into for profit) to those where the casualty or theft loss exceeds $100. For this purpose, in determining what is a single casualty, it is intended that the law be interpreted liberally. Thus, for example, where an individual's property is damaged by wind from a hurricane and this is followed by additional damage resulting from water, it is intended that the combination of these events be treated as one casualty and, therefore, that all amounts over $100 of damage be deductible.

The $100 limitation applies to a joint return by a husband and wife as well as to a separate return of either. Thus, if a husband and wife file separate returns, each is subject to a separate $100 floor with respect to each casualty or theft, while, if they file a joint return, they are together subject to only one $100 floor with respect to each casualty or theft whether the loss is sustained with respect to jointly, or separately, owned property.

(*c*)(*i*) *Effective date.*—This amendment applies to losses sustained after December 31, 1963.

(*d*) *Revenue effect.*—It is estimated that this provision will increase revenues by $50 million a year in a full year of operation.

9. Charitable, etc. contributions, and gifts (sec. 209(a) of the bill and sec. 170(b) of the code)

(*a*) *Present law.*—Under present law, individuals are allowed a deduction of up to 20 percent of their adjusted gross income for contributions to or for the use of charitable, educational, religious, etc., organizations generally. An additional 10-percent deduction also is available for contributions to churches, schools, hospitals, certain medical research organizations, and certain organizations affiliated with State colleges or universities. Thus, with respect to contributions in this latter category, a charitable contribution deduction of up to 30 percent is allowed.

(*b*) *General reasons for provision.*—Your committee believes that the availability of this additional 10-percent deduction should be

extended to include contributions to many forms of charitable or philanthropic organizations not now covered by this provision. Your committee has concluded that greater uniformity in the availability of this additional 10-percent deduction is desirable because of the many beneficial activities that are carried on by various philathropic organizations not now eligible for the 30-percent deduction. This is especially true of many cultural and educational organizations and major charitable organizations not now eligible for the 30-percent deduction.

Your committee is limiting the additional 10-percent deduction to organizations which are publicly or governmentally supported, however, and is not making this additional deduction available in the case of private foundations. These latter types of organizations frequently do not make contributions to the operating philanthropic organizations for extended periods of time and in the meanwhile use the funds for investments. The extra 10-percent deduction is intended to encourage immediately spendable receipts of contributions for charitable organizations.

(*c*) *General explanation of provision.*—For the reasons given above, your committee's bill provides that the additional 10-percent deduction (or 30-percent deduction in total) from a taxpayer's adjusted gross income is to be extended so that it not only is available with respect to charitable contributions to churches, schools, hospitals, etc., but also is available generally in the case of charitable contributions to religious, charitable, scientific, literary, or educational organizations or those for the prevention of cruelty to children or animals (which otherwise meet the conditions set forth in sec. 170(c)(2) of the code). In addition, the 30-percent deduction is to be available for charitable contributions to a Federal, State, or local governmental unit if the contribution or gift is made for exclusively public purposes.

For any of the nongovernmental organizations to qualify for the additional 10-percent deduction referred to above, they must normally receive a substantial part of their support from a governmental unit or from direct or indirect contributions from the general public. "Support" for this purpose does not take into account income received by the organization from exercise of its exempt function. The reference to direct or indirect contributions from the general public prevents what are generally termed private foundations from qualifying for this additional 10-percent deduction. To qualify, the organization must receive support from at least a representative number of persons within the community concerned.

Types of organizations which generally will in the future qualify for this additional 10-percent deduction are those publicly or governmentally supported museums of history, art, or science, libraries, community centers to promote the arts, organizations providing facilities for the support of an opera, symphony orchestra, ballet, or repertory drama, and organizations such as the American Red Cross, United Givers Fund, etc.

(*c*)(*i*) *Effective date.*—This provision applies to taxable years beginning after December 31, 1963.

(*d*) *Revenue effect.*—This amendment is expected to result in a negligible revenue loss when fully effective.

10. Five-year charitable contribution carryover for corporations (sec. 209(b) of the bill and sec. 170(b) of the code)

(*a*) *Present law.*—Under present law corporations are allowed a maximum charitable contribution deduction of 5 percent of their taxable income computed without regard to this deduction (and certain other deductions). Any charitable contribution deductions which exceed this maximum may be carried forward and used in the 2 following years to the extent the maximum limitations for those years permit. In the case of tax-free reorganizations, generally, and in the case of the liquidation of a subsidiary, the present law provides that the 2-year charitable contribution carryover, to the extent not used by the prior corporation, is to be available to the acquiring corporation.

(*b*) *Reasons for provision.*—The attention of your committee has been called to situations where corporations have income which varies widely from year to year with the result that in some years they have losses and in other years income. This presents a problem where these corporations have committed themselves to the making of specific annual contributions to local charitable organizations. This frequently is done because of the importance to the local charity of maintaining a relatively stable budget from year to year. However, from the standpoint of the corporation the 5-percent limitation on charitable contributions means that the benefit of the charitable contribution deduction is lost in loss years, or in low income years, unless income is sufficiently high in the 2 immediately following years to not only permit the deduction of the amount carried forward but the usual charitable contributions for those years as well. Frequently this is not a sufficient length of time to enable the full deduction of charitable contributions in such cases.

(*c*) *General explanation of provision.*—In view of the above considerations your committee's bill substitutes for the 2-year carryforward of unused charitable contributions available in present law a 5-year charitable contribution carryforward for corporations. The amount which may be carried forward in such cases is the amount of the charitable contributions in excess of the amount which may be deducted within the 5-percent limitation. In the year to which the charitable contributions are carried the charitable contributions of that year are applied first, and then the charitable contributions carried forward with the oldest year from which a charitable contribution is carried forward being applied first. Any unused charitable contributions are carried forward to succeeding years, but if not used up after a 5-year carryforward period, they no longer are available for further deduction.

The 5-year charitable contribution deduction carryover is also made available to acquiring corporations in tax-free reorganizations and to parent corporations in the case of the liquidation of a subsidiary. The acquiring corporation in these cases treats the carryforward of the charitable contribution in the same manner as if it were its own unused charitable contribution being carried forward to the current year.

(*c*)(*i*) *Effective date.*—The 5-year carryforward is to be effective with respect to contributions paid (or treated as paid) in taxable years beginning after December 31, 1963. Thus, a charitable con-

tribution made in 1964 would be the first charitable contribution with respect to which the 5-year, as distinct from the 2-year, charitable contribution carryforward would be available.

(*d*) *Revenue effect.*—This provision is expected to result in a negligible loss of revenue when fully effective.

11. Limitation on charitable contribution deduction for future gifts of tangible property (sec. 209(c) of the bill and sec. 170(f) of the code)

(*a*) *Present law.*—Under present law, if a taxpayer gives property to charity but retains for either his or someone else's life or any other period the use or enjoyment of the property, he receives a charitable contribution deduction for income tax purposes at the time of the gift of the future interest in an amount equal to the present discounted value of that future interest.

(*b*) *General reasons for provision.*—The attention of your committee has been called to cases where pictures or art objects are given to museums, but the gift takes effect at some future time, usually based upon the life of the contributor or someone else. In the meanwhile, the use of the pictures or art objects is retained in much the same manner as if the contribution of the future interest had not been made. The same enjoyment would occur, for example, if instead of making a gift of a future interest, the taxpayer were to wait until his, or his family's, use of the property was completed. If this use was completed at the time of his death, however, no charitable contribution for income tax purposes could be claimed even though an estate tax deduction would be available.

Your committee believes that it is inappropriate generally for taxpayers using this device to obtain what amounts to an extra charitable contribution deduction for income tax purposes. However, it is also recognized that in the ordinary case where the contributor retains the right to use the property for his own life that this in fact has been a strong inducement for giving pictures and art objects to museums and other cultural centers in the United States. Moreover, much of the problem which has arisen in the past has stemmed from the problem of valuing the pictures and art objects given. It is understood that the Treasury Department has had discussions with respect to the manner of valuing these gifts and that more reasonable valuations can be expected in the future.

In view of these considerations, your committee has in effect postponed the time of taking a charitable contribution deduction until the gift is completed, but has made this inapplicable where the only reservations relate to the life or lives of the contributor or contributors.

(*c*) *General explanation of provision.*—For the reasons indicated above your committee's bill in certain cases provides that charitable contributions in the form of a future interest in tangible personal property are to be treated as deductible for income tax purposes only when all interests in, and rights to possession or enjoyment of, the property in question has been given up. This new rule, however, is not to apply in the case of charitable contributions where the only reservation in the gift is that the property is not to be transferred until the death of the contributor (or in the case of joint gifts by husband and wife may not be transferred later than the death of whichever dies later). In cases where the reservation is for the life of the contributor or contributors, a charitable contribution deduc-

tion will continue to be available at the time of the gift of the future interest, but as under present law the amount of the contribution in this case is to be only the present value of the future interest.

Any other type of a reservation by the contributor and any reservation in the hands of related persons described in section 267(b) of the code will result in a denial of the charitable contribution deduction as long as the reservations continue.

Although generally this provision is limited to gifts of future interests in tangible personal property the provision also covers fixtures which are intended to be severed from the real property; such as chandeliers, mantels, etc.

(*c*)(*i*) *Effective date.*—This provision applies to transfers after December 31, 1963.

(*d*) *Revenue effect.*—This provision is expected to result in a negligible revenue gain when fully effective.

12. One percent limitation on medicines and drugs for those over age 65 (sec. 210 of the bill and sec. 213 of the code)

(*a*) *Present law.*—Under present law, generally only what are considered abnormal medical expenses are deductible. This result is attained by limiting expenses which may be deducted to the excess of these expenses over 3 percent of the individual's adjusted gross income (income after business and similar expenses but before personal exemptions and personal expenses). In computing medical expenses subject to this 3-percent limit, medicines and drugs may be taken into account only if they exceed 1 percent of adjusted gross income. The 3-percent limitation does not apply in the case of the taxpayer and his spouse where either of them is 65 or over nor does it apply in the case of medical expenses of the mother or father of the taxpayer or of his wife where the parent is 65 or over and receives his principal support from the taxpayer. The 1-percent limitation on medicines and drugs, however, applies to everyone without regard to their age.

(*b*) *General reasons for provision.*—Your committee's bill repeals the 1-percent limitation with respect to medicines and drugs insofar as it relates to a taxpayer, or his spouse either of whom is age 65 or over, or to the parent of the taxpayer (or his spouse) where the parent is a dependent of the taxpayer and is 65 or over. The effect of this is to provide that the 1-percent limitation will apply only in those cases where the 3-percent limitation also applies. Your committee has taken this action because it believes that it is undesirable to impose any minimum limitation with respect to the deductibility of medical expenses in the case of the aged. It also believes that conforming the application of the 1-percent limitation with the 3-percent limit will simplify the statute somewhat in this area.

(*c*) *General explanation of provision.*—Present law provides that medicines and drugs which otherwise would be taken into account in computing medical expenses (which are either deductible in whole, or to the extent they exceed 3 percent) are to be deductible only to the extent that the total of these medicine and drug expenses exceed 1 percent of the taxpayer's adjusted gross income. Your committee's bill makes this 1-percent limitation inapplicable in the case of amounts paid for the care of the taxpayer and his spouse if either of them has attained age 65 before the end of the taxable year. It also provides

that this 1-percent limitation is not to apply to amounts paid for the care of a dependent mother or father of the taxpayer or his spouse if the mother or father has attained age 65 before the end of the year and also is a dependent of the taxpayer. Thus neither the 3-percent limit on medical expenses generally nor the 1-percent limit on medicines and drugs will apply to the categories of persons specified above who are age 65 or over. The maximum limitations on medical expenses, however, continue to apply to these and other persons in the same manner as under existing law.

(*c*)(*i*) *Effective date.*—This provision is to apply to taxable years beginning after December 31, 1963.

(*d*) *Revenue effect.*—This provision is expected to result in a revenue loss of $10 million in a full year of operation.

13. Care of dependents (sec. 211 of the bill and sec. 214 of the code)

(*a*) *Present law.*—Under present law, a deduction of up to $600 is allowed in certain cases for expenses of child care incurred to enable a taxpayer to be gainfully employed. At present, this is available for single women, women who are divorced or separated, or in some cases, deserted, and widows and widowers, having one or more dependents without regard to the amount of the taxpayer's earnings. In the case of working wives, the $600 deduction is presently available only if the combined adjusted gross income of the wife and husband (who must file a joint return) does not exceed $4,500. If their income exceeds this amount, the deduction available is decreased $1 for each dollar of income above $4,500, thus disappearing entirely at an income level of $5,100. An exception to this rule provides that this income limitation is not to apply if the husband is incapable of self-support because mentally or physically defective.

A dependent of the taxpayer for whom this $600 may be claimed must be a son or daughter (or stepson or stepdaughter) of the taxpayer who is under age 12 or a dependent who is physically or mentally incapable of caring for himself.

(*b*) *General reasons for provision.*—Your committee has concluded that the deduction presently available for the expenses of child care and other dependents who are unable to look after themselves is too restrictive. One example of this is a family where the wife is either in an institution or physically or mentally incapable of caring for herself. Under present law, if the husband is incapable of self-support because of mental or physical deficiences, the wife is fully eligible for the deduction without regard to the family income level. Certainly a family where the wife is in an institution is at least as likely to incur expenses for child care as a family where the husband is incapable of self-support. Similarly, child care expenses are likely to be required, where the wife is in the home but not capable of caring for herself. In these cases, your committee's bill extends present law to permit child care expenses, subject to limitations, to be deducted.

As previously indicated, the maximum amount which may be deducted under present law is $600 per year per taxpayer. A flat limitation of this type fails to take into account the fact that costs of caring for dependents, particularly where they must be cared for outside of the home, increases as the number of dependents increases.

Your committee's bill, therefore, gives a limited recognition to this factor by raising the maximum deduction in certain cases up to $900 where the taxpayer has two or more dependents.

In addition, your committee has concluded that limiting this deduction to children of the taxpayer who are under age 12 (except in in the case of those mentally or physically incapable of caring for themselves) is too low an age limit; therefore, your committee's bill raises this age limit to cover the care of children under 13 years of age.

(*c*) *General explanation: Incapacitated and institutionalized wives.*—This bill adds to the list of situations where the deduction may be claimed those cases where a wife is incapacitated or institutionalized. For the husband to be eligible for the deduction, the wife must be institutionalized or incapacitated for 90 consecutive days (or a shorter period if she dies). In the case of incapacitated wives, the deduction is fully available only where the adjusted gross income of the taxpayer and his spouse does not exceed $4,500 (for incomes above that level, the deduction decreases $1 for each dollar of income above $4,500). The $4,500 limitation does not apply, however, if the taxpayer's wife is institutionalized for a period of 90 days or more. A wife is considered as being incapacitated if she is incapable of caring for herself because she is mentally or physically defective (including any time she is institutionalized). A wife is considered institutionalized while she is receiving medical care or treatment as an inpatient, resident, or inmate of a public or private hospital, sanitarium, or similar institution.

(*c*)(*i*) *General explanation: Raising the deduction to $900 in certain cases.*—Under present law, as previously indicated, the maximum annual deduction which may be claimed by anyone is $600. Your committee's bill, where there are two or more qualified dependents, raises this maximum deduction which may be taken, for expenses incurred by the taxpayer, to $900. The additional $300 is not to be available, however, to a working wife (unless her husband is incapable of self-support because defective) even though combined income of the husband and wife does not exceed $4,500.

(*c*)(*ii*) *General explanation: Raising the age limit for children to 13.*—Present law provides that a dependent, for purposes of the deduction (if not physically or mentally incapable of caring for himself) must be a son or daughter (or stepson or stepdaughter) of the taxpayer who has not attained the age of 12. Your committee's bill raises this age limit to 13.

(*c*)(*iii*) *Effective date.*—The amendments made by this provision apply to taxable years beginning after December 31, 1963.

(*d*) *Revenue effect.*—It is anticipated that this provision, in a full year of effect, will result in a revenue loss of $5 million.

14. Moving expenses (sec. 212 of the bill and sec. 217 of the code)

(*a*) *Present law.*—Under present law, certain moving expenses of existing employees if reimbursed by the employer are held to be excludable from the employee's income. They have been ruled excludable on the ground that they are incurred "in the interest of the employer" (Rev. Rul. 54–429, C.B. 1954–2, 53).

Under present law, the moving expenses (for moving from one official station to another for permanent duty) which the Internal

Revenue Service has agreed are excludable for existing employees where they are reimbursed are:

1. Transportation expenses for moving the employee and his family;
2. Transportation and certain related costs of moving the personal and household effects of the employee and his family; and
3. Expenses incurred for meals and lodging for the employee and his family while they are en route to their new location.

In addition, in two court cases, taxpayers have been permitted to exclude other types of moving expenses, although the Internal Revenue Service has not acquiesced in the exclusion of these other types of moving expenses.[1]

On the other hand, reimbursements for moving expenses received by new employees from their employers are includible in gross income. Moreover, no deduction is allowed for moving expenses of any employee with respect to expenses for which no reimbursement is received.

(b) *General reasons for provisions.*—Your committee believes that the existing tax treatment of moving expenses needs modification because the present treatment discriminates against both new employees and employees who are not reimbursed for their moving expenses by their employers. Your committee sees no reason why new employees should include in their income amounts representing moving expenses which, if received by an existing employee who is moved by his employer from one location to another, would be excludable from income. Neither does your committee see any reason for discriminating against those employees who are not reimbursed for their moving expenses, but who incur such expenses in seeking job opportunities. Your committee believes that it is important to remove deterrents to the mobility of labor. Anything which can be done in this respect should aid in reducing local structural unemployment.

Your committee's bill limits the categories of expense for which a deduction is available to new employees or those who are not reimbursed for moving expenses to the three categories specified above, which, by ruling, the Internal Revenue Service recognizes as excludable for existing employees. No inference should be drawn from this, however, that moving expense exclusions under existing law are necessarily limited to these three categories of expenses. However, since by administrative ruling, these categories are clearly excludable in the case of existing employees who are reimbursed, your committee believed that deductions for such expenses should also be made available to new employees and nonreimbursed employees as well. The question of whether the exclusion for existing employees extends beyond these three categories is left for judicial interpretation.

(c) *General explanation of provisions.*—The deductions allowed by your committee's bill with respect to moving expenses are to be deductible in computing "adjusted gross income." This means that these expenses are treated essentially the same as business

[1] In *John E. Cavanagh* (36 T.C. 300; 1961) it was held that living costs incurred by the employee in excess of ordinary living expenses of his family were excludable where they were reimbursed while his household effects were in transit. In *Otto Sorg Schairer* (9 T.C. 549; 1947) it was held that where an employee was reimbursed for a loss incurred in selling his home this reimbursement was an addition to the sales price. More recently, however, the Tax Court held that reimbursements of similar expenses were additional compensation and not excludable from the employee's income in the case of *Harris W. Bradley* (39 T.C. 652; 1963). A reimbursement on sale of a house was also held to be compensation in *Arthur V. Kobacker* (37 T.C. 882; 1962).

expenses; these expenses, therefore, are deductible whether the individual involved itemizes his personal deductions or takes the standard deduction. This treatment is provided not only because these expenses are substantially similar to business expenses, but also because when they are incurred, they are likely to be relatively large. In such cases, it occurred to your committee that it would be undesirable to, in effect, make taxpayers choose between taking this deduction and the standard deduction in lieu of itemized personal deductions.

No deduction is provided under this provision for moving expenses for which the taxpayer receives reimbursements which are not included in his gross income. Thus, existing employees may continue to exclude reimbursed moving expenses from their gross income in the same manner as under present law. Their status, in this regard, is left entirely unchanged.

The types of moving expenses which may be deducted under this provision are reasonable expenses for—

1. Moving household goods and personal effects from the former residence to the new residence;
2. Transportation expenses of the employee and his family from the former residence to the new place of residence; and
3. Expenses for meals and lodging while in transit from the former residence to the new place of residence.

The moving expenses referred to are available not only with respect to the taxpayer, but also to any other members of the taxpayer's household who had as their permanent place of abode the taxpayer's former residence and moved to his new residence.

(*c*)(*i*) *Limitations.*—To prevent the deduction of moving expenses for short moves, the bill provides that, for a deduction to be available, the taxpayer's new place of work must be at least 20 miles farther from his former residence than was his former place of work. In other words, his commuting distance must have increased by at least 20 miles to be eligible for this deduction. If the individual involved previously had no place of work, his new work location must be at least 20 miles from his former residence.

To prevent individuals from taking temporary jobs in order to obtain the deduction of moving expenses, the bill provides that during the 12-month period immediately after the individual's arrival at his new principal place of work, he must be a full-time employee in that general location for three-fourths of the time (39 weeks). This limitation, however, is not applied in any case where the individual is reimbursed for his moving expenses by his employer since, presumably, an employer would not reimburse such expenses even for a new employee unless it was his intention that the individual remain employed for an extended period of time.

This requirement that an employee be a full-time employee in a general location for three-quarters of a year after moving means that where he has moved after the first half of the year, he cannot be sure when he files his return in the following April that he will meet this 9 months' requirement. For that reason, the bill permits the employee in such a case to claim the moving expense deduction (assuming he has not already disqualified himself by that time, such as by moving out of the general location). Then, if after filing his return he fails to qualify for the moving expense deduction by not remaining

employed full time for 39 weeks in the new location he is to include in his gross income for the following year the amount of moving expense deduction claimed in the prior year.

(*c*)(*ii*) *Effective date.*—The new treatment provided by this provision applies to expenses incurred after December 31, 1963.

(*d*) *Revenue effect.*—It is anticipated that this provision in a full year of operation will result in an annual revenue loss of $60 million a year.

15. Interest on loans on certain insurance and annuity contracts (*sec. 213 of the bill and sec. 264 of the code*)

(a) *Present law.*—Under existing law, no interest deduction is allowed in the case of indebtedness incurred or continued to purchase, or carry, a single premium life insurance, endowment, or annuity contract. In addition, if substantially all the premiums on a contract are paid within 4 years of the date on which the contract was purchased, the contract is treated as if it were a single premium contract for purposes of this provision. Similarly, where a purchaser borrows an amount equal to a substantial portion of the premium payments on a contract, but, instead of purchasing the policy outright, deposits the borrowed funds with the insurance company for future payments on a policy, this also is treated as if it were a single premium contract and the interest deduction on the indebtedness relating to the contract is denied. However, under present law, no interest deductions are denied where the taxpayer purchases an insurance contract with the intention of borrowing the maximum amount on the contract each year, unless the contract falls in one of the categories described above.

(*b*) *General reasons for provision.*—The attention of your committee has been called to instances where life, or other, insurance policies have been sold to individuals on the basis that they cost the individual little or nothing, and in some cases on the grounds that they actually result in a net profit for him. In such cases, the taxpayer each year borrows all, or a substantial part, of the funds necessary to pay the premium on the policy. If he is in a 50 percent (or higher) tax bracket, since the interest payments on such loans are presently deductible, the net interest cost to him is one-half or less of the interest payments he makes. The annual increase in the cash value of the insurance policy to reflect interest earnings, which generally is not taxable to the taxpayer either currently or otherwise, is likely to equal or exceed the net interest charges the taxpayer pays. Thus, for taxpayers in higher brackets, where the annual increment in the value of the policy, apart from the premiums, exceeds the net interest cost of the borrowing, such policies can actually result in a net profit for those insured. Because of this, some insurance companies have sold insurance policies under plans which provide for the taxpayer borrowing the premiums either directly from the insurer, or from a bank or otherwise, primarily on the grounds that the policies are tax-saving devices. Your committee doubts that the sale of insurance on such a basis is either desirable or fair to taxpayers generally.

Your committee recognizes, however, the importance of being able to borrow on insurance policies; and, therefore, while adopting a provision designed at minimizing the sale of insurance as a tax-saving device, it has been careful in this provision to provide for the reten-

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tion of rights to borrow on insurance for other than tax-saving purposes without the loss of the interest deduction.

One of the Treasury's proposals on which the committee took no action, involving the tax treatment of split-dollar life insurance arrangements, is closely related to this bank loan insurance provision. These are arrangements entered into jointly by an employer and employee under which part of the premiums on a life insurance policy are paid by each. Your committee believed that the issues involved in this problem, and the proper solution, including the possibility of administrative action, are in need of further study by the Treasury Department.

(c) *General explanation of provision.*—Your committee's bill provides that interest paid on indebtedness incurred or continued to pay premiums on life insurance contracts, endowment contracts, or an annuity is not to be deductible if the individual is following a plan of systematically borrowing amounts equal to the increase in the cash value of the insurance contract to pay part or all of the premiums. The interest deduction is to be denied whether the borrowing is direct or indirect; that is, whether it is from the insurance carrier, from a bank, or from any other person. It also is intended to cover cases where the individual borrows on other property or on his general line of credit to pay the premiums. This provision is not to apply to a single premium contract or to a contract treated like a single premium contract, since present law already denies a deduction in these cases.

In effect, where the taxpayer systematically borrows the increase in the cash value of his policy he is converting what generally is a permanent form of life insurance into substantially the equivalent of renewable term insurance. In this case, however, he retains the right to restore the contract to permanent insurance as of the original age at which he took out the contract by repaying the amount borrowed from the insurance company, bank, or other person.

Your committee's amendment applies only to insurance or annuity contracts purchased after August 6, 1963, the date your committee first announced its action on this matter. Thus, even in the future, your committee's action will have no effect on contracts already held by individuals and therefore it will not interfere with plans already established.

(c)(i) *Exceptions.*—Your committee desired to be sure that the value of insurance generally would not be decreased by reducing the rights of the individual to borrow on the insurance, as he can in the case of other forms of assets. For this reason, your committee has added a number of exceptions to the general rule, where, even though the borrowing may take the form of a systematic plan, nevertheless this provision is not to apply. These exceptions are as follows:

1. The interest deduction is to be allowed if there is no borrowing with respect to any four of the annual premiums payable on the insurance or annuity contract in the first 7 years of the contract. However, to prevent avoidance of this provision by taking out a contract with very low premiums for the first 4 years, with the premiums being substantially greater thereafter, the bill contains a rule relating to to above is to commence again at any time there is a substantial increase in the premiums payable under the insurance or annuity contract.

2. A de minimis rule is to apply. Thus, if the otherwise nondeductible interest of an individual with respect to an entire taxable year does not exceed $100, no interest deduction will be denied.

3. In any event, no interest deduction will be denied if the debt was incurred because of an unforeseen substantial loss of income or unforeseen substantial increase in financial obligations. Thus, for example, the interest deduction would not be denied where the individual systematically borrowed on a policy previously purchased because he, or his family, incurred large unforeseen medical bills or because he unexpectedly lost a substantial income source.

4. The interest deduction is not to be denied where the indebtedness actually is to finance business obligations, rather than to carry insurance. For example, an individual with an insurance policy would not have his interest deductions denied where it can be shown that the amounts borrowed by him were actually used to finance the expansion of inventory or for other similar business needs.

(*c*)(*ii*) *Effective date.*—This provision applies to amounts paid in taxable years beginning after December 31, 1963, but only with respect to policies purchased after August 6, 1963.

(*d*) *Revenue effect.*—It is estimated that this provision will result in an annual revenue gain of $5 million in 1964 and 1965 and $10 million when the provision is fully effective.

16. Employee stock options and purchase plans (sec. 214 of the bill and secs. 421–425 of the code)

(*a*) *Present law.*—Under present law, no income tax is imposed in the case of employee restricted stock options, either when the option is granted or at the time it is exercised. Instead, tax generally is imposed at the time the stock involved is sold by the employee. In the case of those stock options where the option price is at least 95 percent of the market price of the stock at the time the option is granted, the entire amount of any gain realized by the employee at the time he sells the stock is treated as capital gain. Where the stock option price is between 85 and 95 percent of the market price at the time the option is granted, the difference between the option price and the market value of stock at the time of the grant of the option is treated as ordinary income. However, this ordinary income is not realized for tax purposes until the employee sells the stock.[1] Any additional gain at the time the stock is sold in such cases is treated as capital gain. In the case of these restricted stock options, employers are not allowed any deduction for the amount of the gain realized by the employee, whether this gain is treated as capital gain or ordinary income.

For a stock option to be classified as a restricted stock option and be eligible for the treatment outlined above, the option price must be at least 85 percent of the market price of the stock at the time the option was granted, the stock and/or the option must be held by the employee for at least 2 years after the date of the granting of the option and the stock held for at least 6 months after it is transferred to him, the option must not be transferable other than at death, the individual may not be a 10-percent shareholder in the corporation (unless the option price is at least 110 percent of the fair market value) and the option must not be for a period of more than 10 years.

[1] If the gain is less than the spread between the option price and the fair market value at the time the option is granted, this lesser amount is taxed as ordinary income.

(*b*) *General reasons for provisions.*—The administration recommended the repeal of the stock option provision altogether. This recommendation was made on the grounds that stock options were compensatory in nature and, therefore, should be treated in the same manner as wages and salaries. It was suggested that with the lower tax rates provided by this bill, compensation received in this manner no longer required special treatment.

Your committee, however, decided to continue the stock option provision because it believes that it is good for the economy for management of various businesses to have a stake in their successful operation. Your committee believes that this provides important incentives to expand and improve the profit positions of the companies involved. This is not only good for the specific businesses involved, but also for the economy as a whole. Despite the fact that your committee is continuing the stock option provision, however, it has recognized, as did many business executives who appeared before your committee in its hearings, that there are abuse situations in the present provisions which need correcting. Your committee's bill directs its attention toward such corrections.

Although the use of stock options generally is thought of in terms of providing incentives for key executives in a business, what are presently called restricted stock options also are used by some companies for an entirely different purpose. Some companies have made stock options available to all, or practically all, of their employees. Taking advantage of the fact that the option may be granted at 85 percent of the market price they make discount sales of the stock to their employees generally. These are known as employee stock purchase plans. Where stock options are used in this manner, they are designed primarily as a means of raising capital; and, in such cases, the discounts from market price made available to the employees usually correspond approximately with the costs the company would otherwise incur in floating a new stock issue.

In practice, your committee found that quite different features are required for key employee stock option and the discount purchase plans made available to employees generally. For that reason, it has separated the two types of options into separate sections setting forth substantially different requirements for each. In the case of the key employee stock options or "qualified stock options" as they are called by the bill for future years—

1. The period over which the stock must be held has been increased to 3 years. This is designed to give assurance that the key employees actually are acquiring a "stake in the business" and are not merely turning the stock over as fast as the options can be exercised.

2. The maximum period of time over which an option may be outstanding has been reduced from 10 years to 5. It is recognized that stock options historically have a much greater value to the individual if the period of time over which they may be exercised is a long period, since over most 10-year periods stock values have risen. Thus, where the option may be exercised over a very long period of time, such as 10 years, its grant appears more closely associated with compensation and less directed toward the individual efforts of the employee involved. Furthermore, the purpose of the provisions is to encourage the acquisition of a proprietary interest in the business as quickly as possible.

3. The options must be issued at 100 percent of the market price rather than 85 percent (with a special rule where the price inadvertently is set below 100 percent). Closely associated with this also is the removal of the variable price stock option provision. These modifications are made to decrease the compensatory nature of the existing stock option provision and to place greater emphasis on the employee's efforts to improve his company's business and thereby raise the price level of the stock.

4. Provisions have been added to limit the extent to which new options may be exercised where old options previously were issued, but had become less attractive than a new option because of a decline in the market price of the stock in the interval between the issuance of the two. Existing law already limits the resetting of options below the original price of issue where the stock has declined. This modification achieves the result intended, but not obtained, by existing law.

5. Stockholder approval is required for stock option plans to give assurance that the benefits granted management in the case of these options is in accordance with the desires of the stockholders.

6. The bill also provides that stock options generally are not to be made available to employees with stockholdings of more than 5 percent (although to a limited extent, they may be made available in the case of small business to those with holdings up to 10 percent). Under present law, stock options may be granted to employees with stockholdings of more than 10 percent only at a price 10 percent above the market price. It was thought unnecessary to provide employees who are substantial stockholders with any incentive to improve the business since they already have a substantial stake in its successful operation.

In the case of the employee stock purchase plans, existing law is continued (in a separate section) without major modification. In this case, for example, employees will continue to be able to purchase stock through options at a price as low as 85 percent of the market price of the stock at the time the option is issued since these plans, as previously indicated, are in the nature of "discount" purchase plans. However, to qualify for treatment under the employee stock purchase plans, a series of new conditions must be met designed primarily to establish that the purchase plans are made available without discrimination to most employees of the corporation.

(*c*) *General explanation of provisions.*—The bill divides the tax treatment of employee stock options and purchase plans into five provisions: First are the general rules applicable to both; second, the special rules applicable to qualified stock options (i.e., those for key employees which are granted after June 11, 1963); third, the special rules applicable to employee stock purchase plans (in general, those granted after June 11, 1963); fourth, restricted stock options (which cover both of the two categories mentioned immediately above but only for options issued before June 11, 1963); and fifth, certain definitions and special rules applicable to stock option and stock purchase plans in both the past and the future. The material presented below deals first with qualified stock options and then with employee stock purchase plans. The provisions dealing with restricted stock options, which are only those options issued in the past,

are covered by a continuation of existing law and are not dealt with here.

(c)(i) *Qualified stock options: tax treatment.*—Generally, in the case of qualified stock options, no income tax is imposed either at the time the option is granted or at the time the option is exercised and the stock is transferred to the employee. Similarly, no business expense deduction is allowed to the employer corporation (or a parent or subsidiary of that corporation) at any time with respect to this option.

There is, however, an exception to the general rule that no tax is imposed at the time of the exercise of the option. As is indicated below, one of the requirements of a qualified option is that the price under the option is not to be less than the fair market value of the stock at the time the option is granted. An exception to this, however, is provided where there was an attempt made in good faith to price the option at the market value of the stock but the market value was underestimated. This, of course, would ordinarily occur in the case of unlisted stock. In such cases the option will not be disqualified, but 1½ times the difference between the option price and what actually is the fair market value of the stock at the time the option is granted (or the difference between the option price and fair market value at the time of exercise, if this is smaller) is to be taxed as ordinary income at the time the option is exercised. This is intended to discourage any attempts at undervaluing the stock, without disqualifying the options where the undervaluation was unintentional.

Another limitation on a qualified stock option (set forth below) is that the stock must be held for at least 3 years. The bill provides that in those cases where it is not held for this 3-year period, the option will still be a qualified option, but the spread between the option price and the value of the stock at the time the option is exercised will be treated as ordinary income at the time the stock is sold. However, in such cases the employee will never be taxed on more than his gain. Thus, if the price of the stock has fallen since the time of the exercise of the option, the amount of the ordinary income will be limited to the difference between the option price and the actual price of the stock on the date of sale. Where the price of the stock at the time of sale is less than the option price, there will be no ordinary income and the difference between the option price and the price at which the stock is sold will be treated as a capital loss. On the other hand, if the stock is sold at a price which is higher than the price on the date the option was exercised, then in addition to the amount treated as ordinary income (the difference between the option price and value on the date of exercise) there will be an amount treated as a capital gain.

The determination of the type of capital gain, i.e., whether short-term, class B or class A, will depend on the length of time the stock has been held. Thus, any gain where the stock has been held beyond the 3-year period specified with respect to qualified stock options will result in class A gain with a 40 percent inclusion factor and a 21 percent maximum tax. Where the stock is disposed of in less than 3 years and, in addition to the amount treated as ordinary income, there is an amount treated as capital gain, this capital gain will be either short-term (if the stock is held 6 months or less) or class B (if it is held more than 6 months but not more than 2 years).

As under present law, where the employee dies after having purchased the stock but before holding it for the specified period of time, this holding period is waived since there is no business reason for requiring the estate or heir to hold the stock. Similarly, a requirement subsequently referred to that the individual must be in the employ of the corporation involved up to 3 months before the date of exercise of the option also is waived in the case of the death of the employee before exercise.

A transfer to a trustee in bankruptcy (or a similar fiduciary) of shares of stock acquired under a qualified stock option is not considered to be a "disposition" of such share so there will be no ordinary income recognized at that time, although a capital gains tax may be due.

(c)(ii) Qualified stock options: conditions for qualification.—For an individual to receive full qualified stock option treatment, he must not sell (or otherwise dispose of) his stock within 3 years of the date of exercise of the stock option. As indicated previously, where all conditions but this one are met, tax is not imposed until the sale of the stock, but much or all of the tax imposed at that time, if this condition is not met, will be on the basis of ordinary income rather than capital gain. This condition is designed to give assurance that the key executive involved actually maintains a "stake in the business" and is not merely selling the stock shortly after he receives it, thus vitiating the principal purpose of stock options, and converting ordinary compensation into capital gain. This requirement, of course, is not a new idea since present law already requires the individual to hold the option, or stock, for at least 2 years and the stock alone for 6 months in order to receive restricted stock option treatment.

A second condition which must be met for the option to receive qualified stock option treatment is that the individual involved, for the entire time from the date of the granting of the option until 3 months before the date of the exercise of the option, must be an employee either of the company granting the option, a parent or subsidiary of that corporation, or a corporation (or parent or subsidiary of that corporation) of a corporation which has assumed the option of another corporation as the result of a corporate reorganization, liquidation, etc. This provision differs only slightly from existing law, which requires that the individual be in the employment specified at the time of the granting of the option and on the day ending 3 months before the exercise of the option but does not require that he be in the specified employment in the intervening time. Of course, for this purpose, military leave or sick leave would not disqualify an individual.

In addition to the requirements referred to above, the terms of the option itself must also meet certain specified conditions in order to be eligible for qualified stock option treatment. They are as follows:

1. The option must be granted under a plan which specifies the number of shares of stock to be issued and the employees or class of employees to receive the options. This plan must be approved by the stockholders of the corporation within 12 months before or after the plan is adopted.
2. The option must be granted within 10 years of the time the plan is adopted or approved by the stockholders, whichever is the earlier.
3. The option must by its terms be exercisable only within 5 years of the time it is granted.

4. The option price must equal or exceed the fair market value of the stock at the time the option is granted. An exception to this provides that where the option price was less than the market price, but this was unintentional, then this condition is to be considered as met (although as previously indicated, a maximum of 1½ times any difference in price is taxed as ordinary income at the time of the exercise).

5. Generally the option by its terms is not to be exercisable while there is outstanding any qualified stock option or restricted stock option which was granted to the employee at an earlier time. The purpose of this provision is to prevent an individual from indirectly gaining an advantage by in effect resetting the price at which an earlier option was issued by issuing a second option at the lower price. To prevent this a second option may not be exercised during the period the first option under its initial terms could have been exercised unless the first option itself is exercised. Thus, generally a cancellation of the first option will not enable the second option to be exercised any sooner. However, the bill provides that restricted stock options (those granted before June 12, 1963) may be canceled any time before January 1, 1965, without affecting adversely the exercise of a qualified stock option subsequently issued. In addition, in the case of a restricted stock option granted before June 12, 1963, but which under its terms is made available to the employee only in installments over an extended period of time, those installments which cannot yet be exercised at the time of the granting of a new qualified option are not to prevent the exercise of this second option so long as these installments cannot be exercised.

6. The option by its terms must be nontransferable other than at death and must be exercisable during the employee's lifetime only by him. This provision is the same as under present law.

7. The employee immediately before the option is granted must not own stock representing more than 5 percent of the voting power or value of all classes of stock of the employer corporation or its parent or subsidiary. In the case of small businesses, however, the employee may own up to 10 percent of the voting power or value of the stock before being disqualified. For a corporation with equity capital of less than $1 million, this percentage is to be 10 percent and for one with equity capital of $2 million it is to be 5 percent. Between these two levels of equity capital the allowable percentage decreases gradually from the 10-percent level for a company with $1 million of equity capital down to the 5-percent level for a corporation with equity capital of $2 million or more. Equity capital for this purpose is the assets of the corporation, adjusted for any change in their basis, less any indebtedness of the corporation. Where a parent or subsidiary also are involved, adjustments are made to delete intercorporate ownership. For this purpose, the individual is considered to own stock owned directly or indirectly by brothers and sisters, wife, ancestors, and lineal descendants. Stock owned directly or indirectly by a corporation, partnership, estate, or trust for this purpose is considered as being owned proportionately by shareholders, partners, or beneficiaries.

(c)(*iii*) *Employee stock purchase plans: tax treatment.*—As indicated previously, except for the addition of the nondiscrimination requirement (and the requiring of stockholder approval) the tax treatment of

employee stock purchase plans continues to be substantially similar to the tax treatment of restricted stock options under present law. Thus, as under present law, no income is to be reported by the employee either at the time the option is granted or at the time it is exercised. Similarly, no deduction is available to the employer corporation with respect to the employee stock purchase plan.

As under present law, under these purchase plans the option may be issued at a price as low as 85 percent of the market value of the stock at the time of the grant. Where this is done, this spread between the option price and the market value at the time the option is granted, upon the subsequent sale of the stock by the employee is treated as ordinary income. However, in no event is the amount to be taxed to the individual as ordinary income to exceed the gain realized on the stock at the time of its disposition.

In addition, ordinary income in the case of employee stock purchase plans may arise where the stock is disposed of before the expiration of the applicable holding period or is held by the employee at the time of his death. As under present law, the option and/or stock must be held for a period of at least 2 years and the stock itself held for a period of at least 6 months. Where this holding period is not complied with, then any spread between the option price and the price of the stock at the time the option is exercised will be treated as ordinary income when the stock is sold or otherwise disposed of. As under present law, the specified amount is ordinary income without regard to whether this is greater or less than the gain realized on the stock at the time of the sale. Where the gain otherwise realized is less than this amount treated as ordinary income, the specified amount is still treated as ordinary income but a capital loss is recognized equal to the difference between the market value of the stock at the time of exercise and the sales price of the stock. Apart from these two cases where ordinary income may be realized any other gain recognized on the sale of purchase plan stock results in capital gain.

(c)(iv) *Employee stock purchase plans; conditions for qualifications.*—As indicated above, to qualify for purchase plan treatment, the stock in these cases must not be disposed of within 2 years of the date of the granting of the option nor within 6 months after the transfer of the stock to the individual. This is a continuation of existing law.

In addition, the individual must at all times during the period beginning with the date of the granting of the option and ending 3 months prior to the date of exercise, be an employee of the corporation granting the option, a parent or subsidiary of the corporation, or a corporation (or parent or subsidiary of that corporation) of a corporation which assumed this stock option as a result of a corporation reorganization, liquidation, etc. This provision is the same as that previously described in the case of qualified stock options. As indicated in the case of qualified stock options, this differs only slightly from existing law.

To qualify as an employee stock purchase plan, nine requirements must be met by the plan itself. Alternatively, all but the first two of these may, however, be met in the stock offering rather than the plan. These conditions are as follows:

1. As under present law, the plan must provide that the options are to be granted only to employees of a corporation or a parent or subsidiary.

2. The plan must be approved by the stockholders of the corporation granting the option within 12 months before or after the date the plan is adopted. This provision is a new requirement which is the same as that provided in the case of qualified stock options.

3. No employee can be granted an option if he owns 5 percent or more of the voting power or value of all classes of stock of the employer corporation or parent or subsidiary. Present law provides that employees having more than a 10 percent interest in a corporation may not obtain a restricted stock option at less than 110 percent of the market price of the stock.

4. A new provision designed to prevent discrimination provides that the options must be granted to all employees of the corporation except that there may be excluded one or more of the following four categories:

(*a*) Employees who have been employed less than 2 years;

(*b*) Employees who are part time and employed 20 hours or less per week;

(*c*) Employees whose customary employment is not for more than 5 months a year; and

(*d*) Officers, supervisory personnel, or highly compensated employees.

5. Another new provision designed to give assurance that these stock purchase plans are nondiscriminatory requires that all employees granted options have the same rights and privileges except that the amount of stock which may be purchased by any employee may be a uniform percentage of total compensation or regular or basic compensation and the plan may provide a maximum number or value of shares to be purchased.

6. Under the plan, the option price may not be less than 85 percent of the market value of the stock at the time the option is granted or not less than 85 percent of the market value of the stock at the time the option is exercised, whichever is the lesser. This restriction is similar to the limitations of present law although slightly more restrictive in some cases.

7. The period over which the option may be exercised cannot exceed 5 years where the option price is not less than 85 percent of the value of the stock at the time of the exercise or 27 months from the date of the grant of the option if the option price is at least in part determined on the basis of the price of the stock at the time the option is granted. Present law provides a 10-year period over which restricted stock options may be exercised but in practice it is understood that options issued under purchase plans generally have a much shorter period over which they may be exercised.

8. A new ceiling is provided to the effect that an employee may not purchase stock at an annual rate in excess of $25,000 a year. This restriction is provided since these plans are designed primarily for broad employee participation.

9. As under present law and in the case of the qualified stock options, the option must not be transferable by the individual other than at death and must be exercisable during the employee's life only by him.

(*c*)(*v*) *Reporting requirements.*—The bill provides that corporate employers are to report on the transfer of stock to an employee in the case of the newly established category of qualified stock options or

present law restricted stock options. They also are to report on the sale of stock by the employee where stock is acquired under a stock purchase plan at a price less than the full value of the stock and where, under a restricted stock option, stock is purchased at a price between 85 and 95 percent of the value of the stock. In these latter two cases, the report of the sale of the stock by the employee is required since generally in these cases ordinary income tax will be payable by him. A copy of the form of the report going to the Government also is to be sent to the employee or former employee on or before January 31 after the year involved. In those cases where the employer is required to report on the sale of stock by the employee, he will not be expected to follow the ownership of the stock beyond the first transfer; e.g., if an employee transfers stock to a street name and then subsequently sells the stock, the employer will report the first transfer of the stock to the street name but will not be required to report the subsequent sale. Moreover, the reporting in these cases is merely to indicate the name, address, and account number of the individual employee involved and the stock sold by him.

(*c*)(*vi*) *Effective date.*—In the case of qualified options generally the new provisions are to apply to those options granted to an individual after June 11, 1963. However, the new provisions will not apply to an option granted pursuant to a binding written contract entered into before June 12, 1963. Of course, in a transaction which qualified as a tax-free reorganization, where a corporation entered into a binding obligation to assume outstanding restricted stock options previously granted by a corporation, any option which the acquiring corporation issues in assuming the outstanding options already granted by the acquired corporation, to the extent provided by present law, are considered as continuations of the old options and therefore will be considered as granted prior to June 12, 1963, and treated as restricted stock options rather than qualified stock options.

In the case of employee stock purchase plans, also the new provisions apply generally to options granted after June 11, 1963. However, existing law rather than the new law will continue to apply to stock options granted pursuant to a written plan adopted and approved before June 12, 1963, which as of that time met the nondiscrimination requirements specified in the case of employee stock purchase plan. In addition, a plan which was being administered in a way which did not discriminate in favor of officers, supervisory personnel, or highly compensated employees would continue to qualify if adopted and approved before June 12, 1963. Thus, a plan (not otherwise being discriminatory) would be considered nondiscriminatory even though only full-time employees were covered (rather than those working 20 hours a week or more) or those with less than 6 months a year employment were omitted (rather than those with less than 5 months employment).

(*d*) *Revenue effect.*—The changes made by this provision are not expected to have any appreciable revenue effect. To the extent that the changes made above result in a reduction in stock options issued, this will increase deductions taken by corporations as they make deductible payments to employees in other forms.

17. Interest on certain deferred payments (sec. 215(a) of the bill and sec. 483 of the code)

(*a*) *Present law.*—Under present law, an individual may sell a capital asset on the installment basis without making any specific provisions for interest payments on installments. In such cases the full difference between the cost or other basis for the property and the sales price usually is treated as capital gain to the seller. The buyer takes as a basis for the property the total sales price paid. For example, an individual taxpayer might sell a capital asset worth $1,000 for $1,300 payable over 10 years. In this case, if no mention is made that part of this payment is to be treated as interest, and the seller elects to report any gain on the installment basis, then each payment might be treated partly as a return of capital and partly as a capital gain. Over the 10-year period, the taxpayer would report $300 of capital gain (assuming he had the full fair market value of $1,000 as his basis for the property). However, had $300 of this $1,300 payment been specified as an interest payment, this amount would have been ordinary income to the seller rather than capital gain. From the buyer's standpoint, the $300, if treated as part of the price of the property would be added to the basis of the property and, in the case of depreciable property be recoverable over the life of the property. He might also, if the property qualified, be eligible for an investment credit with respect to this $300. On the other hand, if this $300 were treated as interest, he could receive an interest deduction for this amount.

(*b*) *General reasons for provision.*—Your committee sees no reason for not reporting amounts as interest income merely because the seller and purchaser did not specifically provide for interest payments. This treats taxpayers differently in what are essentially the same circumstances merely on the grounds of the names assigned to the payments. In the case of depreciable property this may convert what is in reality ordinary interest income into capital gain to the seller. At the same time the purchaser can still recoup the amount as a deduction against ordinary income through depreciation deductions. Even where the property involved is a nondepreciable capital asset, the difference in tax bracket of the seller and buyer may make a distortion of the treatment of the payments advantageous from a tax standpoint. Your committee believes that manipulation of the tax laws in such a manner is undesirable and that corrective action is needed.

(*c*) *General explanation of provision.*—Your committee's bill solves the problem referred to above by providing that where property is sold on an installment basis and part or all of the payments are due more than 1 year after the date of the sale or exchange—if no interest payments are specified or if "too low" interest payments are specified then part of each payment due after 6 months is to be treated as interest rather than as part of the sales price.

The interest rate to be used for purposes of this provision is to be a rate provided by regulations prescribed by the Secretary of the Treasury or his delegate. It is anticipated that any rate specified by the Secretary of the Treasury or his delegate will reflect the going rate of interest and will not be higher than the rate at which a person, in reasonably sound financial circumstances and with adequate security could be expected to borrow money from a bank. A rate

of 5 percent, for example, would appear appropriate under existing circumstances.

With this interest rate specified by the Secretary, the proportion of each payment which would be considered an interest payment would be determined in the following manner: First, the present value of each installment payment would be determined, based upon the specified interest rate. Second, the deduction of the total of these present values from the total actual payments provided for under the contract then would give the total "unstated" interest payments under the contract.[1] Third, the total unstated interest then is assumed to be spread pro rata over the total payments involved. Thus, if a specific payment represents one-tenth of the total payments, it would be assumed to include one-tenth of the total unstated interest.

For ease of administration and compliance, the regulations are to provide for the discounting of payments on a 6-month basis and are to ignore for this purpose any interest payments due within the first 6 months.

Where an installment contract provides for the payment of some interest, no unstated interest is to be computed unless the interest payments specified are at a rate more than 1 percent below the rate of interest payments which would be computed under this provision in the absence of those payments. Thus, if a 5-percent rate is specified by the Secretary, no unstated interest will be computed where the interest actually provided for under the contract is 4 percent or more. This represents a de minimis rule to prevent the application of this provision in those cases where interest variations are relatively minor.

For purposes of this provision, a payment for property in the form of a note, or other evidence of indebtedness of the purchaser, is not to be treated as a payment. To treat such amounts as payments would permit avoidance of this provision merely by exchanging non-interest-bearing forms of indebtedness for property. However, payments made on such indebtedness for purposes of this provision will be treated as if they were payments made on the contract itself.

Where, at the time of the sale or exchange, some or all of the payments are indefinite as to their size; for example where the payments are in part at least dependent upon future income derived from the property, the "unstated" interest for purposes of this provision will be determined separately with respect to each indefinite payment as it is received, taking into account the time interval between the sale or exchange and the receipt of the payment. Also, where there is a change in the amount due under a contract, the "unstated" interest is to be recomputed at the time of each such change.

The bill specifies five situations in which this provision is not to apply: First, a de minimis rule as to price is provided. Thus, the provision will not apply unless the sale price of the property is in excess of $3,000. Second, in the case of the purchaser of the property, if any of the amounts involved are carrying charges which under present law from the standpoint of the purchaser are treated as interest, then, in the case of the purchaser, this provision is not to apply. Third,

[1] Where an interest rate was provided on the installments but at "too low" a rate, the present value o these interest payments would be determined along with the present value of the remainder of the payments as well. The unstated interest then would represent the present values, including the present values of such interest payments, deducted from total payments to be received under the contract excluding the interest payments.

in the case of the seller, this provision is to apply only if some part of the gain from the sale or exchange of the property would be considered as gain from a capital asset or as gain from depreciable property. If the property is sold at a loss, this provision will nevertheless apply if, had there been a gain, some part of it would have been considered as gain from a capital asset or from depreciable property. Fourth, this provision is not to apply in the case of payments with respect to patents, which are treated as capital gain under present law. Fifth, the provision is not to apply where the property is exchanged for annuity payments which depend in whole or in part on the life expectancy of one or more individuals. In addition, this provision, of course, will not apply to payments such as those for timber, coal and iron ore (sec. 631) where the property is treated as sold as the timber is cut or the coal or iron ore is withdrawn, with the result that this is not treated as an installment contract.

(c)(i) *Effective date.*—This provision applies to payments made after December 31, 1963, on account of sales or exchanges of property occurring after June 30, 1963.

(d) *Revenue effect.*—This provision is expected to result in a negligible increase in revenues.

18. Carrying charges (sec. 215(c) of the bill and sec. 163(b) of the code)

(a) *Present law.*—Among the itemized deductions allowed taxpayers under present law is the deduction for interest payments. Administrative practice has long allowed as an interest deduction the portion of any carrying charges on installment purchases to the extent the interest element is stated separately. In 1954, Congress also provided that an interest deduction was to be available in the case of carrying charges stated separately even where the interest charged could not be ascertained directly. In such cases, the law provides that so much of the carrying charges as equal a 6-percent interest charge on the average unpaid balance under the contract is to be allowable as an interest deduction. This provision applies, however, only in the case of "personal property" purchased under an installment contract.

(b) *General reasons for provision.*—Your committee's attention has been called to the fact that not only is personal property sold under a contract where carrying charges are provided and where the interest element is not separately stated, but also in some cases services are sold in such a manner. One example of such service charges is tuition payments to various educational institutions. Your committee sees no reason why interest deductions should not be equally allowable in such cases as in the case of the sale of personal property.

(c) *General explanation of provision.*—Your committee's bill amends the provision of present law relating to the deduction of interest payments to treat services in the same manner as personal property. Thus, if services, like personal property, are purchased under a contract which provides for part or all of the purchase price to be paid in installments and where there are carrying charges which are stated separately but with respect to which the interest element cannot be ascertained, then a portion of the carrying charges are to be treated as if they were interest payments for purposes of this deduction. As under present law, the interest element in this case is to be 6 percent of the average unpaid balance under the contract during the taxable

year. This, as under present law, is computed on the basis of the sum of the unpaid balances outstanding on the first day of each month during the year.

(c)(i) *Effective date.*—This provision is to apply to payments made in taxable years beginning after December 31, 1963.

(d) *Revenue effect.*—This provision is expected to result in a negligible loss of revenue.

19. Personal holding companies (sec. 216 of the bill and secs. 541-543 of the code)

(a) *Present law.*—Under present law, a domestic personal holding company is taxed on its "undistributed personal holding company income" at a rate of 75 percent on the first $2,000 and 85 percent on the balance. This is in addition to the regular corporate income tax. In general terms, a personal holding company is a closely held corporation, most of whose income is derived from certain specified forms of passive income. The tax applies only where 50 percent or more in value of the outstanding stock of the corporation is owned directly or indirectly by five or fewer individuals. In addition, at least 80 percent of the corporation's gross income must be from what is defined as "personal holding company income."

In general terms, personal holding company income consists of income from what are considered to be passive forms of investment. Thus, it includes dividends, interest, and annuities. It also includes most royalties although mineral, oil, or gas royalties are included only where these royalties do not represent more than 50 percent of the company's gross income or where there are not trade or business deductions (other than compensation for personal services rendered by shareholders) equal to 15 percent or more of the company's gross income. Copyright royalties also are classified as personal holding company income if they represent less than 50 percent of the company's gross income or the business deductions (other than compensation for personal services rendered by shareholders) represent less than 50 percent of gross income or if other personal holding company income constitutes more than 10 percent of gross income. Thus, where these mineral, oil, gas, or copyright royalties represent the principal business of the company, this type of income is not classified as personal holding company income, if there also is evidence, in the form of sufficient business deductions, that the company is actively engaged in business. Rents also are classified as personal holding company income unless they represent 50 percent or more of the company's gross income. Other forms of income which are classified as personal holding company income includes income from stock, security, and commodity transactions (except in the case of dealers, producers, etc.), income from estates and trusts, income from personal service contracts where 25 percent or more of the stock of the corporation is owned directly or indirectly by the individual performing the services, and income from the right to use property of the corporation where 25 percent or more of the stock of the corporation is owned directly or indirectly by the person eligible to use the property. This latter category of income, however, is treated as personal holding company income only where 10 percent or more of its income (without regard to this latter category or rents) is personal holding company income.

(*b*) *General reasons for provisions.*—Congress first imposed this tax on personal holding companies in 1934 in order to prevent the avoidance of the individual upper bracket surtax rates, by leaving what is essentially investment-type income in a corporate organization, subject to the lower corporate income tax. As indicated by the Administration, ways around the present personal holding company provisions have been found in several arrangements which permit the use of holding companies to avoid the individual income tax with respect to what is essentially investment-type income without the company involved being classified as a "personal holding company."

The principal avoidance devices involve the use of rental income, income from mineral operations, and certain capital gains which are not classified as personal holding company income as means of sheltering other investment income in such a manner that 80 percent or more of the company's gross income does not come within the technical definition of personal holding company income. In view of this, your committee's bill makes a number of modifications in the personal holding company provisions designed primarily to minimize the extent to which these special categories of income can be used to shelter clearly passive income. More detailed reasons for each of the various modifications provided by the bill are set forth in the explanation given below with respect to each of the modifications.

(*c*) *General explanation of provisions.*—Your committee's bill makes a series of modifications in the application of the personal holding company tax in the case of domestic corporations. However, except in the case of a liquidation, no change is made in the case of foreign personal holding companies. Most of the modifications described below are designed to eliminate various means by which holding companies have been avoiding classification as personal holding companies, although other problems are also dealt with.

(*c*)(*i*) *Tax rate of 70 percent.*—In view of the fact that this bill decreases the maximum tax rate applicable to individuals from 91 to 70 percent, your committee concluded that the rates applicable to personal holding companies also should be lowered from the present rates of 75 percent on the first $2,000, and 85 percent on the excess, to what will be the new top individual income tax rate. Moreover, there appears to be no particular purpose for continuing the graduation in the personal holding company tax rate from 75 percent on the first $2,000 to 85 percent on the balance. In view of this, your committee's bill provides that the personal holding company tax is to be 70 percent of the undistributed personal holding company income.

(*c*)(*ii*) *Decrease in 80-percent test.*—As previously indicated, one of the tests under present law provides that a company, to be a personal holding company, must derive 80 percent or more of its gross income from certain specified types of passive income, called personal holding company income. Your committee's bill decreases this 80-percent test to 60 percent. The decrease in this percentage is made because too many holding companies which are essentially holding companies of passive income have avoided the classification as such by holding their "personal holding company income" just slightly below the 80-percent limit. The more realistic 60-percent limit together with other modifications described below will make the avoidance of this classification much more difficult for holding companies generally.

(c)(iii) Adjusted ordinary gross income requirement.—Under present law the 80-percent requirement referred to above is applied to the gross income of the corporation; i.e., if the gross income derived from certain specified passive sources equals 80 percent of the total gross income of the corporation, the corporation is classed as a personal holding company. This has made it possible for corporations to avoid personal holding company classification by seeking out types of income not characterized as passive, or of a personal holding company type, which give rise to a proportionately large amount of gross income even though leaving little, if any, income after the deductions attributable to this income. In this manner, various types of income have been used to shelter investment income and remove the company from the classification of a personal holding company. Rents, where they constitute more than 50 percent of the gross income of the corporation, are an example of a type of income used to shelter passive income, such as dividends. Mineral, oil, and gas income are the other principal examples of income which have been so used.

To overcome this problem, your committee's bill adjusts downward the income from certain sources to the extent of certain specified deductions attributable to these types of income. Thus, the corporation will be a personal holding company if 60 percent of "adjusted" gross income consists of certain passive income. The adjustments are as follows:

1. In the case of gross income from rents, the deductions for depreciation and amortization, property taxes, interest, and rents paid, to the extent attributable to the rental income received, are to be deducted from gross income.
2. In the case of mineral, oil, and gas royalties and also in the case of working interests in oil or gas wells, the deductions attributable to these royalties or working interests for depreciation, amortization and depletion, property and severance taxes, interest and rents paid are to be deducted in computing this adjusted gross income. It should be clearly understood that although income from working interests in an oil and gas well for purposes of the 60 percent limitation are reduced by the deductions referred to above such income is itself never classified as personal holding company income.
3. Interest from U.S. Government bonds held for sale by a dealer who is making a primary market for these obligations and interest on condemnation awards, judgments and tax refunds also are to be excluded in arriving at adjusted gross income for this purpose. This adjustment serves a different purpose from the first two deductions in that it merely excludes from the base on which personal holding company income is computed this particular type of interest income which in reality is not passive in nature.

In applying the 60 percent test, not only is the total gross income adjusted downward by the amount of the deductions (or interest) referred to in the cases specified above, but also in determining the rental income and mineral, oil, and gas income for purposes of this test, this income also is reduced by the specified reductions.

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(c)(*iv*) *Capital gains.*—Under present law capital gains (other than capital gains attributable to stock, securities, or commodities) are not treated as personal holding company income. All capital gains, however, are included in the gross income of the company for purposes of the 80 percent test. As in the case of the deductions referred to above, some companies have timed the realization of their capital gains income in such a manner as to keep their personal holding company income below the 80 percent. Your committee's bill avoids this problem by excluding all capital gains from the gross income in determining whether the 60 percent test is met. Thus, the test under your committee's bill is based on adjusted ordinary gross income.

(c)(*v*) *Rental income.*—Under present law rental income is classified as personal holding company income only if it represents less than 50 percent of total gross income. This is based on the concept that where rental income represents the major activity, the activity involved is more likely to be of an active rather than passive character. The bill retains this 50-percent test (applying it, however, to adjusted income from rents and to adjusted ordinary gross income) but adds a second test providing that rental income may be characterized as passive, or personal holding company income even where it represents 50 percent or more of the adjusted ordinary gross income if, apart from the rental income, more than 10 percent of the ordinary gross income (gross income excluding capital gains) of the company is personal holding company income. For this purpose, income derived from the use of corporate property by shareholders is not viewed as personal holding income, but income from copyright royalties and the adjusted income from mineral, oil, and gas royalties is included for this purpose as personal holding company income.

The fact that rental income, both in applying the 60 percent test and also in applying the 50-percent provision to the rental income itself, is determined on the basis of reducing rental income by depreciation, amortization, property taxes, interest, and rents paid has already been noted above.

(c)(*vi*) *Mineral, oil, and gas royalties.*—Under present law mineral, oil, and gas royalties are considered to be personal holding company income unless they represent 50 percent or more of the gross income of the company and unless the trade or business expense deductions (other than compensation for personal services rendered by shareholders) represent 15 percent or more of the gross income of the company. Thus, under present law, as in the case of rental income, mineral, oil, or gas royalties are treated as personal holding company income unless they represent the bulk of the company's income. However, in this case there also must be business expenses—indicating the active character of the business—constituting 15 percent or more of the gross income.

The bill retains these two tests but applies them on the basis of the adjusted ordinary gross income, thereby reducing, for this purpose, the income considered to be in these categories by depreciation, depletion, property and severance taxes, interest, and rent paid.

In addition, your committee's bill adds another test which must be met in such cases for the mineral, oil, or gas royalty income to escape characterization as personal holding company income. The personal holding company income of the company, apart from this category of income (but including as such income that from copyright

royalties and from rents), must not represent more than 10 percent of the ordinary gross income of the company. Thus, the personal holding company type income which mineral, oil, or gas royalty income may shelter even where this income represents the bulk of the income of the company must be relatively small; namely, less than 10 percent of ordinary gross income.

(c)(vii) Copyright royalties.—Under present law, copyright royalties also are considered to be personal holding company income unless they represent 50 percent or more of the total gross income. An additional test which must be met in order to escape such classification is that the personal holding company income, apart from the copyright royalty income, must not exceed 10 percent of the company's gross income and the trade or business expense deductions (other than those for compensation for personal services rendered by shareholders or for royalties paid to shareholders) must represent 50 percent or more of the company's gross income. This provision is modified by your committee's bill in that the requirement that deductions equal at least 50 percent of gross income is changed to provide that they must equal 25 percent of ordinary gross income reduced by royalties paid and by depreciation deductions with respect to the copyrights.

(c)(viii) Produced film rents.—Under present law payments received from the distribution and exhibition of motion picture films are treated as rentals. As a result, under present law, a corporation may be formed by an individual who owns a motion picture negative and have its earnings treated as rents for purposes of the personal holding company tax. Since in such a case more than 50 percent of its gross income would be considered to be from rents, there would be no personal holding company tax payable in this case.

To meet this problem, the bill provides that payments received from the use of, or the right to use, films generally will be characterized as copyright royalty income. Thus, such income will be classified as personal holding company income unless 50 percent or more of the company's ordinary income is from this source, not more than 10 percent of the company's ordinary gross income is personal holding company income, and the deductions properly allocable to this film income represent 25 percent or more of the gross income from this source reduced by royalties paid and depreciation taken.

The bill, however, retains what is essentially the treatment of present law for "produced film rents." Produced film rents are rents arising from an interest in a film acquired before the production of the film was substantially complete. It was thought that less severe tests should be applied in such cases because the participation in the production of the film in itself indicates an active business enterprise in this case. For produced film rent to escape characterization as personal holding company income, as under present law, these rents need constitute only 50 percent or more of the ordinary gross income of the company.

(c)(ix) Other types of income characterized as personal holding company income.—Compensation for the use of property by a shareholder, amounts received under a personal service contract, and income from estates and trusts continue to be classified as personal holding company income essentially to the same extent as under present law, except for the fact that capital gain income is not classified as part of gross income in applying the 10-percent test in the case of the use of corporate property by shareholders.

(*c*)(*x*) *Personal finance companies.*—Present law provides that certain types of companies are not to be classified as personal holding companies. These include, for example, banks, life insurance companies, and surety companies. Also excluded from such classification are certain types of personal finance companies. Under present law, there are four different types of personal finance companies which are excluded from the personal holding company category. These categories in general terms are as follows:

1. Licensed personal finance companies, 80 percent of whose gross income is interest from loans if at least 60 percent of their gross income is received from loans classified as "small loans" by State law (or $500 if there is no State law limit) and if the interest is not payable in advance and computed only on unpaid balances. In addition, loans to a person who is a 10-percent shareholder must not exceed $5,000 in principal amount. These frequently are known as "Russell Sage" type personal finance companies.
2. Other lending companies engaged in the small loan or consumer finance business, 80 percent of whose gross income consists of interest or similar charges on loans to individuals and income from 80-percent-owned subsidiaries which in turn themselves meet this test. In addition, at least 60 percent of the company's income must be from interest or similar charges made in accordance with small loan or consumer finance laws to individuals where the loans do not exceed the State specification for small loans (or if there is no such limit, $1,500) and if the trade or business expenses of the company represent 15 percent or more of the company's gross income. These companies also must not have loans outstanding to shareholders, with a 10-percent interest or more, which exceed $5,000.
3. A loan or investment company (such as a Morris Plan bank), a substantial part of whose business consists of receiving funds not subject to check and evidenced by certificates of indebtedness or investment, and making loans and discounts. Here also loans to a person who is a 10-percent shareholder may not exceed $5,000 in principal amount.
4. A finance company actively engaged in purchasing or discounting accounts or notes receivable, or installment obligations, or in making loans secured by any of these or by tangible personal property, if at least 80 percent of its gross income is derived from such business. In addition, at least 60 percent of such a company's gross income must be derived from certain categories of income. These categories, in general, relate to business or factoring-type loans: such as purchasing or discounting accounts or notes receivable, or installment obligations arising out of the sale of goods or services by the borrower in his business; making loans for not more than 36 months to businesses where the amounts are secured by accounts or notes receivable or installment obligations of the type described above, or secured by warehouse receipts, bills of lading, inventories, chattel mortgages on property used in the borrower's trade or business, etc. In the case of these companies, the trade or business expense deductions must represent at least 15 percent of the gross income of the company, and loans to those who are 10-percent shareholders in such company must not exceed $5,000 in principal amount.

In the interest of simplification, your committee concluded that it would be desirable to have one exclusion available for all four of these categories of lending or finance companies. At the same time, it saw no need for purposes of the personal holding company provision to restrict the type of loans which these companies could make. This is properly a matter of regulation by State law governing these lending or finance businesses. Moreover, it was recognized that in any event the personal holding provisions do not apply to widely held corporations. In such cases only State law governs the type of loans which can be made.

In view of these considerations, your committee has substituted for all four of the categories described above, one definition of a lending or finance company which is to be excluded from personal holding company tax treatment. This definition is designed first to assure that 60 percent of the company's income is from the active, regular conduct of a lending or finance business, and second that its personal holding company income [1] plus interest from U.S. obligations as a dealer in these obligations is not more than 20 percent of the company's ordinary income. These two limitations, and the restriction described below relating to business expense deductions, give assurance that the company is actively engaged in the lending or finance business and that not more than 20 percent of its remaining income is personal holding company income.

In addition to these two restrictions, the company must have certain business deductions described below, which are directly attributable to its lending or finance business equal to 15 percent of the ordinary gross income up to $500,000 plus 5 percent of the ordinary gross income between $500,000 and $1 million. This provision gives further assurance, as evidenced by the deductions of the company, that it is actively engaged in the lending or finance business. A fourth limitation applicable under present law in the case of all of the categories of lending companies denies the right to make loans to persons who are 10 percent shareholders to the extent of more than $5,000 a year in principal amounts.

The lending or finance business for purposes of this provision is defined as including the business of making loans and purchasing or discounting accounts receivable, notes, or installment obligations receivable, notes or installment obligations. It does not include, however, the making of loans or purchasing or discounting accounts receivable, notes or installment obligations if the remaining period to maturity on the loan or paper exceeds 60 months. It also does not include the making of loans evidenced by indebtedness issued in a series under a trust indenture and in registered form or with interest coupons attached.

Business deductions for purposes of the 15-percent or 5-percent test include only those trade or business expense deductions which are deductible only by reason of section 162 or section 404 (other than compensation for personal services rendered by shareholders or members of their family), and depreciation deductions and deductions for real property taxes to the extent that the property to which they relate is used in the regular conduct of the lending or finance business.

[1] For this purpose personal holding company income is computed without regard to income from subsidiaries qualifying under this exemption as lending businesses, but including gross income from rents, royalties, produced film rents, and compensation for use of corporate property by shareholders.

Trade or business expense deductions which are allowable specifically under other sections, such as the deduction for interest expense which is also allowable under section 163, are not included for purposes of the 15-percent or 5-percent test.

(*c*)(*xi*) *Liquidating dividends.*—Under present law, the 75-percent or 85-percent tax (70 percent under the bill) on personal holding companies applies only to the undistributed personal holding company income. Thus, this tax is applied after dividend distributions are taken into account. Included among the amounts treated as dividends eligible for the dividends paid deduction are distributions in liquidation to the extent of the accumulated earnings and profits. As a result, in the year of the liquidation of a personal holding company there is no income subject to personal holding company tax for that year. Despite the fact that the distributions are treated as dividends to the personal holding company, its stockholders in that year receive this income and report it at capital gains rates.

Thus, under present law, a company which is a personal holding company may nevertheless avoid both the personal holding company tax and the ordinary income treatment to its shareholders with respect to the personal holding company income the year in which it liquidates.

A problem is also presented in the case of corporations where a subsidiary is liquidated and both the parent and the subsidiary corporation are personal holding companies. In such a case, if the earnings and profits of the subsidiary exceed its undistributed personal holding company income in the year of the liquidating distribution, the parent corporation may use the excess dividend paid deduction in computing its own dividend paid deduction, thereby reducing its own undistributed personal holding company income in the taxable year and also in the 2 succeeding taxable years.

The bill meets these problems by limiting the application of section 562(b) to companies other than personal holding companies or foreign personal holding companies. However, it is provided in section 316(b) that in the case of a complete liquidation of a personal holding company within a 24-month period after the adoption of the plan of liquidation, that the term "dividend" is to include any amounts distributed in this liquidation to other than corporate shareholders to the extent of its undistributed income (before any deduction for this amount) only if the corporation involved designates amounts as dividends (and so notifies the distributee). If the corporation does so designate the distributions as dividends the individuals receiving a liquidating distribution from the personal holding company must report the amount so distributed as a dividend in the year of receipt.

An amendment is also made to the code which provides in the case of corporate distributees that where a complete liquidation of a personal holding company occurs within 24 months after the adoption of the plan of liquidation, the distribution is to be treated as a dividend for purposes of the personal holding company tax only to the extent of the corporate distributee's share of the undistributed personal holding company income for the taxable year of the distribution. Thus, the dividends paid deduction is allowed to a personal holding company only to the extent of the undistributed income for the taxable year and with respect to noncorporate distributees, only if such distributees treat such distribution as a dividend.

(c)(xii) *One-month liquidations.*—While your committee believes that the tightening of the personal holding company provisions as indicated in the prior discussion is desirable, nevertheless, it believes that it would be unfortunate to apply these provisions without any alternatives being available, to companies which in the past have not been classified as personal holding companies but which as a result of the new provision will for the first time find themselves subject to personal holding company tax. Your committee believes that it would be unfair to require such companies to pay personal holding company tax if they are willing to liquidate. Although it is understood that some of these companies are willing to liquidate, nevertheless, it would represent a hardship under existing law for them to do so. The hardship arises from the fact that if they liquidate under the provisions of section 331 of the code, not only would the earnings and profits of such corporations be taxed to the shareholders at capital gains rates but also any other appreciation which has occurred in the value of the assets would be so taxed to them. Such companies in the absence of the new personal holding company provisions would face no necessity of liquidating and therefore under these circumstances no tax would now be paid with respect to these unrealized increases in value. Your committee believed it was appropriate therefore to forego the tax at this time on unrealized appreciations in value but to collect the capital gains tax on the earnings and profits distributed.

Your committee's bill, to facilitate the liquidation of these companies, provides a special provision (in sec. 333) applicable in the case of companies which, for one of the two most recent taxable years before the enactment of the new personal holding company provisions were not personal holding companies under existing law, but would have been in that year if the new law provided by this bill had been in effect at that time. In such cases, the bill provides that any distribution made by the corporation to the extent of the earnings and profits accumulated prior to the time of the liquidation is to be taxed at capital gains rates and that any remaining gain is to be recognized only to the extent of assets which consist of money or of stock or securities acquired by the corporation after December 31, 1962. The capital gain referred to above in the case of the earnings and profits is to be a class B capital gain, i.e., it will be eligible only for the 50-percent (and not the 40-percent) exclusion factor and will be subject to the alternate rate of 25 percent (not 21 percent).

To be eligible for the treatment described above, the liquidation of one of these corporations must occur before January 1, 1966. The treatment described above providing capital gains treatment with respect to earnings and profits is not to apply with respect to any earnings and profits to which the corporation involved succeeds after August 1, 1963, as a result of any corporate reorganization or as a result of a liquidation of a subsidiary of that corporation (except earnings and profits which on August 1, 1963, constituted the earnings and profits of one of the companies described above or which were earned by such a company).

In addition to liquidations occurring before January 1, 1966, the class B capital gains treatment for earnings and profits accumulated before 1966 and nonrecognition of gain with respect to any other gains to the extent with respect to assets acquired before 1963 (and assets other than stock and securities acquired thereafter) under your

committee's bill is also to apply to certain corporations which liquidate after 1965. To qualify for this post-1965 liquidation treatment, as in the prior case the corporation involved must be one which in at least one of the two most recent taxable years ending before the date of enactment of this provision was not a personal holding company under present law but would have been had the provisions of this bill been in effect with respect to that year. To qualify for this special post-1965 liquidation treatment, the corporation involved must also have incurred indebtedness in the period from December 31, 1933, to August 1, 1963, which is still outstanding, or incurred indebtedness after August 1, 1963, which merely replaced indebtedness incurred before that time.

Cases have been called to the attention of your committee where corporations have entered into commitments to use their incomes to pay off such debts and where as a result it is difficult, if not impossible, for them to liquidate before this indebtedness is paid off. For that reason, your committee's bill makes the liquidation treatment described above (but only with respect to earnings and profits accumulated before 1966) apply if the corporation liquidates in the year in which it either does pay off the pre-August 1963 indebtedness or could have, if it had devoted all of its earnings or profits after 1963 to this purpose. In addition, it must also devote to this purpose any deductions for depreciation or amortization, since the funds in this case remain in the corporation and can be used to retire indebtedness. Thus, the special liquidation treatment described here with respect to liquidations occurring after 1965 is available only during the period of time necessary for the corporation to retire outstanding indebtedness out of earnings and profits and depreciation allowances.

(c)(xiii) Postponement of new personal holding company provisions for certain corporations.—To encourage the liquidation of companies which are not now personal holding companies but would become so as a result of the new provisions, your committee has added a provision to the effect that such companies, if they liquidate before January 1, 1966, will not be subjected to the new personal holding company provisions provided by this bill. They will, however, have available to them the special liquidation provisions described immediately above and will be subject to the rules specified in the prior heading with respect to the dividends paid deduction. In addition, this provision will not apply in the case of the liquidation of a subsidiary corporation under section 332 unless before the 91st day after the last distribution of the subsidiary the parent corporation also is liquidated and both of these events occur before January 1, 1966.

(c)(xiv) Deduction for amortization of indebtedness.—In 1934, when the personal holding company provision was first adopted, Congress provided that indebtedness incurred before 1934 by a company which subsequently became a personal holding company would receive a special debt amortization deduction in computing its personal holding company tax. It was provided that to the extent that this debt was paid off, or amounts were set aside to pay off this debt, the tax base for purposes of the personal holding company tax was to be reduced by the amount of the amortization payments. Thus, these amortization payments were treated for purposes of the personal holding tax as deductions in the same manner as dividend distributions to shareholders.

Your committee's bill adds a similar provision for indebtedness incurred after December 31, 1933, and before August 1, 1963, in the case of corporations which were not personal holding companies in one of the 2 taxable years before the enactment of this provision but would have been had the new personal holding company provision been in effect at that time.

Qualified indebtedness for purposes of this provision includes not only the debt outstanding before August 1, 1963, but also debt which has replaced that outstanding before August 1, 1963 (if the special amortization deduction has not already been taken for the repayment of the old debt). Thus, short-term bank loans, for example, which are renewed at intervals will not be disqualified for purposes of this amortization deduction if the taxpayer elects not to deduct the payment of the prior loan. In addition to deductions for actual payments, deductions are also permitted for amounts (if reasonable) which are irrevocably set aside to pay off a debt which may be payable at some future date.

The deduction for indebtedness under this provision is to be reduced by any deduction which the company receives for depreciation or amortization and for any deduction (in computing undistributed personal holding company income) for net long-term capital gains. These deductions are disallowed since the funds represented by them can be used by the corporation to pay off indebtedness in the same manner as the earnings and profits of the corporation. Any of these deductions not used in 1 year are carried forward for this purpose and used in a subsequent year. A special provision provides that where depreciable property which would give rise to this cutback in the indebtedness provision is disposed of after July 31, 1963, then to the extent the basis of the property disposed of exceeds the indebtedness which was transferred at the time of the same disposition the qualified indebtedness for which a deduction may subsequently be taken is reduced.

(*c*)(*xv*) *Effective dates.*—Generally the personal holding company provisions are made effective with respect to taxable years beginning after December 31, 1963. The dividends paid deduction modification and the liquidation provision, however, are to apply to distributions made in taxable years of the distributing corporation beginning after December 31, 1963.

(*d*) *Revenue effect.*—It is estimated that the personal holding company provision, will result in a revenue increase of $15 million a year in a full year of operation.

20. Increase in basis with respect to certain foreign personal holding company holdings (sec. 216(j) of the bill and sec. 1022 of the code)

(*a*) *Present law.*—Under present law the undistributed income of a foreign personal holding company is included in the income of the U.S. shareholders of the company and taxed to them. This treatment applies only where 50 percent or more in value of the outstanding stock of the corporation is owned directly or indirectly by five or fewer individuals who are citizens or residents of the United States. In addition, in the first year, 60 percent, and in subsequent years 50 percent, of the corporation's gross income must be "foreign personal holding company income." In general terms, this income consists of passive or investment forms of income, such as dividends, interest, etc.

To a substantial degree, the same type of income is classified as foreign personal holding company income as is classified as personal holding company income in the case of domestic companies.

Stock in a foreign personal holding company differs from most other property in that, at the time of the death of the U.S. shareholder, it generally does not receive a new basis equal to its fair market value. Actually, the applicable rule in this case is that the basis of the stock at the time of the death of the decedent is to be the fair market value at that time or the basis of the stock in the hands of the decedent, whichever is *lower*.

For foreign corporations, including foreign personal holding companies, to participate in a tax-free reorganization it must be determined to the satisfaction of the Secretary of the Treasury that the exchange was not in the pursuance of a plan having as one of its principal purposes the avoidance of Federal income tax. Of the two basic tax provisions on corporate liquidations, sections 331 and 333, foreign companies can use only section 331. Section 331 provides for the imposition of the regular capital gains tax on appreciation in the value of the stock. Section 333, which foreign corporations cannot use, provides that the accumulated earnings and profits of the corporation are to be taxed to the noncorporate shareholders as dividends and that capital gains are to be recognized on other appreciation in the stock only to the extent of the money and stock or securities acquired by the corporation after December 31, 1953, exceed the earnings and profits received as dividends. However, this provision also provides, in the case of assets acquired by the corporation before January 1, 1954, that no gain is to be recognized to the shareholder but that instead the shareholder is to receive the same basis for the assets received which he had for the stock (increased for gain recognized and decreased for money received.)

(*b*) *General reasons for provision.*—As indicated above, stock of foreign personal holding companies, when the shareholder dies, receives much harsher tax treatment than is true of practically all other property included in the decedent's estate. Generally, property receives a new basis at a decedent's death equal to the fair market value of the property, either at the time of the decedent's death or at the alternate valuation date 1 year later. Even in the case of gifts, where the donee carries over the basis of the donor, an increase in the basis (up to fair market value) is allowed to the donee with respect to any gift taxes paid on the property.

Your committee recognizes that it is the policy of the United States to discourage the formation of foreign personal holding companies and, in fact, to generally encourage their liquidation. The formation and use of these companies is discouraged by the fact that their earnings are taxed to the shareholders in the year in which they are earned, whether or not distributed. Your committee also recognizes that a relatively harsh treatment for the basis of the stock of these companies is justified in order to discourage their use generally. However, even though an increase in basis to the fair market value is not allowed, your committee believes that it is at least appropriate to permit the same general type of adjustment which is permitted with respect to gifts; namely, to permit an increase in the basis of the stock of foreign personal holding companies equal to the death transfer tax imposed with respect to the appreciation in the value of this stock.

In addition, as a special means of encouraging the liquidation of these corporations, your committee's bill provides that these foreign personal holding companies are to be treated the same as domestic corporations for purposes of section 333, if the liquidation is completed shortly after the date of enactment of this bill. Since such companies have little, if any, accumulated earnings and profits, this in effect means that they pay a capital gains tax on appreciation of their stock in the corporation only to the extent that they receive money or in stock or securities acquired after December 31, 1953, and that the basis of the assets received in the liquidation is the basis of their stock in the corporation increased by the gain recognized. To be sure that there are no opportunities for tax avoidances in such cases, it is provided, however, that this property is to receive the same basis as it would if the shareholder died still holding the stock in the foreign personal holding company until it (or any property "substituted" for it) has passed through one estate—the shareholder's or any transferee's. As a result, the basis of the stock, generally, is carried over, but increased for estate taxes attributable to the appreciation in value of the assets.

(*c*) *General explanation of provisions.*—This provision deals with two basic subjects. The first of these relates to the basis of stock in a foreign personal holding company at the time of the death of the shareholder. The second provides special rules, for a limited period of time after the enactment of this bill, where the personal holding company is liquidated. This latter subject also deals with the basis of the assets distributed in such a liquidation when the former shareholder subsequently dies.

(*c*)(*i*) *Increase in basis for foreign personal holding company stock.*—As indicated previously, present law provides that the basis of stock or securities of a foreign personal holding company on the death of the shareholder involved is to be the fair market value of such property at the time of the shareholder's death, or the basis in his hands, whichever is lower. This bill adds to the basis of the stock or securities so determined the shareholder's proportionate share of any Federal estate tax payable with respect to his estate, but only to the extent that this Federal estate tax is attributable to the appreciation in the value of the decedent's shares or securities in the foreign personal holding company.

This treatment applies only in those cases where a foreign corporation was a foreign personal holding company in its most recent taxable year before the date of the enactment of this provision. It also applies only in the case of shares of stock or securities held by a decedent dying after August 15, 1963.

The Federal estate tax, with respect to which the upward adjustment in the basis of the stock or securities is made, is the Federal estate tax before any reduction for credit except the credit allowable with respect to a tax on prior transfers at death. Thus, an increase in basis will be allowed for State death taxes to the extent they are creditable against the Federal estate tax. However, only a portion of the Federal estate tax will be added to the basis for the foreign personal holding company stock or security. This will be the amount attributable to the unrealized gain in the hands of the decedent with respect to the stock or security. The tax attributable to this will be determined on the basis of the ratio of the appreciation in value of this stock or securities to the total value of the gross estate of the decedent.

The addition to basis described above, with respect to foreign personal holding companies, will not apply to any foreign corporation which, with respect to any taxable year beginning on or before and ending after August 26, 1937, was a foreign personal holding company.

(c)(ii) *One-month liquidations.*—Your committee's bill provides that where certain conditions are met a foreign personal holding company will be treated as a domestic corporation for purposes of section 333 of the Internal Revenue Code. This has the effect of permitting the liquidation of these corporations—

(1) taxing as a dividend any accumulated earnings and profits of the corporation;

(2) taxing as capital gain, so much of the assets received which consist of money or stock and securities acquired by the corporation after December 31, 1953 (to the extent any gain exceeds the amount taxed as a dividend under (1) above); and

(3) allowing the remaining portion of the appreciation of the shareholder's stock in the corporation to go untaxed at the time of liquidation, but providing a basis for the assets received in the liquidation equal to the basis of such shareholder in his stock of the corporation (decreased for any money received and increased for any gain recognized).

To be eligible for the liquidation treatment described here, three conditions must be met:

(1) The company must have been a foreign personal holding company for its most recent year ending before the date of enactment of this bill;

(2) All of the stock of the corporation must have been owned by individuals and estates, both on August 15, 1963, and at the time of liquidation; and

(3) The transfer of the property to the shareholders under the liquidation must occur within one of the first four calendar months ending after the date of the enactment of this bill.

Although the foreign personal holding companies meeting the terms of this provision are classified as "domestic corporations" for purposes of section 333, nevertheless, they are treated as foreign corporations for purposes of section 367. Section 367 provides that in determining the extent to which gain is to be recognized in the case of certain exchanges (including, for the purpose of this provision, a liquidation under sec. 333), foreign corporations are not to be considered as "corporations," unless before such exchange it has been established to the satisfaction of the Secretary of the Treasury that such exchange is not in pursuance of a plan having as one of its principal purposes the avoidance of Federal income taxes. Thus, unless this clearance is obtained the liquidation would be treated as an exchange of property with the full amount of any gain subject to tax. However, in applying section 367 to a liquidation of a foreign personal holding company under section 333, it is not the intention of your committee that an opportunity to gain an increase in basis for the property being distributed upon the death of any decedent involved is to be considered an avoidance of Federal income taxes under section 367. The added amendment described immediately below which limits the basis adjustment available in such cases, in the view of your committee, prevents any significant tax escape in this area.

Normally, stock or securities held directly by an individual would, upon his death, receive an increase in basis to reflect the fair market value of these securities at that time (or the optional valuation date). As indicated previously, however, in the case of the stock of a foreign personal holding company, this increase in basis at the date of a shareholder's death is not available. Instead, the basis of the decedent in the stock is carried over but increased, as indicated above, in this bill, by any Federal estate tax attributable to the appreciation in the foreign personal holding company stock. Your committee's bill, in the case of property received in a liquidation under section 333, provides that the property distributed is not to receive the normal increase in basis at the date of the shareholder's death. Instead, this property will retain its basis but, as in the case of the foreign personal holding company stock itself, will be increased by the Federal estate tax attributable to any unrealized appreciation in this property. The method of computing the Federal estate tax here is the same as that described above in the case of the stock in the foreign personal holding company. In addition, where anyone has received such property from the shareholder (or from a person who acquired such property from the shareholder other than by transfer at death) without the full gain being recognized in the transaction, the adjusted carryover basis rule described above applies upon such a person's death. In the case of property acquired from the decedent by gift the increase in basis upon the donee's death is not to exceed the adjustment provided here, or the adjustment provided with respect to gifts, whichever is the greater.

(c)(*iii*) *Effective date.*—The amendments made by this provision, relating to the adjustment to the basis of stock in a foreign personal holding company upon the death of a shareholder in such a company, applies to decedents dying after August 15, 1963. The provision permitting a liquidation of a foreign personal holding company applies to liquidations occurring within one of the first 4 calendar months, ending after the date of enactment of this bill.

(*d*) *Revenue effect.*—It is believed that this provision will not result in any appreciable revenue loss.

21. Treatment of property in the case of oil and gas wells (sec. 217 of the bill and sec. 614 of the code)

(*a*) *Present law.*—The percentage depletion deduction, in the case of oil and gas, is either 27½ percent, multiplied by the gross income from the "property" or, if less, 50 percent of the net income from the "property." As a result, what constitutes "property" is of considerable significance in determining the percentage depletion deduction available. To avoid any reduction in the 27½ percent deduction on gross income from the property, it frequently is desirable to combine wells having a high ratio of net income to gross income with those having a low ratio so that the 50 percent net income limitation will have little, or no, effect.

At one time each separate mineral deposit in a lease or fee acquisition was treated as a separate property. Subsequently, the administrative practice arose of permitting, at the taxpayer's option, the aggregation or combination of deposits in a single lease or acquisition (sometimes referred to as a single tract or parcel of land). In 1954, Congress permitted the aggregation of properties across lease lines so long as all

the properties were in one "operating unit." This change was prompted by circumstances of the hard mineral industry but it also applied to the oil and gas industries as well. In 1958, Congress adopted detailed rules in the case of the hard minerals. In general these rules provided that operating mineral interests may be aggregated mine by mine and any number of mines may be aggregated so long as they are in a single operating unit. These rules, to the extent applicable to hard minerals remain in force. In the case of oil and gas, Congress in 1958 gave operators an option to use either the 1939 code "lease" rule or the 1954 code "operating unit" rule.

The law and the regulations in the case of the "operating unit" rule provide that it is not necessary for purposes of the aggregation that the separate operating mineral interests be included in a single tract or parcel of land, or in contiguous tracts or parcels of land, so long as the interests are a part of the same "operating unit." In defining the "operating unit," the regulations refer to operating mineral interests which are operated together for the purpose of producing minerals. With respect to any taxpayer what constitutes an "operating unit" must be determined on the basis of his own operations. The operating units may not be uniform in the various natural resources industries or in any one of the natural resource industries. Moreover, in the case of a particular taxpayer, business reasons may require the formation of operating units that vary in size and content. The term "operating unit" refers, however, to a producing unit and not an administrative or sales organization. Among the factors which indicate that mineral interests are operated together as a unit are—

(1) Common field or operating personnel;
(2) Common supply and maintenance facilities;
(3) Common processing or treatment plants; and
(4) Common storage facilities.

It is made clear that operating mineral interests which are geographically widespread may not be treated as parts of the same operating unit merely because a single set of accounting records, a single executive organization, or a single sales force is maintained by the taxpayer with respect to such interests or merely because the products of the interests are processed at the same treatment plant. Generally, however, the determination of the taxpayer as to what constitutes an operating unit is to be accepted unless there is a clear and convincing basis for a change in such determination.

(*b*) *General reasons for provision.*—There have been two major objections to the operating unit rule adopted in 1954 as applied to oil and gas. First, it has been difficult to determine what an operating unit is and this is a continuous source of controversy between taxpayers and the Government. The problem arises from the fact that the term "operating unit" apparently has no generally understood meaning within the oil and gas industries. Basically, it is a tax concept having no real business substance.

Second, the operating unit rule has proved objectionable because it gives taxpayers an opportunity to increase their percentage depletion deduction merely by choosing the best combination of high and low cost properties for purposes of this aggregation rule. This opportunity, of course, is available only to those large enough to have many diverse property interests. It is possible under this rule to include some leases or tracts of land within a large area and to omit others even

though the latter may be contiguous to some of the property included, while other property included in the aggregation may be many miles away. Taxpayers, in fact, are contending that the term "operating unit" covers operations over widespread geographical areas, including substantial portions of several States.

To remove this controversy and also to delete this opportunity for larger companies to maximize their percentage depletion deductions by unrealistic grouping of properties, your committee's bill for the future eliminates the operating unit aggregation rule in the case of oil and gas properties. No inferences are to be drawn from this, however, as to what constitutes an operating unit or as to what could properly be aggregated with respect to the period of time before this change is made. In place of the operating unit rule taxpayers, as was true before 1954, will be able to maintain separate deposits as separate properties or can combine some or all deposits falling within a single lease or acquisition. They will not, however, be able to combine different leases or acquisitions, except in the case of properties which are in a unitization agreement. In these latter cases the owners of the property have in effect exchanged their separate interests in their leases for undivided interests in the whole, with the result that all interests of a taxpayer in the unit become one property.

(c) *General explanation of provision.*—The operating unit rule of existing law provides that if a taxpayer owns two or more separate operating mineral interests which constitute all or a part of an operating unit, he may form one aggregation and treat as one property any two or more of these interests, treating as separate properties any interests which he does not include in this one aggregation. Separate operating mineral interests may be aggregated for this purpose whether or not they are in a single tract or parcel of land, or contiguous tracts or parcels. A taxpayer may not, however, form more than one aggregation within a single operating unit.

Your committee's bill repeals the rule described above for taxable years beginning after December 31, 1963, with respect to oil and gas. It substitutes in its place a rule which, in effect, restores the pre-1954 administrative practice. No longer will the aggregation of properties be permitted at the "operating unit" level. Except in the case of unitization agreements discussed below, taxpayers may not aggregate oil and gas properties above the level of a separate lease or acquisition, or "separate tract or parcel of land" as referred to in the bill.

The general rule which will apply in the future is that all of the taxpayer's operating mineral interests in a separate lease or acquisition will be combined and treated as one property. However, the taxpayer may elect to treat separately operating mineral interests within a single lease or acquisition. Where he does this he may have either no combination, or one combination of mineral interests in that tract or parcel of land. If he has one combination, all other mineral interests not in that combination are treated as separate properties.

Where the taxpayer has elected to treat separately some or all of the operating mineral interests in a single lease or acquisition, and subsequently finds or acquires new interests in that property, the new interests, unless he elects otherwise, are to be treated as a part of the combination, if there is a combination, or as separate properties if there is no such combination.

The election to treat part or all of the operating mineral interests in a lease or acquisition as separate properties must be made at the time of the filing of the return for the first taxable year beginning after December 31, 1963, or if later, the first taxable year in which an expenditure for the development or operation of the operating mineral interest is made by the taxpayer after acquisition.

(c)(i) Unitization or pooling arrangements.—As previously indicated a unitization or pooling agreement is to be an exception to the rule stated above. A unitization agreement arises where two or more taxpayers holding interests in separate tracts or parcels of land exchange their interests for an undivided interest in a larger area (either by formal conveyances or contractual arrangement). Such an agreement also arises where a taxpayer holding operating mineral interests in several leases enters into an arrangement to pay the lessors royalties based on an undivided share of the oil and gas from all the leases. The bill provides that in these cases all of the operating mineral interests of a taxpayer which participate in one of these unitization agreements are to be treated as a single property without regard to the rules specified above. This treatment applies to all compulsory unitization agreements required by State law and also to voluntary agreements which meet both of the following two tests:

(1) The operating mineral interests must be in the same deposit or two or more deposits, the joint development or production of which is logical from the standpoint of geology, convenience, economy, or conservation; and

(2) The operating mineral interests covered by the agreement must be in tracts or parcels of land which are either contiguous or in close proximity.

In making this determination under No. (1), tax benefits are not to be taken into account.

A special rule is provided in the case of unitization agreements entered into in taxable years beginning before January 1, 1964. In these cases, where for the last taxable year beginning before 1964 the taxpayer treated each interest as a separate property and if it is determined by law that this was the proper treatment, then the taxpayer may, if he so desires, continue to treat these interests as separate properties despite the fact that they are in a unitization agreement.

(c)(ii) "Unscrambling" of basis.—In the past, because of the "operating unit" rule, taxpayers have aggregated two or more separate leases or acquisitions which under the new rules provided by this bill, they must treat separately. This means that any basis for these properties must be segregated or "unscrambled." In the great majority of the cases, it is understood that this will present no problem because of the fact that the entire basis of the property involved has already been written off by percentage depletion deductions. However, for those where some basis still remains, the bill provides two rules, either of which may be followed in "unscrambling" the basis of the operating mineral interests which for the future must be treated as separate properties. The first of these rules provides that any basis may be divided among the separate properties in accordance with the fair market value of each property. The second rule provides that taxpayers may take the adjusted basis of each property at the time it was first included in an aggregation and adjust this basis downward for adjustments reasonably attributable to the property so that the

total of these adjusted bases equals the adjusted basis of the former aggregation.

(c)(iii) *Effective date.*—The amendments made by this provision apply to taxable years beginning after December 31, 1963. This does not involve any change in elections for those already covered under the 1939 Code rules (sec. 614(d)).

(d) *Revenue effect.*—It is expected that this provision will result in an annual increase of revenue of $40 million.

22. Treatment of iron ore royalties (sec. 218 of the bill and secs. 631(c), 1231(b), and 272 of the code)

(a) *Present law.*—Under present law, iron ore royalties give rise to ordinary income; against this, however, a depletion deduction of 15 percent may be taken.

In the case of coal royalties, however, where the property has been held over 6 months present law provides that the excess of the amount realized from the disposal of the coal, over the adjusted depletion basis and the expenditures attributable to making and administering the contract and in preserving the economic interest retained in the contract, is to be treated as a capital gain. Elsewhere in this bill, this gain is treated as a class B capital gain; i.e., even though the holding period may exceed 2 years, nevertheless, the inclusion factor is to be 50 percent (not 40 percent) and the alternate rate of tax is to be 25 percent (not 21 percent). Where capital gain is realized from coal royalties, no deduction is allowed for percentage depletion or generally for the making and administering of the contract or the preservation of the economic interest in the contract.[1]

(b) *General reasons for provision.*—Your committee believes that the tax treatment now available with respect to coal royalties also should be extended to iron ore royalties as well. The capital gains treatment was made available in the case of coal royalties in part at least to encourage leasing, and therefore production, at a time when the coal industry was facing strong competition from other forms of fuel energy. Today, domestic iron ore production also generally is decreasing. In recent years, for example, iron ore production in the United States has been as follows:

	Thousands of long tons
1950	98, 045
1955	103, 003
1958	67, 709
1959	60, 276
1960	88, 784
1961	71, 329

Source: Department of Interior, Bureau of Mines, Minerals Yearbook.

The capital gains treatment provided by this bill should encourage domestic leasing of iron ore properties to operators, and therefore should improve the position of domestic iron ore production relative to foreign production.

Your committee recognized, however, that iron ore royalties do not represent income from the sale or exchange of capital assets and for that reason has classified income from iron ore royalties as class B

[1] Where the expenditures referred to above plus the adjusted depletion basis of the coal disposed of exceed the amount realized under the contract and are not used to offset other gains, a loss is allowed (if some income is realized under the contract).

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capital gains rather than as class A gains even though held more than 2 years.

(c) *General explanation of provision.*—Your committee's bill provides that, as in the case of the disposal of coal, where iron ore is disposed of after being held for more than 6 months by the owner under a contract in which the owner retains an economic interest in the iron ore, the difference between the amount realized from the sale of the iron ore and certain costs is to be treated as a capital gain. The costs taken into account for this purpose are the cost of the property itself (adjusted downward for any depletion deduction taken) plus expenditures in the taxable year for making and administering the contract and the preservation of the economic interest retained under the contract. However, where these expenditures together with the adjusted basis of the property exceed the amount realized under the contract and are not used to offset other gains from the sale or exchange of "property used in the trade or business," a loss is to be recognized. Thus, the costs and expenses incurred by the taxpayer are to decrease the amount received in determining the amount treated as a capital gain.

Your committee's bill treats these iron ore royalties like coal royalties as "property used in the trade or business." As a result, if the gains from iron ore royalties plus the gains from other "property used in the trade or business" exceed the losses from the same type of property, the gain is to be treated as capital gain. Under your committee's bill, this capital gain both in the case of coal royalties and iron ore royalties is to be classified as a class B capital gain. As a result, royalties from such property held more than 6 months will be eligible only for the 50 percent inclusion without regard to whether or not the property has been held for more than 2 years. In addition, the maximum alternative capital gains rate which is to apply in these cases is 25 percent rather than 21 percent.

In obtaining this capital gains treatment for the iron ore royalty the lessor must forgo any depletion deduction with respect to his property (although his adjusted depletion basis is taken into account in computing his gain). In addition, he must generally forgo any deductions for expenditures attributable to the making and administering of the royalty contract and any expenditures attributable to the preservation of his economic interest in this contract. The primary exception to the denial of the deductions in this case is where these expenses plus the adjusted depletion basis for the iron ore disposed of exceed the royalty payments received and are not offset against other gains. With respect to this excess, a loss is allowed.

This capital gains treatment is available only to lessors and sublessors who are not themselves participants in the production of the iron ore either as coadventurers, partners, or principals. The iron ore for this purpose is considered as being sold on the date the iron ore is mined.

(c)(i) *Effective date.*—The capital gains treatment provided by this provision is to apply to iron ore mined in taxable years beginning after December 31, 1963.

(d) *Revenue effect.*—This provision is expected to result in an annual loss of revenue of $5 million.

23. Capital gains and losses (sec. 219 of the bill and secs. 1201, 1202, 1212, 1222, 1231, 1235, 1240, 402 and 403 of the code)

(*a*) *Present law.*—Under present law, capital gains and losses are divided into two general classifications: short-term capital gains and losses and long-term capital gains and losses. The former are gains and losses on assets held for not more than 6 months and the latter are gains or losses on assets held for longer periods of time.

Gains and losses in each category are first offset against other gains or losses in the same category. Thus, there is determined "net" short-term gains or losses and "net" long-term gains or losses. Next, any net short-term gains are offset by net long-term losses or vice versa.

Net short-term gains in excess of net long-term losses are taxed to individuals or to corporations as ordinary income. In the case of net long-term gains in excess of net short-term losses, however, the tax treatment applicable to individuals and corporations differs somewhat. In the case of individuals, such a gain is included in the taxpayer's ordinary income and then reduced by a 50 percent deduction, or alternatively, the entire gain may be omitted from the taxpayer's ordinary income base and a flat 25 percent tax paid with respect to this gain. In the case of corporations, there is no special 50 percent deduction. Instead, the corporation either includes the entire gain in its ordinary income or alternatively pays a tax of 25 percent on these capital gains.

The tax treatment of capital losses also differs somewhat between individuals and corporations. As previously indicated, any net short-term loss is first offset against any net long-term capital gain and vice versa. If there still remains an excess of capital losses (either short term or long term), these losses may be offset against ordinary income in the case of individuals but only to the extent of $1,000. If any net loss still remains, it may be carried forward for a period of up to 5 years as a short-term capital loss (whether such loss was in reality a long- or short-term loss) and as such in each of the years in succession first offset against net short-term capital gains, then against net long-term capital gains and finally against ordinary income to the extent of $1,000.

In the case of corporations, capital losses as in the case of individuals are first offset against gains in their own category (short term or long term) and then against gains in the other category. However, any remaining loss may not be offset against ordinary income to any extent, but, it may be carried forward as a short-term loss and offset against short-term and long-term capital gains in each of the 5 succeeding taxable years.

The capital gain and loss treatment described above applies in the case of the sale or exchange of capital assets. Capital assets generally are defined by the code as any property held by the taxpayer except—

1. Inventory or property held primarily for sale to customers;
2. Depreciable property;
3. Copyrights, literary, artistic compositions, and similar property held by the creator of the property;
4. Accounts or notes receivable acquired in the ordinary course of trade or business or from the sale of services or inventory; or
5. A governmental obligation issued on a discount basis and payable without interest.

In addition, certain other items are taxed in the same manner as capital gains. The principal category of assets treated in this manner are depreciable assets. Such assets, if the gains exceed the losses, are treated as capital gains; but, if the losses are in excess of the gains, they are treated as ordinary losses. Included with depreciable property for this purpose also are gains or losses from—

1. the sale of timber;
2. coal royalties;
3. livestock held by the taxpayer for draft, breeding, or dairy purposes if held by him for 12 months or more;
4. the sale of an unharvested crop sold in connection with the sale of the land.

Other types of items which are eligible for capital gain treatment are patent royalties received by the creator of the patent, certain lump-sum pension payments, and certain termination payments received by employees with more than 20 years employment. Income arising from the sale of stock acquired under a restricted stock option represents still another form of income accorded capital gains treatment under present law. In addition, this bill (sec. 218) provides capital gain treatment for iron ore royalties.

(*b*) *General reasons for provision.*—Your committee's bill makes three basic changes in the tax treatment outlined above: First, it decreases from 50 percent to 40 percent, in the case of individuals, the proportion of the capital gain included in the tax base where the asset involved has been held more than 2 years, and provides in such cases a maximum tax rate of 21 percent in lieu of 25 percent: second, it limits the more favorable capital gain treatment described above so that this treatment will not be available with respect to transactions where the capital gains treatment under present law is made applicable to certain types of assets which are not capital assets; and third, it provides an indefinite carryover of unused losses in the case of individuals in lieu of the present 5-year limitation.

Your committee has decreased the inclusion factor in the case of capital assets held over 2 years in part to correspond with the rate reduction provided for individuals generally. Probably more important, however, has been your committee's desire to "unlock" capital investments where the investor is willing to undertake new and riskier investments needed by the economy but finds it unprofitable because of the substantial tax liability he incurs at the time of the sale of his present holdings. It is estimated that this unlocking effect will stimulate the realization of capital gains to such an extent that in the first year revenues from this source will increase by $450 million even though a smaller percentage of all capital gains is taken into account for tax purposes. This larger turnover of capital assets should result in increased investments and will be particularly helpful in tapping new sources of risk capital.

Similarly, the indefinite extension of the capital loss carryover is intended to increase the volume of funds available for investment in new and risky enterprises. By giving greater assurance that any capital loss incurred from a venture eventually can be offset against income otherwise taxable, the risk in such ventures is decreased, thereby making such investment relatively more attractive.

Although your committee believed it was desirable to provide added inducements for investments generally, it concluded that this

reasoning would not justify the extension of this more favorable tax treatment to situations under existing law where capital gains treatment is accorded to other than capital assets. In many of these cases, the capital gains treatment was provided not because the transactions were essentially capital transactions but rather because hardships existed under the tax treatment which would otherwise be accorded. As a result, the capital gains treatment in many of these cases was provided as a special tax benefit to overcome some undesirable hardship which would otherwise occur. This does not justify extending to such income the more generous treatment accorded capital assets which your committee believes is desirable to stimulate investment generally.

(c) *General explanation of provisions.*—Your committee's bill makes no change in short-term capital gains and losses. Such gains and losses for both individuals and corporations still are from assets held for not more than 6 months. For corporations, long-term assets will remain as those held for more than 6 months, and will continue to be taxed either by including the entire amount in the corporation's ordinary income tax base or by subjecting such gains to a tax of 25 percent.

In the case of individuals and other taxpayers, however, what are presently classified as long-term capital gains and losses are divided into two groups: The first refers to assets held for more than 6 months but not more than 2 years. This category is known as class B capital gains or losses. In the second category are assets held for more than 2 years. Gains and losses as to these are referred to as class A capital gains or losses.[1]

Class B capital gains will continue to be treated in the same manner as long-term capital gains under existing law. That is, any class B capital gain after having been properly offset by any class A or short-term capital losses is includable in income but a deduction may be taken against such income for 50 percent of this gain. Thus, in effect, 50 percent of these gains are being included in income. The alternative rate of tax, which applies to such gains in those cases where it results in a lower tax than the inclusion of 50 percent of the gains in ordinary income remains at the present flat rate of 25 percent.

Class A capital gains are given more favorable treatment then are long-term capital gains under existing law. Such gains, after being properly offset by class B and short-term capital losses, are includable in ordinary income; but, in this case, a deduction of 60 percent of this gain is allowed against ordinary income. Thus, in effect, only 40 percent of the gain is included in ordinary income. The alternative rate of tax which is applicable in the case of these gains, where it results in a lower tax than the inclusion in ordinary income of 40 percent of such gains, is 21 percent.

The alternative tax under your committee's bill is computed by adding the taxes on the adjusted class A and adjusted class B capital gains after having applied the appropriate tax rate in each case. Thus, the alternative tax computation in this case for both types of these gains is made as one computation and not as separate computations for each class of gain.

Your committee's bill provides specifically the order in which capital losses of any particular category are to be applied in reducing

[1] As is noted subsequently certain types of noncapital assets even though held more than 2 years nevertheless are treated as class B capital gains.

other categories of net capital gain. It provides that net class A losses are to be taken into account first and that such losses are first to reduce net class B capital gain and then to the extent of any remaining loss to reduce any net short-term capital gain. Next, net class B losses are to be taken into account and they are to be applied first against net class A gain and then against any net short-term capital gain. Finally, net short-term capital losses are to be taken into account and they are to be applied first against any net class B capital gain and then against any net class A capital gain. This provides an orderly manner for taking into account various types of losses and gives assurance that they will not be applied in a manner which provides any special benefits.

Previously, it was pointed out that under existing law sales or exchange of depreciable property used in a trade or business [2] when resulting in a net loss were treated as resulting in ordinary gains and losses; but when a net gain resulted, capital gain and loss treatment was provided. This treatment is continued by your committee's bill. Where there is a net gain, these assets will be treated in the same manner as capital assets. That is in the case of an individual gains and losses from those held more than 6 months but not more than 2 years will be treated as class B capital gains and losses; and gains and losses from those held for more than 2 years will be treated as class A capital gains and losses.

(*c*) (*i*) *Capital loss carryover.*—As indicated above, in the case of individuals under present law net capital losses for a year are allowed to offset ordinary income in that year to the extent of $1,000. Then, any loss still remaining is treated as a short-term capital loss (without regard to whether it was in reality short term or long term) and carried over, unless earlier exhausted, successively to each of the 5 succeeding years, being applied in each of these years first against short-term capital gains, then against long-term capital gains and finally against ordinary income to the extent of $1,000. In the case of corporations, also, a 5-year capital loss carryover is provided; but, in this case, no offset is provided against ordinary income.

Your committee's bill retains existing law in the case of corporations. In the case of individuals and other taxpayers however, it removes the 5-year limitation. As a result, if capital losses cannot be absorbed in the first 5 years after the taxable year, under your committee's bill they will continue to be available as offsets against income in subsequent years without any time limitation.

Your committee's bill departs from present law in the case of individuals in one other respect. Losses carried forward instead of always being classified as short-term capital losses for this purpose will be classified as short-term, class B, or class A, depending upon their origin; and when carried over to the year in question they will be treated in the same manner as if they were losses of these types incurred in that year and offset in the same manner as such losses. The removal of the 5-year restriction on the loss carry-forward removes the necessity of separately classifying capital losses which have been carried over to a year from those incurred in such year, since there will be no denial of any offset of losses after the expiration of 5 years.

[2] Also included in this category are recognized gains from the involuntary conversions of property used in the trade or business and of capital assets held for more than 6 months.

(c)(ii) *Gains and losses treated only as class B gains and losses.*—In the cases described below, your committee's bill provides that the present tax treatment of the gains or losses will continue to apply even though the property involved is held for more than 2 years. Thus, gains from the sale of these properties will always be classified as class B capital gains if the properties had been held for more than 6 months. The cases where this class B capital gains treatment will apply where the assets have been held more than 6 months are as apply even where the assets have been held more than 2 years are as follows:

1. Timber cut by the taxpayer who owns the timber or has a contract right to cut it (including what are in effect "Christmas trees" if more than 6 years old) and also timber where the disposal occurs under a contract in which the owner retains an economic interest in the timber. The types of timber contracts referred to here are those which were for the first time accorded capital gains treatment in the Revenue Act of 1943. The sale of timber in other contracts which before that time gave rise to capital gains will be eligible for class A treatment where the timber has been held for more than 2 years. This would be true, for example, in the case of timber sold with land and also timber sold outright without any retained economic interest by the seller of the timber.
2. Coal royalties (not otherwise eligible for capital gains treatment).
3. Iron ore royalties, which by section 218 of this bill are given capital gains treatment.
4. Livestock held by the taxpayer for draft, breeding, or dairy purposes if held by him for more than 12 months.
5. An unharvested crop on land used in the trade or business for more than 6 months where the crop and land are sold at the same time to the same person.
6. The sale of all of the substantial rights to a patent or an interest in a patent held for more than 6 months by the individuals whose efforts created the property. This includes payments which are payable over the period of the use of the patent and also those which are contingent on the productivity, use, or disposition of the patent. This does not, however, prevent anyone from receiving class A capital gains treatment for patents held more than 2 years if apart from section 1235 of the code capital gains treatment is already available to them.
7. Certain employee termination payments. The payments referred to here are amounts an individual receives on the assignment or release of all of his rights to receive, after the termination of his employment, for a period of not less than 5 years, a percentage of future profits or receipts of the employer. Also, in order to qualify for this treatment, the employees involved must have been in this employment for more than 20 years. In addition, the rights to receive these payments after employment must have been included in the employment terms of the individual involved for not less than 12 years and must have been in existence before August 16, 1954, and the amount received for the assignment or release of this amount must be received in 1 taxable year.
8. Lump-sum payments received under qualified pension, profit sharing, or stock bonus plans. These payments, to qualify for capital gains treatment under present law, must be payable within 1 taxable

year to the distributee as a result of his death or other separation from employment.

Under present law, where the lump-sum pension, profit sharing, or stock bonus payments are made in the form of a distribution of the employer's stock, the capital gains treatment at the time of the distribution applies only to the contributions of the employer plus any earnings accrued on the employer's (or the employee's) contribution. No capital gain is considered to be realized at the time of the distribution of the employer's stock, however, with respect to the portion of the distribution representing the unrealized appreciation in the value of this stock. Such appreciation became taxable to the individual only subsequently if he should sell the stock.

Your committee's bill continues this present treatment, providing that the amount taxed as capital gain at the time of the distribution of the stock (namely the employer's contribution plus the earnings on his and the employee's contributions) is to be a class B capital gain without regard to how long the property distributed had been held. Subsequently, if the employee sells the stock, the appreciation in this stock to the extent attributable to the period prior to the time of the distribution to the employee will also be treated as class B capital gain. However, any appreciation in value of the stock attributable to the period of time after the distribution will be eligible for class A capital gains treatment where the stock has been held for more than 2 years. Where the amount realized by the employee upon the sale of the stock is less than his basis for the stock plus the appreciation of the stock before distribution to him, the amount of the capital gain will be only the amount in excess of his basis for the stock, even though this is less than the amount of the unrealized appreciation at the time of the distribution of the stock to him.

(*c*)(*iii*) *Effective date.*—Generally, the capital gains (and losses) provisions in this bill are applicable to taxable years beginning after December 31, 1963. The lump-sum distribution amendment applies to amounts paid to the employees in their taxable years beginning after December 31, 1963. However, the rule concerning appreciation of employer stock before the time of distribution (which is taxable at the time of the sale of the stock by the former employee) applies with respect to securities sold or otherwise disposed of in taxable years beginning after December 31, 1963, without regard to when such securities were distributed.

(*d*) *Revenue effect.*—The decrease from 50 percent to 40 percent of the net capital gains included in the tax base and the lower alternative maximum capital gains rate of 21 percent will eventually result in a loss in revenue. It is estimated that given today's income levels, this loss eventually will amount to $90 million a year. However, because these provisions are expected to "unlock" capital gains in the market now where otherwise the stocks, etc., would not be sold, it is anticipated that for several years this provision will result in a revenue gain rather than a revenue loss. Thus, it is estimated that for the calendar year 1964 increased tax liabilities resulting from this provision will amount to $340 million and in 1965 to $210 million. The provision for an indefinite carryforward of capital losses is expected to decrease liabilities by $30 million a year. Thus the combined effect of these provisions is expected to result in an increase in 1964 of $310 million, another increase in 1965 of $180 million and eventually a reduction of $120 million.

24. Dispositions of depreciable real estate (sec. 220 of the bill and sec. 1250 of the code)

(*a*) *Present law.*—Under present law, taxpayers may take depreciation on real property (other than land) used in a trade or business or held for the production of income. The depreciation methods available are the same as those applying to tangible personal property. They include: (1) Straight-line depreciation; (2) 150 percent declining balance depreciation; (3) double-declining balance depreciation; (4) sum-of-the-years-digits depreciation; and (5) any other consistent method of depreciation which does not during the first two-thirds of the useful life of the property result in greater depreciation than under the double-declining balance method. The 150 percent declining balance method is available with respect to used real property only under certain circumstances. The last three methods of depreciation referred to are available only for property with a useful life of 3 years or more and only if the property was new property in the hands of the taxpayer.

The depreciation is allowed as a deduction against ordinary income. As the depreciation deduction is taken the cost or other basis of the real property is reduced by a like amount. If the property subsequently is sold, any gain realized on the difference between the sales price (adjusted downward for selling expenses) and the adjusted basis of the property is taxed as a capital gain if the total transactions in depreciable property and certain other property (referred to in sec. 1231) result in a gain for the year involved. On the other hand, where the aggregate of these transactions results in a loss, the net loss is an ordinary loss.

(*b*) *General reasons for provisions.*—Since the depreciation deductions are taken against ordinary income while any gain on the sale of the property is treated as a capital gain, there is an opportunity under present law in effect to convert ordinary income into capital gain. This occurs whenever the depreciation deductions allowed reduce the basis of the property faster than the actual decline in its value.

Last year Congress in the Revenue Act of 1962 recognized the existence of this same problem in the case of gains from the disposition of depreciable machinery and other personal property In that act, the Congress provided that any gain realized on the sale of these assets in the future would be ordinary income to the extent of any depreciation deductions taken in 1962 and subsequent years with respect to the property.

In the case of real estate, this problem is magnified by the fact that real estate is usually acquired through debt financing and the depreciation deductions allowed relate not only to the taxpayer's equity investment but to the indebtedness as well. Since the depreciation deductions relate to the indebtedness as well as the equity in the property, this may permit the tax-free amortization of any mortgage on the property. As a result in such cases there is a tax-free cash return of a part of the investment which may in fact enable the taxpayer to show a loss for several years which he may offset against income for tax purposes.

Last year, your committee did not include real property in the recapture provision applicable to depreciable personal property

because it recognized the problem in doing so where there is an appreciable rise in the value of real property attributable to a rise in the general price level over a long period of time. Your committee's bill this year takes this factor into account. It makes sure that the ordinary income treatment is applied upon the sale of the asset only to what may truly be called excess depreciation deductions. It does this first by providing that in no event is there to be a recapture of depreciation as ordinary income where the property is sold at a gain except to the extent the depreciation deductions taken exceed the deduction which would have been allowable had the taxpayer limited his deductions to those available under the straight-line method of depreciation. Secondly, your committee has added a provision which in any event tapers off the proportion of any gain which will be treated as ordinary income so that it disappears gradually over a 10-year holding period for the real estate. As a result, under your committee's bill, no ordinary income will be realized on the sale of real estate held for more than 10 years.

(c) *General explanation of provisions.*—In view of the considerations set forth above, your committee has amended present law to provide that when depreciable real estate is sold after December 31, 1963, in certain cases a proportion of any gain realized upon the sale of the property is to be treated as ordinary income; that is, previous depreciation deductions against ordinary income are to be "recaptured" from the capital gains category.

The bill accomplishes this result by treating as ordinary income a certain percentage of what is called "additional" depreciation or the amount of gain realized on the sale of the property, whichever is smaller.[1] Generally, the "additional" depreciation referred to here is that part of the depreciation deductions which exceeds the depreciation deductions allowable under the straight-line method. The depreciation deductions taken into account, however, are only those taken after December 31, 1963. Thus, they are the excess of any depreciation deductions taken under the double-declining balance method, sum-of-the-years-digits method, or other method of rapid depreciation, over the depreciation which would have been taken under the straight-line method. In the case of property held for 1 year or less, however, the deductions recaptured are to include not only the excess over straight-line depreciation, but rather the entire depreciation deductions taken.

Your committee generally has limited the depreciation recapture to the excess over straight line depreciation because it believes that only to this extent could the depreciation taken appropriately be considered in excess of the decline in the value of the property which occurs over time. If a gain still occurs, it is believed that this is attributable to a rise in price levels generally rather than to an absence of a decline in the value of the property. The portion representing the rise in value is comparable to other forms of gains which quite generally are treated as capital gains. Moreover, your committee believes that when the property is held for an extended period of time, gains realized on the sale or other disposition of the property are more likely to be attributable to price rises generally than to an excess of depreciation

[1] This provision also applies to certain dispositions where there is not a sale or exchange. Therefore, the bill refers not only to the excess of the amount realized over the adjusted basis of the property but also, so that the provision will apply to these dispositions which are not sales or exchanges, it refers to the excess of the fair market value of the property over its adjusted basis.

deductions. For that reason, your committee's bill also tapers off over a 10-year period the proportion of the additional depreciation (or gain where smaller) which is to be treated as ordinary income upon the sale of the property.

This is accomplished by providing that the additional depreciation (or gain if smaller) which otherwise would be treated as ordinary income is to be decreased by 1 percentage point for each full month the property is held in excess of 20 full months. Thus, the amount which will be treated as ordinary income in the case of property held for a full 21 months would be 99 percent (the applicable percentage) of the amount which otherwise would be so treated. This decreases 1 percent for each succeeding month the property is held until the applicable percentage decreases to zero for property held for 10 years or more.

The property which is to be given the type of treatment described above is depreciable real property other than real property which is eligible for the investment credit. Such property is already subject to the recapture rule provided by section 1245 which generally applies to tangible personal property. The types of real property, therefore, which are not subject to this provision are property other than buildings or structural components which are used as an integral part of manufacturing, production, or extraction, or of furnishing transportation, communications, electrical energy, gas, water, or sewage disposal services or represent research or storage facilities used in connection with these activities. Examples of the types of real property which, therefore, are not included under this provision are railroad track and bridges and blast furnaces.

This provision applies only to the additional depreciation allowed or allowable. Consequently, the enactment of this provision is not intended to affect the question of whether all or any part of a claimed deduction for depreciation is in fact allowable. For example, since in the year real property is sold the actual value of the property is known, it has been held that depreciation deductions should not be allowed to the extent they reduce the adjusted basis of the property below the actual amount realized. This provision, in providing for ordinary income treatment for certain additional depreciation, is not intended to affect this holding.

(c)(i) Substantial improvements.—Because the percentage of additional depreciation (or gain, if smaller) decreases after the first 20 months by 1 percent a month, it is necessary to determine when property has been acquired. This presents a special problem where real estate already held is substantially improved. To consider the substantial improvement as being held for the same period as the original investment in the property would mean that where property had been held for 10 years or more there would be no ordinary income arising with respect to substantial improvements, even though these improvements might have been made within the last few years. To prevent avoidance of the ordinary income treatment provided by this provision, your committee's bill defines a "separate improvement" which is treated as a separate element for purposes of determining the amount treated as ordinary income upon the sale or exchange of real property. Appreciation which may be treated as ordinary income is divided up among the separate elements in accordance

with the additional depreciation deductions with respect to each element.[1]

A separate improvement is intended by the bill to be only an improvement which is of a substantial nature. Lesser improvements are treated as if they were a part of the original structure and do not take a new, or separate holding period for purposes of determining the proportion of the additional depreciation (or gain, if smaller) treated as ordinary income. As a result, separate improvements are defined under the bill as arising only where the cost of the improvements in question is greater than the largest of the following three amounts—

1. 25 percent of the adjusted basis of the property;
2. 10 percent of the original cost of the property plus the cost of any improvements made prior to those being considered here less the cost of retired components; or
3. $5,000.

These tests are applied over a 3-year period. Thus, if improvements made in any 3-year period increase the adjusted basis of the property before that period by 25 percent or more or exceed the amount specified under the other tests if larger, then this entire amount will be treated as a separate improvement. The 25-percent adjusted basis test in this case is expected to be the principal test applied; however, the 10-percent test will prevent a relatively moderate improvement in a fully, or almost fully, depreciated building from being classified as a substantial improvement. The $5,000 limitation is intended as a de minimis rule below which no aggregate amount in a 3-year period would be treated as a substantial improvement.

In applying the above test for determining whether an improvement is to be treated as substantial, improvements in any one of the 3 years are to be omitted entirely if they do not amount to at least $2,000, or 1 percent of the original cost of the property plus the cost of any improvements previously made (less the cost of retired components), whichever is the greater. As in the case of the $5,000 limitation, which applies over the 3-year period, these exceptions are designed as a de minimis rule to make it unnecessary to treat as separate improvements relatively minor improvements made in any one of the 3 years which may be involved in the computation in question.

In the future additional depreciation allowed over straight-line depreciation is to be subject to recapture not only in the case of the double-declining balance and other forms of rapid depreciation available only in the case of new property, but also the excess over straight-line depreciation is to be recaptured in the case of depreciation, such as the 150 percent declining balance depreciation which presently is permitted with respect to used real property under certain circumstances.

(c)(*ii*) *Disposition where ordinary income is recognized.*—Ordinary income under your committee's bill is recognized not only in the case of the sale or exchange of real property but also in the case of all other types of dispositions unless a specific exception is provided. Thus, as in the case of the provision enacted last year in connection with tangible personal property, this provision may result in the realization

[1] In addition to the separate improvements, the bill also treats as separate elements units of real property which were placed in service at different times before initial completion of the building.

of ordinary income even though capital gain might not otherwise have been realized at the time of such a disposition. The bill provides seven general categories of exceptions, however, where dispositions are not to result in the recognition of any ordinary income.

The first exception is for gifts. Thus, the making of a gift for this purpose will not be a taxable event. However, the depreciation deductions of the donor in such a case are carried over to the donee. As a result, if the donee subsequently sells the real property, there may be ordinary income recognized by him as a result of depreciation deductions taken by the donor. The donee in such a case, however, will receive the benefit of the holding period of the donor. The effect, therefore, of this is to treat the donor and donee for purposes of this provision as if they were one person, with the result that upon the subsequent sale by the donee of the property, the same amount (if any) will be treated as ordinary income as if the donor held the property throughout the entire period. Similarly, in determining the percentage decrease in total gain to be taken into account as ordinary income, the holding period of both the donor and the donee is taken into account. This, of course, means that a smaller proportion of the gain will be treated as ordinary income than would be true if only the donee's holding period were used for this purpose.

In the case of real property which is given to a charitable organization, although no income is realized by the donor at the time of the gift, the bill provides that the amount of the charitable contribution deduction he may receive is reduced by the amount which would have been treated as ordinary income had the real property been sold at its fair market value (amendment to sec. 170(e)). This conforms with the treatment provided last year by Congress with respect to tangible personal property contributed to a charity.

A second exception to the recognition of ordinary income upon the disposition of real property is provided in the case of transfers at death (except where the sale has occurred before death, in which case the amount is treated as income with respect to a decedent under sec. 691). In this case, however, there is no carryover of the income potential of the depreciation deductions to the decedent's devisee or heir.

A third category of exceptions to the recognition of ordinary income is provided in the case of a series of transactions which generally are tax free and in which the basis of the real property is carried over from the former to the new owner. However, in these transactions where there is any gain recognized because the exchange is accompanied by "boot" (i.e., money or its equivalent) then to the extent of this gain, ordinary income may be recognized or to the extent of the applicable percentage of the additional depreciation deductions if smaller. The tax free transactions referred to relate to those occurring upon the complete liquidation of a subsidiary (sec. 332); in the case of a transfer for stock or securities to a corporation controlled by the transferor (sec. 351); the case of a transfer of property by a corporation which is a party to a reorganization in pursuance of a plan of reorganization solely for stock or securities in another corporation also a party to the reorganization (sec. 361); and in the case of reorganizations in certain receivership and bankruptcy proceedings (secs. 371(a) and 374). Also included in the same category are contributions of real property to a partnership in exchange for an interest in the part-

nership, and distributions by a partnership of real property in partial or complete liquidation of an interest in the partnership (but in this respect, see the special partnership treatment described below). Under your committee's bill, however, there will be a recognition of ordinary income where there is a contribution of depreciable property to a tax exempt organization (other than an exempt farm cooperative) in exchange for stocks or securities in the exempt organization. Recognition of gain in this case, as in the case of tangible personal property in the provision added last year, is provided because a disposition of the property by the exempt organization ordinarily would escape the realization of the ordinary income with respect to these deduct ons.

A fourth category of exceptions is provided in the case of so-called like-kind exchanges of real property used for production or investment and for involuntary conversions. In exchanges of these types, the ordinary income realized is in general limited to any appreciation in value attributable to depreciable real property which is not reinvested, after the exchange or involuntary conversion in other into depreciable real property. Thus, ordinary income will be realized to the extent of the additional depreciation, decreased according to the holding period involved, or by the following amount of appreciation, whichever is the smaller. First, to the extent that the exchange or conversion results in actual gain being recognized, this will be treated as ordinary income under the general rule. Second, this gain will be increased by stock purchased in a corporation even though under the involuntary conversion provision this generally would not result in the realization of gain. This amount is treated as potential ordinary income since any subsequent sale of the stock does not represent the sale of a depreciable asset and, therefore, it would not be possible in this event to recapture the depreciation. Third, to the extent of any remaining appreciation represented by real property, ordinary income is realized to the extent this unrealized appreciation cannot be included in the basis of the newly acquired real property. Under this provision, the newly acquired real property will, upon its sale or other disposition, give rise to the same ordinary income as would the previously held real property (except to the extent that ordinary income was recognized at the time of the conversion). The holding period for purposes of determining the percentage of the additional depreciation which is to be treated as ordinary income is begun anew with respect to the exchange or converted property, but the new holding period applies only to the percentage of the gain which would have been taken into account had the property previously held been sold at the time of the exchange or conversion.

A fifth exception is provided in the case of the exchange or sale or property in obedience to Federal Communications Commission orders or orders of the Securities and Exchange Commission (secs. 1071 and 1081). In these cases, also, the ordinary income includes not only the actual gain recognized but also the appropriate percentage of any depreciation charges unrecovered at the time of the sale or exchange which are not reinvested in other depreciable real property.

A sixth exception is provided in the case of distributions of real property by a partnership to a partner. A distribution of real property by a partnership to a partner, to the extent that the distribution represents the partner's share of unrealized appreciation attributable to this property, is not to result in ordinary income to the

distributee partner at the time of the distribution. However, the unrealized appreciation representing additional depreciatoin taken by the partnership will be carried over to the distributee partner. When he disposes of this real property, the unrealized appreciation represented by these partnerships (or by an earlier transferee where the partnership acquired the property without recognizing gain), additional depreciation deductions will be taken into account in a manner substantially the same as that applying where the taxpayer himself took the depreciation deductions. This rule applies only to the extent a partner is considered as receiving his share of the real property to which is attributable potential ordinary income. An amendment made elsewhere to the code (sec. 751(c)) provides that in other cases the ordinary income element in real property is to be considered as "unrealized receivable." Thus, to the extent of applicable percentage of the additional depreciation deductions taken (or potential gain, if smaller) ordinary income will be recognized in the case of the sale of a partnership interest, in the case of a distribution to a retiring or deceased partner, and in the case of distributions to a partner where he receives either more or less than his proportionate share of real property reflecting this ordinary income.

A seventh exception deals with the case where the property being disposed of by the taxpayer is his principal residence. Under present law (sec. 1034) where the taxpayer sells his principal residence and within a year before or after this sale (18 months after in the case of the construction of a new home) purchases or builds another, then any gain realized on the sale of the first residence is not recognized for tax purposes to the extent the total proceeds from the sale of the first residence are invested in the second. Your committee's bill provides that in cases of this type, to the extent the full proceeds from the sale of the first residence are reinvested into a second, no ordinary income is to be recognized at that time. Moreover, in such a case, the ordinary income potential in the first property is not to be carried over to the second residence. Since depreciation deductions are taken only with respect to business properties or properties held for the production of income the likelihood of such amounts being involved where one personal residence is sold for another is sufficiently rare as to make the possible revenue which would arise from a carryover of such deductions not worth the complications involved.

Similarly, your committee's bill provides no carryover of ordinary income potential with respect to the provision incorporated elsewhere in this bill (sec. 206 of the bill) which provides that no gain is realized by a taxpayer age 65 or over who sells a home which he has used as a personal residence and owned for 5 out of the last 8 years.

As in the case of the provision enacted last year relating to tangible personal property, your committee in this provision found it necessary to recognize ordinary income in cases where capital gain is not recognized under existing law. This was done primarily in those cases where the transferee receives another basis for the property than that of the transferor. This treatment is provided in three types of cases where a distribution is made by a corporation without the payment of a tax at the corporate level on unrealized appreciation in value; namely, where the real property is distributed as a dividend (sec. 311), where the real property is distributed as part of a partial or complete liquidation by a corporation (sec. 336), and where in a plan of

complete liquidation a corporation sells the real property (and perhaps other assets) and within a 12-month period completes the liquidation of the corporation (sec. 337). Similarly, if the real property is first sold by a corporation for installment notes and the gain which would be realized on such sale is delayed because of the installment method of reporting, a distribution of these notes to the shareholder in a liquidation under section 337 (12-month liquidation) results under this bill in the recognition of the same amount of ordinary income of the corporation as would have been realized on a cash sale of these notes. The same rule is applied whenever similar installment notes are distributed by a corporation in a liquidation in which the basis of the real property to the receiving shareholder is determined under section 344(b)(2) (purchase of 80 percent of the stock of one corporation by another corporation followed by immediate liquidation of the corporation acquiring). The other situations where ordinary income may be realized under this provision although capital gain would not otherwise occur, include the case where distribution is made by a partnership and the partner gives up, or acquires, more than his proportionate share of this real property. Other cases include the provision relating to the exchange of like-kind property, involuntary conversions, sales or exchanges to effectuate FCC policy, and exchanges in obedience to orders of the SEC. In all of these cases where the property received in exchange for depreciable real property is not itself depreciable real property, then ordinary income is recognized.

(*c*)(*iii*) *Leasehold improvements.*—Improvements made to property held under a lease by a lessee present a special problem in determining what is the amortization period equivalent to the straight-line depreciation method selected as the norm in the usual case. Present law (sec. 178) in general provides that leasehold renewal periods are to be taken into account in determining amortization or depreciation with respect to any year if the initial lease period remaining is less than 60 percent of the useful life of the building or other improvement, or if less than 75 percent of the cost of the lease is attributable to the remaining portion of the initial lease period, and if it is more probable that the lease will be renewed, extended, or continued than that it will not. Such a test is appropriate when looking forward to amortization deductions in future years. However, it does not represent an adequate norm for the measurement of excess or additional depreciation after the deduction have been taken and the lease is being sold.

As a result, the bill provides that in determining the norm for purposes of specifying additional depreciation which may be treated as ordinary income, periods for which a lease may be renewed, extended, or continued under an option exercisable by the lessee are generally to be taken into account. However, the renewal periods so taken into account are not to extend the amortization period by more than two-thirds of the initial lease period remaining after the improvement was made. Thus, in the case of a 6-year lease with a 6-year renewal period, only 4 additional years are to be taken into account in determining the amortization period of an improvement made at the beginning of the initial lease. Thus, in this case, the amortization payments with respect to the lease would be spread over a 10-year period and payments in excess of such a spreading would be considered additional depreciation adjustments. However, if the useful life of the asset itself in such a case were less than 10 years, then the deprecia-

tion deductions would be spread for this purpose in a straight-line method over the useful life of the asset, and this would be used as the measure in determining additional or excess depreciation adjustments.

(c)(*iv*) *Effective date.*—This provision is to apply with respect to depreciation attributable to periods after December 31, 1963, and to dispositions of property after that date.

(*d*) *Revenue effect.*—Since this provision relates only to depreciation deductions in 1964 and subsequent years, the initial revenue impact of this bill is expected to be small. Thus, in fiscal year 1965, it is expected that this provision will result in a revenue gain of less than $2.5 million. In subsequent years, however, when the provision becomes fully effective, it is anticipated that it will result in a revenue gain of approximately $15 million a year.

25. Income averaging (sec. 221 of the bill and secs. 1301–1305 of the code)

(*a*) *Present law.*—Present law does not provide any generally available income averaging provision for the persons whose income fluctuates widely from year to year. Instead, present law contains six specific averaging provisions dealing with special types of situations: Certain compensation for personal services, income from inventions or artistic work, certain income from back pay, compensation for damages for patent infringements, breach of contract damages, and damages for injuries under the antitrust laws.

In the case of the provision relating to compensation for personal services and that relating to inventions and artistic works, in order to be eligible for this treatment, the employment involved must have covered 36 months or more in the case of the compensation for personal services, and in the case of the work on the inventions or the artistic works must have covered a period of 24 months or more. In addition, eligibility under these same two provisions required that the receipts of the payments involved with respect to the work be heavily concentrated in 1 year. In the case of compensation for personal services, 80 percent or more of the total compensation for the employment must have been received in the taxable year in question. In the case of the invention or artistic work, the amount received in the year in question must not be less than 80 percent of the gross amount received with respect to the invention or artistic work in the taxable year, all prior years and the succeeding 12 months. The back pay provision also has a somewhat similar provision. To be eligible for averaging in the case of back pay, the amount of back pay received in the taxable year must exceed 15 percent of the gross income for that year.

In the case of all of the present averaging devices, the averaging is achieved by providing that the tax involved is not to be greater than if this income were spread back, either ratably over the period to which the income relates, or to the specific years to which the income relates. However, in the case of income from inventions, the spread back for this purpose may not exceed 60 months, and in the case of artistic work it may not exceed 36 months. The other averaging provisions are not limited in this respect. The tax in each case, although imposed as of the current year, is determined by making a recomputation with respect to one or more back years.

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(*b*) *General reasons for provisions.*—A general averaging provision is needed to accord those whose incomes which fluctuate widely from year to year the same treatment accorded those with relatively stable incomes. Because the individual income tax rates are progressive, over a period of years those whose incomes vary widely from year to year pay substantially more in income taxes than others with a comparable amount of total income but spread evenly over the years involved. This occurs because the progressive rates take a much larger proportion of the income in taxes from those whose incomes in some years are relatively high. The absence of any general averaging device has worked particular hardships on professions or types of work where incomes tend to fluctuate. This is true, for example, in the case of authors, professional artists, actors, and athletes as well as farmers, fishermen, attorneys, architects, and others.

The present averaging provisions have proved unsatisfactory, first, because they are limited to a relatively small proportion of the situations where averaging is needed. Thus, while they presumably cover inventors and writers, they do not provide for actors, athletes, and in most cases do not provide for attorneys, architects, and others. Even in the case of inventors and authors, the present provision is inadequate because of the requirement that the income arise over at least a 24-month period and 80 percent or more of the income from the invention or work be concentrated in the current year in question. In practice, many cases involving authors and inventors where averaging is needed do not meet these specific requirements. This was made clear to your committee in testimony from authors and others during its hearings on this bill.

The present averaging provisions also have proved unduly complicated in practice because of the requirement that the prior years incomes and taxes must be recomputed as if the income had actually been received in those prior years.

Income averaging, in your committee's view, should be designed to treat everyone as nearly equally for tax purposes as possible, without regard to how their income is spread over a period of years and without regard to the type of income involved. At the same time, it is necessary to have any income averaging device in a form which is workable, both from the standpoint of the taxpayer and the Internal Revenue Service.

Although your committee's bill generally repeals the averaging devices in present law (secs. 1301–1307), the committee recognizes that cases may arise where a person has entered into long-term contingent employments upon the assumption that the averaging device in present law applicable to compensation from an employment would be available. Since employments in some cases may last for extended periods of time, such as 20 years, the general 5-year averaging device might produce less favorable treatment than the present provision. Your committee concluded that it would be appropriate in the case of these long-term employments, which were already in being before your committee began hearings on this matter, to permit the taxpayers involved to continue the form of averaging available under present law if they elect to forego the general 5-year averaging provided in this bill.

(*c*) *General explanation of provisions.*—In view of the considerations set forth above, your committee's bill deletes all of the averaging pro-

visions in present law referred to previously and substitutes instead an income averaging device available to individual taxpayers generally, substantially without regard to the source of the income. As indicated subsequently, however, in the case of the averaging device for compensation from an employment, your committee's bill in certain cases permits the continuance of the application of this provision.

Under the averaging rule provided by the bill, once the amount of income to be averaged is determined—called averageable income in the bill—and assuming this amount is more than $3,000, the taxpayer is to compute a tentative tax on one-fifth of this amount. The tax on this one-fifth is determined by adding this one-fifth to 1⅓ times the average income received in the prior 4 years, plus the average capital gains income in this same 4-year period. The tax attributable to this one-fifth is then multiplied by 5 to determine the final tax on this income.

Averaging is available only where the "averageable income" exceeds $3,000 because, with the present progressive rate structure with tax brackets usually of $2,000 to $4,000, smaller amounts achieve little if any benefit from averaging. The device of including one-fifth of the averageable income in the tentative tax base, computing the tax attributable to this amount, and then multiplying this result by 5, achieves a result which is substantially similar (except when there are rate changes during the 5 years) to including one-fifth of the income eligible for averaging in the taxable income base of each of the prior 4 years and of the current year. The advantage of making the computation in this manner is that it is not necessary to recompute the tax for each of the 4 prior years in order to obtain this result.

The "averageable income" referred to here is the excess of the taxable income in the current or computation year—with certain adjustments—over 1⅓ times the average base period income. The average base period income is the average of the taxable income in the 4 prior years with certain adjustments specified below.

Averageable income is limited to that which is in excess of 1⅓ times average income in the base period for two basic reasons. First, in any new provision of this type, it is necessary to limit the number of cases to which the new provision will apply to a manageable level from the administrative standpoint. In other words, it was necessary initially, at least, to limit the volume of cases where averaging will be applied. Moreover, it is clear that the greatest need for averaging occurs where the fluctuation in income levels varies widely. An increase of more than one-third from the prior average income was selected to make the new averaging rule available in those cases where it is needed the most.

As indicated above, in computing the income subject to averaging, it is necessary to make some adjustments in both the income of the current, or computation year, and also in the income of the 4 base period years with which the current year's income is compared. The income of the computation year, referred to in the bill as the "adjusted taxable income" is the taxable income for that year decreased by; (1) Any capital gain net income for that year; (2) any income for that year attributable to gifts, bequests, devises, inheritances received during that year or any of the four prior base period years;[1] (3) any

[1] Income attributable to gifts, bequests, devises, or inheritances between a husband and wife are not taken out of the income for the computation year if they file a joint return for the computation year or one of them makes a return in that year as a surviving spouse. Also not taken into account are amounts of less than $3,000 in computation year.

excess of wagering gains in the year over wagering losses; and (4) certain amounts of income to which penalties apply with respect to owner employees who are self-insured for pension plan purposes (sec. 72(m)(5)).

Class A and class B capital gains are excluded from the income subject to averaging in the computation year on the grounds that such income does not require averaging because of the fact that only 50 or 40 percent of the capital gain income is included in the tax base in any event. Moreover, without regard to the averaging provision, such income is subject to a maximum rate of 21 or 25 percent.

Averageable income also excludes income from gifts, devises, or inheritances where the gifts, etc., have been received either in the computation year or in any of the four prior base period years, because such income does not arise from any additional efforts on the part of the taxpayer but merely represents a transfer to the taxpayer of income previously received by someone else. In addition, in the case of the transfer by gift of income producing properties between related parties, there would be some opportunity for manipulation if such income were not excluded from that which can be averaged. Income attributable to such property is excluded under your committee's bill only where it is in excess of $3,000 in the computation year. Also, because it may be difficult to trace specific income to specific gifts, bequests, devises, or inheritances, the bill presumes that such property earns a 6-percent rate of return unless the taxpayer establishes to the satisfaction of the Treasury that some other amount of income is earned with respect to the property.

Net wagering gains are excluded from averageable income to prevent such income from receiving a preferred status. For similar reasons, penalty income of owner-employees in the case of self-insured pension plans is excluded.

It is also necessary to make some adjustments in the base period income with which the adjusted taxable income for the computation year is compared. Two of these adjustments are the same as those made in the computation year. Thus, capital gain net income for the base period year is excluded and also any income from gifts, bequests, devises, or inheritances where such property was initially received by the taxpayer in 1 of the 4 base period years.

A third adjustment made to the average base period income is to add back to such income any income excluded from the taxpayer's base in such year on the grounds that it was earned in a foreign country (the exclusion under sec. 911 of present law) or on the grounds that it was income from sources within a possession of the United States (sec. 931 of present law). The inclusion of such amounts in the base period is necessary so that the taxpayer will not become eligible for averaging merely on the grounds that during the 4-year base period, or a part of this period, he was in a foreign country and not subject to U.S. tax on his earned income. If such amounts are not included in the base period income comparable amounts earned in the United States in the computation year would be eligible for averaging.

(c)(i) *Example.*—For most taxpayers with little or none of the income which gives rise to the special exceptions described above the application of this averaging provision is relatively simple. This can be illustrated by an example of an unmarried taxpayer having an average base period income of $3,000 in the years 1961–64 and an

adjusted taxable income of $44,000 in 1965. The taxpayer in this case is eligible for averaging since his "averagable income" exceeds $3,000. His averagable income in this case can be computed as follows:

1. Adjusted taxable income in computation year	$44, 000
2. 133⅓ percent of average base period income ($3,000×133⅓ percent)	4, 000
3. Averagable income	40, 000

Since the averagable income is in excess of $3,000, the entire amount is subject to averaging.

Computation of tax:

(*a*) 133⅓ percent of average base income ($3,000×133⅓ percent)	4, 000
(*b*) Averagable income included in tentative tax base (⅕ of $40,000)	8, 000
(*c*) Tentative taxable income	12, 000
(*d*) Total tentative tax liability (1965 rates under bill)	2, 830
(*e*) Tax on $4,000 not subject to averaging	690
(*f*) Tax liability on ⅕ of averagable income	2, 140
(*g*) Tax on total averagable income ($2,140×5)	10, 700
(*h*) Total final tax liability (tax on $4,000 not subject to averaging and $40,000 subject to averaging)	11, 390
(*i*) Tax on $44,000 under 1965 rates without averaging	18, 990

(*c*)(*ii*) *Treatment of capital gains and priority of taxing different types of income.*—As previously indicated, net capital gains—any excess of class B or class A gains over capital losses—are excluded from the adjusted taxable income for the computation year in determining how much of this income is to be eligible for averaging and also from the average base period income. Thus, generally, capital gains (other than short-term capital gains) have no effect in determining the income subject to averaging. There is one exception to this general rule, however. If the average capital gain net income in the base period exceeds the capital gain net income in the computation year, then to the extent of this excess the income subject to averaging is reduced. Generally, it was thought that capital gains should be set apart and not taken into account in averaging since they, in effect, have their own specialized form of averaging. However, in those cases where the average capital gains in the base period exceed the capital gains in the computation year, it is believed that averaging should be permitted only when total taxable income of the current year is substantially greater than the average of the base period.

Your committee's bill provides that in determining the tax which is attributable to the income subject to averaging, the first income subject to tax is to be the ordinary income not eligible for averaging. In the example previously presented, this meant that the $4,000 of income not subject to averaging was considered to be the income subject to the first income brackets. The income subject to the next higher income rates is the capital gain net income of the computation year but only to the extent [1] this does not exceed the average base period capital gain net income. Following this is the income subject to averaging, with respect to which one-fifth is included, the tax then computed, and the result multiplied by 5. Any remaining capital gains income in the computation year, in excess of average base period capital gain net income, is treated as coming on top of this income subject to averaging along with income from wagering or gifts, be-

[1] Actually this amount is preceded by any excess of average base period capital gain over capital gains of the computation year in those infrequent cases where such income exists.

quests, devises, or inheritances, which is not eligible for the averaging treatment.[2]

The alternative capital gains tax in such a case is determined by applying the appropriate 21 or 25 percent (or combination of the two rates) to the class A or class B capital gains. This tax then is compared with the tax attributable to the capital gains in the computation explained above. The reason for structuring the tax base in the manner indicated is to give assurance that the income subject to averaging is taxed, as nearly as possible, at the same income level as would be the case had such income been earned ratably over the current year and 4 prior years.

(*c*)(*iii*) *Eligible individuals.*—To be eligible for averaging, one of the principal concerns is that the individual's income must have been subject to tax by the United States throughout the entire base period as well as the computation year. No one is eligible for averaging who was a nonresident alien in any of the 4 base period years or in the computation year. To be eligible for averaging, the individual must be a citizen or resident in the computation year. In addition, even though a citizen in the computation year, the individual must be claiming no exclusion in that year for income earned abroad. He may have claimed such an exclusion with respect to a base period year, but, for purposes of determining his income in the computation year subject to averaging, this income is added back to his base period income.

A second concern of this provision is that the individual be a member of the labor force in both the computation year and in the 4 base period years. It has been necessary, however, to approximate this result in some cases. The general rule provides that the individual and his spouse must have furnished one-half or more of his own support in each of the base period years. However, it was not intended to exclude from the benefits of the averaging provision an individual who, although in the labor force, was unemployed in part or all of the base period years. For that reason, individuals generally are eligible for averaging if they are 25 years old and there have been at least 4 years since the individual attained age 21 when he was not a full-time student. Thus, generally, individuals age 25 or over will be eligible for averaging so long as they have been out of school for at least 4 years since age 21. A second exception is provided for the individual who, although not self-supporting in the 4-year base period, nevertheless, has income in the current year more than half of which is attributable in substantial part to work he has done in two or more of the base period years. This is designed to make sure that those who have performed some work of a substantial nature which occurred over a period of years will be eligible for averaging even though below the 25-year age limit. A third exception is provided for an individual who was not self-supporting in the base period and who makes a joint return with someone else if not more than 25 percent of the total adjusted gross income of the couple in the computation year is attributable to the individual in question. This means that an individual who has been in the labor force and who marries someone who was a dependent of another will not be deprived of averaging, assuming three-quarters or more of the income in the computation year is

[2] The penalty income with respect to owner-managers in connection with receipt of pension-type incom is treated as if the averaging provision did not apply.

attributable to the individual who was in the labor force in the base period. This is designed to assure that a man who marries a woman who was a dependent of her father during part or all of the base period years is not deprived of income averaging as a result of this marriage.

(c)(iv) *Special rule with respect to marital status.*—No problems arise in applying the averaging provision where a husband and wife file a joint return in the computation year and also did so in each of the base period years. However, it is necessary to reconstruct their income where they either file separately (or with other spouses) in the base period years or are filing separately in the computation year. For example, if a married couple files a joint return in the current year but filed separate returns for one or more base period years, their base period income for purposes of averaging in the current year will be their combined base period incomes for their base period years. In addition, the bill provides that an individual's base period income is to be either his actual base period income in each of the base period years or, if higher, 50 percent of the combined base period income of him and his spouse.[1] In determining actual income for purposes of this provision, community property laws are not to be taken into account with reference to income from personal services. Thus, the actual income attributed to an individual will be the income earned by him without regard to whose income it is considered to be under community property law.

(c)(v) *Continuance of present averaging device in certain cases.*—Your committee's bill provides that the averaging device in present law with respect to compensation from an employment is to continue to be available if the taxpayer so elects where he receives or accrues compensation from employment which began before February 6, 1963. If the taxpayer elects this treatment he must forgo for that year the generally available averaging device.

This provision, which on this elective basis is continued for compensation for the employment begun before the specified date, provides in general that the employment must cover a period of 36 months or more and that the gross compensation from the employment received by the individual (or partnership) in the year in question must not be less than 80 percent of the total compensation for such employment. Where these conditions are met, present law provides that the tax is not to be greater than if the compensation had been included in the gross income of the individual ratably over the period of the employment prior to the date of the receipt or accrual.

(c)(vi) *Effective date.*—The amendments made by this provision apply to taxable years beginning after December 31, 1963. This means that averaging will be available for the first time with respect to taxable years beginning in 1964. This will involve base period years as far back as 1960. However, as indicated previously, the averaging device in present law relating to compensation from employment where the employment began prior to February 6, 1963, may continue to be applicable for taxable years beginning after December 31, 1963, at the election of the taxpayer.

(d) *Revenue effect.*—This provision is expected to result in a reduction of $40 million of tax liabilities in the calendar year 1964 and subsequent years.

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[1] If the individual involved was married to another person in one or more of the base period years, his base period income is to be not less than 50 percent of his income in that year combined with the income of whichever spouse had the higher income.

26. Repeal of additional 2-percent tax for corporations filing consolidated returns (sec. 222 of the bill and sec. 1503 of the code)

(*a*) *Present law.*—Under present law a consolidated income tax return may be filed by a group of parent and subsidiary corporations where there is 80 percent control of each level of the chain of corporations, and there is a common parent corporation; 80 percent control, in this case, means 80 percent of the voting power of all classes of stock and at least 80 percent of each class of nonvoting stock. In the consolidated return, intercompany transactions are washed out, and it is possible to offset losses of one corporation against the gains of other members of the group. These intercompany transactions which are washed out also include intercompany dividends. As a result, dividends may be paid from one company in a consolidated group to another of the same group without the second member including in its income 15 percent of this dividend income.

Under present law, where the election to file a consolidated return is made, a special tax is levied equal to 2 percent of the consolidated taxable income of the group.

(*b*) *General reasons for provision.*—Your committee's bill removes the special 2-percent penalty tax on the privilege of filing a consolidated return, in part because the return of commonly controlled corporations as a single economic unit for tax purposes is in accord with the reality of the situation. Moreover, there appears to be no reason why, where a group of commonly controlled corporations are willing to have their operations consolidated for tax purposes, the mere presence of more than one corporate organization in the group should result in any penalty tax. No such penalty, for example, is exacted in the case of other corporate organizations operating through divisions rather than separate corporations.

In addition, the removal of this 2-percent penalty tax should encourage the filing of consolidated returns and serve as a brake on the expansion of the use of multiple surtax exemptions to gain tax advantages.

(*c*) *General explanation of provision.*—In view of the considerations set forth above, your committee's bill repeals the special 2-percent tax on consolidated returns, effective with respect to taxable years beginning after December 31, 1963. This 2-percent tax presently applies to the consolidated taxable income of the affiliated group of includible corporations.

(*d*) *Revenue effect.*—The repeal of the 2-percent tax on consolidated corporate returns is expected to decrease revenues by $50 million a year.

27. Reduction of surtax exemption in case of certain controlled corporations (sec. 223 of the bill and secs. 1561–1563 of the code)

(*a*) *Present law.*—Under present law, corporations are taxed at a 30-percent rate on the first $25,000 of their taxable income and at a 52-percent rate on all income over that amount. This tax rate differential results from the fact that the first $25,000 of income of a corporation is subject to the 30-percent normal tax but is exempt from the 22-percent surtax, while income in excess of $25,000 is subject to both the 30-percent normal tax and the 22-percent surtax. This tax structure was intended to encourage small businesses which operate in corporate form. However, medium and large enterprises

have in some cases taken advantage of the lower rates afforded small business by organizing their corporate structure in multiple corporate form.

As a result, the Internal Revenue Code contains several provisions designed to prevent taxpayers from using the multiple form of corporate organization, to avoid taxes. For example, present law provides (sec. 269) that where an individual or corporation acquires control of a corporation and the principal purpose of the acquisition is the evasion or avoidance of Federal income tax by securing the benefit of a deduction, credit, or other allowance, this deduction, credit, or allowance is not to be allowed. Also, elsewhere (sec. 1551) present law provides that if a corporation transfers part or all of its property (other than money) to another corporation created to acquire the property, or not actively engaged in business at the time of the transfer, and if there is common control of the two corporations, then the transferee corporation is not to be allowed the $25,000 surtax exemption or the $100,000 accumulated earnings credit unless it establishes by the clear preponderance of the evidence that the securing of the exemption or credit is not a major purpose of the transfer. In addition, present law (sec. 482) provides that where two or more corporations are owned or controlled directly or indirectly by the same interest, the Secretary of the Treasury or his delegate may allocate deductions, credits, or allowances between or among these corporations, if he determines that this is necessary to prevent evasion of taxes or clearly to reflect the income of the corporations.

(*b*) *General reasons for provision.*—This bill reduces the tax applicable to the first $25,000 of taxable income from 30 to 22 percent and decreases the tax applicable to income above $25,000 from 52 to 50 percent in 1964 and to 48 percent in subsequent years. One of the effects of this change is to increase the value of a surtax exemption from $5,500 (22 percent tax applicable only above $25,000, multiplied by the first $25,000 of income) per corporation under present law to $6,500 (26 percent tax applicable only above $25,000, multiplied by the first $25,000 of income) per corporation for 1965 and subsequent years.

While your committee recognizes the importance to small business of reducing the tax on the first $25,000 of income from 30 to 22 percent, it also recognizes that this substantial tax reduction should not provide added inducement to existing medium and large corporations to split up into multiple corporations. Therefore, your committee has limited the benefits of the tax reduction in cases where a parent corporation owns or controls one or more other corporations, or where a single individual, trust, or estate owns or controls two or more corporations.

By limiting the benefits of the tax rate reductions in the case of groups of multiple corporations, your committee has been able to grant a substantial tax reduction to small business in reducing the normal tax rate to 22 percent, as was recommended by the President, without granting the same benefits to medium and large enterprises which use, or might choose to use, the multiple corporate form of organization. The method of taxing controlled corporations contained in the bill will, in your committee's opinion, when coupled with repeal of the 2 percent additional tax on consolidated returns, encourage some controlled groups to file consolidated returns, while

leaving groups which do not choose to file consolidated returns in approximately the same relative position they are in under present law.

While your committee recognizes the advantages of use of multiple corporations, your committee believes, as it has in the past, that, where corporations owned and controlled by the same interests engage in different businesses in the same area or conduct the same type business in different geographical locales, there are legitimate business reasons for use of separate corporations and, therefore, the separate corporations should generally be recognized as separate taxpayers, retaining the benefit of use of multiple surtax exemptions. However, your committee does not intend to encourage the formation of these multiple corporations and therefore proposes to apply higher tax rates to corporations which are members of an affiliated group of corporations. Of course, nothing in this bill is intended as changing the application of sections 269, 1551, or 482 if the multiple corporation form of organization is adopted to avoid taxes.

(*c*) *General explanation of provision.*—If a controlled group exists, three basic alternatives are available to corporations which are members of the group:

(1) The corporations in the group may forego the use of multiple surtax exemptions, i.e., they each file separate income tax returns and allocate one $25,000 surtax exemption among the members of the group.

(2) Corporations in the group may elect to pay a penalty tax and file a multiple surtax exemption return. Under this election each member of the group (subject to the tax avoidance provision) may claim a separate $25,000 surtax exemption, but each must also agree to pay an additional tax of 6 percent on the first $25,000 of its taxable income. With the generally applicable rates of 22 percent on the first $25,000 of taxable income and 50 percent or 48 percent on income over $25,000, this means a total tax for such companies of 28 percent on the first $25,000 of income and 50 percent in 1964 and 48 percent in 1965 and subsequent years on income over $25,000.

(3) A controlled group which also qualifies as an "affiliated group" of corporations may, as under present law, file a consolidated income tax return.

This third alternative is similar to the first alternative in that only one $25,000 surtax exemption is available to the corporations filing the consolidated return. However, there are additional benefits in filing a consolidated return arising from the ability to declare and receive dividends between members of the group without tax, and to offset losses of one company against another.

Your committee did not attempt to achieve complete symmetry between the definition of a controlled group of corporations for purposes of foregoing multiple surtax exemptions and the definition of a group eligible to file a consolidated return. Several differences arise. However, many complicated problems are involved in equating the two, and many avoidance possibilities might be created if they were equated. Thus, for example, a foreign corporation doing business in the United States is included in the controlled group definition. However, if the foreign corporation is also doing business abroad and was permitted to join in a consolidated return, it could pass a dividend,

out of its foreign earnings, tax free to the domestic parent, and thus escape all U.S. taxes. Moreover, your committee is not aware of any situations in which the discrepancies in the two definitions would create a hardship. If it develops, however, that the differing definitions create a substantial hardship for certain groups subject to the penalty tax which cannot file consolidated returns, the decision would have to be reconsidered and adjustments made to the extent possible.

(*c*)(*i*) *Test of control.*—In determining whether a controlled group of corporations exists, the bill draws a distinction between a parent-subsidiary controlled group and a brother-sister controlled group. In a parent-subsidiary controlled group one corporation, called a parent corporation, owns at least 80 percent of the total combined voting power of all classes of stock entitled to vote, or at least 80 percent of the total value of all classes of stock, of one or more corporations called subsidiary corporations. The parent-subsidiary controlled group also includes corporations below the first tier subsidiary level which are 80 percent owned by the other corporations in the group. For example, if corporation A owns 80 percent of the stock of corporation B, and corporation B owns 80 percent of the stock of corporation C, corporations A, B, and C constitute a parent-subsidiary controlled group.

A brother-sister controlled group exists where a single individual, trust, or estate owns at least 80 percent of the total combined voting power of all classes of stock entitled to vote, or at least 80 percent of the total value of all classes of stock, of each of two or more corporations.

In determining whether a corporation, or a single individual, trust, or estate, owns 80 percent of the value or voting power of the stock of a corporation, the stock of the corporation is considered not to include nonvoting preferred stock, which more closely approximates a debt obligation than an equity interest, and treasury stock, which, from the standpoint of ownership, constitutes unissued stock. Moreover, certain outstanding stock, although owned by separate persons, could, unless neutralized for purposes of determining control, be used by some owners as a means of divesting themselves of sufficient stock to avoid the application of this section without, as a practical matter, divesting themselves of the benefits of ownership of a corporation. Therefore, in determining whether a parent-subsidiary controlled group exists, stock of a subsidiary corporation owned by (1) individuals who are 5 percent shareholders of the parent corporation, (2) officers of the parent corporation, (3) employees of the subsidiary if the stock is subject to restrictions which favor the parent or subsidiary corporation, and (4) trusts which are part of a plan of deferred compensation for the benefit of the employees of the parent or subsidiary corporation, will not be treated as outstanding stock if the parent corporation owns 50 percent or more of the value or voting power of the stock of the subsidiary. In addition, in determining whether a brother-sister controlled group exists, stock of a corporation owned by (1) a trust forming a part of a stock bonus, pension, or profit-sharing plan for the benefit of the employees of the corporation, and (2) employees of the corporation if the stock is subject to conditions which run in favor of such corporation or the common owner and which substantially restrict or limit the employee's right to dispose of stock will not be treated as outstanding stock if the individual, estate, or trust owns 50

percent or more of the value or voting power of the stock of the corporation.

In determining whether a single individual, trust, or estate owns 80 percent of the value or voting power of the stock of a corporation, such individual, trust, or estate is, in addition to the stock owned directly, considered to own stock by virtue of certain relatively limited attribution rules. The first rule provides that an individual is considered to own stock owned by his spouse. However, your committee recognizes that in many cases a husband and wife may each own and operate their separate businesses. In order to prevent attribution in such cases, which may have the effect of denying separate surtax exemptions to each corporation, an individual is not considered to own stock owned by or for his spouse if (1) the individual does not directly own stock in the corporation in which his spouse owns stock, (2) the individual is not a director or employee of such corporation and does not take part in the management of such corporation, (3) not more than 50 percent of the gross income of the corporation is derived from rents, royalties, dividends, interest, and annuities, and (4) the stock of the corporation owned by the spouse is not at any time during the taxable year subject to conditions which substantially restrict or limit the spouse's right to dispose of such stock if such right runs in favor of the individual or his children who have not attained age 21 years.

The bill also provides limited attribution rules in cases involving other family relationships. Thus, an individual is always considered to own the stock owned by his children who have not attained age 21. However, an individual is considered to own the stock owned by his children who have attained age 21 and grandchildren only if such individual owns, directly or indirectly, more than 50 percent of the value or voting power of the stock in the corporation. Similarly, children who have not attained age 21 are considered to own the stock held by their parents, but children who have attained age 21 and grandchildren are considered to own the stock held by their parents or grandparents, respectively, only if the child or grandchild owns, directly or indirectly, more than 50 percent of the stock of the corporation. There is no attribution between brothers and sisters. Limited attribution rules are also provided in cases involving stock held by trusts, estates, and partnerships. Stock owned by a corporation, directly or indirectly, is considered to be owned proportionately by any shareholder owning a 5 percent or greater interest in the corporation. If an individual, estate, trust, or corporation owns an option to buy stock in a corporation, for purposes of ascertaining a controlled group, such "person" is deemed to own the stock covered by the option.

(*i*)(*ii*) *Method for determining existence of a controlled group of corporations.*—Determination of whether a controlled group of corporations exists is made once each year on December 31 by taking into account the stockownership of each person who owns stock in the corporation for the taxable year including such December 31. Although the determination of the corporations included within a parent-subsidiary controlled group, or a brother-sister controlled group, is made without regard to the type of corporation involved, provision is made to limit the reduction in the surtax exemption (or payment of the additional tax) to those corporations, referred to in the bill as component members, whose income tax is determined in whole or in part by reference

to the normal and surtax rates. Thus, exempt organizations which do not have unrelated business income, and foreign corporations which are subject to a flat rate tax on their income from sources within the United States, are not considered to be component members.

In order to limit reduction of surtax exemptions (or payment of the additional tax) to cases in which the common owner of the controlled group would otherwise derive the principal benefit from the allowance of the exemption, your committee has excepted from the definition of component member those corporations which are members of the controlled group for less than one-half of the days in their taxable year which precede the applicable December 31 determination date.

In addition to corporations which meet the ownership tests described above on the applicable December 31 determination date, the term "component member" also includes a corporation whose stock is not owned by the parent corporation or common owner on such December 31 but was so owned one-half or more of the number of days in the corporation's taxable year which includes the applicable December 31. The inclusion of such "additional members" as component members prevents corporations whose stock is sold before the end of the year from obtaining the benefits of an extra surtax exemption in the year in which they leave the controlled group.

Your committee's attention was also called to the fact that certain manufacturing corporations, in an effort to facilitate the retail distribution of products which they produce, enter into agreements with individuals whereby the manufacturer and the individual each contribute capital to a distributing corporation under a plan by which a portion of the compensation of the individual from the distributing corporation is applied toward the retirement of the stock held by the manufacturer. In most cases, franchised corporations of this type are, by definition, excluded from a controlled group due to the fact that the manufacturer owns less than 80 percent of the value and voting power of the stock of the distributing corporation. However, in some cases the corporate structures of these corporations are arranged in a manner which results in the parent corporation, or common owner, owning more than 80 percent of the vote, but not more than 80 percent of the value, of the stock of the distributing corporation. Your committee believes that it would serve no useful purpose to cause these corporations to reorganize their corporate structures and has, therefore, excluded them from the definition of the term "component member" of a controlled group.

Finally, due to the nature of the business conducted by life insurance companies, and the fact that a life insurance company is not permitted to file a consolidated return other than with another life insurance company, a life insurance company is excluded from the definition of a "component member" of a controlled group unless the controlled group contains two or more life insurance companies, in which case the life insurance corporations are treated as component members with respect to each other since they may then elect to file a consolidated return with each other. A mutual insurance company, other than a life insurance company and other than a fire, flood, or marine insurance company subject to the tax imposed by section 821, which is included in a controlled group is also excluded from the definition of a "component member."

(c) (iii) *Privilege of groups to elect multiple surtax exemptions.*—The bill provides that the component members of a controlled group of corporations may elect to have each component member of the controlled group claim a separate surtax exemption in lieu of having one surtax exemption apportioned among such members. However, if the component members of a controlled group so elect, the income tax on each member is increased by 6 percent on so much of its taxable income which does not exceed $25,000. For example, assume individual A is a common owner of a brother-sister controlled group of corporations consisting of corporations X and Y. Further assume that corporations X and Y each have taxable income of $35,000 and that they elect to have each member claim a separate surtax exemption and pay the additional 6 percent. By taking separate surtax exemptions, each corporation would pay a total tax of $7,000 on the first $25,000 of income (28 percent, consisting of a 22 percent normal tax and a 6 percent additional tax), and a tax of $4,800 on the remaining $10,000 of income (48 percent, consisting of a 22 percent normal tax and a 26 percent surtax), for a total tax on each corporation of $11,800. On the $70,000 combined income of the controlled group this would be a tax of $23,600. Alternatively, if the group did not make the election, the total tax on the controlled group would be $27,100 (22 percent of the first $25,000 of income and 48 percent on the remaining $45,000 of income). Under these circumstances, corporations X and Y presumably would choose separate surtax exemptions with the penalty tax, rather than apportioning a single surtax exemption between the component members of the controlled group.

For the component members of a controlled group to elect to claim multiple surtax exemptions, all component members of the group must join in the election. Such an election must be made within 3 years after the date when the income tax return is required to be filed for the taxable year of the component member of the controlled group whose taxable year ends first on or after the December 31 for which the election applies. An election once made may be terminated by the consent of the members, by the refusal of a new member of the controlled group to consent, by the filing of a consolidated return by any component members of the group, or by the termination of the group. Once an election is terminated, the bill provides that the group may not again elect multiple surtax exemptions until the expiration of 5 years. In the case of reorganizations involving groups of corporations some of which for example, are, and some of which are not, prevented from filing new elections under the 5-year period, the Secretary of the Treasury is required to issue regulations which provide which group is to be treated as the predominant (or successor group) and hence which group's characteristics are to carry over.

(c)(iv) *Disallowance of surtax exemption and accumulated earnings credit.*—The bill makes two basic changes to present section 1551. The first change provides that if a corporation transfers property (other than money) directly *or indirectly* to a corporation which it controls, and such transferee corporation was created for the purpose of acquiring such property, or was not actively engaged in business at the time of such acquisition, the Secretary of the Treasury or his delegate may disallow the $25,000 exemption from surtax, or the $100,000 accumulated earnings credit, unless the transferee corpora-

tion establishes by the clear preponderance of the evidence that the securing of the exemption or credit was not a major purpose of the transfer. As presently interpreted, existing law applies only to direct transfers of property other than money. The bill does not affect the transfer of money to a new corporation if the money is not used to indirectly acquire property from the shareholder making the transfer. Therefore, the amendment does not in any way inhibit the organization of new corporations with money transfers even though the corporation is organized for the purpose of acquiring a surtax exemption or accumulated earnings credit. However, the new corporation may be a component member of a controlled group in which case a single surtax exemption is allocated among the members of the group unless the group elects to file a multiple surtax exemption return.

The second change from present law extends the application of section 1551 to transfers of property (other than money) by an individual to a corporation which he and not more than four other individuals control. For purposes of determining whether the transferor is considered to be in control of the transferee corporation, the individual who makes the transfer, together with no more than four other individuals, must own at least 80 percent of the value or voting power of the stock in two or more corporations, one of which is the transferee corporation, and the same individuals must own more than 50 percent of the value or voting power of the stock in each corporation (only taking into account identical stock holdings) after the transfer. In determining ownership of stock, the constructive ownership rules for determining if a controlled group exists are applicable.

In order to prevent both a disallowance of a surtax exemption to a corporation and the imposition of an additional tax on the income of the corporation if it is a member of a controlled group which elects to pay the additional tax, the bill provides that the additional 6 percent tax applicable to groups making such elections will not be applicable to a corporation denied a surtax exemption under section 1551.

(c)(v) *Effective date.*—The amendment with respect to the limitation of the number of surtax exemptions allowable to component members of a controlled group and authority for component members to elect to file multiple surtax exemption returns is effective with respect to taxable years of corporations ending after December 31, 1963. The amendments made to sections 269 and 1551 are effective with respect to transfers made after June 12, 1963.

(d) *Revenue effect.*—It is expected that this provision will increase revenues by about $35 million in a full year of operation.

V. APPENDIX

THE WHITE HOUSE,
Washington, August 19, 1963.

Hon. WILBUR D. MILLS,
Chairman, Ways and Means Committee,
House of Representatives, Washington, D.C.

DEAR WILBUR: I want to express my appreciation to you and all other members of the House Ways and Means Committee for your long and constructive labors in formulating a new tax bill. The two-step tax reduction and revision program voted by your committee will provide much needed jobs for our economy, increase our rate of economic growth, promote balance in our international payments, and benefit the individual and corporate taxpayer. It is most important now that the bill be enacted this year as rapidly as possible, so that businessmen whose investment and expansion plans are keyed to this program can be certain that both steps will become fully effective by January 1, 1965.

I also want to take this opportunity to restate my intentions concerning the relationship of the tax program to the Federal budget.

First, our long-range goal remains a balanced budget in a balanced full-employment economy. It is clear that this goal cannot be achieved without a substantial tax reduction and the greater national income it will produce.

Second, tax reduction must also, therefore, be accompanied by the exercise of an even tighter rein on Federal expenditures, limiting outlays to only those expenditures which meet strict criteria of national need.

Third, consistent with these policies, as the tax cut becomes fully effective and the economy climbs toward full employment, a substantial part of the increased tax revenues will be applied toward a reduction in the transitional deficits which accompany the initial cut in tax rates.

Fourth, assuming enactment of the tax program incorporated in your committee's bill with a consequent loss of revenue of $5 billion more in fiscal 1965 than in fiscal 1964, I nevertheless expect—in strict accordance with the above policies, and in the absence of any unforeseen slowdown in the economy or any serious international contingency in the next 5 months—to be able to submit next January a budget for fiscal 1965 involving an estimated deficit of less than the $9.2 billion forecast for fiscal 1964 by the Secretary of the Treasury in your executive sessions last week.

Fifth and finally, any increases in the Federal debt resulting from these transitional budget deficits will be kept proportionately lower than the increase in our gross national product, and thus the real burden of the Federal debt will be steadily reduced.

Meanwhile, we are continuing our increased efforts to improve governmental efficiency, promote economy and prune expenditures.

Civilian employment increases are being held below the increases in workload and numbers served, and compare favorably with the employment increases of State and local governments. Civilian expenditures for fiscal 1963 were reduced nearly $2 billion below the estimates made in January of this year. Civilian agency requests for new obligational authority in the fiscal 1964 budget were reduced by some $6 billions in the executive budgetary process; and I have recommended further cuts in that budget since its submission to the Congress. The notable progress made by the Department of Defense in reducing costs and eliminating waste is typical of the Government-wide effort to improve the efficiency and effectiveness of our operations.

Let me stress once again that the surest way to alter the pattern of deficits which has characterized 7 of the last 10 years is to enact at this session an effective tax reduction program. That program can both increase our national income and tax revenues and at the same time create a climate for the more prudent control of expenditures in the Government as a whole.

In the light of these stated policies and considerations, I see no reason for placing any conditions or contingencies on the effectiveness of the second phase of the tax reduction program. On the other hand, any delay or contingent feature would substantially reduce the effectiveness of the legislation in stimulating the economy, reducing unemployment, and increasing incentives. This in turn could lead to decreases in revenues below expectations and greater deficits than those now projected.

I hope that you will find as strong bipartisan support for this tax reduction program on the House floor as you did in the Ways and Means Committee. Its enactment is urgently needed this year.

Sincerely,

JOHN F. KENNEDY.

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TECHNICAL EXPLANATION OF THE BILL

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TECHNICAL EXPLANATION OF THE BILL

SECTION 1. DECLARATION BY CONGRESS

Section 1 of the bill provides that it is the sense of Congress that the tax reduction provided by the bill, through stimulation of the economy, will, after a brief transitional period, raise (rather than lower) revenues and that such revenue increases should first be used to eliminate the deficits in the administrative budgets and then to reduce the public debt. Such section also provides that, to further the objective of obtaining balanced budgets in the near future, Congress by this action recognizes the importance of taking all reasonable means to restrain Government spending and urges the President to declare his accord with this objective.

SECTION 2. SHORT TITLE, ETC.

(*a*) *Short title.*—Subsection (a) of section 2 of the bill provides that the bill may be cited as the "Revenue Act of 1963".

(*b*) *Amendment of 1954 Code.*—Subsection (b) of section 2 of the bill provides that whenever in the bill an amendment or repeal is expressed in terms of an amendment to or repeal of a section or other provision, the reference is considered to be made to a section or other provision of the Internal Revenue Code of 1954.

TITLE I—REDUCTION OF INCOME TAX RATES AND RELATED AMENDMENTS

PART I—INDIVIDUALS

SECTION 111. REDUCTION OF TAX ON INDIVIDUALS

(*a*) *Individuals other than heads of households.*—Subsection (a) of section 111 of the bill amends section 1(a) of the code by decreasing in two steps the present rates of tax on individuals other than heads of households. Paragraph (1) of section 1(a) of the code, as amended by this section of the bill, contains a table setting forth the reduced rates effective for taxable years beginning on or after January 1, 1964, and before January 1, 1965. Paragraph (2) of section 1(a) of the code, as so amended, contains a table setting forth the reduced rates effective for taxable years beginning after December 31, 1964.

(*b*) *Heads of households.*—Subsection (b) of section 111 of the bill amends paragraph (1) of section 1(b) of the code by decreasing in two steps the present rates of tax on heads of households. Subparagraph (A) of section (1)(b)(1) of the code, as amended by this section of the bill, contains a table setting forth the reduced rates effective for taxable years beginning on or after January 1, 1964, and before January 1, 1965. Subparagraph (B) of section (1)(b)(1)

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of the code, as so amended, contains a table setting forth the reduced rates effective for taxable years beginning after December 31, 1964.

SECTION 112. MINIMUM STANDARD DEDUCTION

(*a*) *General rule.*—Subsection (a) of section 112 of the bill amends part IV of subchapter B of chapter 1 of the code (relating to the standard deduction for individuals) by making certain changes in sections 141 and 144. In general these changes will be effective, under part III of title I of the bill, for taxable years beginning after December 31, 1963.

Under existing law, taxpayers electing the standard deduction under section 144 of the code may deduct an amount equal to 10 percent of adjusted gross income or $1,000, whichever is the lesser, except that for a married individual filing a separate return the standard deduction cannot exceed $500.

SECTION 141. STANDARD DEDUCTION

(*a*) *Standard deduction.*—Section 141(a) of the code (as amended by sec. 112(a) of the bill) provides that, except as otherwise provided in section 141, the standard deduction is the larger of the 10-percent standard deduction (defined in sec. 141(b), discussed below) or the minimum standard deduction (defined in sec. 141(c), discussed below). However, the standard deduction (whether it is the 10-percent standard deduction or the minimum standard deduction) may in no event exceed $1,000, or $500 in the case of a separate return by a married individual.

(*b*) *Ten-percent standard deduction.*—Section 141(b) provides that the 10-percent standard deduction is an amount equal to 10 percent of adjusted gross income.

(*c*) *Minimum standard deduction.*—Section 141(c) provides that the minimum standard deduction is the sum of two amounts. Under paragraph (1) of section 141(c) the first amount is determined by multiplying by $100 the number of exemptions allowed the taxpayer as deductions for the taxable year under section 151. Under paragraph (2) of such section the second amount is $200 for a husband and wife filing a joint return of income tax under section 6013, $200 for an unmarried individual, and $100 for a married individual filing a separate return.

(*d*) *Married individuals filing separate returns.*—Section 141(d) provides special rules in the case of married individuals filing separate returns.

Paragraph (1) of section 141(d) provides that notwithstanding section 141(a) the minimum standard deduction does not apply in the case of a married individual filing a separate return if the tax of the other spouse is determined with reference to the 10-percent standard deduction (including the case where the other spouse pays the tax shown in Table IV in sec. 3(a) or Table IV in sec. 3(b) (relating to optional tax if adjusted gross income is less than $5,000)). Thus, even where the minimum standard deduction is larger than the 10-percent standard deduction, the standard deduction of a married individual filing a separate return is the 10-percent standard deduction if his spouse takes the 10-percent standard deduction. In general,

both spouses must take the minimum standard deduction, or neither may take it.

Paragraph (2) of section 141(d) provides that a married individual who files a separate return may elect (under regulations prescribed by the Secretary of the Treasury or his delegate) the minimum standard deduction in lieu of the 10-percent standard deduction, even though the minimum standard deduction of such individual is less than his 10-percent standard deduction, if the minimum standard deduction of his spouse is greater than the spouse's 10-percent standard deduction.

If no election is made by his spouse under paragraph (2), a married individual who is required by the provisions of paragraph (1) to take the 10-percent standard deduction when the minimum standard deduction is larger would pay a higher tax than if the minimum standard deduction applied. However, his spouse could elect the minimum standard deduction although such spouse's 10-percent standard deduction is larger. Generally, such spouse would so elect under paragraph (2) if the total of his tax and his spouse's tax, each determined with regard to the minimum standard deduction, is less than the total of his tax and his spouse's tax, each determined with regard to the 10-percent standard deduction.

SECTION 112. MINIMUM STANDARD DEDUCTION (Continued)

(*b*) *Amendment of section 2.*—Subsection (b) of section 112 of the bill amends section 2(a) of the code (relating to tax in case of joint return or return of surviving spouse).

Under existing law, a return of a surviving spouse, for purposes of sections 2 and 3 of the code, is treated as a joint return of a husband and wife under section 6013. The amendment made by this subsection of the bill extends the treatment of a surviving spouse's return as a joint return to section 141 of the code (relating to standard deduction).

(*c*) *Amendments of section 144.*—Subsection (c) of section 112 of the bill amends section 144 of the code (relating to election of standard deduction). Under the existing section 144, the taxpayer may, after he has filed his return, change his election, under regulations prescribed by the Secretary of the Treasury or his delegate, either to take, or not to take, the standard deduction, or to pay, or not to pay, the tax under section 3 (relating to optional tax if adjusted gross income is less than $5,000). As amended, section 144 of the code allows a taxpayer also to change his election under section 141(d)(2).

Paragraph (1) of section 112(c) amends section 144(b) of the code to permit, under regulations prescribed by the Secretary of the Treasury or his delegate, a change of election with respect to the standard deduction (as defined in sec. 144(c), discussed below) after the filing of the return for such year.

Paragraph (2) of section 112(c) adds a new subsection (c) to section 144 of the code. The new subsection defines the term "change of election with respect to the standard deduction" to mean—

(1) a change of an election to take (or not to take) the standard deduction;

(2) a change of an election to pay (or not to pay) the tax under section 3 (relating to optional tax if adjusted gross income is less than $5,000); or

(3) a change of election under section 141(d)(2) (relating to standard deduction in the case of married individuals filing separate returns).

Thus, a change of election under section 141(d)(2) to have, or not to have, tax determined with regard to the minimum standard deduction is subject to the same rules as a change of election to take, or not to take, the standard deduction or a change of election to pay, or not to pay, the tax under section 3.

(*d*) *Conforming amendments.*—Subsection (d) of section 112 of the bill amends sections 6212(c)(2) and 6504(3) of the code (relating to cross references) to conform to the new language of section 144.

SECTION 113. RELATED AMENDMENTS

(*a*) *Retirement income credit.*—Subsection (a) of section 113 of the bill amends section 37(a) of the code (relating to credit against tax for retirement income) to provide that the rate to be used in computing such credit is 15 percent instead of the rate provided in section 1 of the code for the first $2,000 of taxable income as under existing law.

(*b*) *Tax on nonresident alien individuals.*—Subsection (b) of section 113 of the bill amends section 871(b) of the code (relating to tax on nonresident alien individuals) by changing the $15,400 figure contained therein to $19,000 for a taxable year beginning in 1964, and to $21,200 for taxable years beginning after 1964.

SECTION 114. CROSS REFERENCES TO TAX TABLES, ETC.

Section 114 of the bill contains cross references to the provisions of the bill relating to optional tax if adjusted gross income is less than $5,000 (sec. 301) and income tax collected at source (sec. 302).

Part II—Corporations

SECTION 121. REDUCTION OF TAX ON CORPORATIONS

Subsection (a) of section 121 of the bill amends section 11 of the code (relating to tax on corporations).

Section 11(a) of the code, as amended by this section of the bill, is identical with the existing section 11(a).

Section 11(b) as amended provides that the normal tax for a corporation is 30 percent of the taxable income in the case of a taxable year beginning before January 1, 1964, and is 22 percent in the case of a taxable year beginning after December 31, 1963.

Section 11(c) as amended provides that for a taxable year beginning before January 1, 1964, the surtax for a corporation is equal to 22 percent of the amount by which the taxable income exceeds the surtax exemption; for a taxable year beginning after December 31, 1963, and before January 1, 1965, the surtax is equal to 28 percent of the amount by which the taxable income exceeds the surtax exemption; and for a taxable year beginning after December 31, 1964, the surtax is equal to 26 percent of the amount by which the taxable income exceeds the surtax exemption.

Section 11(d) as amended provides that for purposes of subititle A of the code (relating to income tax) the surtax exemption is $25,000

or the amount determined under section 1561 of the code (relating to surtax exemptions in case of certain controlled corporations), whichever is applicable.

SECTION 122. CURRENT TAX PAYMENTS BY CORPORATIONS

(*a*) *Installment payments of estimated income tax by corporations.*—Subsection (a) of section 122 of the bill amends section 6154 of the code (relating to installment payments of estimated income tax by corporations). Section 6154(a) of the code presently provides that for taxable years ending on or after December 31, 1959, 50 percent of the amount of estimated tax, as defined in section 6016(b) of the code, must be paid. Section 6154(b) of the code presently provides that if the declaration of estimated tax is filed on or before the 15th day of the 9th month of the taxable year, the amount determined under section 6154(a) is to be paid in two equal installments on the 15th day of the 9th and 12th months of the taxable year, and if the declaration is filed after the 15th day of the 9th month, the amount determined under section 6154(a) is to be paid in full on or before the 15th day of the 12th month.

Section 6154(a) of the code, as amended by this section of the bill, combines subsections (a) and (b) of the existing section 6154. The amended section 6154(a) provides that for taxable years beginning in 1964, 52 percent of the amount of estimated tax, as defined in section 6016(b), must be paid. For taxable years beginning in 1965, 1966, 1967, 1968, 1969, and 1970 or a subsequent year, the amount of estimated tax required to be paid for the taxable year is 58 percent, 68 percent, 78 percent, 88 percent, 94 percent, and 100 percent, respectively, of such tax.

Section 6154(a) as amended further provides that—

(1) if the declaration of estimated tax is filed on or before the 15th day of the 4th month of the taxable year, the estimated tax is to be paid in four installments;

(2) if the declaration is filed after the 15th day of the 4th month and not after the 15th day of the 6th month of the taxable year, and is not required by section 6074(a) of the code to be filed on or before the 15th day of such 4th month, the estimated tax is to be paid in three installments;

(3) if the declaration is filed after the 15th day of the 6th month and not after the 15th day of the 9th month of the taxable year, and is not required by section 6074(a) to be filed on or before the 15th day of such 6th month, the estimated tax is to be paid in two installments; and

(4) if the declaration is filed after the 15th day of the 9th month of the taxable year, and is not required by section 6074(a) to be filed on or before the 15th day of such 9th month, the estimated tax is to be paid in one installment.

Paragraphs (1) through (4) of section 6154(a), as amended, provide tables for cases where section 6154(a) requires 4, 3, 2, or 1 installment, respectively. Each table provides, for taxable years beginning in 1964 and subsequent years, the time for payment of the required installments of estimated tax and the percentage of estimated tax required to be paid at such time.

Paragraph (5) of section 6154(a), as amended, provides that if the declaration is filed after the time prescribed in section 6074(a) (determined without regard to any extension of time for filing the declaration under sec. 6081), paragraphs (2), (3), and (4) of section 6154(a) do not apply, and there must be paid at the time of such filing all installments of estimated tax which would have been payable at or before such time if the declaration had been filed within the time prescribed in section 6074(a); and the remaining installments must be paid at the times at which, and in the amounts in which, they would have been payable if the declaration had been so filed. The application of this paragraph is illustrated by the following example: Assume that X corporation, a calendar-year corporation, could reasonably anticipate on January 1, 1964, an estimated tax liability of $20,000 for 1964. Further assume that X did not file its declaration until July 1, 1964. Since X first met the requirements of section 6016 of the code before the first day of the fourth month of the taxable year, it should have filed its declaration on or before April 15, 1964 (in accordance with sec. 6074 of the code, as amended by sec. 112(b) of the bill). Paragraph (1) of section 6154(a), as amended, provides that if the declaration is filed on or before the 15th day of the 4th month of the taxable year, the estimated tax is to be paid in four installments, on the 15th day of the 4th, 6th, 9th, and 12th months of the taxable year. The amounts to be paid on such installment dates are 1, 1, 25, and 25 percent of the estimated tax, respectively. X corporation therefore is required to pay on July 1, 1964, when it files the declaration, the two $200 installments which should have been paid on April 15 and June 15, or a total of $400. X corporation is further required to pay two $5,000 installments, one on September 15, 1964, and one on December 15, 1964.

Amendment of declaration

Section 6154(b) of the code, as amended by this section of the bill, provides that if any amendment of a declaration is filed, the amount of each remaining installment (if any) is the amount which would have been payable if the new estimate had been made when the first estimate for the taxable year was made, increased or decreased (as the case may be) by the amount computed by dividing—

(1) the difference between (A) the amount of estimated tax required to be paid before the date on which the amendment is made, and (B) the amount of estimated tax which would have been required to be paid before such date if the new estimate had been made when the first estimate was made, by

(2) the number of installments remaining to be paid on or after the date on which the amendment is made.

The application of the new section 6154(b) is illustrated by the following example: Assume that Y corporation, a calendar-year corporation, determines that its estimated tax liability for 1964 is $25,000. Further assume that Y properly files its declaration on April 15, 1964, and pays the first two installments of estimated tax on April 15 and June 15 in the amount of $250 each (as required by par. (1) of sec. 6154(a) as amended). On July 1, 1964, Y discovers that its 1964 estimated tax can reasonably be expected to be $50,000. Y should file an amended declaration on or before September 15 showing estimated tax of $50,000, and the installments payable

on September 15 and December 15 should be $12,750 each, computed in the following manner: $50,000×25%=$12,500 (the amount which would have been payable on September 15 and December 15 if the new estimate had been made when the first estimate was made) increased by $250 (the difference between $1,000 (the amount of estimated tax which would have been required to be paid prior to July 1, based on the new estimate) and $500 (the amount of estimated tax required to be paid before the date of the amendment) divided by 2 (the number of installments remaining after the date of the amendment)).

Section 6154(c) (relating to application to short taxable year), and section 6154(d) (relating to installments paid in advance), as amended, are identical with the existing section 6154 (d) and (e).

(*b*) *Time for filing declarations of estimated income tax by corporations.*—Subsection (b) of section 122 of the bill amends section 6074 of the code (relating to time for filing declarations of estimated income tax by corporations).

Section 6074(a) of the code, as amended by this section of the bill, provides that—

(1) if the requirements of section 6016 of the code (relating to declarations of estimated income tax by corporations) are first met before the 1st day of the 4th month of the taxable year, the declaration is to be filed on or before the 15th day of the 4th month of the taxable year;

(2) if the requirements of section 6016 are first met after the last day of the 3d month and before the 1st day of the 6th month of the taxable year, the declaration is to be filed on or before the 15th day of the 6th month of the taxable year;

(3) if the requirements of section 6016 are first met after the last day of the 5th month and before the 1st day of the 9th month of the taxable year, the declaration is to be filed on or before the 15th day of the 9th month of the taxable year; and

(4) if the requirements of section 6016 are first met after the last day of the 8th month and before the 1st day of the 12th month of the taxable year, the declaration is to be filed on or before the 15th day of the 12th month of the taxable year.

The rules in section 6074(a) as amended are presented in tabular form.

Section 6074(b) as amended provides that an amendment of a declaration may be filed in any interval between installment dates prescribed for the taxable year, but only one amendment may be filed in each such interval. The existing section 6074(b) provides that if a declaration is filed before the 15th day of the 12th month of the taxable year, an amendment of such declaration may be filed on or before such day.

Section 6074(c) as amended is identical with the existing section 6074(c).

(*c*) *Failure by corporations to pay estimated income tax.*—Subsection (c) of section 122 of the bill amends the second sentence of section 6655(c)(2) of the code (relating to period of underpayment) to provide that a payment of estimated tax on any installment date is considered a payment of any previous underpayment only to the extent such payment exceeds the amount of the installment determined under section 6655(b)(1) for such installment date. The second sentence of section 6655(c)(2) presently provides that a payment of estimated

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tax on the 15th day of the 12th month is considered a payment of any previous underpayment only to the extent such payment exceeds the amount of the installment determined under section 6655(b)(1) for the 15th day of the 12th month.

Subsection (c) of section 122 of the bill also amends section 6655(d)(3) of the code (relating to exception) to permit (1) annualization of taxable income for the first 3 months for the purpose of determining whether an addition to the tax is to be made for underpayment of the installment required to be paid on or before the 15th day of the 4th month, and (2) annualization of taxable income for the first 3 months or for the first 5 months for the purpose of determining whether an addition to the tax is to be made for underpayment of the installment required to be paid on or before the 15th day of the 6th month.

(*d*) *Technical amendment.*—Subsection (d) of section 122 of the bill makes a technical amendment to section 6016(f) (relating to declarations of estimated income tax by corporations).

SECTION 123. RELATED AMENDMENTS

(*a*) *Tax on mutual insurance companies (other than life, etc.).*—Subsection (a)(1) of section 123 of the bill amends section 821(a) of the code (relating to imposition of tax) to provide that for each taxable year beginning after December 31, 1963, the normal tax on mutual insurance company taxable income is 22 percent of such income, or 44 percent of the amount by which such income exceeds $6,000, whichever is the lesser. Subsection (a)(1) of section 123 further amends section 821(a) to provide that there is imposed on mutual insurance company taxable income a surtax computed as provided in section 11(c) of the code and as though the mutual insurance company taxable income were the taxable income referred to in section 11(c). Thus the surtax rate on mutual insurance company taxable income in excess of $25,000 is 28 percent for a taxable year beginning after December 31, 1963, and before January 1, 1965, and is 26 percent for a taxable year beginning after December 31, 1964.

Subsection (a)(2) of section 123 of the bill amends section 821(c)(1) of the code (relating to alternative tax for certain small companies) to provide that for each taxable year beginning after December 31, 1963, the normal tax on taxable investment income is 22 percent of such income, or 44 percent of the amount by which such income exceeds $3,000, whichever is the lesser. Subsection (a)(2) of section 123 further amends section 821(c)(1) to provide that there is imposed on taxable investment income a surtax computed as provided in section 11(c) of the code and as though the taxable investment income were the taxable income referred to in section 11(c). Thus the surtax rate on taxable investment income in excess of $25,000 is 28 percent for a taxable year beginning after December 31, 1963, and before January 1, 1965, and is 26 percent for a taxable year beginning after December 31, 1964.

(*b*) *Receipt of minimum distributions by domestic corporations.*—Subsection (b) of section 123 of the bill amends section 963(b) of the code (relating to receipt of minimum distributions by domestic corporations) to provide a new minimum distribution table for taxable years beginning in 1964, and a new minimum distribution table for taxable years beginning after December 31, 1964. The application of

the existing minimum distribution table is limited to taxable years beginning in 1963.

(c) *Amendment of section 242.*—Subsection (c) of section 123 of the bill amends section 242(a) of the code (relating to deduction for partially tax-exempt interest) to provide that the deduction allowed by the first sentence of section 242(a) is not allowed for the purpose of any surtax imposed by subtitle A of the code (relating to income taxes).

Part III—Effective Dates

SECTION 131. GENERAL RULE

Section 131 of the bill provides that, except for purposes of section 21 of the code (relating to effect of changes in rates during a taxable year), the amendments made by parts I and II of title I of the bill apply with respect to taxable years beginning after December 31, 1963.

SECTION 132. FISCAL YEAR TAXPAYERS

Section 132 of the bill amends section 21 of the code (relating to effect of changes in rates during a taxable year). Section 21 presently provides (in subsec. (a)) the general rule that if the effective date of the change of a rate of tax falls on a date other than the first day of a taxable year, then tentative taxes are computed by applying the rate for the period before the effective date, and the rate for the period on and after such date, to the taxable income for the entire taxable year. The tax for such taxable year is the sum of that proportion of each tentative tax which the number of days in each period bears to the number of days in the entire taxable year.

Under this section of the bill, subsection (d) of the existing section 21 of the code (relating to a taxable year beginning before January 1, 1954, and ending after December 31, 1953) is replaced with a new subsection (d) (relating to changes made by Revenue Act of 1963).

Paragraph (1) of the new section 21(d) provides certain rules for applying section 21(a) to the taxable year of an individual beginning in 1963 and ending in 1964 or beginning in 1964 and ending in 1965. These rules deal with the effect of part IV of subchapter B of chapter 1 of the code (relating to standard deduction for individuals) and sections 3 and 4 of the code (relating to optional tax if adjusted gross income is less than $5,000 and to rules for optional tax, respectively). Subparagraph (A) of paragraph (1) provides that, in making the computation of tentative tax under section 21(a) using the tax rate for the period on and after January 1, 1964, such rate is applied to the taxable income determined as if part IV of subchapter B (as amended by the bill) applied to taxable years ending after December 31, 1963. Subparagraph (B) of paragraph (1) provides that, in applying section 21(a) to the taxable year of an individual beginning in 1963 and ending in 1964, section 4 of the code (relating to rules for optional tax), as amended by the bill, applies to taxable years ending after December 31, 1963. Paragraph (1) of the new section 21(d) further provides that, in applying section 21(a) to a taxable year of an individual beginning in 1963 and ending in 1964, or beginning in 1964 and ending in 1965, the change in the tax imposed under section 3 of

the code (relating to optional tax if adjusted gross income is less than $5,000) is treated as a change in a rate of tax.

The application of paragraph (1) of the new section 21(d) is illustrated by the following examples:

Example (1).—Assume that A and his wife have four children and have a taxable year beginning July 1, 1963, and ending June 30, 1964. Further assume that their adjusted gross income for the taxable year is $7,000 and that they file a joint return.

Their tentative tax computed by using the rate for the period before the effective date of the change in rate is determined with respect to taxable income computed as follows:

$7, 000 adjusted gross income
−3, 600 personal exemptions
−700 standard deduction (10 percent of adjusted gross income)

$2, 700 taxable income

Their tentative tax computed by using the rate for the period on and after the effective date of the change in rate is determined with respect to taxable income computed as follows:

$7, 000 adjusted gross income
−3, 600 personal exemptions
−800 minimum standard deduction

$2, 600 taxable income

Example (2).—Assume that B and his wife have three children and have adjusted gross income of $4,000, and elect to pay the tax imposed by section 3 of the code (relating to optional tax). Further assume that their taxable year begins July 1, 1964, and ends June 30, 1965, and that they file a joint return. Their tentative tax computation with respect to the rate for the period before the effective date of the change in rate is made by using the tax table applicable to the earlier of the two calendar years in which their fiscal year falls. Thus, their tentative tax for such period (using Table III of subsec. (a) of sec. 3) is $52. Their tentative tax computation with respect to the rate for the period after the effective date of the change of rate is made by using the tax table applicable to the later of the two calendar years in which their fiscal year falls. Thus, their tentative tax for such period (using Table III of subsec. (b) of sec. 3) is $46. Their tax for the taxable year is the sum of $\frac{184}{365} \times \$52$ ($25.76) and $\frac{181}{365} \times \$46$ ($23.53), which equals $49.29.

Paragraph (2) of the new section 21(d) provides certain rules for applying section 21(a) for the purpose of computing the tax liability of a corporation which is subject to the provisions of part II of subchapter B of chapter 6 of the code (relating to certain controlled corporations), as added by section 223(a) of the bill, for a taxable year beginning in 1963 and ending in 1964. Paragraph (2) provides that if—

(A) the surtax exemption (as defined in sec. 11(d) of the code, as amended by sec. 121 of the bill) of such corporation for such taxable year is less than $25,000 by reason of the application of

section 1561 of the code (relating to surtax exemptions in case of certain controlled corporations), as added by section 223(a) of the bill, or

(B) an additional tax is imposed under section 1562(b) of the code (as added by sec. 223(a) of the bill) on the taxable income of such corporation for such taxable year,

then the change in the surtax exemption or the imposition of such additional tax is treated as a change in rate of tax taking effect on January 1, 1964. The application of paragraph (2) of section 21(d) is illustrated by the following examples:

Example (1).—The surtax exemption of corporation X, which files its income tax returns on the basis of a fiscal year ending March 31, is, for its taxable year ending March 31, 1964, less than $25,000 by reason of the application of section 1561 of the code (as added by sec. 223(a) of the bill). The taxable income of corporation X is $100,000 and the amount of the surtax exemption determined under section 1561 for such taxable year is $5,000. Corporation X's income tax liability for the taxable year ending March 31, 1964, is computed under section 21 as follows:

First tentative tax

Taxable income	$100, 000
Normal tax on $100,000 (using 1963 rates), 30 percent of $100,000	30, 000
Surtax on $75,000 (using 1963 rates and a $25,000 surtax exemption), 22 percent of $75,000	16, 500
Total tentative tax at rates and surtax exemption effective before Jan. 1, 1964	$46, 500

Second tentative tax

Taxable income	$100, 000
Normal tax on $100,000 (using 1964 rates), 22 percent of $100,000	22, 000
Surtax on $95,000 (using 1964 rates and a $5,000 surtax exemption), 28 percent of $95,000	26, 600
Total tentative tax at rates and surtax exemption effective after Jan. 1, 1964	$48, 600

The tentative taxes are apportioned as follows:

275/366 of $46,500 (the first tentative tax)	$34, 925
91/366 of $48,600 (the second tentative tax)	12, 103
Total tax for the taxable year	$47, 028

Example (2).—Corporation Z, which files its income tax returns on the basis of a fiscal year ending June 30, is, for its taxable year ending June 30, 1964, subject to the additional tax imposed by section 1562(b) of the code. The taxable income of corporation Z is $100,000. Corporation Z's income tax liability for the taxable year ending June 30, 1964, is computed under section 21 as follows:

First tentative tax

Taxable income	$100, 000
Normal tax on $100,000 (using 1963 rates), 30 percent of $100,000	30, 000
Surtax on $75,000 (using 1963 rates and a $25,000 surtax exemption), 22 percent of $75,000	16, 500
Total tentative tax at rates and surtax exemption effective before Jan. 1, 1964	$46, 500

Second tentative tax

Taxable income	$100,000
Normal tax on $100,000 (using 1964 rates), 22 percent of $100,000	22,000
Surtax on $75,000 (using 1964 rates and a $25,000 surtax exemption), 28 percent of $75,000	21,000
Additional tax under sec. 1562(b), 6 percent of 1st $25,000 of taxable income	1,500
Total tentative tax at rates effective after Jan. 1, 1964	$44,500

The tentative taxes are apportioned as follows:

184/366 of $46,500 (the first tentative tax)	$23,368
182/366 of $44,500 (the second tentative tax)	22,204
Total tax for the taxable year	$45,572

TITLE II—STRUCTURAL CHANGES

SECTION 201. DIVIDENDS RECEIVED BY INDIVIDUALS

In general, section 201 of the bill amends section 34 of the code to reduce the credit for dividends received by individuals from 4 to 2 percent for dividends received in the calendar year 1964, and repeals section 34 for dividends received thereafter. Section 201 of the bill also amends section 116 of the code to increase the partial exclusion of dividends received by individuals from $50 to $100 for taxable years beginning after December 31, 1963.

(*a*) *Reduction of 4 percent credit to 2 percent credit for calendar year 1964.*—Subsection (a) of section 201 of the bill amends section 34 of the code (relating to credit for dividends received by individuals). Under existing law, section 34(a) of the code (subject to the provisions of subsecs. (c), (d), and (e) of sec. 34) allows an individual, as a credit against his tax, an amount equal to 4 percent of the dividends received from domestic corporations and included in gross income for the taxable year. Section 34(b) provides, however, that such credit cannot exceed the lesser of the tax itself (reduced by the foreign tax credit allowable under sec. 33) or 4 percent of taxable income.

General rule

Paragraph (1) of section 34(a) of the code, as amended by subsection (a)(1) of section 201 of the bill, provides that the existing 4-percent credit will be allowed with respect to dividends received before January 1, 1964. Paragraph (2) of section 34(a) as so amended provides that a 2-percent credit will be allowed with respect to dividends received during the calendar year 1964. The credit in all cases is determined with reference to the date on which the dividends are received, regardless of the taxable year of the individual receiving them.

Limitations

Section 34(b) of the code limits the credit allowed an individual to the lesser of the amounts referred to in paragraphs (1) and (2) of such section. The existing paragraph (1) (which limits the credit by reference to the amount of tax imposed for the taxable year) is retained without change, but paragraph (2) (which limits the credit by reference to a percentage of taxable income for the taxable year) is amended. Subparagraph (A) of paragraph (2) as amended provides that the percentage limitation is 2 percent of taxable income in the case of a taxable year beginning after December 31, 1963; and sub-

paragraph (B) of paragraph (2) as amended provides that such limitation is 4 percent of taxable income for taxable years beginning before January 1, 1964.

(*b*) *Repeal of credit for dividends received by individuals.*—Subsection (b) of section 201 of the bill repeals section 34 of the code, effective with respect to dividends received after December 31, 1964.

(*c*) *Doubling of amount of partial exclusion from gross income of dividends received by individuals.*—Subsection (c) of section 201 of the bill amends section 116 of the code (relating to partial exclusion from gross income of dividends received by individuals). Under existing law, section 116(a) allows a taxpayer to exclude from gross income the first $50 of dividends received from domestic corporations in a taxable year. In the case of a joint return of a husband and wife, each spouse is entitled to the exclusion (in an amount not in excess of $50) with respect to the dividends received by such spouse.

Section 116(a) of the code, as amended by this section of the bill, provides for the increase of this exclusion to $100 for each individual, and retains the provision of existing law that such exclusion applies to the dividends first received in the taxable year. Thus, in the case of a joint return of a husband and wife, each spouse is entitled to the exclusion (in an amount not in excess of $100) with respect to the dividends received by such spouse. This provision is effective (under subsec. (e) of sec. 201 of the bill) with respect to taxable years beginning after December 31, 1963.

(*d*) *Conforming amendments.*—Subsection (d) of section 201 of the bill amends the table of sections for subpart A of part IV of subchapter A of chapter 1 of the code by striking out the reference to section 34, and amends sections 35, 37, 46, 584, 702, 854, 857, 871, 1375, and 6014 of the code by striking out any reference to section 34 appearing therein.

In addition, paragraph (6)(A) of subsection (d) amends section 642(a) of the code by striking out paragraph (3), which provides the rule that, for purposes of determining the time of receipt of dividends under sections 34 and 116, dividends received by an estate or trust which are properly allocable to a beneficiary under section 652 or 662 shall be deemed to have been received by the beneficiary ratably on the same dates that the dividends were received by the estate or trust. However, the deleted rule remains applicable for purposes of determining the time of receipt of dividends under section 116; paragraph (6)(C) of subsection (d) adds the applicable portion of the deleted rule as a new paragraph (3) in section 116(a), and paragraph (6)(B) adds to section 642(i) a cross-reference to this rule.

(*e*) *Effective dates.*—Subsection (e) of section 201 of the bill provides that the amendments made by subsection (a) apply with respect to taxable years ending after December 31, 1963; subsection (b) applies with respect to taxable years ending after December 31, 1964; the amendment made by subsection (c) apply with respect to taxable years beginning after December 31, 1963; and the amendments made by subsection (d) apply with respect to dividends received after December 31, 1964, in taxable years ending after such date. Thus the special rule of section 642(a)(3) of the code remains effective for purposes of section 34 for dividends received by an estate or trust before January 1, 1965.

SECTION 202. REPEAL OF REQUIREMENT THAT BASIS OF SECTION 38 PROPERTY BE REDUCED BY 7 PERCENT; OTHER PROVISIONS RELATING TO INVESTMENT CREDIT

(a) *Repeal of requirement that basis be reduced.*—Subsection (a) of section 202 of the bill repeals section 48(g) of the code, which relates to adjustments to basis of section 38 property (that is, property with respect to which an investment credit is allowable), with respect to such property placed in service after June 30, 1963. In the case of property placed in service before July 1, 1963, subsection (a) of section 202 of the bill repeals section 48(g) with respect to taxable years beginning after June 30, 1963, and provides for an increase in basis as of the first day of the taxpayer's first taxable year which begins after June 30, 1963. Subsection (a) of section 202 also makes certain related amendments to the code.

Repeal of reduction in basis under section 48(g)(1)

Paragraph (1) of section 202(a) of the bill repeals paragraph (1) of section 48(g) of the code. (See below for discussion of repeal of paragraph (2) of section 48(g).) Under paragraph (1) of section 48(g), the basis of any section 38 property is reduced by an amount equal to 7 percent of the qualified investment (as determined under section 46(c)) with respect to such property. This reduction in basis is taken into account for purposes of subtitle A of the code, relating to income tax, except for purposes of computing, or recomputing, the investment credit. Thus, the reduction in basis is taken into account for purposes of computing depreciation deductions and for purposes of computing gain or loss on the sale or other disposition of the property.

This repeal is effective (under paragraph (4) of section 202(a) of the bill), in the case of section 38 property placed in service after June 30, 1963, with respect to taxable years ending after June 30, 1963; and in the case of property placed in service before July 1, 1963, with respect to taxable years beginning after June 30, 1963. Thus, a calendar-year taxpayer must reduce the basis of any section 38 property placed in service before July 1, 1963, but is not required to reduce the basis of any section 38 property placed in service after June 30, 1963. No reduction in basis is to be made in the case of section 38 property the construction, reconstruction, or erection of which is completed, or which is acquired, before July 1, 1963, but which is placed in service after June 30, 1963.

Repeal of increase in basis under section 48(g)(2)

Paragraph (1) of section 202(a) of the bill also repeals paragraph (2) of section 48(g) of the code. Under paragraph (2) of section 48 (g), if the tax under chapter 1 of the code is increased for any taxable year under paragraph (1) or (2) of section 47(a) of the code (relating to certain dispositions, etc., of section 38 property) or an adjustment in carrybacks or carryovers is made under paragraph (3) of such section, the basis of the property described in such paragraph (1) or (2) of section 47(a) is increased by an amount equal to the portion of such increase in tax, or the portion of such adjustment to carrybacks or carryovers, attributable to such property. The increase in basis is

made immediately before the event which causes paragraph (1) or (2) of section 47(a) to apply. Thus, the increase in basis is taken into account for purposes of determining gain or loss on a disposition of the property.

This repeal is effective (under paragraph (4) of section 202(a) of the bill), in the case of section 38 property placed in service after June 30, 1963, with respect to taxable years ending after June 30, 1963; and in the case of property placed in service before July 1, 1963, with respect to taxable years beginning after June 30, 1963. Thus if, in December 1963, section 47(a) (1) or (2) applies to increase the tax of a calendar year taxpayer under chapter 1 of the code with respect to property placed in service in 1962, the basis of such property is increased under section 48(g)(2) by the amount of such increase in tax.

Increase in basis of property on account of prior reduction

Paragraph (2)(A) of section 202(a) of the bill provides, in general, that the basis of any section 38 property (as defined in section 48(a) of the code) placed in service before July 1, 1963, is to be increased, under regulations prescribed by the Secretary of the Treasury or his delegate, by an amount equal to 7 percent of the qualified investment with respect to such property. In determining the amount of such increase in basis, any prior increase in basis with respect to the property under section 48(g)(2) (in taxable years beginning before July 1, 1963) is to be taken into account. Thus, the amount of the increase in basis under paragraph (2)(A) of section 202(a) of the bill is equal to the amount of the reduction in basis under section 48(g)(1) less any increase in basis under section 48(g)(2) with respect to such property. The basis of any section 38 property is not increased under paragraph (2)(A) of section 202(a) of the bill if the taxpayer dies in a taxable year beginning before July 1, 1963.

The increase in basis provided by paragraph (2)(A) of section 202(a) of the bill is to be made, under paragraph (2)(C) of section 202(a), as of the first day of the first taxable year of the taxpayer which begins after June 30, 1963. Generally, such increase in basis is to be taken into account by the person whose basis of the property was reduced under section 48(g)(1). Thus, in the case of partnership section 38 property, the increase in basis is to be taken into account by the partnership as of the first day of its first taxable year which begins after June 30, 1963. If a transaction to which section 381(a) of the code applies or a mere change in the form of conducting a trade or business (within the meaning of section 47(b) of the code) occurs before the increase in basis has been taken into account by the transferor, the increase in basis is taken into account by the transferee. For example, if calendar-year individual A, who placed section 38 property in service before July 1, 1963, transfers the section 38 property to calendar-year corporation X on September 1, 1963, in a transaction to which section 47(a) does not apply because such transaction constitutes a mere change in the form of conducting the trade or business, the increase in basis is to be taken into account by corporation X as of January 1, 1964.

The increase in basis is to be taken into account for purposes of computing depreciation deductions for the taxpayer's first taxable year which begins after June 30, 1963, and for all subsequent periods,

and for purposes of computing gain or loss on the sale or other disposition of the property.

The provisions of paragraph (2)(A) of section 202(a) of the bill are illustrated by the following example:

Example.—X corporation, which makes its returns on the basis of the calendar year, acquires and places in service on January 1, 1962, an item of new section 38 property with a basis of $10,000 and an estimated useful life of 10 years. For the taxable year 1962, X is allowed a credit of $700 (7 percent of $10,000). Under section 48(g)(1) of the code, the basis of the property is reduced by $700. Under paragraph (2)(A) of section 202(a) of the bill, the basis of the property is increased on January 1, 1964, by $700 (7 percent of $10,000, the qualified investment). However, if such property had been sold by X on December 1, 1963, on such date the basis of such property is increased under section 48(g)(2) by $700, and there would be no further increase on January 1, 1964. If X was a partnership and if a partner had disposed of his partnership interest on December 1, 1963, and on such date the basis of such property had been increased under section 48(g)(2) by $500, the basis of the property would be increased on January 1, 1964, by only $200 ($700 minus $500). If X was an individual who died on December 1, 1963, there would be no increase under section 202(a)(2)(A) of the bill in the basis of such property.

Increase in rental deductions

Paragraph (2)(B) of section 202(a) of the bill provides that if, with respect to any section 38 property placed in service before July 1, 1963, a lessor made the election (provided by sec. 48(d) of the code) to treat the lessee as having purchased such property for purposes of the investment credit, the basis of such property is not to be increased under paragraph (2)(A) of section 202(a) of the bill. However, under regulations prescribed by the Secretary of the Treasury or his delegate, the deductions otherwise allowable under section 162 of the code to the lessee with respect to such property for amounts paid to the lessor under the lease (hereinafter referred to as rental deductions) are to be adjusted in a manner consistent with paragraph (2)(A). The amount of the increase in rental deductions with respect to a leased property placed in service before July 1, 1963, may not exceed the sum of the actual decreases made (under the last sentence of sec. 48(d)) in the rental deductions with respect to such property. In determining the amount of the increase in such rental deductions, any prior increase in such deductions under the last sentence of section 48(d) because of the application of section 47(a) (in taxable years beginning before July 1, 1963) is to be taken into account. The rental deductions with respect to any section 38 property are not to be increased under paragraph (2)(B) of section 202(a) of the bill if the lessee dies in a taxable year beginning before July 1, 1963.

The amount of the increase in rental deductions with respect to a leased property is to be taken into account, commencing with the first taxable year beginning after June 30, 1963, over the remaining portion of the useful life used in making the decreases in rental deductions with respect to such property. Generally, if the lessee terminates the lease during this period, the portion of the increase which has not yet been taken into account is allowed as a deduction in the taxable year in which such termination occurs. If the lessee

actually purchases the leased property during this period, the portion of the increase which has not yet been taken into account is added to the basis of the property at the date of purchase.

If a lessor of property makes the election under section 48(d) to treat the lessee as having purchased section 38 property for purposes of the investment credit and if such lessee in a taxable year beginning before July 1, 1963, actually purchases such property, the basis of such property is increased by 7 percent of the qualified investment with respect to such property (in a manner consistent with par. (2)(A) of sec. 202(a) of the bill) as of the first day of the first taxable year beginning after June 30, 1963.

The provisions of paragraph (2)(B) of section 202(a) of the bill are illustrated by the following example:

Example.—X corporation constructs a machine after December 31, 1961, and on February 1, 1962, leases the machine to Y, a calendar-year taxpayer, who places it in service. The fair market value of the machine on the date on which possession is transferred to Y is $25,200 and the machine has an estimated useful life to X of 12 years. X elects to treat Y as the purchaser of the property for purposes of the investment credit. For purposes of computing qualified investment under section 46(c) of the code, the basis of the property to Y is $25,200 and Y's credit earned for 1962 with respect to such machine is $1,764 (7 percent of $25,200). Y's rental deductions with respect to such machine are decreased by $12.25 each month ($1,764 divided by 144 months). Under paragraph (2)(B) of section 202(a) of the bill, Y's rental deductions are increased by $281.75 ($12.25 multiplied by 23 months). Such increase is taken into account over the remaining 121 months of the useful life of the machine commencing with the taxable year 1964. If Y had actually purchased the machine from X on January 1, 1963, and had reduced the basis of the machine on such date by $1,629.25 ($1,764 minus $134.75), the basis of such machine in Y's hands would be increased, on January 1, 1964, by $1,764 (7 percent of the qualified investment).

Certain leased property

Paragraph (3)(A) of section 202(a) of the bill repeals the last sentence of section 48(d) of the code. Under the last sentence of section 48(d), if a lessor makes an election to treat the lessee of section 38 property as having acquired such property for purposes of the investment credit, section 48(g) (relating to adjustments to basis) does not apply with respect to such property and the deductions otherwise allowable to the lessee under section 162 of the code for amounts paid to the lessor under the lease must be adjusted in a manner consistent with the provisions of section 48(g).

This repeal is effective (under par. (4) of sec. 202(a) of the bill), in the case of section 38 property placed in service after June 30, 1963, with respect to taxable years ending after June 30, 1963; and in the case of property placed in service before July 1, 1963, with respect to taxable years beginning after June 30, 1963. Thus, if lessor X elects to treat calendar year lessee Y, who placed section 38 property in service in July 1962, as the purchaser of the property for purposes of the investment credit, Y reduces his deductions for rental payments under section 162 of the code for his 1962 and 1963 taxable years, but does not reduce his rental deductions for any subsequent taxable

year. If in December 1963 section 47(a) (1) or (2) of the code applies to increase Y's tax with respect to such property, Y's rental deductions with respect thereto are adjusted, under the last sentence of section 48(d), in a manner consistent with section 48(g)(2). However, if Y had placed the property in service in July 1963, Y would not reduce or otherwise adjust his deductions for rental payments for any taxable year.

Deduction for certain unused investment credit

Paragraph (3)(B) of section 202(a) of the bill repeals section 181 of the code. Under section 181, if the amount of the credit earned for any taxable year exceeds the limitation provided by section 46(a)(2) (relating to limitation based on amount of tax) for such year and if any portion of such excess is not allowed as a credit after the application of the 3-year carryback and the 5-year carryover provisions, then the portion of such excess not so allowed as a credit in any of such taxable years is allowed to the taxpayer as a deduction in the sixth taxable year following the taxable year in which the credit was earned. Section 181 further provides that if a taxpayer dies or ceases to exist prior to such sixth taxable year, such taxpayer is allowed as a deduction, for the taxable year of such death or cessation, an amount equal to the proper portion of such excess.

This repeal is effective (under par. (4) of sec. 202(a) of the bill), in the case of section 38 property placed in service after June 30, 1963, with respect to taxable years ending after June 30, 1963; and in the case of property placed in service before July 1, 1963, with respect to taxable years beginning after June 30, 1963.

Adjustments to basis under section 1016

Paragraph (3)(C) of section 202(a) of the bill makes a technical amendment to section 1016(a)(19) of the code (relating to adjustments to basis).

Clerical amendment

Paragraph (3)(D) of section 202(a) of the bill amends the table of sections for part VI of subchapter B of chapter 1 of the code.

Effective date

Paragraph (4) of section 202(a) of the bill provides effective dates for the amendments made by paragraphs (1) and (3) of section 202(a). Paragraph (4)(A) provides that if the property involved is placed in service after June 30, 1963, then the amendments made by paragraphs (1) and (3) apply with respect to taxable years ending after June 30, 1963. Paragraph (4)(B) provides that if the property is placed in service before July 1, 1963, then the amendments made by paragraphs (1) and (3) apply with respect to taxable years beginning after June 30, 1963.

(*b*) *Basis of certain leased property to lessee.*—Subsection (b) of section 202 of the bill amends paragraphs (1) and (2) of section 48(d) of the code, which relate to the basis of property to a lessee. Under the existing section 48(d) (relating to certain leased property), if a lessor elects to treat a lessee as having purchased section 38 property for purposes of the investment credit, the basis of the property to the lessee for the purpose of computing his qualified investment is deemed to be equal to the fair market value of the property if such

property is constructed by the lessor or constructed by a corporation which controls or is controlled by the lessor within the meaning of section 368(c) of the code. In any other case the basis to the lessee is deemed to be the basis of the property in the hands of the lessor.

Paragraph (1) of section 48(d) of the code, as amended by this section of the bill, provides the general rule that the basis of property to the lessee is deemed to be equal to the fair market value of the property. The fair market value is to be determined on the date possession of the property is transferred from the lessor to the lessee.

Paragraph (2) of section 48(d) of the code, as amended by this section of the bill, provides an exception to the general rule if section 38 property is leased by a corporation which is a member of an affiliated group (within the meaning of sec. 46(a)(5) of the code) to another corporation which is a member of the same affiliated group. In such case, the basis of such property to the lessee is deemed to be the basis of the property in the hands of the lessor.

The amendment made by subsection (b) of section 202 of the bill applies, under paragraph (1) of section 202(f), with respect to property possession of which is transferred to a lessee on or after the date of enactment of the bill.

(*c*) *Treatment of elevators and escalators for purposes of the investment credit.*—Subsection (c) of section 202 of the bill amends paragraph (1) of section 48(a) of the code, which relates to the definition of section 38 property, by adding at the end thereof a new subparagraph (C). The new subparagraph (C) provides that the term "section 38 property" includes elevators and escalators, but only if (i) the construction, reconstruction, or erection of the elevator or escalator involved is completed by the taxpayer after June 30, 1963, or (ii) the elevator or escalator is acquired after June 30, 1963, and the original use of such elevator or escalator commences with the taxpayer and commences after such date. For purposes of section 48, the term "elevator" means a cage or platform and its hoisting machinery for conveying persons or freight to or from different levels and functionally related equipment which is essential to its operation. Such term includes, for example, guide rails and cables, motors and controllers, control panels and landing buttons, and elevator gates and doors, which are essential to the operation of the elevator. The term "elevator" does not, however, include a structure which is considered a building for purposes of the investment credit. For purposes of section 48, the term "escalator" means a moving staircase and functionally related equipment which is essential to its operation.

For purposes of determining qualified investment under section 46(c) of the code, the basis of an elevator or escalator does not include the cost of any structural alterations to the building, such as the cost of constructing a shaft or of making alterations to the floor, walls, or ceiling, even though such alterations may be necessary in order to install or modernize the elevator or escalator.

The principles applicable under section 48(b) (1) and (2) of the code (relating to new section 38 property) are to be applied under section 48(a)(1)(C) (i) and (ii) of the code (as added by this section of the bill) in determining when an elevator or escalator is acquired by the taxpayer and whether the original use of such elevator or escalator commences with the taxpayer, or when the construction, reconstruction, or erection of an elevator or escalator is completed.

If the construction of an elevator or escalator commences after December 31, 1961, and is completed after June 30, 1963, the entire basis of such elevator or escalator is taken into account in determining qualified investment under section 46(c). However, if construction of the elevator or escalator commences before January 1, 1962, and is completed after June 30, 1963, under the existing section 48(b) only that portion of the basis of such elevator or escalator which is properly attributable to construction after December 31, 1961, is to be taken into account in computing qualified investment. Moreover, the new subparagraph (C) of section 48(a)(1) of the code is limited by other provisions of the investment credit. Thus, an elevator or escalator which satisfies the conditions of section 48(a)(1) is subject to the limitations contained in paragraphs (2) through (5) of section 48(a), relating respectively to property used outside the United States, for lodging, by certain tax-exempt organizations, and by governmental units.

An elevator or escalator may qualify as section 38 property whether it is installed in a new building or in an old building. Also, if an elevator or escalator is reconstructed by the taxpayer after June 30, 1963, the portion of the basis attributable to such reconstruction may be taken into account in computing qualified investment.

The amendments made by subsection (c) of section 202 of the bill apply, under paragraph (2) of section 202(f), with respect to taxable years ending after June 30, 1963.

(*d*) *Treatment of elevators and escalators for purposes of section 1245.*—Subsection (d) of section 202 of the bill amends section 1245(a) of the code, which relates to the general rule for gain from dispositions of certain depreciable property, by revising the first sentence of paragraph (2) and by adding at the end of paragraph (3) a new subparagraph (C).

Recomputed basis

Paragraph (1) of section 202(d) of the bill amends the first sentence of section 1245(a)(2) of the code, which presently provides that, for purposes of section 1245, the term "recomputed basis" means (with respect to any property) its adjusted basis recomputed by adding thereto all adjustments, attributable to periods after December 31, 1961, reflected in such adjusted basis on account of deductions (whether in respect of the same or other property) allowed or allowable to the taxpayer or to any other person for depreciation, or for amortization under section 168 of the code.

Section 1245(a)(2) of the code, as amended by this section of the bill, provides separate definitions of the term "recomputed basis" for property referred to in paragraph (3) (A) or (B) of section 1245(a) (that is, personal property or certain other property not including a building or its structural components) and for property referred to in paragraph (3)(C) of such section (that is, an elevator or an escalator). In the case of property referred to in paragraph (3) (A) or (B), the existing provisions relating to periods for which adjustments are to be added to adjusted basis are placed in a new subparagraph (A) of section 1245(a)(2). In the case of property referred to in paragraph (3)(C), a new subparagraph (B) of section 1245(a)(2) provides that adjustments are to be added which are attributable to periods after June 30, 1963.

Section 1245 property

Paragraphs (2) and (3) of section 202(d) of the bill add a new subparagraph (C) to section 1245(a)(3) to include an elevator or an escalator within the definition of the term "section 1245 property". Section 1245(a)(3) of the code presently defines such term as any property (other than livestock) which is or has been property of a character subject to the allowance for depreciation provided in section 167 of the code and is either (A) personal property, or (B) certain other property (not including a building or its structural components).

The amendments made by section 202(d) of the bill apply, under paragraph (3) of section 202(f), with respect to dispositions of elevators or escalators after December 31, 1963, in taxable years ending after such date.

(*e*) *Treatment of investment credit by Federal regulatory agencies.*—Subsection (e) of section 202 of the bill states that it was the intent of the Congress in providing an investment credit under section 38 of the code, and it is the intent of the Congress in repealing the adjustments to basis required by section 48(g), to provide an incentive for modernization and growth of private industry (including that portion thereof which is regulated). Subsection (e) of section 202 further provides that Congress does not intend that any agency or instrumentality of the United States having jurisdiction with respect to a taxpayer shall, without the consent of the taxpayer, use (1) in the case of public utility property (as defined in sec. 46(c)(3)(B) of the code), more than a proportionate part (determined with reference to the average useful life of the property with respect to which the credit was allowed) of the credit against tax allowed by section 38 for any taxable year, or (2) in the case of any other property, any credit against tax allowed by section 38, to reduce such taxpayer's Federal income taxes for the purpose of establishing the cost of service of the taxpayer or to accomplish a similar result by any other method.

(*f*) *Effective dates.*—Subsection (f) of section 202 of the bill sets forth the effective dates for the amendments made by subsections (b), (c), and (d) of such section. These effective dates are specifically dealt with in the discussion (above) of the provisions to which they respectively relate.

SECTION 203. GROUP-TERM LIFE INSURANCE PURCHASED FOR EMPLOYEES

(*a*) *Inclusion in income.*—Subsection (a)(1) of section 203 of the bill adds a new section 79 to part II of subchapter B of chapter 1 of the code (relating to items specifically included in gross income).

SECTION 79. GROUP-TERM LIFE INSURANCE PURCHASED FOR EMPLOYEES

(*a*) *General rule.*—Under existing Treasury regulations and rulings of the Internal Revenue Service, an employee is not required to include in gross income the current value of group-term life insurance purchased for him by his employer. The new section 79(a) provides the general rule that there is included in an employee's gross income for his taxable year an amount equal to the cost of group-term life insurance on his life provided for part or all of such taxable year under a policy (or policies) carried directly or indirectly by his em-

ployer (or employers); but only to the extent that such cost exceeds the sum of (1) the cost of $30,000 of such insurance and (2) the amount (if any) paid by the employee toward the purchase of such insurance. The new section 79 does not affect the tax treatment of other types of insurance (such as group permanent life insurance) provided for employees by their employers, or the tax treatment of group-term life insurance provided for individuals (such as independent contractors and partners) who are not employees.

More than one employer

In determining the amount of group-term life insurance provided on his life during the taxable year, an employee must take into account all such insurance furnished directly or indirectly by all of his employers. For example, if an employee receives $25,000 of group-term life insurance during an entire taxable year under a policy carried by employer A and also receives $15,000 of group-term life insurance during the same taxable year under a policy carried by employer B, the employee is required to include in gross income the cost of $10,000 of insurance for so much of the taxable year as he had this dual coverage.

Application of exclusions

In determining the amount includible in an employee's income with respect to group-term life insurance provided for part or all of a taxable year, the cost of such insurance is reduced by the following two amounts:

(1) the cost of so much of such insurance as does not exceed $30,000 of protection, and

(2) the amount (if any) paid by the employee toward the purchase of such insurance.

Insurance provided for part of a taxable year

The $30,000 of insurance referred to in item (1) relates to insurance protection which the employee receives during any part of the taxable year. For example, if an employee is provided $25,000 of group-term life insurance for the first 6 months of his taxable year, and $50,000 of such insurance for the remaining 6 months of such year, the cost of $20,000 of such insurance for the second 6-month period is includible in his gross income (assuming the employee pays nothing toward the cost of such insurance).

Contributions with respect to more than one policy

If an employee pays any amounts toward the purchase of group-term life insurance on his life during a taxable year, the amount of all such payments reduce the amounts includible in gross income under section 79 even though such payments are made with respect to a period during which his insurance protection did not exceed $30,000. For example, assuming the facts of the case described in the preceding paragraph, if the employee made no payments with respect to the $50,000 of group-term life insurance provided during the second 6 months of his taxable year but made payments with respect to the $25,000 of group-term life insurance provided during the first 6 months, the payments made by the employee reduce the amount includible in his gross income with respect to the group-term life insurance provided during the second 6 months.

Contributions attributable to future years

In determining the amount includible in income for any taxable year, there is not taken into account under item (2) any amounts paid by the employee for group-term life insurance provided (or to be provided) for a different taxable year. Thus, if part of an employee's payment during a taxable year represents a prepayment for insurance to be provided after his retirement, such part does not reduce the amount includible in his gross income for the current taxable year.

(*b*) *Exceptions*.—The new section 79(b) contains three exceptions to the general rule of section 79(a).

Retired and disabled employees

Paragraph (1) of section 79(b) provides an exception to the general rule in the case of retired and disabled employees. Under this exception, the cost of group-term life insurance on the life of an individual which is provided (under a policy carried directly or indirectly by an employer) after such individual has terminated his employment with such employer and has reached the retirement age with respect to such employer or has become disabled (within the meaning of par. (3) of sec. 213(g) of the code, determined without regard to par. (4) thereof) is not included in such individual's gross income. For this purpose the determination of the retirement age with respect to an employer is to be made in the same manner as for purposes of the exclusion for wage continuation payments under section 105(d) of the code. In a case where an employee retires or becomes disabled during a taxable year, the exception provided by paragraph (1) applies only to the portion of the cost of his group-term life insurance which is attributable to the part of the year during which the employee was retired or disabled.

Employer or charity a beneficiary

Paragraph (2) of the new section 79(b) contains another exception to the general rule. This exception provides that section 79(a) does not apply to the cost of any portion of the group-term life insurance on the life of an employee provided during part or all of the taxable year of the employee under which the employer is directly or indirectly the beneficiary, or under which a person described in section 170(c) of the code (relating to definition of charitable contributions) is the sole beneficiary, for the entire period during such taxable year for which the employee receives such insurance.

Insurance provided by qualified employee trust

Paragraph (3) of the new section 79(b) contains a third exception to the general rule. Under paragraph (3), section 79(a) does not apply to the cost of any group-term life insurance provided under a contract to which section 72(m)(3) of the code applies. In general, section 72(m)(3) provides rules for the tax treatment of life insurance provided under contracts purchased by qualified employee trusts or annuity plans. Accordingly, the exception provided by paragraph (3) makes it clear that the tax treatment of group-term life insurance provided under such a contract is determined under the provisions of section 72(m)(3), and not under the provisions of the new section 79(a).

(*c*) *Determination of cost of protection*.—The new section 79(c) provides rules for determining the cost of group-term life insurance

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protection for purposes of applying section 79 (a) and (b) and also for purposes of withholding under chapter 24 of the code.

Uniform premium table method

Paragraph (1) of the new section 79(c) provides that the cost of group-term life insurance protection on the life of an employee provided during any period is determined on the basis of uniform premiums (computed on the basis of 5-year age brackets) to be set forth in a table prescribed in regulations by the Secretary of the Treasury or his delegate.

Policy cost method

Paragraph (2) of the new section 79(c) provides that, in lieu of using the uniform premium table, the employer may elect, with respect to any employee, to determine the cost of such employee's group-term life insurance on the basis of the average premium cost under the policy for the ages included within the age bracket which is applicable to the employee under the provisions of paragraph (1). For purposes of this method of computation of the cost of group-term life insurance, the net premium cost is to be used. Thus any return of premiums or dividends to policyholders is taken into account. The election provided by this paragraph is to be made at such time and in such manner as is prescribed by regulations of the Secretary of the Treasury or his delegate. A separate election may be made for each employee who is furnished group-term life insurance by the employer. In the absence of an election by the employer under the provisions of paragraph (2), the determination of the cost of insurance provided for an employee shall be made on the basis of the uniform premiums in accordance with the rules provided in paragraph (1) of section 79(c).

The election provided under paragraph (2) is not available in the case of a group-term life insurance policy under which the premium is computed other than on the basis of the cost of the insurance at the ages (or at the age brackets provided in the uniform premium table) of the individuals comprising the group. Thus, for example, the policy cost method may not be used in the case of a policy under which the premium is computed on the basis of 10-year age brackets or on the basis of the mortality experience of the group as a whole.

Employed individuals over age 64

Paragraph (3) of the new section 79(c) provides that, in the case of an employee who has attained age 64, the cost determined under paragraph (1) or (2), as the case may be, cannot exceed the cost which would be determined under such paragraph with respect to the individual if he were age 63. Thus, under the rule provided by this paragraph, the maximum cost to be used in determining the amount includible in gross income under the provisions of section 79(a) is the cost applicable at the 60 to 64 age bracket.

Example.—The operation of the new section 79 may be illustrated by the following example. Assume that for a full taxable year an employee, age 52, is provided (under a policy carried by his employer) with $70,000 of group-term life insurance on his life and that his spouse is the beneficiary. Assume further that the uniform premium applicable at his age is $10.87 per $1,000 of protection and that the employee contributes $1 per $1,000 of protection. Based on these

facts, the amount includible in the employee's income is computed as follows:

Total group-term life insurance protection	$70, 000
Less $30,000 exclusion	30, 000
	40, 000
Cost of $40,000 of insurance (40×$10.87)	434. 80
Less: Employee's contribution (70×$1)	70. 00
Amount includible in employee's gross income	$364. 80

SECTION 203. GROUP-TERM LIFE INSURANCE PURCHASED FOR EMPLOYEES (Continued)

Full-time life insurance salesmen

Subsection (a)(3) of section 203 of the bill amends section 7701(a)(20) of the code to provide that a full-time life insurance salesman who is considered an employee for purposes of chapter 21 of the code shall also be considered an employee for purposes of the new section 79 as well as for purposes of the new section 218 (relating to certain contributions by employees for group-term life insurance) which is added to the code by subsection (b) of section 203 of the bill.

(*b*) *Certain contributions by employees for group-term life insurance.*—Subsection (b) of section 203 of the bill adds a new section 218 to part VII of subchapter B of chapter 1 of the code (relating to additional itemized deductions for individuals).

The new section 218 provides that in the case of an employee who is provided group-term life insurance on his life for part or all of the taxable year under a policy (or policies) carried directly or indirectly by his employer (or employers), if the amount of such insurance is in excess of $30,000, there is allowed as a deduction for such taxable year the excess (if any) of (1) the amount paid by the employee toward the purchase of the portion of such insurance which exceeds $30,000, over (2) the cost of the portion of the insurance which exceeds $30,000 (such cost to be determined under par. (1) of sec. 79(c), relating to the uniform premium table method, applied without regard to par. (3) of such sec. 79(c)). In applying the new section 218, there is to be disregarded any insurance the cost of which is excepted from the application of subsection (a) of section 79 by subsection (b) thereof. Thus, if an employee is provided with group-term life insurance under a contract to which section 72(m)(3) applies, the amount of such insurance is disregarded in determining whether, for purposes of section 218, the employee is provided with more than $30,000 of group-term life insurance. Moreover, the cost of such insurance and the amount paid by the employee toward its purchase are disregarded in computing the amount of his deduction under section 218.

Example.—The operation of the new section 218 may be illustrated by the following example. Assume that for a full taxable year an employee, age 28, is provided (under a policy carried by his employer) with $40,000 of group-term life insurance on his life and that the cost of this insurance is subject to the provisions of section 79(a).

Assume further that the uniform premium applicable at his age is $2.11 per $1,000 of protection and that the employee paid $3 per $1,000 of protection for the entire $40,000 of insurance. Based on these facts, the amount deductible by the employee for the taxable year is computed as follows:

Portion of group-term life insurance in excess of $30,000 ($40,000 less $30,000)	$10,000
Amount paid by the employee toward the purchase of $10,000 of insurance (10×$3.00)	30.00
Less: cost under uniform premium table of $10,000 of insurance (10×$2.11)	21.10
Amount deductible by the employee	$8.90

(*c*) *Withholding.*—Subsection (c) of section 203 of the bill amends section 3401(a) of the code (relating to definition of wages) by adding a new paragraph (14) at the end thereof. Under this new paragraph, the term "wages" (for purposes of withholding of income tax at source on wages) includes remuneration paid in the form of group-term life insurance on the life of an employee, but only to the extent that the cost of such insurance is includible in the employee's gross income under the provisions of section 79(a) of the code (added by this section of the bill). For purposes of the new paragraph (14), the amount of "remuneration paid" in the form of group-term life insurance is determined with reference to the cost of the life insurance (computed as provided in sec. 79(c)) provided to the employee, without regard to the time when the premium is paid by the employer. Moreover, it includes the cost of insurance provided under policies carried both directly and indirectly by the employer. Under the provisions of the new paragraph (14), each employer paying remuneration to an employee in the form of group-term life insurance determines the amount includible in such employee's gross income under section 79(a) of the code as if such employer were the only employer paying the employee remuneration in the form of such insurance. Thus, an employer computes the amount includible in the gross income of an employee by applying a full $30,000 exclusion, without regard to whether another employer may also be furnishing group-term life insurance for the same employee during the same period.

(*d*) *Effective dates.*—Subsection (d) of section 203 of the bill provides that the amendments made by subsections (a) and (b) of such section apply with respect to group-term life insurance provided after December 31, 1963, in taxable years ending after such date; and that the amendment made by subsection (c) applies with respect to remuneration paid after December 31, 1963, in the form of group-term life insurance provided after such date.

SECTION 204. INCLUSION IN GROSS INCOME OF REIMBURSED MEDICAL EXPENSES TO THE EXTENT THAT THE REIMBURSEMENT EXCEEDS THE EXPENSES

(*a*) *General rule.*—Subsection (a) of section 204 of the bill adds a new section 80 to part II of subchapter B of chapter 1 of the code (relating to items specifically included in gross income).

The new section 80 provides that, notwithstanding any other provision of subchapter B of chapter 1 of the code (relating to computa-

tion of taxable income), amounts received through accident or health insurance for medical expenses are includible in gross income to the extent that the aggregate of such amounts received for any personal injury or sickness exceeds the aggregate amount of medical expenses incurred by the taxpayer for such personal injury or sickness.

Section 80 provides that the term "medical expenses" means expenses for medical care as defined in section 213(e) of the code, other than amounts paid for accident or health insurance. Thus, premiums paid for accident or health insurance are not taken into account in determining the aggregate amount of medical expenses incurred with respect to any personal injury or sickness. Section 80 does not apply to amounts received through accident or health insurance other than for medical expenses. The term "accident or health insurance" as used in section 80 has the same meaning as under sections 104 and 105 of the code.

(*b*) *Clerical amendment.*—Subsection (b) of section 204 of the bill makes a clerical amendment to the table of sections for part II of subchapter B of chapter 1 of the code.

(*c*) *Technical amendment.*—Subsection (c) of section 204 of the bill amends section 105(e) of the code to provide that, for purposes of the new section 80, amounts received through accident and health plans described in section 105(e) are treated as received through accident or health insurance.

(*d*) *Effective date.*—Subsection (d) of section 204 of the bill provides that the amendments made by subsections (a), (b), and (c) of such section apply to taxable years beginning after December 31, 1963.

SECTION 205. AMOUNTS RECEIVED UNDER WAGE CONTINUATION PLANS

(*a*) *Wage continuation plans.*—Subsection (a) of section 205 of the bill amends section 105(d) of the code, which presently provides that gross income does not include amounts (up to $100 a week) received by an employee from his employer if such amounts constitute wages (or payments in lieu of wages) for a period during which such employee is absent from work due to personal injuries or sickness. The second sentence of section 105(d) presently provides that in the case of an absence from work due to sickness, the exclusion provided by section 105(d) does not apply to amounts received by the employee which are attributable to the first 7 calendar days of the absence from work unless the employee is hospitalized for at least 1 day during such period of absence. The 7-day waiting period does not apply if the absence from work is due to a personal injury.

Under the amendment made by this section of the bill, the section 105(d) exclusion does not apply to amounts attributable to the first 30 calendar days of a period of absence from work on account of personal injuries or sickness. This 30-day waiting period applies whether or not the employee is hospitalized during the period of absence from work and without regard to whether the absence from work is due to personal injury or sickness.

(*b*) *Effective date.*—Subsection (b) of section 205 of the bill provides that the amendment made by subsection (a) applies to payments attributable to periods of absence which begin after December 31, 1963. Thus, the 30-day waiting period prescribed by section 105(d),

as amended by this section of the bill, does not apply in the case of any period of absence from work which begins prior to January 1, 1964, even though such absence continues after such date.

SECTION 206. EXCLUSION FROM GROSS INCOME OF GAIN ON SALE OR EXCHANGE OF RESIDENCE OF INDIVIDUAL WHO HAS ATTAINED AGE 65

(*a*) *In general.*—Subsection (a) of section 206 of the bill redesignates section 121 of the code as section 122 and inserts a new section 121 in part III of subchapter B of chapter 1 (relating to items specifically excluded from gross income). Under present law, tax is imposed in respect of the gain on the sale or exchange of a residence unless a nonrecognition provision (sec. 1033 (involuntary conversions) or 1034 (sale or exchange of residence)) applies. The new section 121 generally provides an exemption from this tax in the case of a sale or exchange of a residence by an individual who has attained age 65.

SECTION 121. GAIN FROM SALE OR EXCHANGE OF RESIDENCE OF INDIVIDUAL WHO HAS ATTAINED AGE 65

(*a*) *General rule.*—The new section 121(a) provides that a taxpayer may, under certain circumstances, elect to exclude from gross income gain realized on the sale or exchange of property which was his principal residence. Subject to the other provisions of section 121, the election may be made only if (1) the taxpayer attained the age of 65 before the date of the sale or exchange of his principal residence, and (2) during the 8-year period ending on the date of the sale or exchange of the property the taxpayer owned and used the property as his principal residence for periods aggregating 5 years or more.

The requirements of ownership and use for periods aggregating 5 years or more may be satisfied by establishing ownership and use for 60 full months or for 1,825 days (365×5). In establishing whether a taxpayer has satisfied the requirement of 5 years of use, short temporary absences such as for a vacation or other seasonal absence (although accompanied with rental of the residence) are counted as periods of use.

The application of section 121(a) is illustrated by the following examples:

Example (1).—Taxpayer A owned and used his house as his principal residence continually since 1946. On January 1, 1962, A retires and moves to another State with his wife, at which time he is over 65. A leases his house from such date until July 1, 1964, at which time he sells it. A may make an election under section 121 with respect to any gain on such sale since he has owned and used such house as his principal residence for 5 years out of the 8 years preceding the sale.

Example (2).—Taxpayer B lived with his son and daughter-in-law in a house owned by his son from 1957 through 1963. On January 1, 1964, he purchased this house and on December 31, 1967, he sold it. Although B used the property as his principal residence for more than 5 years, he is not entitled to make an election under section 121(a) in respect of such sale since he did not own and use the residence for a period aggregating 5 years during the 8-year period ending on the date of the sale.

Example (3).—Taxpayer C, a college professor, purchased and moved into a house on January 1, 1960, and used it as his principal residence continuously to February 1, 1964, on which date he went abroad for a 1-year sabbatical leave. During a portion of the period of leave the property was unoccupied and it was leased during the balance of the period. On March 1, 1965, 1 month after returning from such leave, he sold the house. Since his leave is not considered to be a short temporary absence for purposes of the new section 121(a), the period of such leave may not be included in determining whether C used the house as his principal residence for periods aggregating 5 years or more. Thus, C is not entitled to make an election under subsection (a) since he did not use the residence for the requisite period.

(*b*) *Limitations.*—The new section 121(b) provides certain limitations on the application of section 121(a).

Where adjusted sales price exceeds $20,000

Paragraph (1) of section 121(b) imposes a limitation on the amount of gain which may be excluded from gross income under section 121(a) in any case where the "adjusted sales price" of the residence exceeds $20,000. The term "adjusted sales price" has the meaning assigned to it by section 1034(b)(1) of the code, determined without regard to section 121(d)(7). In general, the term means the amount realized from the sale or exchange less certain expenses for work performed on the residence to assist in its sale. If the adjusted sales price exceeds $20,000, the amount of gain excluded from the taxpayer's gross income (if the taxpayer makes the election) is that portion of the gain which bears the same ratio to the total amount of such gain as $20,000 bears to the adjusted sales price.

The application of the limitation in section 121(b)(1) is illustrated by the following example:

Example.—Assume that A sells his principal residence for $30,400; that the adjusted sales price is $30,000 (selling price reduced by fixing-up expenses described in sec. 1034(b) of $400); and that A's gain from the sale is $15,000. The portion of the gain which bears the same ratio to the total amount of such gain as $20,000 bears to the adjusted sales price is $10,000 ($20,000/$30,000×$15,000). Thus, $10,000 is the portion of the gain excludable from gross income pursuant to an election under section 121(a).

Application to only one sale or exchange

Paragraph (2) of section 121(b) makes section 121(a) inapplicable to certain sales or exchanges of principal residences. Paragraph (2) prohibits a taxpayer from making an election to exclude from gross income gain from the sale or exchange of a principal residence if there is in effect (1) an election made by the taxpayer, under the provisions of section 121(a), in respect of any other sale or exchange of a residence, or (2) an election made by the taxpayer's spouse, under the provisions of section 121(a), in respect of any other sale or exchange of a residence (without regard to whether at the time of such sale or exchange such spouse was married to the taxpayer).

If the taxpayer and his spouse, before their marriage, each owned and used a separate residence and if (after their marriage) both residences are sold, whether or not in a single transaction, an election under section 121(a) may be made with respect to a sale of either

residence (but not with respect to both residences) if the age, ownership, and use requirements are met.

The application of section 121(b)(2) is illustrated by the following example:

Example.—Assume that while A and B were married, A sold his separately owned residence and made an election under section 121(a) in respect of such sale. Pursuant to the requirement of section 121(c) (discussed below) B joined in such election. Subsequently, A and B are divorced and B marries C. While B and C are married, C sells his residence. C is not entitled to make an election under section 121(a) since an election by B, his spouse, is in effect at the time of such sale.

(*c*) *Election.*—The new section 121(c) specifies that a taxpayer may make an election under section 121(a) in respect of a particular sale (or may revoke any such election) at any time before the expiration of the period for making a claim for credit or refund of Federal income tax for the taxable year in which the sale or exchange occurred. The manner in which an election may be made or revoked is to be prescribed in regulations issued by the Secretary of the Treasury or his delegate. Section 121(c) also provides that a taxpayer who is married at the time of the sale or exchange (1) may not make an election under section 121(a) unless his spouse (at the time of the sale or exchange) joins him in such election, and (2) may not revoke an election previously made by him unless his spouse (at the time of the sale or exchange) joins him in the revocation. (See par. (6) of sec. 121(d), relating to determination of marital status, and the discussion thereunder.) If the taxpayer's spouse dies after the sale or exchange but before the expiration of the time for making an election under this section (and an election was not made by the husband and wife), the deceased spouse's personal representative (e.g., administrator or executor) must join with the taxpayer in making an election. Likewise, the personal representative of the taxpayer's deceased spouse must join in a revocation of any election previously made by the taxpayer and his spouse.

(*d*) *Special rules.*—The new section 121(d) consists of seven paragraphs, each containing a special rule. These special rules are separately discussed below.

Property held jointly by husband and wife

Paragraph (1) of section 121(d) provides that if (1) a residence is held by a husband and wife as joint tenants, tenants by the entirety, or community property, (2) a joint return is made by the husband and wife for the taxable year in which such residence is sold or exchanged, and (3) one spouse satisfies all the requirements of section 121(a) (i.e., meets the age requirement and the requirements of ownership and use of the residence), then both the husband and wife are treated as satisfying the age, ownership, and use requirements of section 121(a). Thus, if the above conditions exist and one spouse meets the requirements of section 121(a), the other spouse will be treated as meeting all such requirements.

Property of deceased spouse

Paragraph (2) of section 121(d) provides that a taxpayer is treated as satisfying the holding and use requirements of section 121(a) with

respect to property if (1) his spouse is deceased on the date of the sale or exchange of such property, and (2) such spouse had, during the 8-year period ending on the date of the sale or exchange of the property, satisfied such holding and use requirements with respect to such property. Paragraph (2), however, has no application if the surviving spouse is married at the time of the sale or exchange of such property, or if an election made by the deceased spouse under section 121(a) is in effect with respect to any other sale or exchange.

The application of the special rule in paragraph (2) is illustrated by the following example:

Example.—H and W become husband and wife on January 1, 1964, and on and after such date use as their principal residence property which H has owned since January 1, 1957, and which he used as his principal residence for the period from January 1, 1957, until his marriage on January 1, 1964. H dies on January 1, 1966, and W inherits the property and continues to use the property as her principal residence. W sells the property on December 31, 1967, at which time she is over 65 and not married. H, during the 8-year period ending on the date of the sale (January 1, 1960, through December 31, 1967), satisfied the 5-year use and ownership requirements of section 121(a)(2) with respect to such property since during this 8-year period he had owned and used the property as his principal residence for 6 years (1960 through 1965). Accordingly, W may make an election under section 121(a).

Tenant-stockholder in cooperative housing corporation

Paragraph (3) of section 121(d) provides that an individual who holds stock as a "tenant-stockholder" in a "cooperative housing corporation," as those terms are defined in section 216 of the code, may be eligible to make an election under section 121(a) in respect of the sale or exchange of such stock. In determining whether the taxpayer meets the requirements of section 121(a), the ownership requirements of such section are applied to the holding of such stock and the use requirements of such section are applied to the house or apartment which the individual was entitled to occupy because of such stock ownership.

Involuntary conversions

Paragraph (4) of section 121(d) provides that destruction, theft, seizure, requisition, or condemnation of property shall be treated as the sale of such property.

Property used in part as principal residence

Paragraph (5) of section 121(d) provides that where a taxpayer can satisfy the ownership and use requirements of section 121(a) only with respect to a portion of the property sold, then section 121 shall apply only with respect to so much of the gain from the sale or exchange of the property as is attributable to such portion. For example, if taxpayer A, an attorney, uses a portion of the property constituting his principal residence as a law office for a period in excess of 3 years out of the 8 years preceding the sale of such residence, then section 121 shall not apply with respect to so much of the gain on the sale of the property as is allocable to the portion of the property used as a law office. If an allocation of the gain from the sale or exchange of property is required, such allocation is made in ac-

cordance with regulations prescribed by the Secretary of the Treasury or his delegate.

Determination of marital status

Paragraph (6) of section 121(d) provides that marital status is to be determined as of the date of the sale or exchange of the residence. An individual who on the date of the sale or exchange is legally separated from his spouse under a decree of divorce or of separate maintenance is not considered as married on such date.

Application of sections 1033 and 1034

Paragraph (7) of section 121(d) provides that in applying sections 1033 (relating to involuntary conversions) and 1034 (relating to sale or exchange of residence) of the code, the amount realized from the sale or exchange of property used as one's principal residence is treated as being the amount determined without regard to section 121, reduced by the amount of gain excluded from gross income pursuant to an election made under section 121.

SECTION 206. EXCLUSION FROM GROSS INCOME OF GAIN ON SALE OR EXCHANGE OF RESIDENCE OF INDIVIDUAL WHO HAS ATTAINED AGE 65 (Continued)

(*b*) *Technical and clerical amendments.*—Subsection (b) of section 206 of the bill contains certain technical and clerical amendments.

Paragraph (1) of section 206(b) amends section 6012(c) of the code (relating to persons required to make returns of income) to provide that for purposes of section 6012 of the code (which requires individuals with gross incomes of $600 or more to file returns) gross income is to be computed without regard to the exclusion provided for in the new section 121.

Paragraph (2) of section 206(b) amends the table of sections for part III of subchapter B of chapter 1 to reflect the addition of the new section 121.

Paragraphs (3) and (4) of section 206(b) amend, respectively, sections 1033(h) (relating to involuntary conversions) and 1034 (relating to sale or exchange of residence) of the code by adding cross references to the new section 121.

(*c*) *Effective date.*—Subsection (c) of section 206 provides that the amendments made by subsections (a) and (b) of such section apply to dispositions made after December 31, 1963, in taxable years ending after such date.

SECTION 207. DENIAL OF DEDUCTION FOR CERTAIN STATE, LOCAL, AND FOREIGN TAXES

(*a*) *In general.*—Subsection (a) of section 207 of the bill revises subsections (a), (b), and (c) of section 164 of the code (relating to deduction for taxes).

Under the existing provisions of section 164 a deduction is allowable for all taxes paid or accrued within the taxable year, with certain exceptions. In general, the exceptions are certain Federal taxes (including income taxes); estate, inheritance, legacy, succession, and gift taxes; taxes assessed against local benefits of a kind tending to

increase the value of the property assessed; income, war profits, and excess profits taxes imposed by the authority of any foreign country, if the taxpayer chooses to take to any extent the benefits of section 901 of the code (relating to the foreign tax credit); and taxes on real property to the extent that section 164(d) requires such taxes to be treated as imposed on another taxpayer.

SECTION 164. TAXES

(a) *General rule.*—Section 164(a), as amended by this section of the bill, provides that the following taxes shall be allowed as a deduction for the taxable year within which paid or accrued:

(1) State and local, and foreign, real property taxes.
(2) State and local personal property taxes.
(3) State and local, and foreign, income, war profits, and excess profits taxes.
(4) State and local general sales taxes.

In addition, subsection (a) allows as a deduction State and local, and foreign, taxes not described in the preceding sentence which are paid or accrued within the taxable year in carrying on a trade or business or in carrying on an activity described in section 212 of the code (relating to expenses for production of income).

Real property taxes

Paragraph (1) of section 164(a) lists State and local and foreign real property taxes as the first category of deductible taxes. The term "real property taxes" means taxes imposed on interests in real property. Those real property taxes which are now deductible under section 164 remain so; those real property taxes which are not presently deductible are not made deductible by the amendment.

Personal property taxes

Paragraph (2) of section 164(a) lists State and local personal property taxes as the second category of deductible taxes. Under this paragraph personal property taxes as defined in section 164(b) (described below) are deductible.

Income, war profits, and excess profits taxes

Paragraph (3) of section 164(a) lists State and local and foreign income, war profits, and excess profits taxes as the third category of deductible taxes. Those income, war profits, and excess profits taxes which are now deductible under section 164 remain so; such taxes which are not presently deductible are not made deductible by the amendment.

General sales taxes

Paragraph (4) of section 164(a) lists State and local general sales taxes as the fourth category of deductible taxes. No foreign sales tax is deductible under this paragraph. In order to be deductible under this paragraph, State and local sales taxes must be general in nature. The definitions of State and local general sales taxes are set forth in section 164(b), described below.

Taxes paid or accrued in carrying on a trade or business or for the production of income

The last sentence of section 164(a) allows as a deduction State and local, and foreign, taxes not otherwise described in section 164(a)

which are paid or accrued within the taxable year in carrying on a trade or business or in carrying on an activity described in section 212 of the code (relating to expenses for the production of income). Such taxes which are now deductible under section 164 remain so; those which are not presently deductible under section 164 are not made deductible by the amendment.

(*b*) *Definitions and special rules.*—Section 164(b) as amended provides definitions and special rules for the application of section 164(a).

Personal property taxes

Paragraph (1) of section 164(b) defines the term "personal property tax" as an ad valorem tax which is imposed on an annual basis in respect of personal property.

To qualify as a personal property tax under this definition, a tax must meet three tests. The first test is that the tax must be ad valorem—that is, substantially in proportion to the value of the personal property. A tax which is based on criteria other than value does not qualify as ad valorem. For example, a motor vehicle tax based on weight, model year, and horsepower, or any of them, is not an ad valorem tax. However, a tax which is partly based on value and partly based on other criteria may qualify in part. For example, in the case of a motor vehicle tax of 1 percent of value plus 40 cents per hundredweight, the part of the tax equal to 1 percent of value qualifies as an ad valorem tax and the balance does not qualify.

The second test is that the tax must be imposed on an annual basis, even if collected more frequently or less frequently.

The third test is that the tax must be imposed in respect of personal property. A tax may be considered to be imposed in respect of personal property even if in form it is imposed on the exercise of a privilege. For example, an annual ad valorem tax qualifies as a personal property tax although it is denominated a registration fee imposed for the privilege of registering motor vehicles or of using them on the highways.

General sales taxes

Paragraph (2) of section 164(b) defines "general sales tax" and provides special rules for food, etc., for items taxed at different rates, for compensating use taxes, and for separately stated sales taxes.

Subparagraph (A) of section 164(b)(2) defines the term "general sales tax" as a tax which is imposed at one rate in respect of the sale at retail of a broad range of classes of items. To qualify under this definition a tax must meet two tests. The first test is that the tax must be a sales tax—that is, a tax in respect of sales at retail. This may include a tax imposed on persons engaged in selling property at retail or furnishing services at retail, for example, if the tax is measured by gross sales price or by gross receipts from sales or services. Rentals qualify as sales at retail if so treated under applicable State sales tax law.

The second test is that the tax must be general—that is, imposed at one rate in respect of the retail sales of a broad range of classes of items. A sales tax is considered to be general although imposed on sales of various classes of items at more than one rate, provided that one rate applies to the retail sales of a broad range of classes of items. The term "items" includes both commodities and services.

A sales tax which is general is usually imposed at one rate in respect of the retail sales of all tangible personal property (with exceptions and additions). However, a sales tax which applies at one rate with respect to retail sales of specified classes of items also qualifies as general if the specified classes represent a broad range of classes of items. For example, the present Wisconsin selective sales tax so qualifies. However, a selective sales tax which does not apply to the retail sales of a broad range of classes of items is not general. For example, a tax which applies only to sales of gasoline, alcoholic beverages, tobacco, admissions, luxury items, and a few other items is not general. Similarly, a tax imposed solely on services is not general.

A tax is imposed at one rate only if it is imposed at that rate on generally the same base for all items subject to tax. For example, a sales tax imposed at a 3-percent rate on 100 percent of the sales price of some classes of items and at a 3-percent rate on 50 percent of the sales price of other classes of items would not be imposed at one rate with respect to all such classes. However, a tax is considered to be imposed at one rate although it allows dollar exemptions, if the exemptions are designed to exclude sales under a certain dollar amount. For example, a tax may be imposed at one rate although it applies to all sales of tangible personal property but applies only to items costing over 10 cents.

Subparagraph (B) of section 164(b)(2) provides special rules in the case of food, clothing, medical supplies, and motor vehicles. The fact that a sales tax exempts food, clothing, medical supplies, and motor vehicles, or any of them, is not taken into account in determining whether the tax applies to a broad range of classes of items. The fact that a sales tax applies to food, clothing, medical supplies, and motor vehicles, or any of them, at a rate which is lower than the general rate is not taken into account in determining whether the tax is imposed at one rate on the retail sales of a broad range of classes of items. For purposes of this section, the term "food" means food for human consumption off the premises where sold, and the term "medical supplies" includes drugs, medicines, and medical devices.

Subparagraph (C) of section 164(b)(2) provides a special rule in the case of items taxed at different rates. In general, no deduction is allowed for a general sales tax in respect of any item if the tax is imposed on such item at a rate other than the general rate of tax. The general rate of tax is the one rate which qualifies a tax in a taxing jurisdiction as a general sales tax because the tax is imposed at such one rate on a broad range of classes of items. There can be only one general rate of tax in any one taxing jurisdiction. However, a general sales tax imposed at a lower rate or rates on food, clothing, motor vehicles, and medical supplies, or any of them, may nonetheless be deductible with respect to such items. For example, the District of Columbia sales tax is imposed at 1 percent with respect to food, imposed at 3 percent with respect to substantially all other classes of tangible personal property, and imposed at 4 percent with respect to transient accommodations. Taxes paid at the 1 percent and the 3 percent rates are deductible, but tax paid at the 4 percent rate is not deductible.

Subparagraph (D) of section 164(b)(2) defines a compensating use tax and provides a special rule with respect to such tax. The term "compensating use tax" is defined, in respect of any item, as a tax

which is imposed on the use, storage, or consumption of such item and which is complementary to a general sales tax which is deductible with respect to sales of similar items. A compensating use tax in respect of such an item is treated as a general sales tax.

In general, a use tax on an item is complementary to a general sales tax on similar items if the use tax is imposed on an item which was not subject to such general sales tax but which would have been subject to such general sales tax if the sale of the item had taken place within the jurisdiction imposing the use tax. For example, a tax imposed by State A on the use of a motor vehicle purchased in State B is complementary to the general sales tax of State A on similar items, if the latter tax applies to motor vehicles sold in State A.

Since a compensating use tax is treated as a general sales tax, it is subject to the rule of subparagraph (C) of section 164(b)(2) that no deduction is allowed for a general sales tax imposed in respect of an item at a rate other than the general rate of tax (except in the case of lower rates on the sale of food, clothing, medical supplies, and motor vehicles).

Subparagraph (E) of section 164(b)(2) provides a special rule in the case of separately stated general sales taxes. If a tax is imposed on the seller, but the amount of such tax is separately stated, then (as under existing law), to the extent that the amount so stated is paid by the consumer (otherwise than in connection with the consumer's trade or business) to his seller, such amount is treated as a tax imposed on, and paid by, such consumer.

State or local taxes

Paragraph (3) of section 164(b) defines a State or local tax to include only a tax imposed by a State, a possession of the United States, or a political subdivision of any of the foregoing, or by the District of Columbia.

Foreign taxes

Paragraph (4) of section 164(b) defines a foreign tax to include only a tax imposed by the authority of a foreign country. A tax imposed by a political subdivision of a foreign country is considered to be imposed by the authority of that foreign country.

(c) *Deduction denied in case of certain taxes.*—Section 164(c) as amended denies the deduction of certain taxes under section 164.

Paragraph (1) of section 164(c) denies a deduction for taxes assessed against local benefits of a kind tending to increase the value of the property assessed, except for the portion of such taxes properly allocable to interest or maintenance charges. This paragraph retains the rules of present law now contained in paragraph (5) of section 164(b) except that present law allows the deduction of local benefit taxes levied by a special taxing district if the taxes meet certain tests. This exception is not continued.

Paragraph (2) of section 164(c) denies a deduction for taxes on real property to the extent that section 164(d) (relating to apportionment of taxes on real property between seller and purchaser) requires such taxes to be treated as imposed on another taxpayer. This paragraph retains the rule presently contained in paragraph (7) of section 164(b).

The rules presently contained in the other paragraphs of section 164(b), with the exception of paragraph (3), are retained in the new

section 275 (described below). The existing paragraph (3) (relating to denial of deduction under section 164 for Federal import duties and Federal excise and stamp taxes) is eliminated as unnecessary in view of the revision of the language of section 164 by this section of the bill.

SECTION 207. DENIAL OF DEDUCTION FOR CERTAIN STATE, LOCAL, AND FOREIGN TAXES (Continued)

(*b*) *Technical amendments.*—Paragraph (1) of section 207(b) of the bill amends the first sentence of section 164(f) of the code (relating to payments for municipal services in atomic energy communities) by inserting "State" before "real property taxes." Thus, payments for municipal services in atomic energy communities which are presently treated as real property taxes paid or accrued continue to be deductible under the amended section 164(a).

Paragraph (2) of section 207(b) of the bill adds to section 164(g) of the code a new cross reference to the new section 275 (discussed below) which continues the disallowance of the deduction of certain taxes.

Paragraph (3) of section 207(b) of the bill amends part IX of subchapter B of chapter 1 of the code (relating to items not deductible) by adding a new section 275 at the end thereof. The new section 275 continues the denial of a deduction for the following taxes: Federal income taxes (deduction presently denied under sec. 164(b)(1)), Federal war profits and excess profits taxes (deduction presently denied under sec. 164(b)(2)), estate, inheritance, legacy, succession, and gift taxes (deduction presently denied under sec. 164(b)(4)), and foreign income and profits taxes if the taxpayer claims a foreign tax credit under section 901 (deduction presently denied under sec. 164(b)(6)).

Paragraphs (4) through (8) of section 207(b) of the bill make conforming amendments to the following sections of the code to reflect the addition of the new section 275: section 535(b) (relating to adjustments to accumulated taxable income), section 545(b) (relating to adjustments to personal holding company taxable income), section 556(b) (relating to adjustments to foreign personal holding company taxable income), section 901(d) (relating to credit for taxes imposed by foreign countries and by possessions of United States), and section 903 (relating to credit for taxes imposed by a foreign country in lieu of income, etc., taxes).

(*c*) *Effective date.*—Subsection (c) of section 207 of the bill provides that the amendments made by section 207 apply to taxable years beginning after December 31, 1963.

SECTION 208. PERSONAL CASUALTY AND THEFT LOSSES

(*a*) *Limitation on amount of casualty or theft loss deduction.*—Subsection (a) of section 208 of the bill amends section 165(c)(3) of the code (relating to personal losses of property of individual taxpayers which arise from fire, storm, shipwreck, or other casualty, or from theft) by denying a deduction for the first $100 of loss arising from each casualty or theft.

Section 165(a) of the code presently provides that, in general, a taxpayer may deduct a loss sustained during the taxable year which is not compensated for by insurance or otherwise. Section 165(c)

limits this general provision in the case of an individual to (1) losses incurred in a trade or business, (2) losses incurred in any transaction entered into for profit, though not connected with a trade or business, and (3) losses of property not connected with a trade or business, if such losses arise from fire, storm, shipwreck, or other casualty, or from theft.

New $100 floor

Subsection (a) of section 208 of the bill amends section 165(c)(3) of the code to provide that the deduction under the third category of deductible losses of individuals is allowable only to the extent that the amount of loss arising from each casualty or theft exceeds $100.

Single casualty or theft

The $100 floor applies separately in respect of the loss arising from each casualty or theft. In applying the $100 floor, it is first necessary to determine whether a loss arose from a single casualty or theft. Events closely related in origin generally give rise to a single casualty or theft. For example, if a storm damages a taxpayer's residence and his automobile parked in his driveway, a single casualty is involved. Similarly, if a hurricane causes high waves and a taxpayer suffers both wind and flood damage to his summer residence, a single casualty is involved.

Husband and wife

For purposes of applying the $100 floor, a husband and wife filing a joint return for the taxable year in which the loss is allowed as a deduction are treated as one individual. If a husband and wife file a joint return for such taxable year, only one $100 floor applies in respect of each casualty or theft regardless of whether the loss is sustained in respect of jointly owned or separately owned property. If a husband and wife file separate returns, each is subject to a $100 floor in respect of each casualty or theft, regardless of whether the property damaged or stolen is owned jointly or separately. The joint return test applies to the taxable year in which the deduction is allowed. Thus if a disaster loss (as defined in sec. 165(h) of the code) occurs to property of a husband and wife in February 1965 and the taxpayers elect to take the deduction on their 1964 income tax return, a single $100 floor will apply if a joint return is filed for 1964.

Other individual taxpayers

Individual taxpayers other than husband and wife are subject to a separate $100 floor with respect to each casualty or theft, even though property of other persons is damaged or stolen in connection with the same casualty or theft. For example, if a fire damages a house and household goods of a single individual, as well as property of a visiting nephew which is in the same house, the single individual is subject to one $100 floor and the nephew is subject to a separate $100 floor.

Property used partially for business

In the case of a casualty or theft loss of property used partially for business and partially for personal purposes, the $100 floor applies only to the net loss attributable to the portion of the property used for personal purposes. For example, if a casualty causes damage in the amount of $1,000 to a taxpayer's automobile having an adjusted basis of $2,000, which is used 50 percent for business and 50 percent for

personal purposes, and the taxpayer's insurance recovery with respect to the casualty is $900, the taxpayer has a net loss of $100. Fifty percent of this loss, or $50, is considered a business loss, and is fully deductible. The remaining $50 of loss is personal, and is nondeductible because of the $100 floor.

Carrybacks and carryovers

Under section 172(d)(4)(C) of the code a personal casualty or theft loss is not treated as a nonbusiness expense for purposes of computing a net operating loss. The $100 floor applies in the computation of the net operating loss, but the net operating loss carried back or carried over is not again reduced in the year to which carried.

(*b*) *Effective date.*—Subsection (b) of section 208 of the bill provides that the amendment made by subsection (a) applies to losses sustained after December 31, 1963, in taxable years ending after such date.

SECTION 209. CHARITABLE, ETC., CONTRIBUTIONS AND GIFTS

(*a*) *Certain organizations added to additional 10-percent charitable limitation.*—Subsection (a) of section 209 of the bill adds two new clauses to subparagraph (A) of section 170(b)(1) of the code (relating to limitations on deductions allowable to individuals for charitable contributions and gifts).

Section 170(a) of the code allows a deduction for charitable contributions to the types of organizations described in section 170(c) thereof, subject to the limitations imposed under section 170(b). Paragraph (1) of section 170(b) sets forth the limitations on deductions for charitable contributions which are made by individuals. Subparagraph (B) of such paragraph (1) imposes a general limitation of 20 percent of an individual's adjusted gross income (computed without regard to any net operating loss carryback) as the amount which he may deduct for charitable contributions during the taxable year. However, subparagraph (A) of paragraph (1) allows the deduction of an additional 10 percent of adjusted gross income for charitable contributions by an individual to certain specified organizations which are among those described in section 170(c)—in general, churches and certain educational organizations, hospitals, and medical research organizations, and certain organizations affiliated with State colleges or universities—with the consequence that a total deduction of up to 30 percent of adjusted gross income is possible for individual taxpayers who contribute at least 10 percent of their adjusted gross income to the types of organizations specified in subparagraph (A) of section 170(b)(1).

Subsection (a) of section 209 of the bill adds new clauses (v) and (vi) to subparagraph (A) of section 170(b)(1), expanding the types of organizations to which the additional 10 percent limitation is applicable. Clause (v) adds the category of governmental units described in section 170(c)(1). These include the United States, a State, a possession of the United States, a political subdivision of a State or possession, or the District of Columbia, but only if the contribution or gift is made for exclusively public purposes. Clause (vi) adds all of the organizations described in section 170(c)(2) (certain nonprofit corporations, trusts, community chests, and funds or foundations

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organized and operated exclusively for religious, charitable, etc. purposes), but only if those organizations normally receive a substantial part of their support from governmental units described in section 170(c)(1) or from direct or indirect contributions from the general public.

These amendments liberalize and make more uniform the application of the overall 30-percent limitation on deductions for charitable contributions by individuals to organizations described in paragraphs (1) and (2) of section 170(c) which rely, directly or indirectly, on the general public for financial support. In general, the additional 10-percent limitation will now be applicable to any contribution to a governmental unit described in paragraph (1) if such contribution is made exclusively for public purposes. The additional 10-percent limitation will also be applicable to any contribution to an organization described in paragraph (2) which normally receives a substantial part of its financial support in the form of contributions from governmental units described in paragraph (1) or from the general public or from a combination of these sources.

In determining whether an organization described in section 170(c)(2) normally receives a substantial part of its support from governmental units or the general public or both, the amount of contributions usually received by the organization from such sources is to be compared to the amount of financial support usually received by the organization from all other sources. In this connection, income received by an organization in the exercise or performance of its charitable, educational, or other purpose or function constituting the basis for its exemption from income tax under section 501(a) of the code would be disregarded in making this determination. However, unrelated business taxable income (as defined in sec. 512 of the code) would be considered as financial support from sources other than contributions from governmental units or the general public in determining whether an organization normally receives a substantial part of its financial support from these sources.

In determining whether a substantial part of the contributions normally received by an organization described in section 170(c)(2) are from the general public, the test is whether a representative number of persons contribute to its financial support. Thus, the additional 10-percent limitation would be applicable to contributions to national charitable organizations which normally receive a substantial part of their financial support from a wide segment of the general public, and also to contributions to museums, libraries, civic centers, symphony orchestras, and similar organizations which normally derive a substantial part of their financial support from a representative number of persons in the communities where their activities are centered. However, it would not apply to foundations, trusts, and other organizations which normally derive their financial support almost entirely from the members of a single family or from a few individuals.

The amendments made by subsection (a) of section 209 of the bill apply (as provided in subsec. (d) of such section) with respect to contributions which are paid in taxable years beginning after December 31, 1963.

(b) 5-year carryover of certain charitable contributions made by corporations.—Subsection (b) of section 209 of the bill amends the second sentence of section 170(b)(2) (relating to limitation on corporate

excess charitable contribution carryovers) and paragraph (19) of section 381(c) of the code (relating to carryovers in certain corporate acquisitions of excess charitable contributions made by the distributor or transferor corporation prior to its acquisition). The effect of these changes is to extend the excess charitable contribution carryover from 2 to 5 years.

Section 170(b) of the code prescribes limitations upon the allowable deduction for charitable contributions to the types of organizations described in section 170(c). Section 170(b)(2) sets forth the limitations on deductions for charitable contributions which are made by corporations, imposing a limitation of 5 percent of the corporation's taxable income (computed without regard to any net operating loss carryback) on the amount which it may deduct for charitable contributions during the taxable year. In the event that the contributions made by a corporate donor exceed the 5-percent limitation, the second sentence of section 170(b)(2) currently provides for a 2-year carryover for such excess contribution.

Paragraph (1) of section 209(b) of the bill amends the second sentence of section 170(b)(2) by extending from two to five the number of succeeding taxable years to which the portion of a contribution paid in a taxable year which is in excess of the amount deductible in such year is carried over as a deduction. For example, a corporation which contributes an amount in excess of the 5-percent limitation for the taxable year 1964 would be permitted to deduct such excess (until exhausted) in the years 1965, 1966, 1967, 1968, and 1969, in that order, to the extent that the 5-percent limitation computed for each of such years is not exceeded. No change from existing law is made with regard to the order of time in which the excess contribution carryover must be applied in succeeding taxable years.

Paragraph (2) of section 209(b) of the bill makes an amendment to paragraph (19) of section 381(c) of the code (parallel to the amendment extending the corporate carryover contained in par. (2) of sec. 170(b) from 2 years to 5 years) to allow a 5-year carryover of excess contributions made by the distributor or transferor corporation.

Section 381(a) of the code provides that a corporation which acquires the assets of another corporation in certain reorganizations and liquidations will succeed to, and take into account, certain items which are described in section 381(c). Paragraph (19) of section 381(c) presently provides that excess charitable contributions made by the distributor or transferor corporation in the taxable year ending on the date of distribution or transfer and the prior taxable year are deductible by the acquiring corporation in its first 2 taxable years which begin after the date of distribution or transfer, subject to the limitations imposed by section 170(b)(2).

In order to insure that an excess contribution is not deductible for more than 5 taxable years after the year of contribution, the amendment made by section 209(b)(2) of the bill provides that the taxable year of the transferor corporation beginning on or before the date of transfer is to be treated as a prior taxable year with reference to the taxable years of the acquiring corporation beginning after that date. This language makes it clear that an excess contribution made by the transferor corporation in the taxable year which includes the date of transfer is deductible by the acquiring corporation, subject to the limitations imposed in section 170(b)(2), only in its 5 succeeding

taxable years which begin after the date of transfer. This language also makes it clear that an excess contribution made by the transferor corporation in a taxable year prior to the taxable year of the transfer is only deductible by the transferor corporation, subject to the limitations imposed in section 170(b)(2), in its subsequent taxable years which begin on or before the date of transfer, and by the acquiring corporation in its taxable years beginning after that date. However, such excess deduction is not deductible by both the transferor and acquiring corporation during more than 5 taxable years (in the aggregate) after the contribution year.

No change from existing law is made with regard to the order of time in which the excess charitable contribution carryover must be applied by either the transferor or acquiring corporation in succeeding taxable years.

The amendments made by subsection (b) of section 209 of the bill apply in general (as provided in subsec. (d) of such section) with respect to contributions which are paid in taxable years beginning after December 31, 1963. A special rule is included in subsection (d) of section 209 of the bill to apply to a situation in which an accrual-basis corporation, pursuant to the provisions of section 170(a)(2) of the code, treats a contribution as paid during a prior taxable year. The amendment made by subsection (b) in such a case will apply to contributions which are treated as paid in taxable years which begin after December 31, 1963. The amendments made by subsection (b) of section 209 do not apply to contributions paid (or treated as paid) in taxable years beginning before December 31, 1963, whether or not they may be carried forward to taxable years which begin after December 31, 1963. Such contributions, as under present law, may be carried forward for only 2 years.

(c) *Future interests in tangible personal property.*—Subsection (c) of section 209 of the bill redesignates subsections (f) and (g) of section 170 of the code as subsections (g) and (h), respectively, and adds a new subsection (f).

Section 170(a) of the code provides that a charitable contribution is allowable as a deduction for the taxable year during which payment thereof is made. The new section 170(f) adds a special rule to determine when a charitable contribution consisting of a future interest in tangible personal property is considered to be paid. It provides, in effect, that the gift of such an interest will be considered to be incomplete for so long as the contributor (or a person standing in a relationship to the contributor described in sec. 267(b) of the code (relating to losses, expenses, and interest with respect to transactions between related taxpayers)) retains an intervening interest or right to the actual possession or enjoyment of the property. Under this special rule, a charitable contribution of a future interest in tangible personal property is deemed paid only in the taxable year when (1) all intervening interests in, and rights to the actual possession or enjoyment of, the property have expired, or (2) all intervening interests in, and rights to the actual possession or enjoyment of, the property are held by a person or persons other than the contributor or related parties.

The special rule provided for in the new section 170(f) does not apply to a contribution in which the sole intervening interest or right is a nontransferable interest reserved by the donor which expires upon the donor's death, or, in the case of a joint gift by husband and

wife, the sole intervening interest or right is a nontransferable interest reserved by the donors which expires upon the death of whichever of such donors dies later. However, the right to transfer the reserved life interest to the donee of the future interest (i.e., the charity which receives the future interest contributed) is not treated as making a life estate transferable.

The new section 170(f) has no application with respect to contributions of future interests in real property or in intangible personal property. However, it expressly provides that a fixture which is intended to be severed from real property is to be treated as tangible personal property. For example, a charitable contribution of a future interest in a chandelier which is attached to a building is considered a contribution of a future interest in tangible personal property if the contributor intends that it be detached from the building when the charitable recipient's right to possession or enjoyment of it is to commence. However, if a remainder interest in the entire building is deeded to a single charitable organization without any provision for the severance of the chandelier, the contribution of the chandelier is treated as a contribution of real property and is immediately deductible, subject to the limitations imposed by section 170(b), as under existing law.

The term "future interest" has generally the same meaning as it has when used in section 2503 of the code. In general, it includes all interests which are to commence in use, possession, or enjoyment at some future time or date, regardless of whether such interests are designated as future interests under State law. The term includes not only situations in which the contributor's right to the use, possession, or enjoyment of property is reserved in the deed of gift, but also situations in which the contributor purports to give tangible personal property to a charitable organization without reserving to himself any right to the possession or enjoyment of the property but then enters into a "loan back" agreement with the charitable organization which has this effect.

The amendments made by section 209(c) of the bill apply to transfers of future interests made after December 31, 1963, in taxable years ending after such date. However, the transfer of a taxpayer's (or a related person's) retained interest in property with respect to which the taxpayer had previously transferred a future interest to a charity prior to December 31, 1963, will not give rise to a deduction for the value of such previously transferred future interest.

(*d*) *Effective dates.*—Subsection (d) of section 209 of the bill provides that the amendments made by subsections (a) and (b) of such section apply with respect to contributions which are paid (or treated as paid under sec. 170(a)(2) of the code) in taxable years beginning after December 31, 1963, and that the amendments made by subsection (c) of such section apply to transfers of future interests made after December 31, 1963, in taxable years ending after that date.

SECTION 210. ONE-PERCENT LIMITATION ON MEDICINE AND DRUGS

(*a*) *General rule.*—Subsection (a) of section 210 of the bill amends section 213(b) of the code (relating to limitation of the medical expense deduction for amounts paid for medicines and drugs) by adding

at the end thereof a new sentence which removes the limitation in certain cases.

Section 213(b) of the code presently provides that amounts paid during the taxable year for medicines and drugs may be taken into account in computing the allowable medical expense deduction only to the extent that the aggregate of such amounts exceeds 1 percent of the taxpayer's adjusted gross income for such year.

Under the new sentence the 1-percent limitation of section 213(b) does not apply to amounts paid during the taxable year for medicines and drugs (1) for the care of the taxpayer and his spouse if either has attained age 65 before the close of the taxable year, or (2) for the care of the mother or father of the taxpayer or of his spouse if such parent is a dependent (as defined in sec. 152 of the code) of the taxpayer or his spouse and has attained age 65 before the close of the taxpayer's taxable year. Thus, the 1-percent medicine and drug floor is eliminated in all cases in which the 3-percent floor on deductibility of all medical expenses does not now apply. The 1-percent medicine and drug floor remains applicable in those cases in which the 3-percent floor now applies. For example, if neither the taxpayer nor his spouse has attained age 65 at the close of the taxable year, but a dependent parent of the taxpayer or his spouse has attained age 65 before the close of such taxable year, amounts paid by the taxpayer during the taxable year for medicines and drugs or for any other medical care of such parent are not subject to either the 1- or 3-percent limitation. However, amounts paid by such taxpayer during the taxable year for medicines and drugs or other medical care of himself or his spouse are subject to both the 1-percent limitation of section 213(b) and the 3-percent limitation of section 213(a)(1)(B).

(*b*) *Effective date.*—Subsection (b) of section 210 of the bill provides that the amendment made by subsection (a) applies to taxable years beginning after December 31, 1963.

SECTION 211. CARE OF DEPENDENTS

(*a*) *Child care allowance.*—Subsection (a) of section 211 of the bill amends section 214 of the code (relating to the deduction for expenses for care of certain dependents).

Under the existing provisions of section 214, all women (regardless of marital status) and widowers (including in such term divorced or legally separated men who have not remarried) are allowed a deduction for expenses (herein sometimes called "child care expenses") paid for the care of certain dependents if such care is for the purpose of enabling the taxpayer to be gainfully employed. The deduction cannot exceed $600 for any taxable year, regardless of the number of dependents for whom the taxpayer incurs or pays child care expenses. In the case of a married woman (other than a woman who is legally separated from her spouse under a decree of separate maintenance at the close of the taxable year and, under certain circumstances, a woman who has been deserted by her husband) whose husband is capable of self-support, (1) a deduction is allowable only if a joint income tax return is filed, and (2) the deduction otherwise allowable is reduced dollar for dollar to the extent that the couple's combined adjusted gross income exceeds $4,500, so that no deduction is allowable when the combined income is $5,100 or more. A "dependent" is defined as a

person with respect to whom the taxpayer is entitled to a deduction for an exemption under section 151(e)(1) of the code and who is either (1) a child or stepchild of the taxpayer who has not attained the age of 12 years or (2) physically or mentally incapable of caring for himself.

SECTION 214. EXPENSES FOR CARE OF CERTAIN DEPENDENTS

(*a*) *In general.*—Section 214(a) of the code, as amended by this section of the bill, retains all the substantive rules contained in the existing section 214(a) but expands the class of taxpayers eligible for the child-care deduction to include a husband whose wife is incapacitated or is institutionalized.

(*b*) *Limitations.*—Section 214(b) as amended, provides limitations on the deduction, differing in some respects from those of existing law.

Dollar amount

Paragraph (1)(A) of section 214(b) provides that, except as provided in paragraph (1)(B), the deduction under section 214(a) cannot exceed $600 for any taxable year. Paragraph (1)(B) provides that the $600 limit of paragraph (1)(A) is to be increased (to an amount not above $900) by the amount of expenses incurred by a taxpayer "for any period" during which the taxpayer has two or more dependents and is not subject to the provisions of section 214(b)(2), discussed below. The term "for any period," as used in paragraph (1)(B), may refer to the entire taxable year or any period of time within the taxable year.

Period during which taxpayer had two or more dependents

The first condition to be met in order for the $600 limit to be increased is that expenses for which a deduction in excess of $600 is claimed must have been incurred during a period when the taxpayer had two or more dependents (as defined in sec. 214(d)(1)). If a taxpayer filing income tax returns on a calendar year basis had, on January 1, 1964, two dependent children neither of whom attains the age of 13 or dies before January 1, 1965, such taxpayer is considered to have had two dependents (as defined in sec. 214(d)(1)) during the entire taxable year 1964. If, however, one of such children attains age 13 or dies during 1964, the taxpayer is considered to have had two such dependents for the period January 1, 1964, to the date on which such child attains age 13 or dies, and one such dependent thereafter.

Period during which paragraph (2) does not apply

The second condition to be met in order for the $600 limit to be increased is that expenses for which a deduction in excess of $600 is claimed must have been incurred during a period when the provisions of paragraph (2) of section 214(b) do not apply to the taxpayer. Paragraph (2) has application only in the case of a woman who is married. Accordingly, in the case of any man or in the case of a woman who is single during the entire taxable year (including a woman who pursuant to the provisions of sec. 214(d)(5) is not considered as married), the period during which paragraph (2) does not apply is the entire taxable year. In the case of a woman who is married during the entire taxable year, the period (if any) during which paragraph (2) does not apply is the period, or periods, within

the taxable year during which her husband is incapable of self-support because he is mentally or physically defective. If a woman marries during the taxable year, or if her husband dies during the taxable year, the period within the taxable year during which paragraph (2) does not apply also includes the portion of the taxable year during which the woman was single.

Working wives

Except as noted below, paragraph (2) of section 214(b) continues without change the existing limitations on the deduction allowable to certain married women. These limitations are that a deduction is not allowed unless the taxpayer files a joint return with her husband and that the deduction otherwise allowable is reduced to the extent that the couple's combined adjusted gross income exceeds $4,500. However, the provisions imposing the limitations on married women are amended to make it clear that such limitations are not applicable to a taxpayer whose husband is incapable of self-support because he is mentally or physically defective, but only with respect to expenses incurred in a period during which such incapacity exists.

Husbands whose wives are incapacitated

Paragraph (3) of section 214(b) imposes limitations on the new deduction allowable to a husband whose wife is incapacitated during the taxable year. In such case a deduction may be allowed for child care expenses only if the taxpayer files a joint return with his wife. Further, the deduction otherwise allowable is reduced dollar for dollar to the extent that the couple's combined adjusted gross income exceeds $4,500. However, paragraph (3) provides that the limitations do not apply to expenses incurred while the taxpayer's wife is institutionalized for a period of at least 90 consecutive days (whether or not within 1 taxable year) or a shorter period if terminated by her death. (See sec. 214(c) for special rule applicable where a wife is incapacitated or is institutionalized and sec. 214(d) (3) and (4) for definitions of the terms "incapacitated wife" and "institutionalized wife.")

The application of the rules contained in paragraphs (1), (2), and (3) of section 214(b) is illustrated by the following examples:

Example (1).—H and W are married at all times during 1964. They have two dependent children aged 6 and 10 years. As a result of an accident, H incurs injuries which render him incapable of self-support from January 1, 1964, to March 1, 1964. Their adjusted gross income for 1964 is $4,600 and they file a joint return. W incurs and pays $70 a month for child care expenses during 1964. The total allowable deduction in this case is $640, computed as follows: the $700 incurred while H was capable of self-support is reduced to $600 (the maximum deduction allowable for any period during which a husband is capable of self-support) and the $600 is then reduced to $500 (because of the $100 excess of H and W's adjusted gross income over $4,500); to this $500 is added $140 for the expenses incurred while H was incapable of self-support.

Example (2).—H and W are married at all times during 1964. They have three dependent children aged 2, 4, and 6. On February 1, 1964, W becomes incapacitated and remains unable to care for herself until April 1, 1964, at which time W is admitted to a hospital for medical treatment. W remains in the hospital continuously until August 1, 1964, at which time she returns home. On

August 1, 1964, and for the remainder of 1964, W is capable of caring for herself. H incurs and pays $80 a month for child care expenses from February 1, 1964, to August 1, 1964. H and W's adjusted gross income for 1964 is $4,600 and they file a joint return. The total allowable deduction in this case is $380, computed as follows: the $160 incurred during February and March while W was incapacitated but not institutionalized is reduced to $60 (because of the $100 excess of the adjusted gross income over $4,500); to this $60 is added $320 for the child care expenses incurred while W was institutionalized.

Certain payments not taken into account

Paragraph (4) of section 214(b) continues the provision of existing law that no deduction is allowed for any amount paid to an individual with respect to whom the taxpayer is allowed for his taxable year a deduction under section 151 of the code (relating to deductions for personal exemptions).

(c) *Special rule where wife is incapacitated or institutionalized.*—Section 214(c) limits the new deduction allowable under section 214(a) to a husband whose wife is incapacitated or is institutionalized. The deduction is limited to those child care expenses which are incurred while his wife is incapacitated (as defined in sec. 214(d)(3)) or institutionalized (as defined in sec. 214(d)(4)), as the case may be, for a period of at least 90 consecutive days (whether or not within 1 taxable year) or a shorter period if terminated by her death.

A wife who is institutionalized, within the meaning of section 214 (d)(4), for any period of time (whether or not for 90 consecutive days), is, pursuant to the provisions of section 214(d)(3), considered to be incapacitated during that period. Thus, if, during the entire month of March, a taxpayer's wife is incapable of caring for herself because mentally or physically defective and, during the entire period April 1 through June 30 of the same year, is an inpatient in a hospital for the purpose of receiving medical care or treatment, such wife is considered to be incapacitated during the entire period March 1 through June 30. In addition the wife is considered to be institutionalized for a period of at least 90 consecutive days (April 1 through June 30). Thus, child care expenses incurred during March are deductible, subject to the limitations of section 214(b)(3) ($4,500 income limitation and joint return requirement), and child care expenses incurred during April, May, and June are deductible without regard to such limitations. However, if the wife had been institutionalized only from April 1 to May 30, the wife is considered to be incapacitated for a 90-day period but is not considered institutionalized for a 90-day period. Thus, child care expenses incurred during March, April, and May are deductible but are subject to the limitations of section 214(b)(3).

Computation of 90-day period

For purposes of section 214(c), different periods of incapacity separated by a period of time cannot be combined to satisfy the requirement that a wife be incapacitated for 90 consecutive days. Similarly, in the case of an institutionalized wife, separated periods of institutionalization cannot be combined. However, the running of a period of institutionalization includes brief absences from the institution (such as on weekends) and is not interrupted by transfers from one institution to another.

Since a wife who is institutionalized is considered to be incapacitated, the period during which a wife is institutionalized is added to a consecutive period during which she is incapacitated for purposes of determining whether the wife was incapacitated for a period of 90 consecutive days. Thus, the 90-consecutive-day requirement is met where a wife remains at home unable to care for herself because of a physical or mental defect for 60 consecutive days and immediately thereafter enters an institution where she continuously remains for an additional 30 days receiving medical care or treatment, whether or not she is able to care for herself during such 30 days.

90-day period not occurring in 1 taxable year

The 90-consecutive-day period need not occur in 1 taxable year. If part of the period occurs in 1 taxable year and the remainder in the succeeding taxable year, a deduction is allowable (if all other conditions of sec. 214 are satisfied) for the child care expenses incurred during the part of the period occurring in each such year. If the taxpayer's wife is institutionalized or incapacitated at the end of the taxable year which immediately precedes the first taxable year of the taxpayer beginning after December 31, 1963, and she continues to be institutionalized or incapacitated into such first taxable year, then her period of institutionalization or incapacity occurring in the preceding taxable year may be counted in satisfying the 90-day requirement.

(*d*) *Definitions.*—Section 214(d) retains, with the modification discussed below, the existing definitions of the terms "dependent" and "widower" and the special rule relating to the status of a woman who is legally separated or divorced or who has been deserted by her spouse. Definitions of the terms "incapacitated wife" and "institutionalized wife" are added (in new pars. (3) and (4)).

Dependent

Paragraph (1)(A) of section 214(d) provides that the term "dependent" means a person with respect to whom the taxpayer is entitled to a deduction for an exemption under section 151(e)(1) of the code who (1) has not attained the age of 13 years and who (within the meaning of sec. 152) is a son, stepson, daughter, or stepdaughter of the taxpayer or (2) regardless of age, is physically or mentally incapable of caring for himself. The amendment made by the bill substitutes an age limit of up to 13 years for the age limit of up to 12 years contained in existing law.

Incapacitated wife

The new paragraph (3) of section 214(d) provides that a wife is considered incapacitated only while she is incapable of caring for herself because of a physical or mental defect or while she is institutionalized as defined in paragraph (4).

Institutionalized wife

The new paragraph (4) of section 214(d) provides that a wife is considered institutionalized only while she is, for the purpose of receiving medical care or treatment, an inpatient, resident, or inmate of a public or private hospital, sanitarium, or other similar institution. A wife who resides at a hospital, sanitarium, or other similar institution by reason of her employment is not institutionalized.

SECTION 211. CARE OF DEPENDENTS (Continued)

(*b*) *Effective date.*—Subsection (b) of section 211 of the bill provides that the amendments made by subsection (a) of such section apply to taxable years beginning after December 31, 1963.

SECTION 212. MOVING EXPENSES

(*a*) *Deduction allowed for moving expenses.*—Subsection (a)(1) of section 212 of the bill amends part VII of subchapter B of chapter 1 of the code (relating to additional itemized deductions for individuals) by redesignating section 217 as section 219 and inserting a new section 217.

SECTION 217. MOVING EXPENSES

(*a*) *Deduction allowed.*—The new section 217(a) allows, subject to certain conditions, a deduction for "moving expenses" paid or incurred by the taxpayer during the taxable year. To be deductible, the moving expenses must be paid or incurred in connection with the commencement of work by the taxpayer as an employee at a new principal place of work. Moving expenses incurred in relocating the taxpayer's residence to a location which is further from his new principal place of work than was his former residence are not generally incurred in connection with such commencement of work.

(*b*) *Definition of moving expenses.*—Section 217(b) defines the term "moving expenses" to mean only the reasonable expenses (1) of moving household goods and personal effects from the taxpayer's former residence to his new residence, and (2) of traveling from the taxpayer's former residence to his new place of residence. The term includes such expenses of the taxpayer and of members of the taxpayer's household who have both the taxpayer's former residence and his new residence as their principal place of abode.

Reasonable expenses

The term "moving expenses" includes only those expenses which are reasonable under the circumstances of the particular move. Generally, moving expenses are reasonable only if they are paid or incurred for movement by the shortest and most direct route available from the taxpayer's former residence to his new residence by the conventional mode or modes of transportation actually used. Expenses paid or incurred in excess of a reasonable amount are not deductible.

Expenses of moving household goods and personal effects

Expenses of moving household goods and personal effects include expenses of transporting such goods and effects from the taxpayer's former residence to his new residence, and expenses of packing, crating, and in-transit storage of such goods and effects. Examples of items not deductible as moving expenses include, but are not limited to, costs incurred in the acquisition of property, costs incurred and losses sustained in the disposition of property, penalties for breaking leases, mortgage penalties, expenses of refitting rugs or draperies, tuition fees, and similar items.

Expenses of traveling

Expenses of traveling include the cost of transportation and of meals and lodging en route on one trip from the taxpayer's former

residence to his new place of residence. Expenses of traveling do not include living expenses following the date of arrival at the new place of residence, living expenses preceding the date of departure for the new place of residence, expenses of house or apartment hunting, or expenses of trips for purposes of selling property.

Residence

The term "former residence" refers to the taxpayer's principal residence before his departure for his new principal place of work. The term "new residence" refers to the taxpayer's principal residence at his new principal place of work. Thus neither term has application to other residences maintained by the taxpayer, such as a summer beach cottage. The term "new place of residence" includes the metropolitan area within which the taxpayer's new residence is located.

(c) *Conditions for allowance.*—Section 217(c) provides certain conditions which must be satisfied for a deduction to be allowed under section 217(a).

Minimum distance

Under section 217(c)(1), no deduction is allowed unless the distance between the taxpayer's new principal place of work and his former residence exceeds by at least 20 miles the distance between his former principal place of work and such former residence. If the taxpayer had no former principal place of work, no deduction is allowed unless the distance between his new principal place of work and his former residence is at least 20 miles. For purposes of measuring distances under section 217(c)(1) all computations are to be made on the basis of a straight-line measurement.

A taxpayer's "principal place of work" is determined with reference to his principal employment, if he has more than one employment. Usually, a taxpayer's principal place of work is the place at which he spends most of his working time. However, a taxpayer may have a principal place of work even if there is no one place at which he spends a substantial portion of his working time. In such case, the taxpayer's principal place of work is the place at which his business activities are centered—for example, because he reports there for work. Individuals who are seeking full-time employment for the first time (for example, recent high school or college graduates), or individuals who are reentering the labor force after a substantial period of unemployment or part-time employment, have no former principal place of work.

Minimum period of employment

Under section 217(c)(2) no deduction is allowed unless, during the 12-month period immediately following the taxpayer's arrival in the general location of his new principal place of work, the taxpayer is a full-time employee, in such general location, during at least 39 weeks. It is not necessary that the taxpayer remain in the employ of the same employer for 39 weeks, but only that he be employed in the same general location during such period. The "general location" of the new principal place of work refers to the area within which an individual might reasonably be expected to commute to such place of work.

The 12-month period and the 39-week period are to be measured from the date of the taxpayer's arrival in the general location of his

new principal place of work. Generally, the taxpayer's date of arrival is the date of the termination of the trip immediately following which the taxpayer starts to work at his new principal place of work on a regular basis, regardless of the date on which the taxpayer's family arrives.

Only a week during which the taxpayer is a full-time employee qualifies as a week of work. Whether an employee is a full-time employee during any particular week depends upon the customary practices of the occupation in the geographical area in which the taxpayer works. In the case of occupations where employment is on a seasonal basis, weeks occurring in the off season where no work is required or available may be counted as weeks of full-time work only if the employee's contract or agreement of employment covers the off-season period and the off-season period is less than 6 months.

(*d*) *Rules for application of subsection* (*c*)(*2*).—Section 217(d) provides special rules for the application of section 217(c)(2).

Inapplicability of 39-week test to reimbursed expenses

Paragraph (1) of section 217(d) provides that the 39-week employment condition of section 217(c)(2) does not apply to any item to the extent that the taxpayer receives reimbursement or other allowance from his employer for such item. A reimbursement or other allowance to an employee for expenses of moving, in the absence of a specific allocation by the employer, is allocated first to items deductible under section 217(a) and then (if a balance remains) to items not so deductible.

Election of deduction before 39-week test is satisfied

Paragraph (2) of section 217(d) provides a special rule which applies in those cases where a taxpayer paid or incurred, in a particular taxable year, moving expenses which would be deductible in that taxable year except that the 39-week employment condition of section 217(c)(2) has not been satisfied before the time prescribed by law (including extensions thereof) for filing the return for such taxable year. If at such time there remains unexpired a sufficient portion of the 12-month period so that it is still possible for the taxpayer to satisfy the 39-week requirement, then the taxpayer may elect to claim a deduction for such expenses on the return for such taxable year filed within the time prescribed by law (including extensions thereof).

In the event that a taxpayer has not claimed a deduction for moving expenses on the return for the taxable year in which such expenses were paid or incurred, and the 39-week employment condition (as well as all other requirements of sec. 217) is subsequently satisfied, then the taxpayer may file an amended return for the taxable year in which such moving expenses were paid or incurred on which he may claim a deduction under section 217.

Recapture of deduction where 39-week test is not met

Paragraph (3) of section 217(d) provides a special rule which applies in cases where the taxpayer has deducted moving expenses under the election of paragraph (2), and the 39-week test is not satisfied by the close of the taxable year immediately following the taxable year in which the expenses were deducted. Paragraph (3) provides that in such cases an amount equal to the expenses which were deducted must be included in the taxpayer's gross income for the taxable

year immediately following the taxable year in which the expenses were deducted.

(*e*) *Disallowance of deduction with respect to reimbursements not included in gross income.*—Section 217(e) provides that no deduction is allowed under section 217 for any item to the extent that the taxpayer receives reimbursement or other expense allowance for such item unless the amount of such reimbursement or other expense allowance is included in his gross income. Thus if an employee has claimed a deduction for moving expenses and subsequently receives a reimbursement for such expenses which he does not include in his gross income, then he must file an amended return for the taxable year in which the deduction was claimed. However, section 217 does not permit any employee to exclude from gross income any reimbursement or other allowance not properly excludable under present law.

(*f*) *Regulations.*—Section 217(f) provides that the Secretary of the Treasury or his delegate is to prescribe such regulations as may be necessary to carry out the purposes of section 217.

SECTION 212. MOVING EXPENSES (Continued)

Subsection (a)(2) of section 212 of the bill amends the table of sections for part VII of subchapter B of chapter 1 of the code to reflect the redesignation of section 217 as section 219 and the insertion of the new sections 217 and 218 added by sections 212(a)(1) and 203(b) of the bill.

(*b*) *Adjusted gross income.*—Subsection (b) of section 212 of the bill amends section 62 of the code (defining adjusted gross income) by inserting a new paragraph (8). This new paragraph provides that, in computing adjusted gross income, gross income is to be reduced by the deduction allowed by the new section 217 for moving expenses.

(*c*) *Withholding.*—Subsection (c) of section 212 of the bill amends section 3401(a) of the code (relating to definition of wages) by adding a new paragraph (15) at the end thereof. Under this new paragraph, the term "wages" (for purposes of withholding of income tax at source on wages) does not include remuneration paid to or on behalf of an employee if (and to the extent that) at the time of the payment of such remuneration it is reasonable to believe that a corresponding deduction is allowable under section 217.

(*d*) *Effective dates.*—Subsection (d) of section 212 of the bill provides that the amendments made by subsections (a) and (b) of such section apply to moving expenses incurred after December 31, 1963, in taxable years ending after such date, and that the amendment made by subsection (c) applies with respect to remuneration paid after December 31, 1963.

SECTION 213. INTEREST ON LOANS INCURRED TO PURCHASE CERTAIN INSURANCE AND ANNUITY CONTRACTS

Section 213 of the bill amends section 264 of the code to provide that, under certain circumstances, no deduction is allowed for interest on loans incurred or continued to purchase or carry certain life insurance, endowment, or annuity contracts (other than single-

premium contracts or contracts which are treated as single-premium contracts for purposes of section 264).

(*a*) *Disallowance of interest deduction.*—Subsection (a)(1) of section 213 of the bill amends section 264(a) of the code by adding a new paragraph (3). The new paragraph (3) provides that, except as provided in section 264(c) (which is added by subsec. (b) of this section of the bill), no deduction is allowed for any amount paid or accrued on indebtedness incurred or continued to purchase or carry a life insurance, endowment, or annuity contract (other than a single-premium contract or a contract treated as a single-premium contract) pursuant to a plan of purchase which contemplates systematic direct or indirect borrowing of part or all of the increases in the cash value of such contract (either from the insurer or otherwise).

Amounts paid or accrued on indebtedness incurred or continued to purchase or carry a single-premium life insurance, endowment, or annuity contract (including a contract treated as a single-premium contract) are excluded from the provision of the new paragraph (3). The deductibility of these amounts is governed by the provisions of sections 264(a)(2) and 264(b).

In order for a deduction to be disallowed under the new paragraph (3) of section 264(a) for amounts paid or accrued on indebtedness, such indebtedness must be incurred or continued as part of a plan to systematically borrow (either directly or indirectly) part or all of the increases in the cash value of a contract in order to purchase the contract (that is, to pay part or all of the premiums thereon). Thus it would not apply to disallow a deduction in the case of irregular borrowing against the cash value of a contract. However, the mere fact that the taxpayer does not borrow against the increase in the cash value to pay a premium for a particular year does not preclude the new paragraph (3) from applying if, under the facts and circumstances, a regular pattern of borrowing to pay premiums exists. The new paragraph (3) may apply even though the plan does not involve the systematic borrowing of part or all of the increases in the cash value to pay the premiums over the entire life of the contract so long as the plan contemplates the systematic borrowing of part or all of the increases in the cash value to pay premiums for a substantial number of years. The new paragraph (3) may apply even though the plan of purchase described therein does not exist at the time the contract is entered into. However, under the exception included in the new section 264(c)(1), the plan of purchase must come into existence before the fourth annual premium due under the contract is paid or, if there is a substantial increase in the premiums on the contract, before the fourth such increased premium is paid.

The new paragraph (3) applies both in the case of direct and indirect borrowing of part or all of the increases in the cash value of a contract.

Subsection (a)(2) of section 213 of the bill adds a new sentence, at the end of section 264(a) of the code, which provides that the new paragraph (3) applies only in respect of contracts purchased after August 6, 1963. The new paragraph (3) does not apply with respect to a contract purchased before August 7, 1963, even though there is a substantial increase in the premiums under such contract after such date.

(*b*) *Exceptions.*—Subsection (b) of section 213 of the bill amends section 264 of the code by adding at the end thereof a new subsection

(c) which provides four exceptions to the general rule in the new paragraph (3) of section 264(a).

Paragraph (1) of the new subsection (c) provides that paragraph (3) of section 264(a) does not apply to any amount paid or accrued on indebtedness incurred or continued as part of a plan referred to in such paragraph (3) if no part of four of the annual premiums due during the 7-year period, beginning with the date the first premium on the contract to which the plan relates was paid, is paid under such plan by means of indebtedness. For this purpose, if the premiums on a contract are payable other than on an annual basis (as, for example, if they are payable monthly), the term "annual premium" means the aggregate of the premiums due for the year. Under this exception the new paragraph (3) of section 264(a) is not applicable unless some part of at least four of the first seven annual premiums due on the contract is paid under the plan by means of indebtedness. However, if any part of four of the first seven annual premiums is paid under the plan by means of indebtedness and the new paragraph (3) otherwise applies, then any deductions claimed by the taxpayer for interest paid or accrued on the loans incurred to pay these premiums will be disallowed if the taxable years involved are not closed by reason of the statute of limitations or other rule of law. The new subsection (c) provides that, for purposes of applying the exception in paragraph (1) thereof, if there is a substantial increase in the premiums on a contract, a new 7-year period with respect to such contract commences on the date the first such increased premium is paid.

Paragraph (2) of the new subsection (c) provides that paragraph (3) of section 264(a) does not apply to any amount paid or accrued by a person during a taxable year on indebtedness if the total of the amounts paid or accrued by such person during such taxable year for which (without regard to such paragraph (2)) no deduction would be allowable by reason of paragraph (3) of section 264(a) does not exceed $100. Thus, even though a taxpayer has entered into one or more plans referred to in the new paragraph (3) of section 264(a), his interest deduction for a taxable year will nevertheless not be disallowed under such paragraph if the total interest subject to such paragraph for such taxable year does not exceed $100.

Paragraph (3) of the new subsection (c) provides that the new paragraph (3) of section 264(a) does not apply to any amount paid or accrued by a person on indebtedness incurred because of an unforeseen substantial loss of income or an unforeseen substantial increase in his financial obligations. Thus, for example, the new paragraph (3) of section 264(a) does not operate to disallow a deduction for interest paid on a loan against the cash value of a contract if such loan was incurred by the taxpayer because of unexpected medical expenses or because of an unforeseen layoff from his job (whether or not the loan is used to pay a premium on the contract).

Paragraph (4) of the new subsection (c) makes it clear that the new paragraph (3) of section 264(a) does not apply to any amount paid or accrued on indebtedness incurred in connection with the taxpayer's trade or business. Thus, if the taxpayer pledges his insurance contract as part of the collateral for a loan to finance capital improvements for his business, no part of the interest on such loan would be disallowed as a deduction under the new paragraph (3) of section 264(a).

(*c*) *Effective date.*—Subsection (c) of section 213 of the bill provides that the amendments made by such section apply with respect to amounts paid or accrued in taxable years beginning after December 31, 1963.

SECTION 214. EMPLOYEE STOCK OPTIONS AND PURCHASE PLANS

(*a*) *In general.*—Subsection (a) of section 214 of the bill revises part II of subchapter D of chapter 1 of the code, which deals with employee stock options. The revised part II consists of an amended section 421 of the code and new sections 422, 423, 424, and 425. Section 421 as amended by the bill contains general rules applicable to options described in sections 422, 423, and 424. The new sections 422 and 423 relate to qualified stock options and employee stock purchase plans, respectively, and contain new rules to be applied in determining whether the transfer of a share of stock to an individual pursuant to his exercise of a stock option qualifies for tax treatment similar to that presently provided by section 421(a) of the code. The new section 424 continues the present treatment for restricted stock options granted before the effective date of the new rules. The new section 425 contains definitions and special rules common to the other provisions of the revised part II. The new sections, and the respects in which their provisions differ from the provisions of the existing section 421, are as follows:

SECTION 421. GENERAL RULES

(*a*) *Effect of qualifying transfer.*—Section 421(a), as amended by this section of the bill, contains the rules relating to the tax treatment of an individual receiving a share of stock in a transfer pursuant to the exercise of an option with respect to which the requirements of section 422(a) (relating to qualified stock options), 423(a) (relating to employee stock purchase plans), or 424(a) (relating to restricted stock options) are met. These rules are similar to those contained in the existing section 421(a) (1), (2), and (3), and provide that—

(1) except as provided in section 422(c)(1), no income results at the time of the transfer of the share to the individual upon his exercise of the option with respect to such share;

(2) no deduction under section 162 of the code (relating to trade or business expenses) is allowable at any time to the employer corporation or a parent or subsidiary of such corporation, or a corporation issuing or assuming a stock option in a transaction to which section 425(a) (relating to corporate reorganizations, liquidations, etc.) applies, with respect to the share so transferred; and

(3) no amount other than the price paid under the option is considered as received by any of such corporations for the share so transferred.

(*b*) *Effect of disqualifying disposition.*—Section 421(b) as amended contains rules relating to the tax effects of an individual's failure to satisfy the holding period requirement of section 422(a)(1), 423(a)(1), or 424(a)(1) with respect to a share of stock acquired pursuant to the exercise of an option with respect to which the other re-

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quirements of section 422(a), 423(a), or 424(a) are met. These rules are similar in effect to those contained in the existing section 421(f), and provide that any increase in the income of the individual or deduction from the income of his employer corporation, for the taxable year in which the exercise occurred attributable to the disposition, is treated as an increase in income or deduction from income in the taxable year of the individual or his employer corporation in which such disposition occurred.

(c) *Exercise by estate.*—Section 421(c) as amended provides the same substantive rules as the existing section 421(d)(6) governing the exercise of an option to which part II of subchapter D of chapter 1 applies after the death of the employee by his estate or a person who acquired the right to exercise such option by bequest, inheritance, or by reason of the death of the decedent.

General rule

Paragraph (1) of section 421(c) provides that, as a general rule, the provisions of section 421(a) apply to the exercise of an option by an employee's estate to the same extent as if the option had been exercised by the decedent, except that—

(1) the holding period and employment requirements of sections 422(a), 423(a), and 424(a) do not apply, and

(2) any transfer by the estate of stock acquired is considered a disposition of such stock for purposes of sections 423(c) and 424(c).

Deduction for estate tax

Paragraph (2) of section 421(c) provides that the employee's estate or heir is entitled to a deduction in the amount of the estate tax attributable to the inclusion in the taxable estate of the deceased employee of the net value for estate tax purposes of the option. The deduction is determined under section 691(c) of the code as if the option acquired from the deceased employee were an item of gross income in respect of the decedent under section 691 and as if the amount includible in gross income under section 422(c)(1), 423(c), or 424(c)(1) were an amount included in gross income under section 691 in respect of such item of gross income.

Basis of shares acquired

Paragraph (3) of section 421(c) provides certain basis rules which apply in the case of stock acquired by the estate or heir pursuant to the exercise of an option to which the revised part II applies.

Subparagraph (A) of section 421(c)(3) provides that, as a general rule, the basis of any share of stock acquired pursuant to the exercise of such an option is to include an allocable portion of the basis of the option in addition to the amount paid for the share. However, as an exception to this general rule, this subparagraph further provides that the basis is to be reduced by the excess of the amount that would have been includible in the employee's gross income at the time of his death under section 422(c)(1), 423(c), or 424(c)(1) (determined as if the option had been exercised on the date of his death and the stock so acquired was held at such time) over the amount includible in gross income to the estate or heir under such section.

Subparagraph (B) of section 421(c)(3) provides that the last sentences of sections 422(c)(1), 423(c), and 424(c)(1) apply only to the

extent that the amount includible in gross income exceeds the basis for the option attributable to the share.

SECTION 422. QUALIFIED STOCK OPTIONS

(*a*) *In general.*—The new section 422(a) provides new holding period and employment requirements which must be satisfied if an individual receiving a qualified stock option is to obtain the special tax treatment afforded by section 421(a) as amended. Generally, under present law, a share of stock transferred to an individual pursuant to his exercise of a restricted stock option must not be disposed of within 2 years from the date of the granting of the option nor within 6 months after the transfer of the share to the individual if the individual is to obtain the special tax treatment provided by section 421(a). As an additional prerequisite to the special tax treatment provided by the existing section 421(a), the individual is required to be an employee of the grantor corporation, a parent or subsidiary corporation of such corporation, or a corporation or a parent or subsidiary of such corporation issuing or assuming a stock option in a transaction to which section 425(a) (relating to corporate reorganizations, liquidations, etc.) applies at the time of the granting of the option and at the time the option is exercised, or within the 3-month period preceding the date of exercise. In comparison, the new section 422(a) requires stock acquired pursuant to the exercise of a qualified stock option (as defined in section 422(b)) to be held for at least 3 years after the stock is transferred to the individual and requires that the individual be an employee of a corporation described in the preceding sentence at all times beginning with the date the option is granted and ending on the day 3 months before the option is exercised if the special treatment afforded by section 421(a) as amended by the bill is to be obtained. Thus, section 422(a) provides that section 421(a) applies with respect to the transfer of a share of stock to an individual pursuant to his exercise of a qualified stock option (as defined in sec. 422(b)) if—

(1) no disposition of such share is made by such individual within the 3-year period beginning on the day after the day of the transfer of such share to the individual, and

(2) at all times during the period beginning with the date of the granting of the option and ending on the day 3 months before the date of such exercise, such individual was an employee of either the corporation granting such option, a parent or subsidiary of such corporation, or a corporation or a parent or subsidiary corporation of such corporation issuing or assuming a stock option in a transaction to which section 425(a) (relating to corporate reorganizations, liquidations, etc.) applies.

For example, if an individual is granted a qualified stock option to purchase stock in his employer corporation on January 2, 1964, and such individual continues to be an employee of such corporation until he terminates his employment on June 6, 1965, he may exercise his option at any time from the date the option was granted to him through September 6, 1965. Assuming that such individual exercises his option on September 6, 1965, and that the stock is transferred to him on September 10, 1965, he must not dispose of the stock before September 11, 1968, if he is to qualify for the special tax treatment afforded by section 421(a).

(*b*) *Qualified stock option.*—The new section 422(b) defines the term "qualified stock option" for purposes of the revised part II as an option granted to an individual after June 11, 1963 (other than a restricted stock option granted pursuant to a contract described in sec. 424(c)(4)(A)), for any reason connected with his employment by the corporation, if granted by the employer corporation or its parent or subsidiary corporation, to purchase stock of any of such corporations, but only if the requirements of paragraphs (1) through (7) of section 422(b) are met.

Stockholder approval

Paragraph (1) of section 422(b) requires that the option be granted pursuant to a plan which is approved by the stockholders of the granting corporation within 12 months before or after the date the plan is adopted. The plan so approved must indicate the aggregate number of shares which may be issued under options, and the employees, or class of employees, eligible to receive options. A plan will be considered as indicating the aggregate number of shares which may be issued under options although the number of shares that may be optioned may be increased to reflect changes in the capitalization of the company, such as stock splits, etc. A plan may satisfy the requirements of paragraph (1) although the board of directors or another group may be given the authority to select the employees to whom options are granted and the authority to decide upon the number of shares to be optioned to each employee. A plan is adopted within the meaning of paragraph (1) when all the conditions (other than stockholder approval) precedent to the granting of options under the plan have been completed by the corporation.

Period for granting options

Paragraph (2) of section 422(b) provides that a qualified stock option must be granted within 10 years from the date the plan is adopted, or the date the plan is approved by the stockholders, whichever is earlier.

Period for exercising options

Paragraph (3) of section 422(b) provides that a qualified stock option by its terms must not be exercisable after the expiration of 5 years from the date the option is granted.

Option price

Paragraph (4) of section 422(b) provides that the option price, except as provided in section 422(c)(1) (relating to exercise of option when price is less than value of stock), must not be less than the fair market value of the stock at the time the option is granted.

Prior outstanding options

Paragraph (5) of section 422(b) provides that the new option by its terms must not be exercisable while there is outstanding (within the meaning of sec. 422(c)(2), relating to certain options treated as outstanding) any qualified or restricted stock option which was granted, before the granting of the new option, to the individual to purchase stock in the employer corporation or in a corporation which (at the time of the granting of such option) is its parent or subsidiary corporation, or in a predecessor corporation of any of such corporations. Thus, when a qualified stock option is granted to an individual with

respect to the stock of his employer corporation, or a parent or subsidiary corporation of such corporation, and a qualified or restricted stock option was previously granted to such individual with respect to the stock of any of such corporations, the qualified or restricted option previously granted to the individual must lapse or be exercised by the individual before the qualified option currently being granted to such individual may be exercised. The same rule applies to options granted by a predecessor corporation of any of such corporations. For example, if the present employer corporation or its parent or subsidiary corporation has succeeded to the business of a corporation by reason of a transaction described in section 425(a), a qualified or restricted stock option granted by the predecessor corporation prior to such transaction must lapse or be exercised by the individual before a qualified option currently being granted to such individual may be exercised. If several qualified stock options were previously granted to the individual, the options must be exercisable only in the order in which they were granted, with the first option granted being the first exercisable, regardless of which of the corporations' stock is subject to the option. The rule of paragraph (5) applies only with respect to qualified and restricted stock options which are outstanding (within the meaning of sec. 422(c)(2)) at the time the new qualified stock option is granted. Paragraph (5) does not apply with respect to options which are not qualified or restricted stock options.

Restriction on transferability

Paragraph (6) of section 422(b) is identical to the existing section 421(d)(1)(B) and provides that the option by its terms must not be transferable by the individual otherwise than by will or the laws of descent and distribution, and must be exercisable, during his lifetime, only by him.

Restriction on ownership

Paragraph (7) of section 422(b) provides that the individual receiving the option, immediately after such option is granted, must not own stock possessing more than 5 percent of the total combined voting power or value of all classes of stock of the employer corporation or of its parent or subsidiary corporation; except that if the equity capital of such corporation or corporations (determined at the time the option is granted) is less than $2 million, then, for purposes of applying the limitation of paragraph (7), there is added to such 5 percent the percentage (not higher than 5 percent) which bears the same ratio to 5 percent as the difference between the equity capital and $2 million bears to $1 million. Under no circumstances may the additional percentage exceed 5 percent, nor may the total percentage limitation of section 422(b)(7) exceed 10 percent.

The operation of the percentage limitation of paragraph (7) is illustrated by the following example:

Example.—E is an employee of the P Corp. P owns 60 percent in value of the stock of the S Corp., and P Corp. and S Corp. have combined equity capital (as defined by sec. 422(c)(3)(A)(ii)) of $1,600,000. Since the equity capital of P and S is less than $2 million, there may be added to the 5-percent limitation the additional percentage which bears the same proportion to 5 percent as the difference between the equity capital and $2 million ($2 million minus $1,600,000, or $400,000)

bears to $1 million. Accordingly, there may be added to the 5-percent limitation of section 422(b)(7) an additional 2 percent ($400,000 is to $1 million as 2 percent is to 5 percent) resulting in a limitation of 7 percent (5 percent plus 2 percent) for purposes of section 422(b)(7). Thus, an option which otherwise meets the requirements of section 422(b) and which is granted to E by P or S to purchase the stock of either of such corporations will meet the requirement of section 422(b)(7) to the extent that, immediately after such option is granted, E will not own stock (within the meaning of sec. 422(c)(3)) in either P or S possessing more than 7 percent of the total combined voting power or value of all classes of stock of either of such corporations. If, at the time the option was granted, E owned stock possessing more than 7 percent of the total combined voting power or value of either P or S, the option could not qualify as a qualified stock option, irrespective of which corporation's stock was the subject of the option.

For the definition of the term "equity capital" and other special rules relating to the application of section 422(b)(7), see section 422(c)(3).

(c) *Special rules.*—The new section 422(c) provides special rules which are to be applied in connection with the requirements of section 422 (a) and (b).

Exercise of option when price is less than value of stock

Paragraph (1) of section 422(c) provides that, if a share of stock is transferred pursuant to the exercise by an individual of an option which fails to qualify as a qualified stock option under section 422(b) because there was a failure to meet the option price requirement of section 422(b)(4), the requirement of section 422(b)(4) will be considered to have been met if there was an attempt made in good faith to meet such requirement. However there is includible as compensation in the individual's gross income, for the taxable year in which the option is exercised, an amount equal to the lesser of—

> (1) 150 percent of the difference between the option price and the fair market value of the share at the time the option was granted, or
>
> (2) the difference between the option price and the fair market value of the share at the time of such exercise.

Whether there was a good-faith attempt to set the option price at 100 percent of the fair market value of the stock, subject to the option at the time the option was granted, depends on the facts and circumstances surrounding the case. For example, if it is shown that the fair market value of the stock was established by using an average of the fair market values set forth in the opinions of completely independent and well-qualified experts, such a showing establishes that there was an attempt in good faith to meet the requirement of section 422(b)(4). In any case where an amount is included in gross income by reason of section 422(c)(1), the basis of the share acquired is increased by an amount equal to the amount included in gross income in the taxable year in which the exercise occurred.

Certain options treated as outstanding

Paragraph (2) of section 422(c) provides that, in applying the rule of section 422(b)(5) (relating to prior outstanding options), any restricted stock option which is not terminated before January 1, 1965, and any qualified stock option, will be treated as outstanding

until such option is exercised in full or expires solely by reason of the lapse of time. Restricted stock options terminated before January 1, 1965, will not be treated as outstanding for purposes of section 422 (b)(5), irrespective of the reason for which such option was terminated. On the other hand, if any qualified stock option (and any restricted stock option not terminated before January 1, 1965) which was not exercised in full is terminated by cancellation, rescission, or any other form of termination, or by the occurrence of any condition (other than the lapse of time), such option is treated as outstanding until it would have lapsed solely by reason of the passage of the time during which the option, according to its terms when granted, could be exercised. A restricted stock option which is modified (within the meaning of sec. 425(h)(3)) after December 31, 1964, and a qualified stock option which is modified at any time, is treated as outstanding according to its orginal terms. For example, if a qualified stock option has an option price of $100 when granted, and if the option price is reduced to $75, the option is treated as an outstanding qualified stock option with an option price of $100 for purposes of section 422 (b)(5). A restricted or qualified stock option issued or assumed by a corporation in a corporate reorganization or liquidation to which section 425(a) applies is treated as outstanding to the same extent and in the same manner as the restricted or qualified stock option previously held by the individual and replaced or assumed in the reorganization or liquidation but, in such a case, the restricted or qualified stock option previously held by the individual is not treated as outstanding. If section 425(a) does not apply to a corporate reorganization or liquidation, a qualified or restricted stock option held by the individual before such corporate reorganization or liquidation is treated as outstanding according to its original terms irrespective of whether the effect of the corporate reorganization or liquidation is to terminate such an option.

An exception to the general rule of paragraph (2) applies in the case of a restricted stock option granted before June 12, 1963. Such an option is not treated as outstanding before the first day on which such option is exercisable under its terms. If an option is exercisable in installments, each installment is treated as a separate option for purposes of this rule. For example, if a restricted stock option was granted in 1960, and if the terms of such option provide that it is to be exercised in five equal installments during the calendar years 1961, 1962, 1963, 1964, and 1965, respectively, the installments that are exercisable in the years 1964 and 1965 are not treated as outstanding in 1963. Further, the installments that are exercisable in 1964 and 1965 are treated as outstanding as of the first day that each such installment becomes exercisable in such years under the terms of the option.

Options granted to certain shareholders

Paragraph (3) of section 422(c) provides special rules for the application of section 422(b)(7). Thus, subparagraph (A) of section 422(c)(3) defines the term "equity capital" to mean—

(1) in the case of one corporation, the sum of its money and other property (in an amount equal to the adjusted basis of such property for determining gain), less the amount of its indebtedness (other than indebtedness to shareholders), and

(2) in the case of a group of corporations consisting of a parent and its subsidiary corporations, the sum of the equity capital of each of such corporations adjusted, under regulations prescribed by the Secretary of the Treasury or his delegate, to eliminate the effect of intercorporate ownership or transactions among such corporations.

Subparagraph (B) of section 422(c)(3) provides that the rules of section 425(d) (relating to attribution of stock ownership) apply in determining the stock ownership of the individual. These are the same rules as are contained in the existing section 421(d)(1)(C).

Subparagraph (C) of section 422(c)(3) provides that stock which an individual may purchase under outstanding options (whether or not such options qualify for the special tax treatment afforded by sec. 421(a)) are to be treated as stock owned by the individual. For purposes of such subparagraph, an option is outstanding although under its terms it may only be exercised in installments or after the expiration of a fixed period of time. However, the rules of section 422(c)(2) which are applied in determining whether an option is outstanding for purposes of section 422(b)(5) do not apply for purposes of section 422(b)(7) and such subparagraph (C).

Section 422(c)(3) further provides that an option which permits an individual to purchase stock in excess of the limitation of section 422(b)(7) is to be treated as meeting the percentage limitation of section 422(b)(7) to the extent that the individual could, if the option were exercised in full at the time of grant, purchase stock under the option without exceeding such limitation. In determining which portion of such an option meets the requirement of section 422(b)(7), that portion which is first exercised is deemed to be the portion which meets the requirement of such subsection.

Certain disqualifying dispositions where amount realized is less than value at exercise

Paragraph (4) of section 422(c) provides that if an individual who has acquired a share of stock by the exercise of a qualified stock option disposes of such share within 3 years of the transfer of such share to him and if such disposition is a sale or exchange with respect to which a loss (if sustained) would be recognized to the individual, then the amount includible in the gross income of such individual, and deductible from the income of his employer corporation, as compensation attributable to the exercise of such option cannot exceed the excess, if any, of the amount realized on such sale or exchange over the amount paid for such share. For purposes of paragraph (4), the amount paid for a share of stock is the amount paid or to be paid for such share. The effect of such paragraph is to place a ceiling on the amount of compensation resulting from certain disqualifying dispositions of stock acquired pursuant to an individual's exercise of a qualified stock option. The ceiling provided by such paragraph only applies if the disqualifying disposition is a sale or exchange with respect to which a loss (if sustained) would be recognized. Thus, the ceiling does not apply when the disqualifying disposition is a sale described in section 1091 of the code (relating to loss from wash sales of stock or securities), a gift, or a sale described in section 267(a)(1) of the code (relating to sales between related persons), since no loss could be recognized with

respect to any such transaction. The operation of section 422(c)(4) is illustrated by the following examples:

Example (1).—E is granted by his employer, Z Corporation, a qualified stock option which permits him to purchase the Z Corporation stock for $100 a share. The fair market value of such stock is $100 at the time the option is granted. E exercises such option and buys one share of the stock when the fair market value of the stock is $200 per share. E makes a disqualifying disposition of such share by selling such share for $250 less than 3 years after its transfer to him. Since the amount realized on such sale exceeds the fair market value of the share at the date of exercise, section 422(c)(4) has no effect in this situation. Accordingly, E must include in his gross income for the taxable year in which the sale occurred $100 as compensation ($200, the fair market value of the share at the date of exercise, less $100, the price paid for the stock) and $50 as capital gain ($250, the amount realized from the sale, less his basis of $200, the $100 paid for the stock plus the $100 increase in basis as a result of including such amount in gross income). For its taxable year in which the disqualifying disposition occurs, Z is allowed a deduction of $100 for compensation to E attributable to his exercise of the qualified stock option.

Example (2).—The facts are the same as in example (1), except that E sells the share for $150. If the sale was one with respect to which a loss, if sustained, would be recognized, the ceiling provided by section 422(c)(4) applies, since the amount realized on such sale is less than the fair market value of such share at the date of exercise. Accordingly, under section 422(c)(4), E must include only $50 (the excess of the amount realized on such sale, $150, over the amount paid for the stock, $100) as compensation in the taxable year in which the disqualifying disposition occurred. E realizes no capital gain or loss as a result of the sale, since his basis for the share of stock is $150 (the $100 which he paid for the share, plus the $50 increase in basis as a result of including such amount in his gross income). For its taxable year in which such disqualifying disposition occurs, Z is allowed a deduction of $50 as compensation attributable to E's exercise of his qualified stock option.

Example (3).—The facts are the same as in example (1), except that E sells the share for $50. If the loss is otherwise recognizable, section 422(c)(4) applies, and E does not include any amount in his gross income as compensation; but E has a capital loss of $50 (the difference between the amount realized on the sale, $50, and the amount paid for the stock, $100). Z is not allowed any deduction for compensation attributable to E's exercise of the qualified stock option.

Certain transfers by insolvent individuals

Paragraph (5) of section 422(c) provides an exception to the holding-period requirement of section 422(a)(1) with respect to certain transfers by insolvent individuals. If an insolvent individual holds a share of stock acquired pursuant to his exercise of a qualified stock option, and if such share is transferred to a trustee, receiver, or other similar fiduciary in any proceeding under the Bankruptcy Act or any other similar insolvency proceeding (including assignments for the benefit of creditors), neither such transfer, nor any other transfer of such share

for the benefit of the insolvent individual's creditors in such proceeding, shall constitute a "disposition of such share" for purposes of section 422(a)(1). An individual whose liabilities exceed his assets or who is unable to satisfy his liabilities as they become due is treated as insolvent for purposes of section 422(c)(5). Although the transfer of a share of stock to or by the trustee or other fiduciary is not considered a disposition for purposes of section 422(a)(1), a transfer by the trustee (other than a transfer back to the insolvent individual) constitutes a sale or exchange of the stock for purposes of recognition of any capital gain or loss. If the share is transferred by the trustee back to the insolvent individual, any subsequent disposition of the share by the insolvent individual which is not made in respect of the insolvency proceeding and for the benefit of his creditors in such proceeding is treated as a disposition for purposes of section 422(a)(1).

SECTION 423. EMPLOYEE STOCK PURCHASE PLANS

(*a*) *General rule.*—The new section 423(a) provides that the special tax treatment of section 421(a) applies to a transfer of a share of stock to an individual pursuant to his exercise of an option, if the option is granted after June 11, 1963 (other than a restricted stock option granted pursuant to a plan described in sec. 424(c)(4)(B)), under an employee stock purchase plan (as defined in sec. 423(b)), and if the holding-period and employment requirements set forth in paragraphs (1) and (2) of section 423(a) are met.

A number of corporations have established employee stock purchase plans under which the employees generally are permitted to purchase the stock of the employer at a discount. These plans have generally qualified under the existing section 421, and thereby, the employees have secured the special tax treatment of such section. Generally, under these plans an offering is made to the employees, and the right which is granted to each employee by means of this offering is treated as an option for purposes of section 421. The purchase of the stock under the offering is treated as the exercise of such option for purposes of section 421. Under the new section 423, these employee stock purchase plans are treated separately from the qualified stock options which are granted only to key or selected employees. Options granted under employee stock purchase plans will continue to receive substantially the same treatment as under the existing section 421.

Holding-period requirement

Paragraph (1) of the new section 423(a) is identical with the holding-period requirement provision of the existing section 421(a) and requires that the stock involved be held by the individual until 2 years from the date of the granting of the option and for 6 months after the transfer of the share to him.

Employment requirement

Section 421 in existing law expressly requires only that the individual is an employee of the granting corporation, its parent or subsidiary corporation, or a corporation or its parent or subsidiary corporation issuing or assuming a stock option in a transaction to which the existing section 425(g) applies, at the time the option is granted and at the time the option is exercised, or within the 3-month period preceding the date of exercise. Paragraph (2) of the new section 423(a)

requires that such individual be an employee of such a corporation from the date the option is granted through the day that is 3 months before the day on which the option is exercised. Thus, if an individual is granted an option under an employee stock purchase plan on September 10, 1964, and he exercises such option on May 3, 1966, the employment requirement is satisfied if at all times during the period beginning on September 10, 1964, and ending on February 3, 1966, he was an employee of the grantor corporation, its parent or subsidiary corporation, or a corporation or its parent or subsidiary corporation issuing or assuming a stock option in a transaction to which section 425(a) applies.

(*b*) *Employee stock purchase plan.*—There is no specific definition of an employee stock purchase plan in present law. Under section 423 (b), the term "employee stock purchase plan" is defined for purposes of the revised part II as a plan that meets the requirements set forth in paragraphs (1) through (9). Section 423(b) also provides that any additional terms contained in an offering made under a plan will be treated as a part of the terms of the plan for purposes of satisfying the requirements of paragraphs (3) through (9) with respect to options exercised under such offering.

Options restricted to employees

Under paragraph (1) of section 423(b), the plan must restrict the grant of options to purchase stock in the employer corporation or its parent or subsidiary corporation to employees of such corporations.

Stockholder approval

Under paragraph (2) of section 423(b), the plan must be approved by the stockholders of the granting corporation within 12 months before or after the date such plan is adopted.

Restriction on ownership

Under paragraph (3) of section 423(b), the plan must not permit the grant of an option to any employee who owns stock possessing 5 percent or more of the total combined voting power or value of all classes of stock of the employer corporation or of its parent or subsidiary corporation. In determining the 5-percent limitation, the stock attribution rules of section 425(d) apply, and stock which the employee may purchase under any outstanding option is treated as stock owned by the employee.

Employees covered by plan

Under paragraph (4) of section 423(b), the plan must provide that options are to be granted to all employees of any corporation which grants options to any of its employees by reason of their employment by such corporation, except that one or more of the following categories of the employees may be excluded: employees who have been employed less than 2 years; employees whose customary employment is 20 hours or less per week; employees whose customary employment is for not more than 5 months in any calendar year; and officers, persons whose principal duties consist of supervising the work of other employees, or highly compensated employees.

Equal rights and privileges

Under paragraph (5) of section 423(b), the plan must provide the same rights and privileges for all employees who are granted options.

Thus the provisions applying to one option under the plan (such as the provisions relating to the method of payment for the stock and the determination of the purchase price per share) must apply to all other options under the plan in the same manner. For example, if an employee is permitted to make installment payments on the price of stock acquired pursuant to the exercise of an option granted under an employee stock purchase plan, all employees exercising options must be permitted to make installment payments in a like manner. However, this requirement does not prevent the maximum amount of stock that each employee may purchase from being determined on the basis of a uniform relationship to the total compensation, or the basic or regular rate of compensation, of all employees. For example, if an employee stock purchase plan provides that the maximum amount of stock that each employee may purchase pursuant to an option granted under the plan is one share for each $100 of annual salary, such a provision does not prevent the plan from meeting the requirements of paragraph (5) even though it results in affording a high-salaried employee the right to purchase a greater amount of stock than a low-salaried employee. However, the fact that the amount of stock which can be purchased may be established on the basis of a uniform relationship to compensation may not be used to exclude lower salaried employees. For example, this provision does not permit the amount of stock that an employee may purchase pursuant to an option under a plan to be determined on the basis of one share for each $1,000 of annual salary in excess of $10,000. Paragraph (5) also provides that the plan may establish a maximum limit on the amount of stock that an employee can purchase. Thus a maximum limit may be imposed even though the amount of stock that can be purchased is determined on the basis of a uniform relationship to the total compensation, or the basic or regular rate of compensation, of all employees.

Option price

Under paragraph (6) of section 423(b), the plan must provide that the option price is to be not less than the lesser of an amount equal to 85 percent of the fair market value of the stock at the time such option is granted, or an amount which under the terms of the option may not be less than 85 percent of the fair market value of the stock at the time such option is exercised. The option price may be stated either as a percentage or as a dollar amount. This requirement is met by an option which provides that the option price is the lesser of a percentage (not less than 85 percent) of the fair market value of the stock at the time the option is granted or a percentage (not less than 85 percent) of the fair market value of the stock at the time the option is exercised. If the price is stated as a dollar amount, the requirement of paragraph (6) can only be met by an option in which the price fixed is at least 85 percent of the fair market value of the stock at the time the option is granted. If the fixed price is less than 85 percent of the fair market value of the stock at the time the option is granted, the option cannot meet the requirement of paragraph (6) even though there is a decline in the value of the stock with the result that the fixed price is 85 percent of the fair market value of the stock at the time the option is exercised. In such case, the option does not meet the requirement of paragraph (6) because this result is not certain to

occur under the terms of the option. If a plan contains a provision which is in accordance with the requirement of paragraph (6), and if an option is granted under such plan without in fact meeting the option price requirement of such paragraph, then such option does not qualify under section 423 because it has not been granted in accordance with an employee stock purchase plan as defined in section 423(b).

Period for exercising options

Under paragraph (7) of section 423 (b), the plan must limit the period during which the option may be exercised to 5 years from the date of grant if the price to be paid for the stock is to be determined solely as a percentage (not less than 85 percent) of its fair market value at the time the option is exercised. In the case of all other options to which section 423 applies, the plan must limit the period during which the option may be exercised to 27 months from the date of grant. For example, if the option provides simply that the option price is to be 85 percent of the fair market value of the stock at the time the option is exercised (irrespective of whether there is an increase or decrease in such fair market value), such option may be exercised within a 5-year period. However, if the option provides that the option price is to be 85 percent of the fair market value of the stock at the time of exercise, but not greater than 85 percent of the fair market value at the time of grant, such option may only be exercised within 27 months of the date of grant.

Restriction on amount of optioned stock

Under paragraph (8) of section 423(b), the plan must provide that no employee may be granted an option under the plan which permits his rights to purchase the stock of his employer corporation and its parent and subsidiary corporations under all employee stock purchase plans of such corporations to accrue at a rate in excess of $25,000 of fair market value (determined at the time the option is granted) of the stock of such corporations for each calendar year during which any such option granted to such individual is outstanding at any time. In applying the limitation under section 423(b)(8)—

(1) the right to purchase stock under an option accrues when the option (or any portion thereof) first becomes exercisable during the calendar year;

(2) the right to purchase stock under an option accrues at the rate provided in the option, but in no case may such rate exceed $25,000 of fair market value of such stock (determined at the time such option is granted) for any one calendar year; and

(3) a right to purchase stock which has accrued under one option granted pursuant to the plan may not be carried over to any other option.

This limitation applies only to options granted under employee stock purchase plans and does not limit the amount of stock which an employee may purchase under qualified stock options (as defined in sec. 422(b)), restricted stock options (as defined in sec. 424(b)), or any other stock options (except those to which sec. 423 applies). Stock purchased under options to which section 423 does not apply will not limit the amount which an employee may purchase under an employee stock purchase plan, except for purposes of the 5-percent stock ownership provision of section 423(b)(3).

Under section 423(b)(8), an individual may be permitted to purchase up to $25,000 of stock in each calendar year during which an option granted to such individual under an employee stock purchase plan is outstanding. Alternatively, under section 423(b)(8), an individual may be permitted to purchase more than $25,000 of stock in a calendar year, if the total amount of stock which he may purchase does not exceed $25,000 for each calendar year during which any option granted to such individual under such a plan is outstanding. However, since the option may not permit the individual to purchase stock in excess of the rate of $25,000 for each calendar year the option is outstanding, the option may not permit him to purchase stock in anticipation that the option will be outstanding for some future year. Thus, the individual may be permitted to purchase only the amount of stock which does not exceed the limitation of section 423(b)(8) for the year of the purchase and for preceding years during which the option was outstanding.

To illustrate the operation of section 423(b)(8), assume that P corporation maintains an employee stock purchase plan and that E is employed by P. On June 1, 1964, P grants E an option under the plan to purchase a total of 750 shares of P stock at $85 per share. On such date, the fair market value of P stock is $100 per share. The option provides that it cannot be exercised after May 31, 1966. Under section 423(b)(8), E may not be permitted to purchase under such option more than 250 shares of P stock during the calendar year 1964, since 250 shares are equal to $25,000 in fair market value of P stock determined at the time of grant. During the calendar year 1965, E may purchase under such option an amount of P stock equal to the difference between $50,000 in fair market value of P stock (determined at the time of grant) and the fair market value of P stock (determined at the time of grant) purchased during 1964. During the calendar year 1966, E may purchase an amount of P stock equal to the difference between $75,000 in fair market value of such stock (determined at the time of grant) and the total amount of the fair market value of such stock (determined at the time of grant) purchased under such option during the calendar years 1964 and 1965.

In this example, E may be permitted to purchase under such option $25,000 of stock for the year 1964 and $25,000 of stock for the year 1966, although the option was outstanding for only a part of each of such years. However, E may not be granted another option under an employee stock purchase plan of P or its parent or subsidiary corporations to purchase stock of any of such corporations during the calendar years 1964, 1965, and 1966, so long as the option granted June 1, 1964, is outstanding. If this option permitted E to purchase only $15,000 of P's stock for each year it is outstanding, then E could be granted another option by P, or by its parent or subsidiary corporation, permitting him to purchase an additional $10,000 of stock for each year it is outstanding. If the option granted June 1, 1964, is terminated in 1965, E may be granted in 1966 or later another option (or options) to purchase stock under the plan so long as his rights to purchase stock under such option (or options) cannot accrue at a rate in excess of $25,000 of stock for each calendar year during which such an option is outstanding.

Under section 423(b)(8), the amount of stock which may be purchased under an option depends on the period during which the option

is outstanding. Thus, the amount of stock which may be purchased under an option may not be increased by reason of the failure to grant an option in an earlier year or by reason of the failure to exercise an earlier option. For example, if the option granted to E is terminated in 1965 without having been exercised at all, his failure to exercise the option does not increase the amount of stock which he may be permitted to purchase under a new option granted to him in 1966; under such option, he may be permitted to purchase only $25,000 of stock for 1966. If the option granted to E on June 1, 1964, expires on May 31, 1966, without having been exercised at all, E may be granted in 1966 a new option permitting him to purchase $25,000 of stock for such year, since E did not purchase any stock under any other option for such year. On the other hand, if in 1966 E exercised the option granted to him in 1964 and purchased 600 shares of the stock, 500 shares, the amount of stock which could have been purchased in 1965, is treated as purchased for the years 1964 and 1965. Thus, only 100 shares of the stock are treated as purchased for 1966, and E may be permitted under the new option to purchase for 1966 stock having a fair market value of $15,000 at the time the new option is granted.

Restriction on transferability

Under paragraph (9) of section 423(b), the plan must not allow the transfer of an option other than by will or the laws of descent and distribution and must prohibit the exercise of such option by anyone other than the employee during his lifetime. This requirement is identical with subparagraph (B) of the existing section 421(d)(1).

(*c*) *Special rule where option price is between 85 percent and 100 percent of value of stock.*—Section 423(c) corresponds to the rule of the existing section 421(b) for stock acquired at an option price less than 95 percent of the value of the stock at the time the option was granted, but the new rule applies when the option price is less than 100 percent of the fair market value of the stock at the time the option is granted. Upon either the disposition of such stock or the death of the employee while owning such stock, there is included in gross income, as compensation for the taxable year in which the disposition or death occurs, an amount equal to the excess of the fair market value of the stock at the time of such disposition or death over the amount paid under the option, or the excess of the fair market value of the stock at the time the option was granted over the option price, whichever is the lesser. If the option price is not fixed or determinable at the time of grant, the option price is determined as if the option was exercised at such time. Section 423(c) also provides that the basis of the stock is to be increased by the amount so includible in gross income.

SECTION 424. RESTRICTED STOCK OPTIONS

(*a*) *In general.*—Section 424(a) retains the same treatment accorded restricted stock options under the existing provisions of section 421, if such options are granted before June 12, 1963, or if such options are granted after June 11, 1963, in accordance with section 424(c)(4). In continuing existing law, section 424(a) provides that the new section 421(a) applies to the transfer of a share of stock to an individual pursuant to his exercise of a restricted stock option if the holding

period and employment requirements set forth in paragraphs (1) and (2) of section 424(a) are met.

Holding-period requirement

Paragraph (1) of section 424(a) is identical with the holding-period requirement of the existing section 421(a) and requires that the stock be held by the individual until 2 years from the date of the granting of the option and for 6 months after the transfer of the share to him.

Employment requirement

Paragraph (2) of section 424(a) is identical with the employment requirement of the existing section 421(a) and requires that the individual be an employee of the granting corporation, its parent or subsidiary corporation, or a corporation or its parent or subsidiary corporation issuing or assuming a stock option in a transaction to which section 425(a) applies, at the time the option is exercised, or within the 3-month period preceding the date of exercise.

(*b*) *Restricted stock option.*—Section 424(b) continues the definition of the term "restricted stock option" presently contained in section 421(d)(1) for options granted before June 12, 1963, or after June 11, 1963, in accordance with section 424(c)(4). Such an option must be granted to an individual, for a reason connected with his employment by the employer corporation or its parent or subsidiary corporation, to purchase stock in any such corporation and, in addition, must meet the following requirements:

(1) The option price, at the time of grant, must be at least 85 percent of the fair market value at such time of the stock subject to the option. For the purpose of determining whether such requirement is met in the case of a variable price option, the option price is computed as if the option is exercised at the time of the grant.

(2) The option can only be exercised by the employee during his lifetime and may not be transferable other than by will or the laws of descent and distribution.

(3) The employee, at the time of grant, must not own stock possessing more than 10 percent of the combined voting power of all classes of stock of the employer corporation or of its parent or subsidiary corporation. However, such limitation does not apply if, at the time of grant, the option price is at least 110 percent of the fair market value of the stock subject to the option, and the option is not exercisable after the expiration of 5 years from the date of grant.

(4) The option must not be exercisable after 10 years from the date of grant.

(*c*) *Special rules.*—Section 424(c) provides three special rules relating to restricted stock options, all of which are identical to existing provisions of section 421, and a fourth special rule relating to certain options granted after June 11, 1963.

Options under which option price is between 85 percent and 95 percent of value of stock

Paragraph (1) of section 424(c) continues the rule of the existing section 421(b) in the case of stock acquired pursuant to the exercise of a restricted stock option under which the option price is between 85 and 95 percent of the value of the stock when the option is granted.

In case such an option has a fixed price, there is included in income as compensation upon a disposition of such stock, or upon the death of the optionee while owning such stock, the amount by which the option price is exceeded by the lesser of the fair market value of the stock at the time of such disposition or death, or the fair market value of the stock at the time of grant. Similarly, in case such an option has a variable price, there is included in income as compensation upon a disposition of such stock, or upon the death of the optionee while owning such stock, the amount by which the excess of the fair market value of the stock at the time of grant exceeds the option price (computed as if the option was exercised at such time), or the amount by which the fair market value of the stock at the time of such disposition or death exceeds the price paid under the option, whichever is the lesser. Paragraph (1) of section 424(c) also provides that the basis of the stock is to be increased by an amount equal to the amount so includible in gross income.

Stockholder approval

Paragraph (2) of section 424(c) continues the rule of the existing section 421(d)(5) that the date of the grant of a restricted stock option is determined without regard to stockholder approval.

Variable price option

Paragraph (3) of section 424(c) continues the definition of "variable price option" which is contained in the existing section 421(d)(7). The term "variable price option" means an option under which the purchase price of the stock is fixed or determinable under a formula in which the only variable is the fair market value of the stock at any time during a period of 6 months which includes the time the option is exercised; however, in the case of options granted after September 30, 1958, such term does not include any such option in which such formula provides for determining such price by reference to the fair market value of the stock at any time before the option is exercised if such value may be greater than the average fair market value of the stock during the calendar month in which the option is exercised.

Certain options granted after June 11, 1963

Paragraph (4) of section 424(c) provides the additional requirements that must be met by options granted after June 11, 1963, in order for such options to be treated as restricted stock options. In general, an option granted after June 11, 1963, that otherwise meets the requirements of section 424(b), is treated as a restricted stock option for all purposes of the revised part II of subchapter D if it was granted pursuant to—

(1) a binding written contract entered into before June 12, 1963, or

(2) a written plan adopted and approved before June 12, 1963, which (as of June 12, 1963, and as of the date of the granting of the option) either met the requirements of paragraphs (4) and (5) of section 423(b) or was being administered in a way that did not discriminate in favor of officers, persons whose principal duties consist of supervising the work of other employees, or highly compensated employees.

In determining whether an option is granted pursuant to a plan described in item (2), the terms of any written offering that was made on or before June 12, 1963, will be treated as a part of the plan.

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SECTION 425. DEFINITIONS AND SPECIAL RULES

(*a*) *Corporate reorganizations, liquidations, etc.*—Section 425(a) continues the existing provisions of section 421(g) under which the assumption or substitution of an option in connection with certain corporate transactions is not treated as the modification of an option. Such an assumption or substitution can occur by reason of a corporate merger, consolidation, acquisition of property or stock, separation, reorganization, or liquidation, if the aggregate spread between the option price and the value of all stock subject to the option immediately after the assumption or substitution is not greater than such spread under the option immediately before the assumption or substitution. The assumption or substitution also must not result in the employee obtaining additional benefits under the new option which he did not have under the old option. For the purpose of section 425(a), the parent-subsidiary relationship is determined at the time of the merger or other transaction that results in an assumption or substitution.

(*b*) *Acquisition of new stock.*—Section 425(b) is identical with the existing section 421(c) and provides that if stock is received by an individual in a distribution to which section 305, 354, 355, 356, or 1036 of the code (or so much of section 1031 as relates to section 1036) applies, and if such distribution was made with respect to stock transferred pursuant to the exercise of an option, such stock shall be considered as transferred to him under the option. A similar rule applies to a series of such distributions.

(*c*) *Disposition.*—Section 425(c) continues the definition of the term "disposition" contained in paragraph (4) of the existing section 421(d). In general, a "disposition" includes a sale, exchange, gift, or transfer of legal title, but does not include a transfer from a decedent to an estate, a transfer by bequest or inheritance, an exchange to which section 354, 355, 356, or 1036 of the code (or so much of sec. 1031 as relates to sec. 1036) applies, or a mere pledge or hypothecation. No disposition occurs when an employee acquires stock in joint tenancy, or when he transfers stock into joint tenancy. However, a termination of such joint tenancy is a disposition except to the extent such employee acquires ownership of such stock.

(*d*) *Attribution of stock ownership.*—Section 425(d) continues the rules of subparagraph (C) of the existing section 421(d)(1) for purposes of applying the ownership limitations of sections 422(b)(7), 423(b)(3), and 424(b)(3). In general, the individual with respect to whom such limitation is being determined is considered to own the stock owned by his brothers and sisters, spouse, ancestors, and lineal descendants. Also, stock owned by or for a corporation, partnership, estate, or trust is considered as owned proportionately by its shareholders, partners, or beneficiaries.

(*e*) *Parent corporation.*—Section 425(e) is identical with the existing section 421(d)(2) and defines the term "parent corporation" to mean any corporation (other than the employer corporation) in an unbroken chain of corporations ending with the employer corporation if, at the time of the granting of the option, each of the corporations other than the employer corporation owns stock possessing 50 percent or more of the total combined voting power of all classes of stock in one of the other corporations in such chain.

(*f*) *Subsidiary corporation.*—Section 425(f) is identical with the existing section 421(d)(3) and defines the term "subsidiary corporation" to mean any corporation (other than the employer corporation) in an unbroken chain of corporations beginning with the employer corporation if, at the time of the granting of the option, each of the corporations other than the last corporation in the unbroken chain owns stock possessing 50 percent or more of the total combined voting power of all classes of stock in one of the other corporations in the chain.

(*g*) *Special rule for applying subsections* (*e*) *and* (*f*).—Section 425(g) provides that whenever the definition of "parent corporation" or "subsidiary corporation" is to be applied for purposes of section 422(a)(2), 423(a)(2), or 424(a)(2), the term "employer corporation" is to be replaced in such definitions by the term "grantor corporation" or the term "corporation issuing or assuming a stock option in a transaction to which section 425(a) applies," as the case may be.

(*h*) *Modification, extension, or renewal of option.*—Section 425(h) provides essentially the same rules as those contained in the existing section 421(e) for the modification, extension, or renewal of options. Paragraph (1) of section 425(h) continues the general rule of the existing section 421(e) that the modification, extension, or renewal of an option is considered as the granting of a new option.

Subparagraph (A) of section 425(h)(2) continues the rules of the existing section 421(e)(1)(B) for section 423 and 424 options and provides that, in the case of a modification, extension, or renewal, the fair market value of the stock at the time of grant is considered to be the highest of the fair market values on the date of the original granting of the option or the date the modification, extension, or renewal was made, or at the time any intervening modification, extension, or renewal was made. Subparagraph (B) of section 425(h)(2) continues the special rule of the existing section 421(e)(1) that provides an exception to the rule of section 425(h)(2)(A) if the average fair market value of the stock for the 12 months prior to the modification, extension, or renewal is less than 80 percent of the fair market value at the date of the original granting or any intervening modification, extension, or renewal, whichever is higher. This exception only applies to modifications, extensions, or renewals of restricted stock options made before June 12, 1963 (or made pursuant to a binding written contract entered into before June 12, 1963). Any modification, extension, or renewal of a restricted stock option is, under section 425(h)(1), considered as the granting of a new option, and therefore, if such modification, extension, or renewal occurs after June 11, 1963, and not pursuant to any binding written contract, the option, if it is to receive the special tax treatment of the new section 421(a), must qualify under section 422 or 423.

Paragraph (3) of section 425(h) defines the term "modification" in the same manner as the existing section 421(e). A modification is any change in the terms of an option which gives an employee additional benefits. However, the issuance or assumption of an option under section 425(a) is not considered a modification and a change which makes an option nontransferable is not considered a modification, if at the same time the time during which the option may be exercised is restricted to 10 years from the date of the grant of such option.

(*i*) *Cross references.*—Section 425(i) contains a cross reference to the new section 6039 (added by sec. 214(b) of the bill and discussed below).

SECTION 214. EMPLOYEE STOCK OPTIONS AND PURCHASE PLANS (Continued)

(*b*) *Administrative provisions.*—Subsection (b) of section 214 of the bill amends the code to provide certain new administrative provisions relating to employee stock options.

Reporting requirement for certain options

Paragraph (1) of section 214(b) of the bill redesignates the existing section 6039 of the code as section 6040 and inserts after section 6038 a new section 6039. The new section 6039 imposes a reporting requirement on corporations with respect to certain options described in part II of subchapter D of chapter 1 of the code (relating to certain stock options).

SECTION 6039. INFORMATION REQUIRED IN CONNECTION WITH CERTAIN OPTIONS

(*a*) *Requirement of reporting.*—Section 6039(a) provides that every corporation must make a return for each calendar year in which such corporation—

(1) transfers a share of stock to any person pursuant to such person's exercise of a qualified or restricted stock option, or

(2) records (or has by its agent recorded) a transfer of the legal title of a share of stock—

(A) acquired by the transferor pursuant to his exercise of an option referred to in section 423(c) (relating to special rule where option price is between 85 and 100 percent of value of stock), or

(B) acquired by the transferor pursuant to his exercise of a restricted stock option referred to in section 424(c)(1) (relating to options under which option price is between 85 and 95 percent of value of stock).

The time for filing the return required by section 6039(a), the manner in which the return is to be filed, and the information to be included in the return will be prescribed in regulations issued by the Secretary of the Treasury or his delegate. A return is only required under paragraph (2) of section 6039(a) with respect to the first recorded transfer of the legal title of a share described in that paragraph. For example, if the first transfer of legal title is a transfer to the transferor and his wife as joint tenants, or a transfer into a street name, a return is required. However, no return will be required on subsequent transfers of such share. A return is required of the corporation whether or not the transfer of legal title constitutes a disposition within the meaning of section 425(c). In the case of a transfer of legal title that is reportable under paragraph (2) of section 6039(a), the only information that will be required is the reporting of the fact that such a transfer occurred and the name and address (including the account number) of the transferor. If a corporation uses a transfer agent, to record the transfer of legal title of its stock, it will be necessary for the

transfer agent to inform the corporation of any transfers described in paragraph (2) so that the corporation can file the returns required under such paragraph.

(*b*) *Statements to be furnished to persons with respect to whom information is furnished.*—Section 6039(b) requires a corporation making a return under section 6039(a) to furnish each person whose name is set forth on the return with such information as the Secretary of the Treasury or his delegate may by regulations prescribe. The information is to be provided in a written statement to be furnished to the taxpayer not later than January 31 of the year following the calendar year for which a return under section 6039(a) is made.

(*c*) *Identification of stock.*—Section 6039(c) requires any corporation transferring a share of stock pursuant to the exercise of a restricted stock option referred to in section 424(c)(1) (relating to options under which option price is between 85 and 95 percent of value of stock), or an option granted under an employee stock purchase plan and referred to in section 423(c) (relating to special rule where option price is between 85 and 100 percent of value of stock), to identify such stock in a manner sufficient to enable the corporation or its transfer agent to report the transfer of the legal title of the share as required by section 6039 (a) and (b).

(*d*) *Cross references.*—Section 6039(d) contains cross references to certain definitions contained in sections 422(b), 423(b), and 424(b).

SECTION 214. EMPLOYEE STOCK OPTIONS AND PURCHASE PLANS (Continued)

Penalties for failure to file information returns

Paragraph (2) of section 214(b) of the bill amends section 6652(a) of the code (relating to failure to file certain information returns) to provide a penalty for the failure to file the return required by the new section 6039(a). The penalty is $10 for each failure to file a statement of the transfer of stock (or of legal title) as required by section 6039(a), not to exceed $25,000 for all failures (described in sec. 6652(a)) in any one calendar year.

Penalties for failure to furnish statements to persons with respect to whom returns are filed

Paragraph (3) of section 214(b) of the bill amends section 6678 of the code (relating to penalties for failure to furnish statements to persons with respect to whom returns are filed) to provide a penalty in the case of each failure to furnish a statement under the new section 6039(b) to a person with respect to whom a return is made under the new section 6039(a) unless such failure is due to reasonable cause and not to willful neglect. The penalty is $10 for each such statement not furnished, not to exceed $25,000 for all failures (described in sec. 6678) in any one calendar year.

(*c*) *Technical amendments.*—Subsection (c) of section 214 of the bill amends section 402(a)(3) of the code (relating to taxability of beneficiary of employees' trust) to reflect the new location of the definitions of "parent corporation" and "subsidiary corporation" under the amendment made by section 214(a) of the bill.

Subsection (c) of section 214 of the bill also amends section 691(c)(2)(B) of the code (relating to allowance of deduction for estate tax

in case of items constituting income in respect of a decedent) to reflect the amendment made by section 214(a) of the bill.

(*d*) *Clerical amendments.*—Subsection (d) of section 214 of the bill makes conforming changes to the table of parts for subchapter D of chapter 1 of the code and the table of sections for subpart A of part III of subchapter A of chapter 61 of the code.

(*e*) *Effective date.*—Subsection (e) of section 214 of the bill provides that the amendments made by section 214 apply to taxable years ending after June 11, 1963; except that the amendments made by section 214(b) (relating to administrative provisions) apply only to stock transferred pursuant to options exercised on or after January 1, 1964.

SECTION 215. INTEREST ON CERTAIN DEFERRED PAYMENTS

(*a*) *In general.*—Subsection (a) of section 215 of the bill adds a new section 483 to part III of subchapter E of chapter 1 of the code (relating to accounting periods and methods of accounting). In general, in the case of a contract for the sale or exchange of property which provides for little or no interest on deferred payments under the contract, the new section treats a portion of such payments as interest.

SECTION 483. INTEREST ON CERTAIN DEFERRED PAYMENTS

(*a*) *Amount constituting interest.*—Section 483(a) provides the general rule that part of each payment (under a contract for the sale or exchange of property) to which section 483 applies is to be treated as interest for all purposes of the code. The tax treatment of both the purchaser and the seller may be affected by the rules of section 483. Thus, the basis of property in the hands of a purchaser does not include that part of his payments under the contract which is treated as interest under section 483 and he is entitled to interest deductions for such part in accordance with his method of accounting.

The amount to be treated as interest under section 483 is determined by multiplying each payment to which such section applies by a fraction, (1) the numerator of which is the "total unstated interest" under the contract and (2) the denominator of which is the total of all the payments to which section 483 applies which are due under such contract.

(*b*) *Total unstated interest.*—Section 483(b) defines "total unstated interest," with respect to a contract for the sale or exchange of property, as an amount equal to the excess of (1) the sum of the payments to which section 483 applies which are due under the contract, over (2) the sum of the present values of such payments and the present values of any interest payments due under the contract. The present value of a payment is determined by discounting such payment from the date the payment is due under the contract back to the date of the sale or exchange. Thus, the present value of a payment is the amount which, if left at interest from the date of the sale or exchange to the date the payment is due, would have increased to an amount equal to such payment. The Secretary of the Treasury or his delegate is to prescribe regulations which provide the manner

in which such present value is to be computed as well as the rate of interest to be used. Such regulations are to provide that payments are to be discounted on the basis of 6-month brackets; and that the present value of any interest payment which is due not more than 6 months after the date of the sale or exchange is to be equal to 100 percent of such payment. Thus, a payment is to be discounted from the nearest date which marks a 6-month interval from the date of the sale or exchange. This will make it unnecessary to compute interest on a daily basis.

The computation and allocation of total unstated interest with respect to a contract for the sale or exchange of property is illustrated by the following example:

Example.—S sells Blackacre to P under a contract which provides that P is to make payments in three equal installments of $2,000 each, such installments being due 1, 2, and 3 years, respectively, from the date of the sale. No interest is provided for in the contract. Assume that the Secretary of the Treasury or his delegate has prescribed by regulations that 5 percent per annum compounded semiannually is the rate of interest to be used. Section 483 applies to all three payments the sum of which is $6,000. The present value of the installment due 1 year after the sale is $1,903.63 ($2,000 discounted for 1 year at 5 percent per annum compounded semiannually). The present values of the other two installments are $1,811.90 ($2,000 similarly discounted for 2 years) and $1,724.59 ($2,000 similarly discounted for 3 years). The sum of the present values of the three installments (the payments to which sec. 483 applies) is $5,440.12 and therefore the total unstated interest under the contract is $559.88 ($6,000 minus $5,440.12). The part of each installment treated as interest is $186.63, which is arrived at by multiplying the amount of such installment ($2,000) by a fraction, the numerator of which is $559.88 (total unstated interest) and the denominator of which is $6,000 (total of payments to which sec. 483 applies).

(c) *Payments to which section applies.*—Section 483(c) defines the payments to which section 483 applies.

In general

Paragraph (1) of section 483(c) provides that, except as provided in section 483(f), section 483 applies to a payment under a contract for the sale or exchange of property if all the following conditions are met:

Condition (1). Such payment constitutes part or all of the sales price.

Condition (2). Such payment is due more than 6 months after the date of the sale or exchange.

Condition (3). The contract is one that provides that some or all of the payments are due more than 1 year after the date of the sale or exchange.

Condition (4). There is "total unstated interest" under the contract (computed by using a rate provided in regulations prescribed for this purpose by the Secretary of the Treasury or his delegate).

Thus, if a contract provides for one or more payments due more than 1 year after the date of the sale or exchange and the other conditions are met, section 483 applies even to those payments which are due

less than 1 year, but more than 6 months, from the date of the sale or exchange. Section 483 does not apply to a disposal of coal or iron ore described in section 631(c) of the code if the payments are made within 1 year from the date such coal or iron ore is mined since under section 631(c) the date of disposal of such coal or iron ore is deemed to be the date such coal or iron ore is mined.

The rate prescribed by the Secretary of the Treasury or his delegate for determining whether there is total unstated interest for purposes of condition (4) will be at least 1 percentage point lower than the rate he prescribes for purposes of section 483(b)(2). If the amount of interest specified in the contract is less than the amount which would result from using the rate prescribed by the Secretary or his delegate for determining whether there is total unstated interest for purposes of condition (4), the total unstated interest will be computed by using the higher rate prescribed for purposes of section 483(b)(2).

Treatment of evidence of indebtedness

Paragraph (2) of section 483(c) provides that the payments due under an evidence of indebtedness of the purchaser given in consideration for the sale or exchange of property, rather than the evidence of indebtedness itself, are considered as the payments due under the contract for such sale or exchange. In such case, the total unstated interest under the contract is computed under section 483(b) as if the payments under the evidence of indebtedness are due under the contract itself and as if the terms of the evidence of indebtedness are terms of the contract.

(*d*) *Payments that are indefinite as to time, liability, or amount.*—Section 483(d) provides that if the liability for, or amount or due date of, any portion of a payment under a contract for the sale or exchange of property cannot be determined at the time of such sale or exchange, section 483 is applied separately to such portion as if it (and any interest attributable to it) were the only payments due under the contract. For purposes of applying section 483 to such portion, the amount of such portion will be the amount paid and its due date will be the date it is paid. Under this provision, section 483 applies separately to the portion of a payment which is indefinite even though the remainder of the payment is fixed. Section 483 will be applied separately to the aggregate of the payments and portions of payments due under a contract other than those which are treated separately under section 483(d).

(*e*) *Change in terms of contract.*—Section 483(e) provides that if the liability for, or the amount or due date of, any payment (including interest) under a contract for the sale or exchange of property is changed, section 483 will be applied to the contract as changed, with adjustment for interest (including unstated interest) payments made prior to the change. The recomputation and allocation of the total unstated interest under the contract as changed is to be made under regulations prescribed by the Secretary of the Treasury or his delegate.

(*f*) *Exceptions and limitations.*—Section 483(f) contains five exceptions to, or limitations on, the applicability of section 483.

Sales price of $3,000 or less

Paragraph (1) of section 483(f) provides that section 483 does not apply to any payment on account of a sale or exchange of property if it can be determined at the time of such sale or exchange that the sales price (exclusive of interest specified in the contract) cannot exceed $3,000. A contract calling for any payments which are indefinite as to liability or amount does not qualify under this exception if the total of the payments (exclusive of interest specified in the contract) due under the contract could exceed $3,000, even if in fact they do not.

Carrying charges

Paragraph (2) of section 483(f) provides that, in the case of the purchaser, the tax treatment of amounts paid on account of the sale or exchange of property is determined without regard to section 483, if any such amounts are treated under section 163(b) as if they included interest.

Treatment of seller

Paragraph (3) of section 483(f) excepts, in the case of the seller, amounts received on account of the sale or exchange of property from the tax treatment provided under section 483, if no part of any gain on such sale or exchange would be considered as gain from the sale or exchange of a capital asset or property described in section 1231 of the code. The determination of whether this exception applies is made without regard to whether, in fact, the sale or exchange results in a gain or whether the gain (if any) would be recognized, or whether section 1245 or section 1250 of the code applies to some or all of the gain (if any).

Sales or exchanges of patents

Paragraph (4) of section 483(f) exempts from section 483 payments made pursuant to a transfer of the rights to a patent or an interest therein described in section 1235(a) of the code.

Annuities

Paragraph (5) of section 483(f) exempts from the tax treatment of section 483 any amount the liability for which depends in whole or in part on the life expectancy of one or more individuals and which constitutes an amount received as an annuity to which section 72 applies. Thus, in the case of both the purchaser and the seller, any such amount is not considered a payment to which section 483 applies.

SECTION 215. INTEREST ON CERTAIN DEFERRED PAYMENTS (Continued)

(*b*) *Clerical amendment.*—Subsection (b) of section 215 of the bill makes a clerical amendment to part III of subchapter E of chapter 1 of the code.

(*c*) *Certain carrying charges.*—Under the existing section 163(b) of the code, if personal property is purchased under a contract providing for installment payments of part or all of the purchase price and if the contract provides for carrying charges, but the portion thereof which constitutes interest cannot be ascertained, then the payments made under the contract are treated, for purposes of the interest deduction,

as if they included interest equal to 6 percent of the average unpaid balance. Subsection (c) of section 215 of the bill amends section 163(b) to provide the same treatment when services are purchased under a contract providing for installment payments.

(*d*) *Effective dates.*—Subsection (d) of section 215 of the bill provides that the amendments made by subsections (a) and (b) of such section apply to payments made after December 31, 1963, on account of sales or exchanges of property occurring after June 30, 1963. The amendment made by subsection (c) of section 215 applies to payments made during taxable years beginning after December 31, 1963.

SECTION 216. PERSONAL HOLDING COMPANIES

Section 216 of the bill deals with the treatment of personal holding companies and shareholders of such companies.

(*a*) *Personal holding company tax rate.*—Subsection (a) of section 216 of the bill amends section 541 of the code to provide that the personal holding company tax is equal to 70 percent of the undistributed personal holding company income.

Under existing law, the tax is equal to 75 percent of the undistributed personal holding company income not in excess of $2,000, and 85 percent of any excess over $2,000.

(*b*) *Definition of personal holding company.*—Section 542(a) of the code presently provides that a corporation is a personal holding company for any taxable year if—

(1) at least 80 percent of its gross income for such year is personal holding company income as defined in section 543, and

(2) at any time during the last half of the taxable year more than 50 percent in value of its outstanding stock is owned, directly or indirectly, by or for not more than five individuals.

Subsection (b) of section 216 of the bill amends the gross income test in paragraph (1) of section 542(a) to provide, in effect, that adjusted ordinary gross income (as defined in the new sec. 543(b)(2)) is the standard for determining whether a corporation is a personal holding company, and to reduce from 80 to 60 percent the percentage which must be personal holding company income in order that a corporation be classified as a personal holding company.

The adjusted ordinary gross income test is illustrated by the following example:

Example.—Corporation M derives $80 gross income from the sale of merchandise, $150 gross income from dividends, and $100 gross income from real estate rents, and its personal holding company income with respect to rents (i.e., adjusted income from rents as defined in sec. 543(b)(3)) equals $20. Under existing law, corporation M is not a personal holding company since less than 80 percent of its gross income is personal holding company income, computed as follows:

	Gross income	Personal holding company income
Rents	$100	$100
Dividends	150	150
Sales of merchandise	80	
Total	$330	$250

NOTE.—$250 equals 75.8 percent of $330.

However, the corporation meets the new 60-percent test based on adjusted ordinary gross income under section 542(a)(1) computed as follows:

	Adjusted ordinary gross income	Personal holding company income
Adjusted income from rents	$20	$20
Dividends	150	150
Sales of merchandise	80	
Total	$250	$170

NOTE.—$170 equals 68 percent of $250.

(c) *Excluded corporations.*—Section 542(c) of the code presently excepts from the definition of a personal holding company 11 categories of corporations. Paragraph (2) of section 542(c) excepts from the definition of a personal holding company a bank as defined in section 581 of the code, which includes a domestic building and loan association (as defined in sec. 7701(a)(19) of the code).

Paragraph (1) of section 216(c) of the bill amends paragraph (2) of section 542(c) to provide that (in addition to a bank) a domestic building and loan association, a domestic savings and loan association, or a Federal savings and loan association is also excepted from the definition of a personal holding company if it satisfies all of the tests prescribed in section 7701(a)(19), other than those prescribed in subparagraphs (D) and (E) thereof (relating to restrictions on investments in property other than residential real property or real property used primarily for church purposes).

Paragraphs (6), (7), (8), and (9) of section 542(c) describe various types of finance companies and lending and investment corporations, such as licensed personal finance companies operating under the small loan (Russell Sage) laws of the several States (par. (6)); lending companies (not of the Russell Sage type) engaged in the consumer finance business (par. (7)); Morris plan banks (par. (8)); and finance companies engaged in the business of factoring inventories, accounts receivable, and otherwise financing the short-term and intermediate-term needs of business (par. (9)).

Paragraph (2) of section 216(c) of the bill strikes out paragraphs (6), (7), (8), and (9) of section 542(c), renumbers paragraphs (10) and (11) thereof as paragraphs (7) and (8), respectively, and adds a new paragraph (6) thereto to provide a single definition of all those lending and finance companies which are excepted from the personal holding company tax. The tests which must be met are provided in subparagraphs (A), (B), (C), and (D).

Sixty-percent-of-ordinary-gross-income test

Subparagraph (A) of the new section 542(c)(6) provides that 60 percent or more of the corporation's ordinary gross income (as defined in sec. 543(b)(1)) must be derived directly from the active and regular conduct of a lending or finance business. The term "lending or finance business" is defined in the new section 542(d)(1).

In order to meet the 60-percent test the corporation must actively and regularly engage in lending and financing activities. The fact that a corporation meets the requirement of the new subparagraph (C)

of section 542(c)(6) with respect to the extent to which it incurs certain business deductions is not relevant for purposes of determining whether the 60-percent test of the new subparagraph (A) is met.

Twenty-percent-of-ordinary-gross-income test

Subparagraph (B) of section 542(c)(6) provides that personal holding company income, plus interest described in section 543(b)(2)(C), must not exceed 20 percent of the ordinary gross income. For purposes of this test, income which is derived directly from the active and regular conduct of a lending or finance business (including certain income, described in sec. 542(d)(3), received from subsidiary corporations which are lending or finance companies) is not considered to be personal holding company income. The entire amount of the gross income from rents, royalties, produced film rents, and compensation for use of corporate property by shareholders is treated as personal holding company income. Thus, for example, for purposes of the 20-percent test, the adjustments prescribed by section 543(b) (3) and (4) (relating to adjusted income from rents and adjusted income from mineral, oil, and gas royalties) are disregarded, as are the various percentage tests prescribed by paragraphs (2) through (6) of section 543(a).

Business expense test

Subparagraph (C) of section 542(c)(6) provides that the sum of the business-expense deductions (as defined in the new sec. 542(d)(2)) which are directly allocable to the active and regular conduct of the lending or finance business must equal or exceed the sum of—

(i) 15 percent of the first $500,000 of ordinary gross income derived from such business, plus

(ii) 5 percent of the next $500,000 of ordinary gross income derived from such business.

Thus, for example, a corporation which derives $700,000 of ordinary gross income from the active and regular conduct of a lending business is required to have at least $85,000 of deductions directly allocable to such business in order to meet the business expense test of subparagraph (C) of section 542(c)(6); that is, $75,000 (15 percent of $500,000) plus $10,000 (5 percent of $200,000).

If a corporation has at least $100,000 of such business-expense deductions (under the definition contained in the new sec. 542(d)(2)) it meets the business-expense test regardless of how large its ordinary gross income from the lending or finance business may be.

The requirement that the deductions be directly allocable to the active and regular conduct of the lending or finance business is illustrated by the following example: Assume that corporation N (which satisfies the requirements of subpars. (A) and (B) of sec. 542(c)(6)) has ordinary gross income (as defined in sec. 543(b)(1)) of $100,000 from its financing and lending activities and $20,000 from management or consulting fees. Its business deductions (as defined in sec. 542(d)(2)) amount to $31,000, consisting of $10,000, representing the salary of employee X (not a shareholder) whose sole duties are to perform the management and consulting services; $12,000, representing the salary of the general manager (not a shareholder) who spends two-thirds of his time managing the financing and lending activities and one-third of his time overseeing the work of X; and $9,000, representing the overhead of the corporation. It is deter-

mined that $5,000 of the overhead is directly allocable to the lending and finance activities. Since the sum of the deductions which are directly allocable to the lending and finance activities, $13,000 ($8,000, i.e., two-thirds of $12,000, plus $5,000), is less than 15 percent of the ordinary gross income derived from the lending or finance business, that is, 15 percent of $100,000, corporation N does not meet the business-expense test of subparagraph (C) of section 542(c)(6).

The business-expense test is separate and apart from the requirement of section 542(c)(6)(A) that the taxpayer must be engaged in the active and regular conduct of a lending or finance business.

Limitation on loans to shareholders

Subparagraph (D) of section 542(c)(6) retains the provisions of existing law limiting the total amount of the loans outstanding at any time during the taxable year to a 10-percent-or-more shareholder of the corporation to $5,000 in principal amount. For this purpose, stock which is owned directly or indirectly (including, in the case of an individual, stock owned by members of his family as defined in sec. 544(a)(2)) is included.

Paragraph (3) of section 216(c) of the bill adds a new subsection (d) to section 542 to provide special rules for applying section 542(c)(6).

Definition of lending or finance business

Paragraph (1)(A) of section 542(d) defines a "lending or finance business" as a business of—

(i) making loans, or

(ii) purchasing or discounting accounts receivable, notes, or installment obligations.

The loans (and purchased or discounted paper) may be secured or unsecured, and (except as provided in sec. 542(c)(6)(D)) may be made to, or acquired from, any person.

Paragraph (1)(B) of section 542(d) excepts two types of investment activities from the term "lending or finance business."

Clause (i) of section 542(d)(1)(B) excepts from such term the business of making loans, or purchasing or discounting accounts receivable, notes, or installment obligations, if the loans or the specified forms of commercial paper have a remaining maturity in excess of 60 months. The remaining maturity is measured as of the time the taxpayer makes the loan or purchases or discounts the paper. In addition, the remaining maturity includes any period for which there may be a renewal or extension under the terms of an option exercisable by the borrower. Thus, if a corporation's business activities include making 3-year loans, renewable for an equivalent period at the borrower's option, the making of such loans does not constitute a lending or finance business for purposes of this definition since the remaining maturity at the time of such loans is 72 months. In a case where a separate agreement is made to extend an existing loan, or to make a loan at some time in the future, such agreement may be taken into account in measuring the remaining maturity of loans existing at the time of such agreement or loans made subsequent thereto.

Where, before a loan matures, the lender agrees to extend the term of the loan (or other debt obligation), the remaining maturity of the loan is redetermined as of the time of the granting of such extension.

For example, on January 1, 1965, corporation Q, a calendar-year taxpayer, lends $90,000 to individual R. The note signed by R

provides that the loan shall be paid in monthly installments of $1,000, plus interest, commencing February 1, 1965, for 4 years with the balance of $42,000 becoming due on February 1, 1969. On January 1, 1967, corporation Q and individual R agree that the $1,000 monthly payments of principal shall continue until the debt is liquidated. Under the terms of this extension, the debt will be completely liquidated on July 1, 1972. At the time of the original loan, it is treated as having a remaining maturity not in excess of 60 months, since the note provides that the loan is to be completely paid off in 4 years and 1 month. However, the loan exceeds the 60-month maximum on January 1, 1967, since, pursuant to the terms of the extension entered into on that date, the remaining maturity is 66 months (from January 1, 1967, to July 1, 1972). Accordingly, for corporation Q's taxable years 1967 through 1972, the loan to R is not considered part of a "lending or finance business."

Clause (ii) of section 542(d)(1)(B) excepts from the definition of a lending or finance business the business of making of loans evidenced by, or the purchasing of, certificates of indebtedness issued in a series, under a trust indenture, and in registered form or with interest coupons attached.

The fact that a corporation makes some loans which are described in either clause (i) or (ii) of section 542(d)(1)(B) does not prevent the corporation from satisfying the 60-percent requirement of section 542(c)(6)(A). However, the interest income derived from such loans is treated as income which is not derived directly from the active and regular conduct of a lending or finance business.

Definition of business deductions

Paragraph (2) of section 542(d) defines the business deductions which may be taken into account in applying the business-expense test of section 542(c)(6)(C).

Subparagraph (A) of section 542(d)(2) includes those deductions which are allowable only by reason of section 162 or section 404 of the code, but excludes those deductions allowable by such sections in respect of compensation for personal services rendered by shareholders (including members of the sharholder's family as described in sec. 544(a)(2)). The effect of this subparagraph is to exclude, for purposes of the business-expense test, deductions which are allowable under section 162 (or sec. 404) and under other provisions, such as interest which is specifically allowable as a deduction under section 163.

Subparagraph (B) of section 542(d)(2) includes those deductions allowable under section 167 of the code (relating to depreciation) and those deductions allowable under section 164 of the code for real property taxes, but in each case only to the extent that the property with respect to which such deduction is allowable is used directly in the active and regular conduct of the lending or finance business. Thus, depreciation of the office furniture and equipment, to the extent allocable to such lending or finance business, is included for purposes of the business-expense test of section 542(c)(6)(C). Similarly, real property taxes paid with respect to the portion of a building used as office space by such lending or finance business are included. However, deductions allowable under section 167 or 164 with respect to

investment property owned by the corporation are not included for this purpose.

Income received by a consumer finance company from certain domestic subsidiary corporations

Paragraph (3) of section 542(d) provides that in the case of a lending company which is authorized to engage in and is actively and regularly engaged in the small loan business (consumer finance business) under one or more State statutes providing for the direct regulation of such business, for purposes of the 20-percent income test of section 542 (c)(6)(B), there shall not be treated as personal holding company income the lawful income received from certain domestic subsidiary corporations. Such subsidiaries must themselves be excepted from the definition of a personal holding company under section 542(c)(6), and, in addition, stock possessing at least 80 percent of the voting power of all classes of stock of such subsidiary and at least 80 percent of each class of the nonvoting stock must be owned directly by the taxpayer small loan company.

(*d*) *Personal holding company income.*—Subsection (d) of section 216 of the bill amends section 543(a) of the code (relating to personal holding company income). It also amends section 543(b) to provide definitions of the new terms "ordinary gross income," "adjusted ordinary gross income," "adjusted income from rents," and "adjusted income from mineral, oil, and gas royalties."

The amended section 543(a) provides that for purposes of subtitle A, the term "personal holding company income" means the portion of the adjusted ordinary gross income (as defined in sec. 543(b)(2)) which consists of the items described in paragraphs (1) through (8) of such section.

Dividends, etc.

Paragraph (1) of section 543(a) as amended (relating to dividends, etc.) contains no substantive change from paragraph (1) of the existing section 543(a).

Rents

Section 543(a)(7) of existing law provides that rents are personal holding company income unless such rents constitute 50 percent or more of gross income.

Paragraph (2) of section 543(a) as amended (relating to rents), which corresponds to the existing section 543(a)(7), provides that only so much of the gross income from rents as is equal to the adjusted income from rents (as defined in sec. 543(b)(3)) is treated as personal holding company income. In addition, the 50-percent requirement is amended (1) to provide that such requirement is met only if the adjusted income from rents constitutes 50 percent or more of the corporation's adjusted ordinary gross income (as defined in sec. 543(b)(2)), and (2) to add a test which provides that such adjusted income from rents is not excluded from personal holding company income unless the personal holding company income for the taxable year, computed without regard to such rents and compensation for the use of the corporation's property by its shareholders, and computed by treating all mineral, oil, gas, and copyright royalties as personal holding company income, is not more than 10 percent of the ordinary gross income as defined in section 543(b)(1).

The application of the 50-percent requirement and the 10-percent test is illustrated by the following examples:

Example (1).—Corporation A owns securities earning annually $50 in dividends, and a building from which it receives annual gross income from rents of $50. Depreciation, interest, and real property taxes allocable to the rents equal $25. Under existing law, since corporation A's gross rents ($50) equal 50 percent of its gross income ($100), such rents are excluded from personal holding company income and the personal holding company income ($50 in dividends) equals only 50 percent of gross income ($100). Thus corporation A is not a personal holding company. However, under the 50-percent requirement as provided in the new paragraph (2)(A) of section 543(a), all of corporation A's adjusted ordinary gross income is personal holding company income, computed as follows:

	Adjusted ordinary gross income	Adjusted income from rents
Gross income from rents	$50	$50
Dividends	50	
Gross income	100	
Less: Adjustments under sec. 543(b) (2) and (3), i.e., depreciation, interest, and real property taxes	25	25
Total	$75	$25

Since the adjusted income from rents ($25) does not constitute 50 percent or more of adjusted ordinary gross income (50 percent of $75), the $25 adjusted income from rents constitutes personal holding company income. Since the $50 in dividends is also personal holding company income, 100 percent of the corporation's adjusted ordinary gross income ($75) is personal holding company income.

Example (2).—Corporation F receives $40 in dividends and $150 of gross income from rents. Corporation F also realizes $10 in capital gain on the sale of securities. Corporation F's deductions for depreciation, interest, and real property taxes allocable to the rents equal $100. Under existing law the rents are not personal holding company income and corporation F is not a personal holding company, since its gross income from rents ($150) constitutes 50 percent or more of its gross income ($200). Under the 50-percent requirement of the new provisions, the adjusted income from rents, $50 ($150 less $100), is 55.5 percent of adjusted ordinary gross income of $90 ($200 less the sum of $100 of adjustments and $10 of capital gains). Accordingly the adjusted income from rents meets the new 50-percent requirement. However other personal holding company income (the dividend income of $40) is more than 10 percent of ordinary gross income $190 ($200 less $10). Therefore, even though the rental income meets the 50-percent requirement of section 543(a)(2)(A), the adjusted income from rents nevertheless constitutes personal holding company income. Thus, all of corporation F's adjusted ordinary gross income is personal holding company income.

Example (3).—Corporation M receives $250 in gross income from rents, $20 of dividends, and $130 from its sole shareholder as com-

pensation for the use of a building owned by the corporation and leased to the shareholder. Depreciation, interest, and property taxes totaling $100 are allocable to the $250 of rents. Under the amendment, the adjusted income from rents, $150 ($250 less $100), equals 50 percent of adjusted ordinary gross income, $300 ($400 less $100), and thus the 50-percent requirement is met. In addition, corporation M meets the 10-percent test of section 543(a)(2)(B), since personal holding company income for the taxable year (excluding compensation for the use of corporate property by corporation M's shareholder which is not considered personal holding company income for purposes of the 10-percent test), $20 of dividends, is not more than 10 percent of ordinary gross income ($400). Since the adjusted income from rents meets both the 50-percent requirement and the 10-percent test, the adjusted income from rents does not constitute personal holding company income.

Mineral, oil, and gas royalties

Section 543(a)(8) of existing law provides that mineral, oil, and gas royalties are personal holding company income unless—

(A) such royalties constitute 50 percent or more of the gross income, and

(B) deductions allowable under section 162 of the code (relating to trade or business expenses), other than compensation for personal services rendered by the shareholders, constitute 15 percent or more of the gross income.

Paragraph (3) of section 543(a) as amended, which corresponds to the existing section 543(a)(8), makes the following changes in the applicable tests for determining whether such royalty income is personal holding company income: (A) The 50-percent requirement is met only if the adjusted income from such royalties (as defined in sec. 543(b)(4)) constitutes 50 percent or more of the corporation's adjusted ordinary gross income; (B) a new test is added providing that such royalties are nevertheless treated as personal holding company income if other personal holding company income constitutes more than 10 percent of ordinary gross income; and (C) the 15-percent expense test is made more specific.

Under subparagraph (A) of section 543(a)(3), only the adjusted income from mineral, oil, and gas royalties (i.e., the gross income from such royalties reduced by the amounts provided in sec. 543(b)(4)) is included in the numerator for purposes of the 50-percent requirement; the denominator is the adjusted ordinary gross income (as defined in sec. 543(b)(2)) of the corporation. Thus, for example, if the gross income from such royalties equals $200, and the adjustments for depletion, etc., provided in section 543(b)(4) with respect to such royalties equal $60, then for purposes of determining whether 50 percent or more of the corporation's adjusted ordinary gross income is derived from such royalties, $140 ($200 less $60) is the numerator in the computation. Assuming that the corporation's other gross income consists of $35 in dividends and $115 in gross income from the sale of merchandise, the denominator in the computation, adjusted ordinary gross income, would be $290 ($200 less $60, plus $35 plus $115). Since $140 is less than 50 percent of $290, the adjusted income from royalties constitutes personal holding company income.

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Subparagraph (B) of section 543(a)(3) provides that even if the 50-percent requirement is met, the adjusted income from mineral, oil, and gas royalties will constitute personal holding company income if the corporation's other personal holding company income is more than 10 percent of ordinary gross income (as defined in sec. 543(b)(1)). For purposes of this 10-percent test, copyright royalties and the adjusted income from rents are treated as personal holding company income.

Copyright royalties

Section 543(a)(9) of existing law provides that copyright royalties are personal holding company income unless—

(A) such royalties (exclusive of royalties derived from copyrights on works created by any shareholder) constitute 50 percent or more of gross income,

(B) personal holding company income (exclusive of copyright royalties other than those derived from copyrights on works created by a more-than-10-percent shareholder, and exclusive of dividends from any 50-percent-owned corporation which meets the requirements of sec. 543(a)(9)) does not exceed 10 percent of gross income, and

(C) the deductions allowable under section 162 of the code (other than deductions for compensation for personal services rendered by shareholders, and other than deductions for royalties paid to shareholders) constitute 50 percent or more of the gross income.

Copyright royalties are defined to include compensation for the use of statutory copyrights (except copyrights issued under sec. 2 or 6 of title 17 of the United States Code) and payments for performing rights in copyrighted works. However such term does not include compensation which is rent under existing section 543(a)(7) (determined without regard to the 50-percent requirement applicable to such rents).

Paragraph (4) of section 543(a) as amended adopts the provisions of the existing section 543(a)(9), with the following changes:

(A) Under subparagraph (A) of section 543(a)(4), the 50-percent requirement is applied by measuring copyright royalty income against ordinary gross income (as defined in sec. 543(b)(1)), rather than against gross income as under existing law.

(B) Under subparagraph (B) of section 543(a)(4), the 10-percent test is measured against ordinary gross income, rather than against gross income as under existing law. In addition, a new clause is added to provide that adjusted income from rents (as defined in sec. 543(b)(3)) and adjusted income from mineral, oil, and gas royalties (as defined in sec. 543(b)(4)) are treated as personal holding company income for purposes of the 10-percent test.

For example, assume that corporation F receives $3,000 gross income from rents, and that its adjusted income from rents is $2,500. Corporation F also derives $7,000 in copyright royalty income from copyrights on works not created by a shareholder. The copyright royalties ($7,000) constitute 50 percent or more of ordinary gross income ($10,000). Accordingly the requirement of subparagraph (A) of section 543(a)(4) is met. However

since the adjusted income from rents ($2,500) exceeds 10 percent of corporation F's ordinary gross income ($10,000), the copyright royalties are not excluded from personal holding company income.

(C) In lieu of the 50-percent business-expense test of subparagraph (C) of section 543(a)(9) of existing law, subparagraph (C) of the new section 543(a)(4) provides that the business expenses must equal or exceed 25 percent of the amount by which ordinary gross income exceeds the sum of the royalties paid or accrued with respect to the copyright royalty income and amounts allowable as deductions under section 167 of the code with respect to the copyright royalty income. For this purpose only the deductions allowable under section 162 of the code are included, but the following deductions are not included:

(1) deductions not allocable to copyright royalty income;

(2) deductions for compensation for personal services rendered by the shareholders;

(3) deductions for royalties paid or accrued (even though allowable as a deduction under sec. 162); and

(4) deductions specifically allowable under sections other than section 162 (even though also allowable under sec. 162).

Thus, for example, assume corporation E owns a copyright on a popular song from which it derives $100 in royalties, and also operates a bowling alley with gross income therefrom of $50. Royalties paid to the composer of the copyrighted song are $50, expenses of operating the bowling alley are $45, and State income tax paid or accrued equals $5. Under subparagraph (C) of section 543(a)(4) none of the listed expenses qualifies for inclusion in determining whether corporation E's deductions allowable under section 162 are sufficient to remove the copyright royalties from the definition of personal holding company income.

(D) The definition of copyright royalties in paragraph (4) of section 543(a) is broadened to include payments (other than produced film rents as defined in sec. 543(a)(5)(B)) received for the use of, or right to use, films.

For purposes of paragraph (4) of section 543(a), payments for the transfer of the right to use a film (including television tapes) are treated as copyright royalties even though the transferee does not in fact intend to exhibit, distribute, or otherwise use such films.

Produced film rents

Under existing law, compensation for the use of, or right to use, films is treated as rents (regardless of when such rights are acquired) for personal holding company tax purposes.

Subparagraph (A) of the new section 543(a)(5) provides that unless produced film rents (as defined in subpar. (B)) constitute 50 percent or more of ordinary gross income, such produced film rents are personal holding company income.

Subparagraph (B) of section 543(a)(5) defines "produced film rents" as payments received with respect to an interest in a film for the use of, or right to use, such film, but only to the extent that such interest was acquired before substantial completion of production of the film. Film rents other than those defined in subparagraph (B) are treated as copyright royalties under section 543(a)(4) for personal holding company tax purposes.

Whether an interest in a film is acquired before substantial completion of production of such film will be determined on the basis of all of the facts and circumstances in each case. Thus, for example, if two corporations form a joint venture for the purpose of acquiring the motion picture rights to a book, and the joint venture proceeds to adapt such book to motion picture screenplay form, and to produce the film, then the interest in the film acquired by the joint venturers is acquired before substantial completion of production of the film. If, as a result of major revisions in the screenplay, unavailability of leading actors and actresses, or other unexpected events occurring at an early stage in the actual production of the film, additional funds are required to continue production, an interest in the film acquired by another corporation at such time is acquired before substantial completion of production of the film.

On the other hand, if an interest in a film is acquired by a corporation at a time when most of the major scenes have been filmed, the payments received by such corporation with respect to such interest are not "produced film rents."

The term "produced film rents" does not include amounts which are personal holding company income under section 543(a)(7) (relating to personal service contracts).

Use of corporation property by shareholder

Under section 543(a)(6) of existing law, compensation for the use of, or right to use, the corporation's property by a 25-percent (or more) shareholder is personal holding company income only if the corporation's other personal holding company income exceeds 10 percent of gross income. For purposes of this 10-percent test, copyright royalties are treated as personal holding company income, but rents are not.

Under section 543(a)(6) as amended, the 10-percent test is applied with respect to ordinary gross income (as defined in sec. 543(b)(1)). In addition to copyright royalties, for purposes of this test, the adjusted income from mineral, oil, and gas royalties is included as personal holding company income notwithstanding that such royalties are excluded from personal holding company income under section 543(a)(3).

Personal service contracts

Paragraph (7) of section 543(a) as amended (relating to personal service contracts) is identical to section 543(a)(5) of existing law.

Estates and trusts

Paragraph (8) of section 543(a) as amended (relating to estates and trusts) is the same as section 543(a)(4) of existing law, except that gains from the sale or other disposition of any interest in an estate or trust are excluded from personal holding company income.

Gains from stocks, securities, and commodities transactions

The provisions of paragraphs (2) and (3) of the existing section 543(a), which include in the definition of personal holding company income gains (subject to the limitations in existing sec. 543(b) restricting such gains to the excess thereof over losses) from the sale or exchange of certain stock and securities, and gains from commodities transactions, have been deleted, and thus such gains will no longer constitute personal holding company income.

SECTION 216. PERSONAL HOLDING COMPANIES (Continued)

(*d*) *Personal holding company income* (continued).

Section 543(b) of existing law provides that for personal holding company tax purposes gains from stock and security transactions are included in gross income and personal holding company income only to the extent of the excess of gains over losses from such transactions. A similar rule applies to commodity transactions. These provisions have been deleted.

Under the amendment made by subsection (d) of section 216 of the bill, section 543(b) contains definitions for personal holding company tax purposes.

Ordinary gross income

Paragraph (1) of section 543(b) defines the term "ordinary gross income" as gross income determined by excluding—

(A) all gains from the sale or other disposition of capital assets, and

(B) all other gains from the sale or other disposition of property described in section 1231(b) of the code (relating to property used in a trade or business).

The computation of the amount to be excluded in computing ordinary gross income is illustrated by the following example:

Assume that corporation R sells two pieces of machinery for $100 each. Machine A has an adjusted basis of $80 and machine B has an adjusted basis of $108. Assume, further, that for purposes of section 1245(a)(2) of the code the recomputed basis of machine A equals $95. Corporation R's gain or loss on the sales of the two machines is computed as follows:

	Machine A	Machine B
Amount realized from sale	$100	$100
Less: Adjusted basis	80	108
Gain (loss) realized	$20	$(8)
Recomputed basis (sec. 1245(a))	95	
Less: Adjusted basis	80	
Amount of gain which is not treated as capital gain or sec. 1231 gain (sec. 1245(a)(1))	$15	

The $8 loss on the sale of machine B is not an item of gross income and, therefore, does not enter into the computation of ordinary gross income. Of the $20 gain from the sale of machine A, $15 is treated as gain from the sale or exchange of property which is neither a capital asset nor property described in section 1231(b) of the code, and this is not excluded by paragraph (1) of section 543(b). The remaining $5 gain is gain from the sale of property described in section 1231(b), and is excluded by such paragraph (1) for purposes of determining corporation R's ordinary gross income.

The term "ordinary gross income" is used for the following purposes:

(1) In section 543(b)(2), in the computation of "adjusted ordinary gross income";

(2) In section 542(c)(6), to determine whether a lending or finance company meets the requirement that 60 percent or more

of its ordinary gross income must be derived directly from the active and regular conduct of a lending or finance business (sec. 542(c)(6)(A)); to apply the requirement that the personal holding company income (plus certain interest) must not exceed 20 percent of ordinary gross income (sec. 542(c)(6)(B)); and to apply the requirement that the deductions which are directly allocable to the active and regular conduct of the lending or finance business must equal or exceed 15 percent of the first $500,000 of ordinary gross income derived from such business, and 5 percent of the next $500,000 of such ordinary gross income (sec. 542(c)(6)(C));

(3) In section 543(a)(2)(B), to determine whether adjusted income from rents may be excluded from personal holding company income, to the extent that such exclusion depends upon the corporation having other personal holding company income not in excess of 10 percent of ordinary gross income;

(4) In section 543(a)(3)(B), to determine whether adjusted income from mineral, oil, and gas royalties are excluded from personal holding company income, to the extent that such exclusion depends upon the corporation having other personal holding company income not in excess of 10 percent of ordinary gross income;

(5) In section 543(a)(4), to determine whether copyright royalties are excluded from personal holding company income, to the extent that such exclusion depends upon the corporation meeting the requirement that such copyright royalties (exclusive of royalties on works created by shareholders) constitute 50 percent or more of ordinary gross income (sec. 543(a)(4)(A)); to apply the requirement that the other personal holding company income (with certain exceptions) must not exceed 10 percent of ordinary gross income (sec. 543(a)(4)(B)); and to apply the requirement that the sum of the business deductions of the corporation (with certain exceptions) must equal or exceed 25 percent of the ordinary gross income (reduced by royalties paid or accrued and depreciation and amortization with respect to the copyright royalties (sec. 543(a)(4)(C));

(6) In section 543(a)(5)(A), to determine whether produced film rents are excluded from personal holding company income by reason of constituting 50 percent or more of ordinary gross income; and

(7) In section 543(a)(6) (relating to compensation for the use of property of the corporation by a 25-percent-or-more shareholder), to determine whether personal holding company income exceeds 10 percent of ordinary gross income.

Adjusted ordinary gross income

Paragraph (2) of section 543(b) defines the term "adjusted ordinary gross income" as the ordinary gross income adjusted as provided in subparagraphs (A), (B), and (C) of such paragraph.

Adjusted ordinary gross income replaces the concept of gross income of existing law as the denominator in the fraction used in computing certain percentages involved in determining a corporation's status as a personal holding company. For example, under the

amended section 542(a)(1), a corporation is not a personal holding company unless at least 60 percent of its adjusted ordinary gross income for the taxable year is personal holding company income. Also, in determining whether adjusted income from rents (under sec. 543(a)(2)(A)) and adjusted income from mineral, oil, and gas royalties (under sec. 543(a)(3)(A)) are included in the definition of personal holding company income, such adjusted income from rents and royalties must each be measured against adjusted ordinary gross income. In addition, adjusted income from mineral, oil, and gas royalties is not excluded from personal holding company income unless the corporation's deductions which are allowable under section 162 of the code (with certain exceptions) constitute 15 percent or more of the adjusted ordinary gross income (sec. 543(a)(3)(C)).

With respect to the 50-percent tests in section 543(a) (2)(A) and (3)(A), the use of the concept of adjusted ordinary gross income is also reflected in the numerator of the pertinent fractions, as required by section 543(b) (3) and (4). Thus, in the case of rents and mineral, oil, and gas royalties, the adjustments provided in section 543(b) affect both the denominator (adjusted ordinary gross income) and the numerator (adjusted income from rents or adjusted income from such royalties, as the case may be) in determining whether such adjusted income from rents or royalties constitutes 50 percent or more of the adjusted ordinary gross income.

Rents

Subparagraph (A) of section 543(b)(2) provides that from the gross income from rents (as defined in the second sentence of sec. 543(b)(3)) there is to be subtracted the amounts allowable as deductions for exhaustion, wear and tear, obsolescence, and amortization; deductions for property taxes; interest deductions; and rent deductions; to the extent that such deductions are allocable, under regulations prescribed by the Secretary of the Treasury or his delegate, to the gross income from rents. In no case may the amounts subtracted under subparagraph (A) exceed the gross income from rents.

Regardless of the particular method or methods of computing depreciation used by the corporation, the total amount allowable therefor, including, where applicable, the additional first-year depreciation allowance under section 179 of the code, is subtracted from the total gross income from rents to the extent allocable thereto. If the corporation owns a purchased leasehold interest in real property, the amortization of the cost of such interest is subtracted from the company's gross income from rents. In addition, the amount of rent allowable as a deduction by the corporation with respect to a lease is subtracted from the company's gross income from rent. Deductions allowable for real and personal property taxes are also subtracted from such gross income.

Assume, for example, that real estate company J owns property which has gross rental income of $9,000. Its dividend income may be as much as $1,000 and still permit it to meet the 10-percent test of section 543(a)(2)(B) since the ordinary gross income is $10,000 ($9,000 plus $1,000) and 10 percent of such amount is $1,000. Company J may have deductions of the type for which subparagraph (A) of section 543(b)(2) requires adjustment of $8,000 and its adjusted income

from rent will meet the 50-percent requirement of section 543(a)(2)(A) as illustrated in the following computations:

	Adjusted ordinary gross income	Ordinary gross income
Gross rents	$9,000	$9,000
Less adjustments provided under sec. 543(b)(2)(A)	8,000	
Adjusted income from rents	1,000	
Dividends	1,000	1,000
Total	$2,000	$10,000

NOTE.—$1,000 (adjusted income from rents) equals 50 percent of $2,000.

The provision that prohibits the amounts subtracted under subparagraph (A) of section 543(b)(2) from exceeding the gross income from rents applies to the company's entire gross income from rents, rather than to each separate item of rental income. Thus, for example, assume that real estate company K owns two buildings, each producing $100 in gross income from rents. The deductions allowable for depreciation, mortgage interest, and real property taxes with respect to building No. 1 equals $80, and with respect to building No. 2 equals $110. In computing company K's adjusted ordinary gross income, $10 is included with respect to the gross income from rents from the two buildings.

Mineral royalties, etc.

Subparagraph (B) of section 543(b)(2) provides that from the gross income from mineral, oil, and gas royalties (as described in sec. 543(a)(3)), and from the gross income from working interests in an oil or gas well, there is to be subtracted the amounts allowable as deductions for exhaustion, wear and tear, obsolescence, amortization, and depletion; deductions for property and severance taxes; interest deductions; and rent deductions; to the extent that such deductions are allocable, under regulations prescribed by the Secretary of the Treasury or his delegate, to the gross income from such royalties and such working interests. In no case may the amounts subtracted under subparagraph (B) with respect to royalties exceed the gross income from such royalties. Nor may the amount subtracted with respect to working interests in oil or gas wells exceed the gross income therefrom.

Interest

Subparagraph (C) of section 543(b)(2) provides that in computing adjusted ordinary gross income, there is excluded—

(i) interest received on a direct obligation of the United States held for sale to customers in the ordinary course of trade or business by a regular dealer who is making a primary market in such obligations, and

(ii) interest on a condemnation award, a judgment, and a tax refund.

Adjusted income from rents

Paragraph (3) of section 543(b) defines the term "adjusted income from rents" as the gross income from rents, reduced by the amount

subtracted under section 543(b)(2)(A) with respect to certain deductions allocable to such gross income from rents. As in the case of the adjustments to rents for purposes of computing adjusted ordinary gross income, adjusted income from rents is computed by grouping all items of gross income from rents and subtracting therefrom the entire amount of the deductions computed under section 543(b)(2)(A). In addition, the corporation's adjusted income from rents may not be less than zero.

The term "adjusted income from rents" is used in section 543(a)(2) to describe the amount which is included as personal holding company income from rents unless such amount constitutes 50 percent or more of adjusted ordinary gross income and meets the 10-percent and 15-percent tests. It is also the amount which is treated as personal holding company income for purposes of the 10-percent tests of section 543(a) (3)(B) (relating to mineral, oil, and gas royalties) and (4)(B)(iii) (relating to copyright royalties).

Paragraph (3) of section 543(b) retains the same definition of rents which appears in section 543(a)(7) of existing law, with two exceptions. Produced film rents (as defined in sec. 543(a)(5)(B)) and other payments received for the use of, or right to use, films (which are treated as copyright royalties under sec. 543(a)(4)) are not classified as rents for personal holding company tax purposes under the amended paragraph (3).

Adjusted income from mineral, oil, and gas royalties

Paragraph (4) of section 543(b) defines the term "adjusted income from mineral, oil, and gas royalties" as the gross income from such royalties, reduced by the amount subtracted under section 543(b)(2)(B) with respect to certain deductions allocable to the gross income from such royalties.

As in the case of the adjustments to gross income from such royalties, for purposes of computing adjusted ordinary gross income, adjusted income from such royalties is computed by grouping all items of gross royalty income and subtracting therefrom the entire amount of the deductions computed under section 543(b)(2)(B). Also, the corporation's adjusted income from such royalties may not be less than zero.

The term "adjusted income from mineral, oil, and gas royalties" is used in section 543(a)(3) to describe the amount which is included as personal holding company income from such royalties unless such amount constitutes 50 percent of adjusted ordinary gross income and meets the 10-percent and 15-percent tests. It is also the amount which is treated as personal holding company income for purposes of the 10-percent tests of section 543(a) (2)(B) (relating to rents), (4)(B)(iii) (relating to copyright royalties), and (6) (relating to use of corporation property by shareholder).

SECTION 216. PERSONAL HOLDING COMPANIES (Continued)

(*e*) *Foreign personal holding company income and stock ownership.*— The existing section 553 of the code defines the term "foreign personal holding company income" as the portion of the gross income, determined for purposes of section 552, which consists of personal holding company income as defined in section 543, except that all interest

(whether or not treated as rent) and all royalties (including mineral, oil, gas, and copyright royalties) are included in such definition. Section 554 of the code presently provides that for purposes of determining whether a foreign corporation meets the requirements of a foreign personal holding company with respect to stock ownership, the rules provided in section 544 are applied but with appropriate references to foreign personal holding companies rather than to personal holding companies.

Subsection (e) of section 216 of the bill rewrites sections 553 and 554 to eliminate the necessity of referring to sections 543 and 544 for the definition of foreign personal holding company income and for rules for determining stock ownership. Thus, under the amendment, section 553 contains all of the relevant provisions which appear in sections 543 (a) and (b) and 553 of existing law, and section 554 contains all of the relevant provisions which appear in sections 544 and 554 of existing law.

Accordingly the substantive rules provided in sections 543 and 544 of existing law (which are made applicable to foreign personal holding companies by secs. 553 and 554 of existing law) are retained in the code, with respect to foreign personal holding companies, without change.

(*f*) *Dividends-paid deduction.*—The existing section 316(a) of the code defines a dividend for income tax purposes. Paragraph (2) of the existing section 316(b) of the code contains an additional definition of a dividend with respect to personal holding companies. Such paragraph (2) provides that the term "dividend" also means any distribution of property (whether or not a dividend within the meaning of sec. 316(a)) made by a personal holding company to its shareholders, to the extent of the corporation's undistributed personal holding company income as determined under section 545 (but without regard to distributions which qualify as dividends under par. (2) of sec. 316(b)). This special definition of a dividend in section 316(b)(2) does not apply to distributions in partial or complete liquidation of a personal holding company. The extent to which liquidating distributions qualify as dividends for purposes of the dividends-paid deduction provided in section 561 is determined under section 562(b).

Dividend defined

Paragraph (1) of section 216(f) of the bill amends paragraph (2) of section 316(b) of the code by placing the provisions thereof in a new subparagraph (A) and by adding a new subparagraph (B). The new subparagraph (B) provides that the term "distribution of property," as used in subparagraph (A), includes a distribution in complete liquidation occurring within 24 months after the adoption of a plan of liquidation, but limited as provided in clauses (i), (ii), and (iii).

Clause (i) of section 316(b)(2)(B) restricts the distributions which qualify as a "distribution of property" to those made to distributees other than corporate shareholders. Thus a distribution in complete liquidation of a personal holding company made to a corporate shareholder cannot be treated by such corporate shareholder as a dividend (and therefore the corporate distributee cannot qualify, with respect to such distribution, for the dividends-received deduction allowed by either sec. 243 or sec. 245).

Clause (ii) of section 316(b)(2)(B) further restricts the amount of a distribution which qualifies as a "distribution of property" to that amount which the distributing corporation designates as a dividend distribution and with respect to which the corporation notifies the noncorporate shareholders of such designation, under regulations prescribed by the Secretary of the Treasury or his delegate.

Clause (iii) of section 316(b)(2)(B) provides that the amount treated as a "distribution of property" cannot exceed the sum of the noncorporate shareholders' allocable share of the undistributed personal holding company income for the taxable year, computed without regard to distributions which are within the definition of section 316(b)(2)(B) and without regard to distributions in liquidation under section 562(b).

The effect of the new subparagraph (B) of section 316(b)(2) is that a personal holding company may eliminate its undistributed personal holding company income in the year in which it liquidates by designating as dividends all or a part of its liquidating distributions to noncorporate shareholders (includible as such in their gross income). These amounts also qualify for the dividends-paid deduction under section 561.

The application of the new subparagraph (B) of section 316(b)(2) is illustrated by the following example:

Example.—In 1964, corporation L has gross income of $320,000, all from dividends on stocks of domestic corporations. Its undistributed personal holding company income for the calendar year 1964, computed without regard to distributions in liquidation under section 316(b)(2)(B) and section 562(b), is $303,000, computed as follows:

	Taxable income	Undistributed personal holding company income
Dividend income	$320,000	$320,000
Less: 85 percent dividend received deduction	272,000	
Taxable income	48,000	
Normal tax and surtax (50 percent less $7,000)	$17,000	(17,000)
Undistributed personal holding company income (without regard to sec. 316(b)(2)(B))		$303,000

On December 31, 1964, pursuant to a plan of liquidation, corporation L distributes all of its assets (consisting of stocks with a fair market value of $9 million and $603,000 in cash, including $300,000 accumulated from prior years' earnings) equally to its three shareholders, individuals A and B and corporation C. Thus, A and B each receive a liquidating distribution in the amount of $3,201,000 (one-third of $9,603,000). Corporation L designates $202,000 (two-thirds of $303,000) of the distributions in liquidation to A and B as a dividend and so notifies them (in accordance with regulations). A and B each have an adjusted basis for their stock in corporation L of $2,900,000.

Under the amendment, A and B each treat $101,000 as a dividend and report a gain on the liquidation of the corporation of $200,000, computed as follows:

Distribution	$3, 201, 000	
Less: Amount designated as dividend by corporation L	101, 000	
		$3, 100, 000
Less: Basis in stock of corporation L		2, 900, 000
Gain on liquidation		$200, 000

The entire amount received by corporation C in liquidation of corporation L, $3,201,000, is treated as full payment in exchange for its stock of corporation L.

Application of section 301

Paragraph (2) of section 216(f) of the bill amends section 331(b) of the code to provide that distributions referred to in the new subparagraph (B) of section 316(b)(2) are distributions of property to which section 301 applies. Thus, amounts which are distributed to noncorporate shareholders by a personal holding company, and which meet all of the other requirements of section 316(b)(2)(B), are not treated as in payment in exchange for stock of the distributing corporation under section 331(a).

Distributions in liquidation

The existing section 562(b) of the code provides that for purposes of computing the deduction for dividends paid under section 561, a corporation may treat as a dividend—

(1) amounts distributed in either partial or complete liquidation to the extent that such amounts are properly chargeable to earnings and profits accumulated after February 28, 1913, and

(2) in the case of a complete liquidation of such corporation occurring within 24 months after the adoption of a plan of liquidation, any distribution pursuant to such plan, to the extent of the earnings and profits (computed without regard to capital losses) of the corporation for the taxable year in which the distribution is made.

Paragraph (3) of section 216(f) of the bill amends section 562(b) of the code to include the provisions thereof in a new paragraph (1), except that such provisions are inapplicable in the case of personal holding companies (described in sec. 542) and foreign personal holding companies (described in sec. 552). The amendment does not alter the applicability of any of the rules provided in section 562 with respect to any distribution made by a corporation other than a personal holding company or a foreign personal holding company. In addition, a new paragraph (2) is added to section 562(b) to provide that in the case of a complete liquidation of a personal holding company, occurring within 24 months after the adoption of a plan of liquidation, the amount of any distribution within such 24-month period is treated as a dividend for purposes of computing the dividends-paid deduction under section 561, but only to the extent that such amount is distributed to corporate distributees and represents such corporate shareholders' allocable share of the undistributed personal holding company income for the taxable year of such distribution. For this purpose, undistributed personal holding company income is computed without regard to distributions described in the new paragraph

(2) of section 562(b) and without regard to distributions which qualify as "distributions of property" within the meaning of subparagraph (B) of section 316(b)(2).

The new paragraph (2) of section 562(b) provides that a personal holding company may include in its deduction for dividends paid a part of a distribution in complete liquidation to corporate shareholders. However, the amount of such distribution is not treated as a dividend by such shareholders.

The operation of the rule of the new paragraph (2) of section 562(b) is illustrated by referring to the preceding example (illustrating the application of new subparagraph (B) of sec. 316(b)(2)). In that example, even though individuals A and B each treated $101,000 of the $3,201,000 received in complete distribution of corporation L as a dividend, corporation C treats the entire amount of the distribution as in full payment in exchange for the stock of corporation L. In computing its dividends-paid deduction under section 561 for 1964, $101,000 of the amount of the distribution to corporation C is included by corporation L as well as the $202,000 designated as dividend distributions to A and B. Thus, corporation L has no undistributed personal holding company income in 1964, computed as follows:

Dividend income		$320, 000
Less:		
Normal tax and surtax	$17, 000	
Distributions to A and B designated as a dividend (sec. 316(b)(2)(B))	202, 000	
Distribution to corporation C in liquidation (sec. 562(b)(2))	101, 000	
		320, 000
Undistributed personal holding company income		0

Amount included in gross income of a U.S. shareholder of a foreign personal holding company

The existing section 551(b) of the code describes the amount which must be included as a dividend in the gross income of any U.S. shareholder of a foreign personal holding company who is a shareholder on the day in the taxable year of the company which was the last day on which a U.S. group (as defined in sec. 552(a)(2)) existed with respect to the company. The amount to be included is the amount such U.S. shareholder would have received as a dividend if on such last day there had been distributed by the company, and received by the shareholder, the proportionate part of the company's undistributed foreign personal holding company income for the taxable year represented by the ratio of the portion of the taxable year up to and including such last day to the entire taxable year.

Paragraph (4) of section 216(f) of the bill amends section 551(b) of the code to provide that the amount which would have been received as a dividend is determined as if any distribution in liquidation actually made in such taxable year had not been made. Thus, the fact that there may have been a distribution in liquidation will not affect the application of section 551 in treating the amounts specified therein as a dividend distribution to the shareholders.

(*g*) *One-month liquidations.*—The existing section 333 of the code permits certain corporations to liquidate without recognition by their shareholders of gain, subject to certain limitations on such nonrecognition with respect to earnings and profits of the corporation

accumulated after February 28, 1913, cash, and stock and securities acquired by the corporation after December 31, 1953.

Subsection (g) of section 216 of the bill adds a new subsection (g) to section 333 of the code.

Liquidations before January 1, 1966

Paragraph (1) of the new section 333(g) provides that if a corporation which is referred to in the new section 333(g)(3) is liquidated before January 1, 1966, in a liquidation to which section 333(a) applies—

(A) the date "December 31, 1953," referred to in section 333 (e)(2) and (f)(1) is to be treated as if such date were "December 31, 1962," and

(B) in the case of stock in the liquidating corporation held by a qualified electing shareholder for more than 6 months, the term "a dividend" as used in section 333(e)(1) is to be treated as if such term were "class B capital gain."

The effect of subparagraph (A) of section 333(g)(1) is that in the case of any liquidation of a corporation referred to in the new section 333(g)(3) to which the provisions of section 333(a) apply, and which is completed in any calendar month before the month of January 1966, no gain will be recognized to a qualified electing shareholder with respect to the distribution by the liquidating corporation of stock or securities acquired by the corporation before January 1, 1963.

Under subparagraph (B) of section 333(g)(1), a qualified electing noncorporate shareholder who has held the stock of the liquidating corporation for more than 6 months will, in computing his recognized gain under section 333(e)(1) with respect to such stock, treat as a class B capital gain (notwithstanding that his holding period for such stock is more than 2 years) so much of his realized gain on such stock as is not in excess of such stock's ratable share of the corporation's earnings and profits accumulated after February 28, 1913.

Subparagraph (B) does not apply with respect to stock held by a qualified electing shareholder for 6 months or less.

Paragraph (1) of section 333(g) also provides that subparagraph(B) of such paragraph does not apply to earnings and profits to which the corporation succeeds after August 1, 1963, pursuant to any corporate reorganization or pursuant to any liquidation to which section 332 applies, except earnings and profits which on August 1, 1963, constituted earnings and profits of a corporation referred to in section 333(g)(3), and except earnings and profits which were earned after such date by a corporation referred to in section 333(g)(3). Thus, for example, if corporation K (a corporation referred to in sec. 333(g)(3)) succeeds to the earnings and profits of corporation L (a corporation not referred to in sec. 333(g)(3)) under section 381 of the code in a transaction occurring before August 2, 1963, then corporation K's earnings and profits (including the earnings and profits of corporation L to which it succeeded) are treated as class B capital gain for purposes of applying section 333(e)(1) to a noncorporate shareholder of corporation K. If on January 1, 1964, corporation M (a corporation referred to in sec. 333(g)(3)) succeeds to corporation K's earnings and profits under section 381, all such earnings and profits succeeded to by corporation M are treated as class B capital gain for purposes of applying section 333(e)(1) because the earnings and profits of corporation K on August 1, 1963, qualify in corporation

M's hands as earnings and profits which constituted earnings and profits of a corporation referred to in section 333(g)(3), and the earnings and profits of corporation K accumulated from August 2, 1963, to January 1, 1964, qualify as earnings and profits earned by a corporation referred to in section 333(g)(3). If, however, the transaction in which corporation K succeeded to the earnings and profits of corporation L occurred after August 1, 1963, such earnings and profits are not treated as class B capital gain to a noncorporate shareholder of either corporation K or corporation M, but instead are treated as a dividend under section 333(e)(1).

The application of the provisions of section 333(g)(1) is illustrated by the following example:

Corporation M, which is a corporation referred to in section 333(g)(3), adopts a plan of liquidation on January 2, 1964. Its assets on such date consist of the following items:

	Fair market value
Stock in corporation X (acquired 1956)	$3, 000, 000
Stock in corporation Y (acquired 1963)	550, 000
Real property	200, 000
Total assets	$3, 750, 000

On January 1, 1964, corporation M's earnings and profits accumulated after February 28, 1913, are $250,000. Pursuant to the plan of liquidation, corporation M distributes all of its assets before January 31, 1964, to individual D, its sole shareholder, who acquired the stock of corporation M in 1956 and whose adjusted basis in such stock is $2 million. D's total gain realized on the liquidation is $1,750,000 ($3,750,000 less $2 million). Assuming the election provided in section 333(d) is properly made, D recognizes and treats as class B capital gain $250,000 (corporation M's accumulated earnings and profits) under section 333 (e)(1) and (g)(1)(B), and recognizes as class A capital gain $300,000, computed as follows:

The fair market value of the stock in corporation Y, acquired after Dec. 31, 1962	$550, 000
Less: D's share of accumulated earnings and profits	250, 000
Class A capital gain (under sec. 333 (e)(2) and (g)(1)(A))	$300, 000

The remainder of D's realized gain, $1,200,000, is not recognized at the time of the liquidation of corporation M.

Liquidations after December 31, 1965

Paragraph (2) of the new section 333(g) provides rules which apply to certain section 333 liquidations occurring after December 31, 1965.

In general

Subparagraph (A) of section 333(g)(2) provides the general rule that in the case of a liquidation occurring after December 31, 1965, of a corporation which is referred to in section 333(g)(3) and which meets the requirements of subparagraph (B) of section 333(g)(2)—

(i) the date "December 31, 1953," referred to in section 333 (e)(2) and (f)(1) is treated as if such date were "December 31, 1962," and

(ii) in the case of stock in the liquidating corporation held by a noncorporate qualified electing shareholder for more than 6 months, so much of the gain recognized under section 333(e)(1) as is attributable to the corporation's earnings and profits accumulated after February 28, 1913, and before January 1, 1966, is treated as class B capital gain, and only the remainder of the gain so recognized is treated as a dividend.

Subparagraph (A) of section 333(g)(2) also provides that clause (ii) of such subparagraph does not apply to earnings and profits to which the corporation succeeds after August 1, 1963, pursuant to any corporate reorganization or pursuant to any liquidation to which section 332 applies, except earnings and profits which on August 1, 1963, constituted earnings and profits of a corporation referred to in section 333(g)(3), and except earnings and profits which were earned after such date and before January 1, 1966, by a corporation referred to in section 333(g)(3).

Clause (i) of section 333(g)(2)(A) has the same effect with respect to liquidations occurring after December 31, 1965, as does subparagraph (A) of section 333(g)(1) with respect to liquidations occurring before January 1, 1966.

The effect of clause (ii) of section 333(g)(2)(A) is that a noncorporate qualified electing shareholder who has held the stock of the liquidating corporation for more than 6 months, in computing his recognized gain under section 333(e)(1), divides his ratable share of the corporation's earnings and profits accumulated after February 28, 1913, into three parts, described as follows:

(1) A part which represents earnings and profits (to which the corporation succeeded after August 1, 1963) which on August 1, 1963, constituted earnings and profits of a corporation which is not referred to in section 333(g)(3), and which were not earned after such date by a corporation which is so referred to.

(2) A part which represents earnings and profits accumulated before January 1, 1966, other than the part described in item (1).

(3) A part which represents earnings and profits accumulated after December 31, 1965.

That part which is described in item (2) is treated as class B capital gain. That part which is described in item (1), and that part (described in item (3)) which is accumulated up to the date the corporation liquidates in a liquidation to which section 333 is applicable, is treated as a dividend.

Corporations to which applicable

Subparagraph (B) of section 333(g)(2) provides that subparagraph (A) applies only to a corporation which is referred to in section 333(g)(3) and which meets the requirements of clauses (i), (ii), and (iii).

Clause (i) of section 333(g)(2)(B) provides that the corporation must owe qualified indebtedness (as defined in sec. 545(c)(3)) on August 1, 1963.

Clause (ii) provides that before January 1, 1967, the corporation must notify the Secretary of the Treasury or his delegate that it may wish to have section 333(g)(2)(A) apply to it, and must submit such information as may be required by regulations prescribed by the Secretary or his delegate.

Clause (iii) provides that the corporation must liquidate before the close of the earlier of (1) the taxable year in which such corporation ceases to owe the qualified indebtedness referred to in clause (i), or (2) the taxable year referred to in section 333(g)(2)(C).

Adjusted post-1963 earnings and profits equal to or exceeding qualified indebtedness

Subparagraph (C) of section 333(g)(2) provides that in the case of any corporation the taxable year referred to in such subparagraph for purposes of section 333(g)(2)(B)(iii) is the first taxable year at the close of which its adjusted post-1963 earnings and profits equal or exceed the amount of the corporation's qualified indebtedness on August 1, 1963. For this purpose, the term "adjusted post-1963 earnings and profits" is defined as the sum of—

(i) the corporation's earnings and profits for taxable years beginning after December 31, 1963, without diminution by reason of any distributions made out of such earnings and profits, and

(ii) the deductions allowed for taxable years beginning after December 31, 1963, for exhaustion, wear and tear, obsolescence, or amortization.

The effect of subparagraph (C) of section 333(g)(2) is that the special rule of section 333(g)(2) (relating to liquidations after Dec. 31, 1965) may be elected only if the liquidation occurs prior to the close of the year in which the corporation ceases to owe qualified indebtedness or, if earlier, the year in which such qualified indebtedness could have been retired if the sum of the corporation's earnings and profits accumulated after December 31, 1963, its dividend distributions out of such accumulated earnings and profits, and its depreciation and amortization deductions for all taxable years beginning after December 31, 1963, had all been applied toward retiring such qualified indebtedness. For this purpose a corporation is considered to have no accumulated earnings and profits on January 1, 1964. Thus, an accumulated deficit which exists on January 1, 1964, for purposes of section 316(a) is disregarded.

Corporations referred to

Paragraph (3) of the new section 333(g) describes the corporations to which paragraphs (1) and (2) of section 333(g) may apply. Such a corporation is one which was not a personal holding company under section 542 for at least one of its two most recent taxable years ending before the date of enactment of section 333(g), but which would have been a personal holding company under section 542 for such taxable year if the law applicable for the first taxable year beginning after December 31, 1963, had been applicable to such preceding taxable year.

A corporation which was a personal holding company for both of its two most recent taxable years ending before the date of enactment of section 333(g) is not a corporation referred to in paragraph (3) of section 333(g). Nor is a corporation so referred to if it would not have been a personal holding company for either of such two most recent taxable years had the amendments contained in section 216 of the bill applied to such taxable years.

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The application of the provisions of section 333(g)(3) is illustrated by the following example:

In 1961, 80 percent of the gross income of corporation W, a calendar-year taxpayer more than 50 percent of the stock of which is owned by four individuals, is personal holding company income. In 1962, additional operating income is added, with the result that only 70 percent of its gross income (and adjusted ordinary gross income) for that year is personal holding company income. Assume that section 333(g) is enacted on December 15, 1963. Corporation W's two most recent taxable years ending before the date of enactment are 1961 and 1962; corporation W was a personal holding company for 1961, but was not a personal holding company for 1962 since it did not meet the 80-percent income test of the existing section 542(a)(1) of the code for such year. However, corporation W would have been a personal holding company for 1962 if the provisions of sections 542(a)(1) and 543, as amended by section 216 of the bill, were applied to such year, since 60 percent or more of its adjusted ordinary gross income for such year is personal holding company income. Thus, corporation W is a corporation referred to in section 333(g)(3).

(*h*) *Exception for certain corporations.*—Subsection (h) of section 216 of the bill provides an exception for certain corporations from the applicability of the amendments made to the code by section 216 of the bill (other than subsecs. (f) and (g)).

Paragraph (1) of section 216(h) of the bill provides the general rule that in the case of a corporation which is referred to in section 333(g)(3), as added by section 216(g) of the bill, the amendments made by subsections (a), (b), (c), (d), (e), (i), and (k) of section 216 do not apply if there is a complete liquidation of such corporation and if the distribution of all of the corporation's property under such liquidation occurs before January 1, 1966. Thus, if the conditions provided in paragraph (1) of section 216(h) are met, a corporation will continue to have the provisions of existing law (with respect to the definition of a personal holding company) apply through December 31, 1965. However, the amendments made by subsections (f) and (g) of section 216 apply to such a corporation as of the effective date for such amendments.

The application of the provisions of paragraph (1) of section 216(h) of the bill may be illustrated by referring to the preceding example in the discussion of the new section 333(g)(3). In that example, assume further that, for 1964, 70 percent of corporation W's adjusted ordinary gross income (and gross income) is personal holding company income and that, as a result of additional dividend-paying securities being added in 1965, 80 percent of the adjusted ordinary gross income (and gross income) for the taxable year ending in 1965 is personal holding company income. On November 1, 1965, corporation W adopts a plan of complete liquidation, and in pursuance thereof distributes all of its property to its shareholders by November 10, 1965. Since corporation W is a corporation referred to in the new section 333(g)(3) and since it is liquidated and all of its property is distributed before January 1, 1966, the general rule of paragraph (1) of section 216(h) applies, and the amendments made by section 216 to the definition of a personal holding company are inapplicable to corporation W for 1964 and 1965. Thus, since corporation W does not meet the 80-percent test of the existing

section 542(a)(1) of the code for the year 1964, it is not a personal holding company for such year. Subject to the applicable period of limitations, a claim for refund may be filed for any personal holding company tax which was paid with respect to 1964 and which was computed on the basis of the applicability of the amendments made by section 216 of the bill. However, corporation W is a personal holding company for the short taxable year ending on November 10, 1965, since it meets the 80-percent income test of the existing section 542(a)(1) of the code. In addition, the amendments made by subsection 216(f) of the bill (relating to dividends-paid deduction) apply. Accordingly, distributions to noncorporate shareholders in liquidation of corporation W do not constitute dividends for purposes of computing the deduction for dividends paid for the short taxable year ending November 10, 1965, unless, and to the extent that, in accordance with the new subparagraph (b) of section 316(b)(2), corporation W designates the amount of such distributions in liquidation which are to be treated as a dividend distribution for purposes of the definition of a dividend provided in section 316(b)(2)(A). If corporation W has any corporate shareholders, the amounts received by them under the complete liquidation are treated as in full payment in exchange for stock. However, corporation W treats such amounts as dividends to the extent provided in the new section 562(b)(2) for purposes of computing its deduction for dividends paid under section 561. The shareholders of corporation W treat their liquidating distributions (except to the extent that sec. 316(b)(2)(B) applies) in accordance with the applicable provisions of the code relating to amounts received in corporate liquidations (including sec. 333(g)(1), as added by sec. 216(g) of the bill) subject, however, to the exception provided in paragraph (2) of section 216(h) of the bill with respect to liquidations to which section 332 applies.

Paragraph (2) of section 216(h) of the bill provides that paragraph (1) of section 216(h) does not apply to any liquidation to which section 332 of the code applies unless both of the conditions set forth in subparagraphs (A) and (B) of section 216(h)(2) of the bill are satisfied.

Subparagraphs (A) and (B) of section 216(h)(2) of the bill require that the 80-percent-or-more corporate shareholder (referred to in sec. 332(b)(1)) in such section 332 liquidation must be liquidated in a complete liquidation to which section 332 does not apply, and that the distribution of all the property pursuant to the liquidation of such corporate shareholder must occur before the 91st day after the last distribution pursuant to the liquidation of the subsidiary corporation, but not later than December 31, 1965.

(*i*) *Deduction for amortization of indebtedness.*—Subsection (i) of section 216 of the bill provides a new deduction from taxable income for purposes of determining undistributed personal holding company income (as defined in sec. 545(a) of the code), and makes technical and conforming amendments.

Paragraph (1) of section 216(i) of the bill amends section 545(a) of the code to provide that the term "undistributed personal holding company income" means the taxable income of a personal holding company adjusted in the manner provided in sections 545(b) (relating to adjustments to taxable income) and 545(c) (relating to special adjustment to taxable income for amortization of qualified indebtedness), minus the deduction for dividends paid (as defined in sec. 561).

Paragraph (2) of section 216(i) of the bill adds a new subsection (c) to section 545 of the code to provide a special adjustment to taxable income for purposes of section 545(a) (relating to the definition of undistributed personal holding company income).

SECTION 545(C). SPECIAL ADJUSTMENT TO TAXABLE INCOME

In general

Paragraph (1) of the new section 545(c) provides the general rule that, except as otherwise provided in such section, there shall be allowed as a deduction (in computing undistributed personal holding company income) amounts used, or amounts irrevocably set aside (to the extent reasonable with reference to the size and terms of the indebtedness), to pay or retire qualified indebtedness (as defined in sec. 545(c)(3)). An amount is considered to be irrevocably set aside within the meaning of paragraph (1) only if the corporation could not use such amount for any purpose except to retire the qualified indebtedness with respect to which it was set aside.

Corporations to which applicable

Paragraph (2) of the new section 545(c) describes the corporations which may qualify for the deduction provided in paragraph (1) of such section.

Subparagraph (A) of section 545(c)(2) provides that to qualify for such deduction a corporation must be one which, for at least one of its two most recent taxable years ending before the date of enactment of section 545(c), was not a personal holding company under section 542 but would have been a personal holding company under section 542 if the law applicable for the first taxable year beginning after December 31, 1963, had been applicable to such preceding taxable year. See the discussion of the new section 333(g)(3) and the example therewith (above).

Subparagraph (B) of section 545(c)(2) provides that, although a corporation does not itself meet the requirements of section 545(c)(2)(A), it qualifies for the deduction provided in section 545(c)(1) to the extent that it succeeds to the deduction referred to in such paragraph (1) by reason of section 381(c)(15) of the code (relating to the carryover of qualified indebtedness) as amended by section 216(i)(3) of the bill. The fact that under section 381(c)(15) an acquiring corporation is considered to be the distributor or transferor corporation with respect to qualified indebtedness of such distributor or transferor corporation, for purposes of the deduction provided in section 545(c)(1), does not affect such acquiring corporation's status as a corporation eligible for such deduction with respect to indebtedness other than that to which it succeeded under section 381(c)(15).

Qualified indebtedness

Paragraph (3) of the new section 545(c) defines the term "qualified indebtedness."

Subparagraph (A) of such paragraph prescribes the rule that, except as provided in subparagraphs (B) and (C), the term "qualified indebtedness" means—

(i) the outstanding indebtedness incurred by the taxpayer after December 31, 1933, and before August 1, 1963, and

(ii) the outstanding indebtedness incurred after July 31, 1963, for the purpose of making a payment or set-aside referred to in section 545(c)(1) in the same taxable year, subject to the condition, however, that if such payment or set-aside is made at any time on or after the first day of the first taxable year beginning after December 31, 1963, such indebtedness incurred after July 31, 1963 (hereinafter referred to as "substituted indebtedness"), is treated as qualified indebtedness only to the extent that the deduction otherwise allowed for such payment or set-aside is treated as nondeductible by reason of the corporation's election provided under section 545(c)(4).

The application of the provisions of subparagraph (A) is illustrated by the following examples:

Example (1).—Corporation D, a calendar-year taxpayer, has $6 million of indebtedness outstanding on July 31, 1963 (which was incurred after 1933), represented by demand notes, and on January 15, 1964, it borrows $8 million, $6 million of which amount is used, in the same taxable year, to liquidate the outstanding indebtedness. The retirement of such $6 million of indebtedness qualifies as a payment referred to in section 545(c)(1), and is allowable as a deduction for purposes of computing undistributed personal holding company income for 1964. However, if corporation D elects, under section 545(c)(4), not to deduct $5 million of the $6 million deduction which is otherwise allowable under section 545(c)(1), then $5 million of the $8 million of new indebtedness is treated as qualified indebtedness under section 545(c)(3)(A).

Example (2).—Corporation H, a calendar-year taxpayer, has $500,000 of outstanding indebtedness on July 31, 1963 (which was incurred after 1933). On October 1, 1963, it borrows $100,000 to make a payment on December 1, 1963, into a sinking fund with respect to the $500,000 outstanding indebtedness. The new indebtedness incurred is qualified indebtedness. However, if the sinking fund payment is not in fact made until 1964, the new indebtedness is not qualified indebtedness because the payment into the sinking fund was not made in the taxable year in which the new indebtedness was incurred.

Subparagraph (B) of section 545(c)(3) provides that qualified indebtedness (as defined in subparagraph (A)) does not include any amounts which were, at any time after July 31, 1963, and before the payment or set-aside described in section 545(c)(1), owed to a person who at such time owned more than 10 percent in value of the corporation's outstanding stock. For this purpose, the rules of section 318(a) (relating to constructive ownership of stock) apply.

Subparagraph (C) of section 545(c)(3) provides that qualified indebtedness with respect to a contract is reduced by amounts irrevocably set aside to pay or retire such indebtedness before the taxable year. In addition, no deduction is allowed under section 545(c)(1) for payments out of amounts so set aside. Thus, for example, if a corporation incurred indebtedness of $1 million on February 1, 1960, and, in accordance with its contract of indebtedness, irrevocably set aside $50,000 in a sinking fund on February 1 of 1961, 1962, 1963, 1964, and 1965, then its qualified indebtedness on August

1, 1963, under subparagraph (A)(i) of section 545(c)(3), as reduced by subparagraph (C) thereof, is $850,000 ($1 million less three set-asides of $50,000 each in 1961, 1962, and 1963). The corporation is allowed a deduction for $50,000 each in 1964 and 1965 (provided the deduction is not reduced by the application of any other provision of sec. 545(c)) and the qualified indebtedness on January 1, 1966, is $750,000 ($850,000 less two set-asides of $50,000 each in 1964 and 1965). No deduction is allowed to the corporation with respect to any payment from the sinking fund which is used to retire any part of the qualified indebtedness.

Election not to deduct

Paragraph (4) of section 545(c) provides that a corporation may elect, under regulations prescribed by the Secretary of the Treasury or his delegate, to treat as nondeductible an amount otherwise deductible under paragraph (1) thereof. Such election must be filed on or before the 15th day of the 3d month following the close of the taxable year with respect to which such election applies, and the corporation must designate therein the amounts which are to be treated as nondeductible, and must specify the substituted indebtedness (referred to in sec. 545(c)(3)(A)(ii)) incurred for the purpose of making the payment or set-aside referred to in section 545(c)(1). See examples (1) and (2) in the discussion of qualified indebtedness under section 545(c)(3)(A) (above).

Limitations

Paragraph (5) of section 545(c) provides certain limitations on the amount of the deduction otherwise allowed by section 545(c)(1). Under paragraph (5), such deduction is reduced by the sum of the amounts described in subparagraphs (A) and (B) thereof.

The amount by which the deduction is reduced under subparagraph (A) of section 545(c)(5) is the amount, if any, by which—

(i) the deductions allowed for the taxable year and all preceding taxable years beginning after December 31, 1963, for exhaustion, wear and tear, obsolescence, or amortization, exceed

(ii) any reduction, by reason of the limitation provided in section 545(c)(5)(A), of the deductions otherwise allowed by section 545(c) for such preceding taxable years.

For purposes of clause (i), depreciation or amortization deductions which are disallowed in computing undistributed personal holding company income under section 545(b)(8) are not included.

The application of section 545(c)(5)(A) is illustrated by the following example:

Example.—Corporation R, a calendar-year taxpayer, has qualified indebtedness of $600,000 on August 1, 1963, with respect to which payments of $200,000 are made on January 1, 1964, 1966, and 1968. Corporation R is allowed a deduction for depreciation of $75,000 on its business assets for each of its taxable years 1964 through 1968. For the calendar year 1964, corporation R is allowed a deduction under section 545(c)(1), as limited by section 545(c)(5), of $125,000, computed as follows:

Amount paid in taxable year to retire debt			$200,000
Less depreciation deduction, 1964			75,000
Total			$125,000

For the calendar year 1966, corporation R is allowed a deduction of $50,000, computed as follows:

Amount paid in taxable year to retire debt			$200,000
Less:			
Depreciation deductions allowed for 1964, 1965, and 1966 (3 times $75,000)		$225,000	
Reduction of deduction in 1964		75,000	
			150,000
Total			$50,000

For the calendar year 1968, corporation R is allowed a deduction of $50,000, computed as follows:

Amount paid in taxable year to retire debt			$200,000
Less:			
Depreciation deductions allowed for 1964, 1965, 1966, 1967, and 1968 (5 times $75,000)		$375,000	
Reduction of deductions:			
1964	$75,000		
1966	150,000		
		225,000	
			150,000
Total			$50,000

The amount by which the deduction otherwise allowed by section 545(c)(1) is reduced under subparagraph (B) of section 545(c)(5) is the amount, if any, by which—

(i) the deductions allowed under section 545(b)(5) (relating to long-term capital gains) in computing undistributed personal holding company income for the taxable year and all preceding taxable years beginning after December 31, 1963, exceed

(ii) any reduction, by reason of the limitation provided in section 545(c)(5)(B), of the deductions otherwise allowed by section 545(c) for such preceding taxable years.

Pro rata reduction in certain cases

Paragraph (6) of section 545(c) provides that the total amounts of the taxpayer's qualified indebtedness (as defined in sec. 545(c)(3)(A)) are reduced if property (of a character which is subject to the allowance for exhaustion, wear and tear, obsolescence, or amortization) is disposed of after July 1, 1963. Such reduction is made pro rata in the taxable year of such disposition and is equal to the amount, if any, by which—

(A) the adjusted basis of such property at the time of such disposition, exceeds

(B) the amount of qualified indebtedness which ceased to be qualified indebtedness by reason of the assumption of the indebtedness by the transferee.

Under this provision, if, for example, property is transferred to a subsidiary corporation, and the transferee assumes the mortgage on the property, the qualified indebtedness of the transferor is reduced by the excess, if any, of the basis of the property transferred over the

amount of the mortgage assumed. However if the subsidiary takes the property subject to the mortgage, and the transferor remains liable on the mortgage, then the transferor's qualified indebtedness is reduced by the full amount of the basis of the property transferred.

SECTION 216. PERSONAL HOLDING COMPANIES (Continued)

Paragraph (3) of section 216(i) of the bill amends paragraph (15) of section 381(c) of the code (relating to carryovers in certain corporate acquisitions) to provide that the acquiring corporation is considered to be the distributor or transferor corporation for the purpose of determining the applicability of section 545 (b)(7) and (c) of the code (relating to deduction with respect to payment of certain indebtedness).

(*j*) *Increase in basis with respect to certain foreign personal holding company holdings.*—Subsection (j) of section 216 of the bill provides for an increase in the basis of certain foreign personal holding company holdings.

In general

Paragraph (1) of section 216(j) of the bill redesignates section 1022 of the code as section 1023 and adds to the code a new section 1022.

SECTION 1022. INCREASE IN BASIS WITH RESPECT TO CERTAIN FOREIGN PERSONAL HOLDING COMPANY HOLDINGS

(*a*) *General rule.*—Section 1014(b)(5) of the code provides that the basis of a share of stock or of a security in a foreign personal holding company, in the hands of a person acquiring it from a decedent by bequest, devise, or inheritance, or acquired by the decedent's estate from the decedent, is the lower of the fair market value of such share or security at the date of the decedent's death or the basis in the hands of the decedent. The new section 1022(a) provides that the basis determined under section 1014(b)(5) of a share of stock or a security, acquired from a decedent dying after August 15, 1963, of a corporation which was a foreign personal holding company for its most recent taxable year ending before the date of the enactment of the bill is to be increased by such share's or security's proportionate share of any Federal estate tax attributable to the net appreciation in value of all of such shares and securities.

(*b*) *Proportionate share.*—The new section 1022(b) provides that a share's or security's proportionate share of the tax referred to in section 1022(a) is an amount which bears the same ratio to the amount of tax determined under section 1022(c)(2) as the appreciation in value of the share or security bears to the aggregate appreciation in value of all such shares and securities having appreciation in value.

(*c*) *Special rules and definitions.*—The new section 1022(c) provides special rules and definitions to be used in determining the increase in basis provided in section 1022(a).

Federal estate tax

Paragraph (1) of section 1022(c) defines the term "Federal estate tax" to mean the tax imposed by section 2001 or 2101 of the code, reduced by any credit allowable with respect to a tax on prior transfers by section 2013 or 2102 of the code.

Federal estate tax attributable to net appreciation in value

Paragraph (2) of section 1022(c) provides that the Federal estate tax attributable to the net appreciation in value of all shares of stock and securities to which section 1022(a) applies is the amount which bears the same ratio to the Federal estate tax as the net appreciation in value of all of such shares and securities bears to the value of the gross estate as determined under chapter 11 of the code. If, for estate tax purposes, alternate valuation is elected under section 2032 of the code, the value of the gross estate is to be determined under the provisions of such section.

Net appreciation

Paragraph (3) of section 1022(c) provides that the net appreciation in value of all shares and securities to which section 1022(a) applies is the amount by which the fair market value of all shares and securities exceeds the adjusted basis of such property in the hands of the decedent.

Fair market value

Paragraph (4) of section 1022(c) defines "fair market value", for purposes of section 1022, to mean such value determined under chapter 11 of the code. If, for estate tax purposes, alternate valuation is elected under section 2032 of the code, fair market value is to be determined as of the appropriate date provided in such section.

(*d*) *Limitation.*—The new section 1022(d) provides that section 1022 is not to apply to any stock or securities of a foreign personal holding company referred to in section 342(a)(2) of the code (relating to foreign corporations which were foreign personal holding companies in 1937).

SECTION 216. PERSONAL HOLDING COMPANIES (Continued)

Amendment of section 1016(a)

Paragraph (2) of section 216(j) of the bill adds a new paragraph (21) to section 1016(a) of the code, providing, in effect, that an increase in basis under section 1022 of the code or section 216(j)(5) of the bill is to be taken into account in determining the adjusted basis of property to which such sections apply.

Clerical amendment

Paragraph (3) of section 216(j) of the bill makes a clerical amendment to the table of sections for part II of subchapter O of chapter 1 of the code.

One-month liquidations

Paragraph (4) of section 216(j) of the bill provides that certain foreign personal holding companies are to be treated as domestic corporations for purposes of section 333 of the code (relating to 1-month liquidations), and are to be treated as foreign corporations for purposes of section 367 of the code (relating to foreign corporations). In addition, the first sentence of such section 367 is to be treated as including a reference to such section 333. The provisions of paragraph (4) of section 216(j) of the bill apply to a corporation only if (A) it was a foreign personal holding company for its most recent taxable year ending before the date of enactment of the bill, (B) all of the stock of such corporation is owned on August 15, 1963,

and at the time of liquidation, by individuals and estates, and (C) the transfer of all the property under the liquidation occurs within one of the first 4 calendar months ending after such date of enactment.

The effect of these provisions is to allow a foreign personal holding company to which paragraph (4) of section 216(j) of the bill applies to liquidate under the provisions of section 333 of the code if, before such liquidation, it has been established to the satisfaction of the Secretary of the Treasury or his delegate that the liquidation is not in pursuance of a plan having as one of its principal purposes the avoidance of Federal income taxes.

Basis of certain property acquired from a decedent

Paragraph (5)(A) of section 216(j) of the bill provides that the basis of property described in paragraph (5)(B) of such section acquired from a decedent or passing from a decedent (within the meaning of sec. 1014(b) of the code) is (in lieu of being the basis provided by sec. 1014 of the code) the same as the basis of such property immediately before the death of the decedent (in most cases, the basis under sec. 334(c) of the code, properly adjusted) increased by the amount of any Federal estate tax attributable to the net appreciation in value of such property. Such increase is to be determined in accordance with the provision of section 1022 of the code as if such property were stock and securities referred to in such section.

Paragraph (5)(B) of section 216(j) of the bill provides that paragraph (5)(A) is to apply to—

(1) property which the decedent received as a qualified electing shareholder (within the meaning of sec. 333(c) of the code) in a corporate liquidation to which section 333 of the code applied by reason of section 216(j)(4) of the bill, and

(2) property the basis of which (determined without regard to the provisions of sec. 216(j)(5) of the bill) is a substituted basis (as defined in sec. 1016(b) of the code) (A) determined by reference to property received by a qualified electing shareholder in a corporate liquidation to which section 333 of the code applied by reason of section 216(j)(4) of the bill or (B) determined by reference to other property having a basis which is determined by reference to the basis of property received by a qualified electing shareholder in such a liquidation.

Paragraph (5)(C) of section 216(j) of the bill provides that, in the case of property acquired from the decedent by gift, the increase in basis for estate tax paid under such section is not to exceed the amount by which the increase determined in accordance with section 1022 of the code is greater than the increase in basis for gift tax paid which is allowable under section 1015(d) of the code.

Limitation

Paragraph (6) of section 216(j) of the bill provides that the provisions of paragraphs (4) and (5) of such section do not apply to any foreign corporation referred to in section 342(a)(2) of the code.

Meaning of terms

Paragraph (7) of section 216(j) of the bill provides that terms used in paragraphs (4) through (6) of such section are to have the same meaning as when used in chapter 1 of the code.

(*k*) *Technical amendments.*—Subsection (k) of section 216 of the bill makes certain technical changes to provisions of the code to conform those provisions to the changes made by section 216 of the bill.

Corporations filing consolidated returns for personal holding company tax purposes

Paragraph (1) of section 216(k) of the bill amends section 542(b) of the code (relating to corporations filing consolidated returns) to conform the references to "gross income" therein to the new concept of "adjusted ordinary gross income."

Special adjustment to personal holding company income, etc.

Paragraph (2) of section 216(k) of the bill repeals section 543(d) of the code (relating to special adjustment on disposition of antitrust stock received as a dividend).

Rules for determining stock ownership

Paragraph (3) of section 216(k) of the bill amends section 544 of the code to conform all of the references therein to paragraphs (5) and (9) of section 543(a) of the code to the appropriate paragraphs as contained in the amendments made by section 216 of the bill.

Real estate investment trusts

Paragraph (4) of section 216(k) of the bill amends section 856(a)(6) of the code (relating to definition of real estate investment trusts) to conform that section to the new concept of "adjusted ordinary gross income."

Unincorporated business enterprises electing to be taxed as domestic corporations

Paragraph (5) of section 216(k) of the bill amends section 1361(i) of the code (relating to personal holding company income of unincorporated business enterprises electing to be taxed as corporations) to conform such section to the changes made by section 216 of the bill, and to repeal paragraph (4) of such section 1361(i). The rule presently provided in paragraph (4) of section 1361(i) is consolidated in paragraph (1) of section 1361(i) as amended by this paragraph of the bill.

As amended by this paragraph of the bill, paragraph (1) of section 1361(i) provides that there is excluded from the gross income of an enterprise as to which an election has been made under section 1361(a) any item of gross income (computed without regard to the adjustments provided in sec. 543(b) (3) or (4) with respect to adjusted income from rents and mineral, oil, and gas royalties) if, but for paragraph (1) of section 1361(i), such item (adjusted, where applicable, as provided in sec. 543(b) (3) or (4)) would constitute personal holding company income (as defined in sec. 543(a)) of such enterprise. Thus, for example, if the adjusted income from rents would not meet both the 50-percent requirement and the 10-percent test provided in section 543(a)(2), such adjusted income from rents would be personal holding company income under section 543(a). Accordingly the

gross income from such rents is excluded from the gross income of the enterprise under paragraph (1) of section 1361(i).

Paragraphs (2) (relating to income and deductions of owners) and (3) (relating to distributions by the enterprise) of section 1361(i) are rewritten to conform to the changes made to paragraph (1) of section 1361(i).

Assessment and collection of personal holding company tax

Paragraph (6) of section 216(k) of the bill amends section 6501(f) of the code (relating to assessment and collection of personal holding company tax) to include a reference to items of adjusted ordinary gross income.

(*l*) *Effective dates.*—Under subsection (l) of section 216 of the bill, the amendments made by section 216 (other than by subsecs. (c)(1), (f), (g), and (j)) apply to taxable years beginning after December 31, 1963. The amendment made by subsection (c)(1) (relating to domestic building and loan associations) applies to taxable years beginning after October 16, 1962. The amendments made by subsections (f) (relating to dividends-paid deduction) and (g) (relating to 1-month liquidations) apply with respect to distributions made in any taxable year of the distributing corporation beginning after December 31, 1963, notwithstanding that the taxable year of the distributee in which such a distribution must be taken into account or otherwise treated under any provision of law may be a taxable year which begins before December 31, 1963. The amendments made by paragraphs (1), (2), and (3) of subsection (j) apply in respect of decedents dying after August 15, 1963. Subsection (h) applies to taxable years beginning after December 31, 1963.

SECTION 217. TREATMENT OF PROPERTY IN CASE OF OIL AND GAS WELLS

(*a*) *In general.*—Subsection (a) of section 217 of the bill amends section 614 of the code (relating to special rules as to operating mineral interests) by striking out the existing subsection (b) and inserting in its place a new subsection (b). The existing section 614(b) provides special rules relating to the election to aggregate separate operating mineral interests and treat such aggregation as one property for purposes of computing the depletion allowance, and for all other purposes of subtitle A of the code, in the case of mines, wells, and other natural deposits. In the case of mines, the existing section 614(b) has no application with respect to any taxable year beginning after December 31, 1957. Under that section, if a taxpayer owns two or more separate operating mineral interests which constitute part or all of an operating unit, he may elect (for all purposes of subtitle A of the code) to form one aggregation of, and to treat as one property, any two or more of such interests; and to treat as a separate property each such interest which he does not elect to include within such aggregation.

The new section 614(b) provides rules for the treatment of operating mineral interests in the case of oil and gas wells for taxable years beginning after December 31, 1963, which rules are, generally, in conformity with the practices prevailing prior to the enactment of the code in 1954. The amendment of section 614(b) by this section of the bill makes no change in the present treatment of operating mineral

interests in the case of minerals other than oil and gas, or in the present treatment of nonoperating mineral interests in the case of any mineral including oil and gas. These types of mineral interests will continue to be treated under the existing provisions of section 614 (c) and (e). Likewise, there has been no change in the general rule, set forth in section 614(a), defining a property as a separate interest in each mineral deposit in each separate tract or parcel of land. No inference is to be drawn from the amendment made by section 217(a) of the bill as to the correctness of aggregations formed by taxpayers under the existing section 614(b) with respect to past years.

In general

Paragraph (1) of the new section 614(b) of the code provides, as a general rule, that in the absence of the election provided in paragraph (2) of such section all of the operating mineral interests of the taxpayer contained within a separate tract or parcel of land will be combined and treated as one property. Thus, if a taxpayer wishes to treat all the operating mineral interests in one tract or parcel of land as a single property, no election is required to achieve this result. The combining of operating mineral interests under paragraph (1) is limited to those interests which are contained within the same tract or parcel of land. Thus, an operating mineral interest in one tract or parcel of land may not be combined with an operating mineral interest in another tract or parcel of land. As under present law, an operating mineral interest cannot be combined with a nonoperating mineral interest, such as a royalty interest, either in the same or in another tract or parcel of land.

In general, the area covered by each oil or gas lease is considered a separate tract or parcel of land. There are exceptions to this rule, however, as, for example, where a single lease covers noncontiguous areas. In such a case, each noncontiguous area is considered a separate tract or parcel of land.

Election to treat operating mineral interests as separate properties

Paragraph (2) of the new section 614(b) provides that if the taxpayer has more than one operating mineral interest in a single tract or parcel of land, he may elect, within the time and in the manner provided in paragraph (4) of section 614(b), to treat one or more of such operating mineral interests each as a separate property. The remaining operating mineral interests contained within such tract or parcel of land which the taxpayer does not elect to treat as separate properties are combined under the provisions of paragraph (1) of section 614(b) and treated as one property. Paragraph (2) of section 614(b) also provides that there can be only one combination of operating mineral interests in each tract or parcel of land. For example, the taxpayer may have operating mineral interests A, B, C, D, and E in a single tract or parcel of land. If he does not make the election contained in paragraph (2) of section 614(b), then all five interests will be combined and treated as one property. However the taxpayer may, instead, elect to treat operating mineral interests A, C, and E as three separate properties. The taxpayer would, as a result of such election, have four mineral properties; A, C, E, and a single property composed of B and D. The taxpayer may not combine B and D as one property, and A, C, and E as another property.

Paragraph (2) of the new section 614(b) also provides special rules for the treatment of operating mineral interests which are discovered or acquired by the taxpayer in the same tract or parcel of land after the taxable year for which an election to treat one or more interests in such tract or parcel as separate properties is made. If there is no combination of operating mineral interests in a particular tract or parcel of land, each operating mineral interest discovered or acquired in such tract or parcel after the taxable year for which an election is made will be treated as a separate property unless the taxpayer elects to combine such interest with another interest. If there is a combination of operating mineral interests in the tract or parcel of land, each operating mineral interest discovered or acquired in such tract or parcel after the taxable year for which an election was made under paragraph (2) will be treated as part of such combination unless the taxpayer elects to treat such interest as a separate property.

The operation of these provisions is illustrated by the following example, in which it is assumed that the taxpayer is on a calendar year basis:

Example.—Prior to 1964 a taxpayer acquired, and incurred development expenditures with respect to, the operating rights in a tract of land containing three oil deposits A, B, and C. For the taxable year 1964, he elects to treat his interests in the deposits as three separate properties. During the taxable year 1965, the taxpayer discovers and incurs development costs with respect to a fourth deposit, D. If the taxpayer makes no election relative to his interest in deposit D for 1965, such interest will thereafter be treated as a separate property. Alternatively, the taxpayer may make an election for 1965 to combine his interest in deposit D with any one (and only one) of the three other interests and to treat such combination as one property. If, for example, the taxpayer makes the election to combine deposit D with deposit C, any deposit in the same tract or parcel of land discovered or acquired by the taxpayer in subsequent years will become part of the combination of C and D if no election is made, or (if the taxpayer so elects) such subsequently discovered or acquired deposit may be treated as a separate property. After the combination of C and D is formed, deposits A and B, which were acquired or discovered prior to the formation of the combination and which were not included in such combination within the time prescribed, may not be included in that or any other combination.

Certain unitization or pooling arrangements

Paragraph (3)(A) of the new section 614(b) provides that, under regulations prescribed by the Secretary of the Treasury or his delegate, if one or more of the taxpayer's operating mineral interests (whether in the same or in different tracts or parcels of land) participate, under a voluntary or compulsory unitization or pooling agreement, in a single cooperative or unit plan of operation, then for the period of such participation they are treated as one property. A unitization or pooling agreement is an agreement under which two or more persons owning operating mineral interests agree to have the interests operated on a unified basis and further agree to share in production on a stipulated percentage or fractional basis regardless of from which interest or interests the oil is produced. In addition, in a situation

in which one person owns operating mineral interests in several leases, an agreement of such person with his several royalty owners to determine the royalties payable to each on a stipulated percentage basis regardless of from which lease or leases oil is obtained is also considered to be a unitization or pooling agreement.

Under the rule provided by paragraph (3)(A) of section 614(b), if, for example, a taxpayer exchanges his operating mineral interests in three leases for an interest in a unit plan of operation under which he will receive a fraction of the oil and gas produced from all the leases covered by such plan, his interest in the plan will be considered a single undivided interest in the unitized property rather than separate interests in the three contributed leases. This general rule applies whether or not the unitization or pooling agreement provides for a formal cross-conveyance of the properties between the parties.

Paragraph (3)(A)(ii) of section 614(b) also provides that during the period in which any of the taxpayer's operating mineral interests participates under a unitization or pooling agreement in a single cooperative or unit plan of operation, the application of paragraphs (1), (2), and (4) of section 614(b) in respect of such interests is suspended. Thus, paragraphs (1), (2), and (4) do not apply to operating mineral interests while they participate under a unitization or pooling agreement. However, such provisions do apply to any such interest prior to its participation under the unitization or pooling plan and after its removal from such plan. In the event paragraph (1) or (2) applied to any operating mineral interest prior to the time such interest commenced participation in a unitization or pooling plan, when it is removed from such plan such interest regains the status that it had prior to its participation in such plan. Moreover, the treatment of such interest under paragraph (1) or (2) prior to its participation in the unitization or pooling plan affects the treatment of any other interests in the same tract or parcel of land which do not participate under the plan. For example, assume that the taxpayer combines his interests in deposits A and B and treats them as one property, and that deposit B later participates under a unitization or pooling agreement. If another deposit, C, is subsequently discovered in the same tract of land and is not subject to the unitization agreement, then C will automatically be combined with A unless the taxpayer elects to treat it as a separate property. However, if neither paragraph (1) nor (2) has previously applied to an interest before it commences participation in a unitization or pooling plan, such interest becomes subject to the rules of paragraphs (1) and (2) if and when it is removed from the plan and any treatment applicable under either paragraph may be adopted within the time prescribed in section 614(b)(4).

These rules are illustrated by the following examples, in which it is assumed that the taxpayer is on a calendar year basis:

Example (1).—The taxpayer has four operating mineral interests (A, B, C, and D) in a tract or parcel of land during the taxable year 1964. Interest D commenced participation under a unitization agreement prior to 1964. The taxpayer has incurred expenditures for development with respect to the other three interests prior to 1964. Under the provisions of paragraph (1) of the new section 614(b), if the taxpayer makes no election relative to the three interests not participating under a unitization agreement, they will be combined and treated as one property. Interest D, which is participating in the

unitization plan, will not be affected by the provisions of paragraphs (1), (2), and (4) of section 614(b) until it is removed from such plan. At such time, if no election is made under paragraph (2) to treat interest D as a separate property within the time prescribed in paragraph (4), it becomes part of the combination of A, B, and C. However, the taxpayer may instead elect under paragraph (2) to treat interest D as a separate property.

Example (2).—Assume the same facts as in example (1), except that the taxpayer made the election provided in paragraph (2) of section 614(b) to treat each of the three interests (A, B, and C) not participating under the unitization agreement as a separate property. If the taxpayer makes no election within the time prescribed in paragraph (4) with respect to interest D when it is removed from the plan, such interest is treated as a separate property. However, the taxpayer may instead elect, under paragraph (2)(A) of section 614(b), to combine interest D with any one of interests A, B, or C and treat such combination as one property.

Example (3).—During the taxable year 1965, the taxpayer has three operating mineral interests (A, B, and C) in the same tract or parcel of land. Under the provisions of paragraphs (1) and (2) of section 614(b), A and B are combined into one property, and an election is made to treat C as a separate property. In 1966, interest B commences participation in a unitization plan of operation. In 1967, the taxpayer discovers another interest, D, in the same tract or parcel of land and he makes no election under paragraph (2) to treat D as a separate property. Accordingly, D is combined with A. The taxpayer may not combine D with C and treat such combination as one property because there can be only one combination of interests in each tract or parcel of land. In 1968, when interest B is removed from the unitization plan, it regains the status it had prior to the time it was unitized, that is, it is combined with A and D.

Limitation

Paragraph (3)(B) of the new section 614(b) provides that the operating mineral interests participating, under a voluntary unitization or pooling agreement, in a single cooperative or unit plan of operation will be treated as one property for the period of such participation only if (1) all of the operating mineral interests covered by the agreement are in the same deposit, or in two or more deposits the joint development or production of which is logical from the standpoint of geology, convenience, economy, or conservation, and (2) all such participating interests are in tracts or parcels of land which are contiguous or in close proximity.

If a voluntary unitization or pooling agreement fails to meet the conditions prescribed by paragraph (3)(B) of section 614(b), then the operating mineral interests covered by the agreement will not be treated as a single property under paragraph (3)(A) of such section; all such interests are subject instead to the general rules and elections provided in paragraphs (1) and (2) of section 614(b).

The limitations provided by paragraph (3)(B) do not apply to any compulsory unitization or pooling arrangement, that is, an arrange-

ment which is required by the laws or rulings of any State or its agencies.

Special rules in the case of arrangements entered into in taxable years beginning before January 1, 1964

Paragraph (3)(C) of the new section 614(b) provides that if two or more of the taxpayer's operating mineral interests participate under a voluntary or compulsory unitization or pooling agreement entered into in any taxable year beginning before January 1, 1964, in a single cooperative or unit plan of operation, and the taxpayer for the last taxable year beginning before January 1, 1964, has treated such interests as two or more separate properties, such taxpayer may continue to treat such interests in a consistent manner for the period of such participation if it is determined that such treatment was proper under the law applicable to such taxable year. Thus, if a taxpayer, instead of treating his operating mineral interests which are presently participating in a unitization or pooling agreement as a single property, treated them as two or more separate properties for past taxable years, he may continue to so treat them as separate properties for the period in which they participate in the unitization or pooling agreement if it is determined that such treatment was proper under the law applicable to such past taxable years. The question of whether the taxpayer may treat his separate mineral interests which are participating in a unitization or pooling arrangement as separate properties rather than as one property is presently being litigated. (See *Belridge Oil Company*, 27 T.C. 1044 (1957) (nonacq. C.B. 1958-1, 7), aff'd 267 F. 2d 291 (9th Cir. 1959); *Earl V. Whitwell*, 28 T.C. 372 (1957), rev'd on other grounds, 257 F. 2d 548 (5th Cir. 1958); *Winfield Killam, et al.*, 39 T.C. 680 (1963).) No inference is to be drawn from this provision as to whether, under the law applicable to taxable years beginning before January 1, 1964, separate interests which participate in unitization or pooling agreements should be treated as one undivided interest or retain the status they had prior to participation.

Paragraph (3)(C) of section 614(b) does not apply to operating mineral interests which commence participation in a unitization or pooling plan in a taxable year beginning after December 31, 1963. The provisions of paragraph (3)(C) will apply to operating mineral interests only as long as they continue their participation in a unitization or pooling agreement entered into in a taxable year beginning before January 1, 1964.

Manner, time, and scope of election

Paragraph (4) of the new section 614(b) provides that the election in paragraph (2) of such section is to be made for each operating mineral interest (in the manner prescribed by the Secretary of the Treasury or his delegate by regulations) not later than the time prescribed by law for filing the return (including extensions thereof) for whichever of the following taxable years is later: The first taxable year beginning after December 31, 1963, or the first taxable year in which any expenditure for development or operation in respect of such operating mineral interest is made by the taxpayer after the

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acquisition of such interest. Since the application of paragraph (4) of section 614(b) is suspended while an interest participates under a unitization or pooling agreement to which paragraph (3)(A) of such section applies, an expenditure is to be disregarded if it is made with respect to an interest at a time when such interest is participating under such an agreement. Thus, if a taxpayer makes his first expenditure for development or operation in respect of an operating mineral interest when it is participating under a unitization or pooling agreement, he is not required to make any election with respect to such interest while it is participating under the agreement. However, if the interest is later withdrawn from participation under the agreement, any election which the taxpayer wishes to make with respect to such interest under paragraph (2) of section 614(b) must be made for the first taxable year in which an expenditure for development or operation is made after the interest has been withdrawn from participation under the agreement. If an expenditure for development or operation is made with respect to an interest prior to the time it participates under a unitization or pooling agreement, any election which the taxpayer wishes to make with respect to such interest under paragraph (2) must be made for the taxable year of such expenditure even though the time for making the election occurs after the interest has commenced participation under the agreement.

For the purpose of determining the taxable year for which an election under paragraph (2) of section 614(b) should be made, expenditures for development include any intangible drilling or development costs within the purview of section 263(c) of the code. Delay rentals are not considered as expenditures for development. For purposes of paragraph (4) of section 614(b), the acquisition of an option to acquire an economic interest in minerals in place does not constitute the acquisition of a mineral interest. Any property resulting from the application of the new section 614(b) (whether such property is composed of one interest or of several interests) is treated as a single property for all purposes of subtitle A of the code, and such treatment is binding on the taxpayer for the taxable year for which made and all subsequent taxable years.

Treatment of certain properties

Paragraph (5) of the new section 614(b) provides that if, on the day preceding the first day of the first taxable year beginning after December 31, 1963, the taxpayer has any operating mineral interests which he treats under section 614(d) as in effect before the amendments made by this section of the bill, such treatment will be continued and be deemed to have been adopted pursuant to paragraphs (1) and (2) of the new section 614(b).

The existing section 614(d) of the code provides that, in the case of oil and gas wells, a taxpayer may treat any property as if the Internal Revenue Code of 1939 continued to apply, and as if subsections (a) and (b) of the existing section 614 of the code had not been enacted. The new section 614(b) provides rules comparable to the treatment provided under the Internal Revenue Code of 1939, and new elections are not provided with respect to properties which have been treated under the existing section 614(d). Such properties will continue to be treated, for taxable years to which this section of the bill applies, in the manner in which they are presently being treated under section

614(d). Paragraph (5) of the new section 614(b) provides that such treatment adopted in prior years will be deemed to have been adopted pursuant to the provisions of paragraphs (1) and (2) of such section.

Elections which were made to combine interests under the existing section 614(d) will be binding for all taxable years to which section 217 of the bill applies even though under paragraph (4) of the new section 614(b) the time within which the election could be made relative to some of the interests has not elapsed. This situation results since under the existing section 614(d) the taxpayer has to decide the specific treatment relative to an interest for the first taxable year in which he has paid or incurred any exploration expenditure in respect of such interest. Under the new section 614(b), the election does not have to be made prior to the time expenditures are made for development or operation. For example, a taxpayer, who under the existing section 614(d) treats interests A, B, and C (located in the same tract or parcel of land) as separate properties, makes an expenditure for exploration in 1963 in respect of interest D (also located in the same tract or parcel of land). For that year he combines interest D with interest A and treats them as one property. In 1965, the taxpayer makes the first expenditure for development in respect of interest D. Under paragraph (5) of the new section 614(b), his treatment under the existing section 614(d) in 1963 is binding for all subsequent years, and he continues to treat A and D as one property.

Paragraph (5) is illustrated by the following examples, in which it is assumed that the taxpayer is on a calendar year basis:

Example (1).—The taxpayer acquired and incurred exploration costs in 1958 on four oil and gas interests (A, B, C, and D) contained within a single tract or parcel of land. In that year, under the provisions of the existing section 614(d) of the code, the taxpayer treated A and B as one property and C and D each as a separate property. In 1964, he discovers a fifth oil and gas interest, E, in the tract or parcel of land. Development costs are incurred relative to E in 1965. The taxpayer does not make the election provided in paragraph (2) of the new section 614(b) to treat E as a separate property within the time prescribed. Under the provisions of paragraph (5) of such section, the treatment of properties adopted by the taxpayer in 1958 under section 614(d) is deemed to have been adopted pursuant to the provisions of paragraphs (1) and (2) of the new section 614(b), and the application of paragraph (2)(B) of the new section 614(b) results in the combining of E with A and B.

Example (2).—The taxpayer acquired and incurred exploration costs in 1959 on oil and gas interests A, B, and C which are in the same tract or parcel of land. For that year, under the provisions of the existing section 614(d), he treated the three interests as one property. During 1961, interest C commenced participation under a unitization agreement. Interest C is removed from the unitization plan in 1965. Since interest C is considered to have been treated under section 614(d) on December 31, 1963, upon its removal from the unitization plan in 1965 such interest will again be combined with interests A and B and all three interests will be treated as one property.

(*b*) *Technical amendments*.—Subsection (b) of section 217 of the bill makes several technical amendments to section 614 of the code. The heading of section 614(c) (relating to 1958 special rules as to

operating mineral interests in mines) is amended by striking out "1958". Paragraph (5) of section 614(c), which contains a reference to the definition of "operating mineral interests", is repealed since such reference is no longer necessary. Section 614(d) (relating to 1939 code treatment with respect to operating mineral interests in the case of oil and gas wells) is stricken out, and a new section 614(d) containing the definition of the term "operating mineral interests" is inserted. This definition is the same as the definition provided in the existing section 614(b)(3). Section 614(e)(2) is amended by striking out "within the meaning of subsection (b)(3)".

(*c*) *Allocation of basis in certain cases.*—Subsection (c) of section 217 of the bill provides rules for determining the adjusted basis for each property formed under the provisions of the new section 614(b) of the code which was previously a part of an aggregation formed under the existing section 614(b). Since the term "property" as used in subsection (c) of section 217 of the bill includes combinations of interests in the same tract or parcel of land which a taxpayer, under the amendments made by subsection (a) of section 217 of the bill, treats as one property, the rules set forth in subsection (c) of section 217 will be used to determine the adjusted basis of any property which is formed under the provisions of the new section 614(b) of the code without the necessity of determining the adjusted basis of each interest which is included in such property.

Under the existing section 614(b) of the code, the taxpayer has an election to form one aggregation of operating mineral interests within each of its operating units. Each interest in an operating unit not aggregated is treated as a separate property. The operation of the new section 614(b) results in the dissolution of previously formed aggregations, and the formation of new properties (including combinations limited to the operating mineral interests contained within a single tract or parcel of land). Thus, it is necessary to allocate the adjusted basis of the old aggregation to the properties determined under the new section 614(b). Subsection (c) of section 217 of the bill provides both a "fair market value" rule and an "allocation of adjustments" rule for making such allocation. The fair market value rule applies with respect to any aggregation unless the allocation of adjustments rule is elected by the taxpayer within such time and in such manner as the Secretary of the Treasury or his delegate prescribes by regulations. The choice of methods of allocating the adjusted bases of aggregations is made on an aggregation-by-aggregation basis; that is, a taxpayer may use the fair market value rule for some of his aggregations and the allocation of adjustments rule for others.

Fair market value rule

Paragraph (1) of section 217(c) of the bill provides the general rule for making the allocation of adjusted basis. This paragraph provides that if the taxpayer has an existing section 614(b) aggregation, then the adjusted basis (as of the first day of the first taxable year beginning after December 31, 1963) of each new property determined under the new section 614(b) all of which was previously included in the aggregation is determined by multiplying the adjusted basis of the aggregation by a fraction, the numerator of which is the fair market value of such new property and the denominator of which is the fair market

value of such aggregation. If one or more of the interests included in the new property was not included in the aggregation formed under existing law, the adjusted basis of such new property is the sum of (1) the adjusted basis (as of the day preceding the first day of the first taxable year beginning after December 31, 1963) of the interest or interests which were not included in the aggregation, plus (2) the adjusted basis of the interest or interests which were included in the aggregation, determined in accordance with the preceding sentence. For the purposes of these computations, the adjusted basis of the aggregation, the fair market value of the aggregation, and the fair market value of each new property (or part thereof) which was included in such aggregation are determined as of the day preceding the first day of the first taxable year which begins after December 31, 1963. The fair market value rule is illustrated by the following example, in which it is assumed that the taxpayer is on a calendar year basis:

Example.—The taxpayer for years prior to 1964, under the provisions of the existing section 614(b) of the code, aggregated and treated as one property mineral interests A, B, C, D, and E. Interests A, B, and E are contained within the same tract or parcel of land. On December 31, 1963, the adjusted basis of the aggregation was \$24,000, and the fair market value of the aggregation was \$45,000. For the taxable year 1964 the taxpayer, under the provisions of paragraphs (1) and (2) of the new section 614(b), combines interests A and B to form one property and elects to treat interest E as a separate property. As of December 31, 1963, the fair market value of the single property made up of interests A and B is \$15,000, and the fair market value of interest E is \$10,000. On January 1, 1964, the adjusted basis of the combined A and B property is \$8,000, computed as follows: $\$24{,}000 \times \frac{\$15{,}000}{\$45{,}000}$. The adjusted basis of property E is \$5,333, computed as follows: $\$24{,}000 \times \frac{\$10{,}000}{\$45{,}000}$. (The remaining \$10,667 is attributable to interests C and D.)

Allocation of adjustments, etc.

Paragraph (2) of section 217(c) of the bill provides, at the election of the taxpayer, an alternative rule for allocating the adjusted basis of an aggregation which was formed under the existing section 614(b) to the properties formed under the new section 614(b). Under this alternative rule, the adjusted basis of each property formed under the provisions of new section 614(b) (as of the first day of the first taxable year beginning after December 31, 1963) all of which was included in an aggregation formed under existing law is the adjusted basis of the operating mineral interest or interests which make up such new property at the time such interest or interests were first included in the aggregation formed under existing law by the taxpayer, adjusted for that portion of those subsequent adjustments to the basis of the aggregation which are reasonably attributable to such interest or interests. If one or more of the interests included in the new property was not included in the aggregation formed under existing law, the adjusted basis of such new property is the sum of (1) the adjusted basis (as of the day preceding the first day of the first taxable year beginning after December 31, 1963) of the interest or interests which

were not included in the aggregation, plus (2) the adjusted basis of the interest or interests which were included in the aggregation, determined in accordance with the preceding sentence. Thus, if the taxpayer can, by records of production or some other method, reasonably allocate the adjustments reflected in the adjusted basis of the aggregation to the individual properties contained therein, such alternative method of allocation can be used to determine the adjusted basis of each property resulting from the application of the new section 614(b). The allocation of adjustments rule is illustrated by the following example, in which it is assumed that the taxpayer is on a calendar year basis:

Example.—The taxpayer for years prior to 1964, under the provisions of the existing section 614(b) of the code, aggregated and treated as one property operating mineral interests A and B (which were not contained within the same tract or parcel of land). The cost of each interest was $10,000. The total adjustments to the basis of the aggregation for taxable years prior to 1964 was $15,000 which is allocable to interests A and B in the amounts of $10,000 and $5,000, respectively. Thus, the adjusted basis of the aggregation (as of December 31, 1963) is $5,000 ($20,000 minus $15,000). The adjusted bases (as of January 1, 1964) of properties A and B, computed under the allocation of adjustments method, are $0 and $5,000, respectively

Paragraph (2) of section 217(c) of the bill further provides that if the total of the adjusted bases of the interests included in an aggregation exceeds the adjusted basis of the aggregation (as of the day preceding the first day of the first taxable year which begins after December 31, 1963), the adjusted bases of the properties which include such interests will be adjusted, under regulations prescribed by the Secretary of the Treasury or his delegate, so that the total of the adjusted bases of such interests equals the adjusted basis of the aggregation. This rule is illustrated by the following example, in which it is assumed that the taxpayer is on a calendar year basis:

Example.—The taxpayer for years prior to 1964, under the provisions of the existing section 614(b) of the code, aggregated and treated as one property mineral interests A, B, C, and D (of which only A and B are contained within the same tract or parcel of land). The cost of each interest was $10,000. The total adjustments to the basis of the aggregation for taxable years prior to 1964 were $25,000 which is allocable to interests A, B, C, and D in the amounts of $5,000, $0, $15,000, and $5,000, respectively. Thus, the adjusted basis of the aggregation (as of December 31, 1963) is $15,000 ($40,000 minus $25,000). If the taxpayer, during 1964 and subsequent years, treats interests A and B as one property and interests C and D each as a separate property, the application of the rule set forth in the first sentence of paragraph (2) of section 217(c) of the bill would result in an adjusted basis of $15,000 ($20,000 minus $5,000) for the property made up of interests A and B, and bases of $0 ($10,000 minus $15,000) and $5,000 ($10,000 minus $5,000) for properties C and D, respectively. Since the total of these adjusted bases ($20,000) exceeds the adjusted basis of the aggregation itself ($15,000), the bases of the properties formed by the application of new section 614(b) will be reduced under regulations prescribed by the Secretary of the Treasury or his delegate, so that such adjusted bases total $15,000.

Paragraph (3) of section 217(c) of the bill contains definitions of certain terms used in such section.

(*d*) *Effective date.*—Subsection (d) of section 217 of the bill provides that the amendments made by subsections (a) and (b) of such section apply to taxable years beginning after December 31, 1963.

SECTION 218. TREATMENT OF CERTAIN IRON ORE ROYALTIES

(*a*) *In general.*—Subsection (a) of section 218 of the bill amends sections 631(c), 1231(b)(2), and 272 of the code to grant, in the case of certain disposals of iron ore with a retained economic interest, the same treatment which is now available in the case of certain disposals of coal with a retained economic interest. Under such treatment, the gain or loss attributable to such disposals of iron ore is treated as gain or loss from the sale of property used in the trade or business (as defined in section 1231(b) of the code). However (under the amendments made by section 219 of the bill), any such gain is treated as a class B capital gain, even though the iron ore is held for more than 2 years prior to its disposal.

Amendment of section 631(c)

Paragraph (1) of section 218(a) of the bill amends section 631 of the code (relating to disposal of coal with a retained economic interest) to extend the benefits of that section to iron ore. The existing section 631(c) provides that in the case of the disposal of coal (including lignite) held for more than 6 months before such disposal by the owner thereof under any form of contract by virtue of which such owner retains an economic interest in such coal, the difference between the amount realized from the disposal of such coal and the adjusted depletion basis thereof plus the deductions disallowed for the taxable year under section 272 of the code (relating to disposal of coal) is considered as though it were a gain or loss, as the case may be, on the sale of such coal. All of the provisions of section 631(c) which presently apply to the disposal of coal with a retained economic interest will also apply to the disposal of iron ore with a retained economic interest. Iron ore is any ore which is used as a source of iron, including but not limited to taconite and jaspilite. If an ore is used, or sold for use, as a source of iron and another mineral or minerals, only the part of the amount realized which is attributable to the iron is considered to be an amount realized from the disposal of iron ore.

Amendment of section 1231(b)

Paragraph (2) of section 218(a) of the bill amends section 1231(b) of the code (defining property used in the trade or business) to include iron ore, with respect to which section 631 applies, within the definition of property used in the trade or business. The effect of this amendment is to extend the benefits of section 1231 to a gain or loss on the disposal or iron ore with a retained economic interest. Any such gain is treated (under the amendments made by section 219 of the bill) as a class B capital gain, even though the iron ore is held for more than 2 years prior to its disposal.

Amendment of section 272

Paragraph (3) of section 218(a) of the bill amends section 272 of the code to provide, in the case of expenditures made in connection with the disposal of iron ore with a retained economic interest, the same treatment as is provided for coal under existing law. The existing section 272 provides that, where the disposal of coal is covered by section 631, no deduction is allowed for expenditures attributable to the making and administering of the contract under which such disposition occurs or to the preservation of the economic interest retained under such contract; except that if in any taxable year such expenditures plus the adjusted depletion basis of the coal disposed of in such taxable year exceed the amount realized under such contract, such excess, to the extent not availed of as a reduction of gain under section 1231, is a loss deductible under section 165(a) of the code. Section 272 does not apply to any taxable year during which there is no income under the contract.

(*b*) *Clerical amendments.*—Subsection (b) of section 218 of the bill makes the various clerical and conforming amendments to the code which are required as a result of the amendments made by subsection (a) of such section.

(*c*) *Effective date.*—Subsection (c) of section 218 of the bill provides that the amendments made by such section apply to iron ore mined in taxable years beginning after December 31, 1963.

SECTION 219. CAPITAL GAINS AND LOSSES

(*a*) *Alternative tax, etc.*—Under existing law, there are two categories of capital gains and losses which apply to all taxpayers: (1) Short-term capital gain or loss (gain or loss from the sale or exchange of a capital asset held for not more than 6 months) and (2) long-term capital gain or loss (gain or loss from the sale or exchange of a capital asset held for more than 6 months). The amendments made by section 219(a) of the bill provide, in the case of taxpayers other than corporations, for the splitting of the long-term capital gain or loss category into two categories: (1) Class B capital gain or loss (gain or loss from the sale or exchange of a capital asset held for more than 6 months but not more than 2 years), and (2) class A capital gain or loss (gain or loss from the sale or exchange of a capital asset held for more than 2 years). Thus, for taxable years beginning after December 31, 1963, there will be three categories of capital gains and losses applicable to taxpayers other than corporations: Short-term, class B, and class A. Corporate taxpayers can have only short-term and long-term capital gains and losses since the changes relate only to the taxation of taxpayers other than corporations.

The amendments made by section 219(a) of the bill are applicable in the case of a capital gain which is properly reportable by a taxpayer (other than a corporation) on the installment basis under section 453 of the code for a taxable year to which such amendments apply even though the property was sold or otherwise disposed of in a taxable year to which such amendments do not apply.

Alternative tax

Paragraph (1)(A) of section 219(a) of the bill amends section 1201(b) of the code (relating to alternative tax on taxpayers other than

corporations), which presently imposes, in certain instances, an alternative tax on the excess of the net long-term capital gain over the net short-term capital loss of a taxpayer other than a corporation. This alternative tax is 25 percent of such excess. Section 1201(b), as amended, imposes, in certain instances, an alternative tax which taxes the taxpayer's capital gains at a rate equal to 21 percent of his adjusted class A capital gain and 25 percent of his adjusted class B capital gain. The terms "adjusted class B capital gain" and "adjusted class A capital gain" are defined in paragraphs (9) and (10) of section 1222(c) of the code, as amended by the bill. If a taxpayer other than a corporation has, for any taxable year, both adjusted class B capital gain and adjusted class A capital gain, the determination as to whether the alternative tax under section 1201(b) applies must be made by applying the applicable alternative rate to each class of capital gain, and the taxpayer may not compute his tax for only one of the two classes of capital gains under section 1201(b).

Deduction for capital gains

Paragraph (1)(B) of section 219(a) of the bill amends section 1202 of the code (relating to deduction for capital gains), which presently provides that a taxpayer other than a corporation is allowed for any taxable year a deduction from gross income of 50 percent of the excess of the net long-term capital gain over the net short-term capital loss.

Section 1202(a), as amended, provides a deduction from gross income for a taxpayer other than a corporation equal to the sum of 60 percent of the adjusted class A capital gain and 50 percent of the adjusted class B capital gain.

Section 1202(b), as amended, retains a provision of existing law which provides that, in the case of an estate or trust, the deduction under section 1202(a) is computed by excluding the portion of the gains for the taxable year from sales or exchanges of capital assets which is includible under sections 652 and 662 of the code (relating to inclusions of amounts in gross income of beneficiaries of trusts) by income beneficiaries in their gross incomes as gain derived from the sale or exchange of capital assets.

Definitions

Paragraph (1)(C) of section 219(a) of the bill amends section 1222 of the code, which defines various terms relating to short-term and long-term capital gains and losses. Section 1222 as amended has been divided into four subsections which relate to (1) terms applicable to all taxpayers, (2) terms applicable to corporations, (3) terms applicable to taxpayers other than corporations, and (4) rules for reducing net capital gains by capital losses.

SECTION 1222. OTHER TERMS RELATING TO CAPITAL GAINS AND LOSSES

(*a*) *Terms applicable to all taxpayers.*—Section 1222(a) contains definitions of terms applicable to all taxpayers. These terms are "short-term capital gain," "short-term capital loss," "net short-term capital gain," and "net short-term capital loss." These terms and their definitions are the same as those in existing law.

(*b*) *Terms applicable to corporations.*—Section 1222(b) contains definitions of terms applicable to corporations. These terms are "long-term capital gain," "long-term capital loss," "net long-term

capital gain," "net long-term capital loss," "net capital gain," and "net capital loss." These terms and their definitions are the same as those in existing law, although their application is limited to corporations.

(c) *Terms applicable to taxpayers other than corporations.*—Section 1222(c) contains definitions of terms applicable to taxpayers other than corporations. These terms and their definitions are new. The terms are "class B capital gain," "class B capital loss," "class A capital gain," "class A capital loss," "net class B capital gain," "net class B capital loss," "net class A capital gain," "net class A capital loss," "adjusted class B capital gain," and "adjusted class A capital gain."

Class B capital gain or loss is defined as gain or loss from the sale or exchange of a capital asset held for more than 6 months but not more than 2 years, to the extent such gain is taken into account in computing gross income or to the extent such loss is taken into account in computing taxable income. Class A capital gain or loss is defined as gain or loss from the sale or exchange of a capital asset held for more than 2 years, to the extent such gain is taken into account in computing gross income or to the extent such loss is taken into account in computing taxable income.

Net class B capital gain is the excess of the class B capital gains for the taxable year over the class B capital losses for such year. Net class B capital loss is the excess of the class B capital losses for the taxable year over the class B capital gains for such year. Net class A capital gain is the excess of the class A capital gains for the taxable year over the class A capital losses for such year. Net class A capital loss is the excess of the class A capital losses for the taxable year over the class A capital gains for such year.

Adjusted class B or adjusted class A capital gain is the net class B or net class A capital gain, as the case may be, for the taxable year reduced by the capital losses which reduce such net gain as provided in subsection (d) of section 1222.

(d) *Rules for reducing net capital gains by capital losses.*—Section 1222(d) provides rules by which net class B and net class A capital gains are reduced by capital losses in arriving at adjusted class B and adjusted class A capital gains. Also, these rules are applicable for purposes of reducing any net short-term capital gain realized by a taxpayer (other than a corporation) by any net class B or net class A capital loss. Furthermore, these rules are applicable in computing a net short-term, net class B, or net class A capital loss for purposes of the capital loss carryover under section 1212(b). The rules are to be applied in order; first the rule in paragraph (1) of section 1222(d), then the rule in paragraph (2) of such section, and last the rule in paragraph (3) of such section. The rules are (1) a net class A capital loss reduces first any net class B capital gain and then any net short-term capital gain, (2) a net class B capital loss reduces first any net class A capital gain and then any net short-term capital gain, and (3) a net short-term capital loss reduces first any net class B capital gain and then any net class A capital gain. If the taxpayer has a net capital gain in only one category and a net capital loss in one other category, the gain is reduced by the loss.

The application of these rules is illustrated as follows:

Example (1).—X, a calendar-year taxpayer other than a corporation, has for 1964 a $600 net class A capital gain, a $200 net class B capital loss, and a $500 net short-term capital loss. Under the provisions of section 1222(d), X's $600 net class A capital gain is reduced first by his $200 net class B capital loss and the remaining $400 net class A capital gain is then reduced by his $500 net short-term capital loss. Thus, for 1964, X has only a $100 net short-term capital loss which does not reduce capital gains. If for 1964 X had an $800 net class A capital gain instead of a $600 net class A capital gain, X would have a $100 adjusted class A capital gain.

Example (2).—Y, a calendar-year taxpayer other than a corporation, has for 1964 a $700 net class B capital gain, a $400 net class A capital loss, and a $600 net short-term capital loss. Under the provisions of section 1222(d), Y's $700 net class B capital gain is reduced first by his $400 net class A capital loss, and the remaining $300 net class B capital gain is then reduced by his $600 net short-term capital loss. Thus, for 1964, Y has only a $300 net short-term capital loss which does not reduce capital gains.

Example (3).—Z, a calendar-year taxpayer other than a corporation, has for 1964 a $700 net short-term capital gain, an $800 net class A capital loss, and a $100 net class B capital loss. Under the provisions of section 1222(d), Z's $700 net short-term capital gain is reduced by his $800 net class A capital loss. Thus, for 1964, Z has a $100 net class A capital loss which does not reduce capital gains and a $100 net class B capital loss which does not reduce capital gains. If for 1964 Z had a $1,000 net short-term capital gain instead of a $700 net short-term capital gain, his $1,000 net short-term capital gain would have first been reduced by his $800 net class A capital loss and the remaining $200 net short-term capital gain would then be reduced by his $100 net class B capital loss.

SECTION 219. CAPITAL GAINS AND LOSSES (Continued)

Property used in the trade or business and involuntary conversions

Paragraph (2) of section 219(a) of the bill amends section 1231 of the code (relating to property used in a trade or business), which presently provides long-term capital gain and loss treatment for the recognized gains and losses from sales, exchanges, and certain conversions of property used in the trade or business (as defined in sec. 1231(b)), and for certain other recognized gains and losses, if the total of such gains exceeds the total of such losses. Included in the definition of the term "property used in the trade or business" are (1) timber and coal with respect to which section 631 applies, (2) certain livestock, and (3) certain unharvested crops.

Section 1231 is amended by this paragraph of the bill to accommodate the two new categories of capital gains and losses applicable to taxpayers other than corporations for taxable years beginning after December 31, 1963, and to provide that, with respect to taxpayers other than corporations, the gain or loss on certain property used in the trade or business is to be considered class B capital gain or loss (if the gains to which sec. 1231 applies exceed the losses to which such section applies) whether or not the holding period of such property

exceeds 2 years. In addition, certain provisions of section 1231 are rearranged.

Subparagraph (A) of this paragraph of the bill amends section 1231(a) of the code. Under the amendment, section 1231(a) retains the rule of existing law that if the gains to which section 1231 applies exceed the losses to which it applies, such gains and losses are treated as gains and losses from sales or exchanges of capital assets. As under existing law, corporations will receive long-term capital gain or loss treatment on sales, exchanges, or conversions to which section 1231 applies. Taxpayers other than corporations will treat such gains and losses as class A or class B capital gains and losses depending upon the holding periods of the particular items of property sold, exchanged, or converted. Section 1231(a) as amended retains the rule of existing law that if the gains to which section 1231 applies do not exceed the losses to which it applies, such gains and losses are not treated as gains and losses from sales or exchanges of capital assets.

Subparagraph (B) of this paragraph of the bill adds to section 1231 of the code a new subsection (c), providing special rules. Several rules found in the existing section 1231(a) are continued in paragraphs (1) and (2) of section 1231(c).

Subparagraph (A)(i) of paragraph (1) of the new section 1231(c) restates the rule (found in the existing sec. 1231(a)(1)) which provides that the gains which are included in determining whether gains exceed losses (for purposes of sec. 1231(a)) are those gains (described in sec. 1231(a)) which are taken into account in computing gross income but only to the extent so taken into account. Subparagraph (A)(ii) of paragraph (1) provides that gains, otherwise includible for purposes of section 1231(a), are included only to the extent they are not required by any provision of subtitle A of the code (other than sec. 1231) to be treated as gain from the sale or exchange of property which is neither a capital asset nor property described in section 1231. Thus, for example, to the extent that gain from the sale or exchange of property is required under section 1245 (or sec. 1250, added by sec. 220 of the bill) to be treated as gain from the sale or exchange of property which is neither a capital asset nor property described in section 1231, such gain is not included for purposes of section 1231(a). Subparagraphs (B) and (C) of paragraph (1) of the new section 1231(c), and paragraph (2) of such section, restate existing law.

Paragraph (3) of the new section 1231(c) provides that, in the case of a taxpayer other than a corporation, if gain or loss from the sale, exchange, or conversion of certain property is considered (under sec. 1231(a)) as gain or loss from the sale or exchange of a capital asset, such gain or loss is to be considered class B capital gain or loss, even if such property was held for more than 2 years. Properties to which the preceding sentence relates are (1) timber, coal, and iron ore with respect to which section 631 of the code, as amended by section 218 of the bill, applies, (2) livestock (not including poultry), regardless of age, held by the taxpayer for draft, breeding, or dairy purposes, and held by him for 12 months or more from the date of acquisition, and (3) an unharvested crop on land used in the trade or business and held for more than 6 months, which is sold, exchanged, or converted with the land at the same time and to the same person. However, if gain or loss from the sale, exchange, or conversion of timber, coal, or iron ore properties would qualify for capital gain treatment without

the benefit of section 631, then such gain or loss to which section 1231(a) applies is, in the case of a taxpayer other than a corporation, treated as class A capital gain or loss if the property has been held for more than 2 years.

Certain distributions under employees' trusts and annuity plans

Paragraph (3)(A) of section 219(a) of the bill amends section 402(a) of the code (relating to taxability of beneficiary of exempt trust) to provide that certain distributions which under existing law are accorded long-term capital gain treatment are to be accorded class B capital gain treatment. In addition, section 402(a) as amended provides that gain on the sale or other disposition of securities of the employer, to the extent of the net unrealized appreciation attributable to such securities which was not taxed when the securities were distributed or made available, is considered as class B capital gain. Any excess amount realized upon the sale of such securities (over and above the distributee's basis plus the previously unrealized appreciation) is a short-term, class B, or class A capital gain, depending on the length of time the distributee has held the securities. The amendments made by paragraph (3)(A) of section 219(a) of the bill to section 402(a) of the code apply (under par. (3)(C) of sec. 219(a)) with respect to distributions in taxable years of the distributee, and with respect to securities sold or otherwise disposed of in taxable years, beginning after December 31, 1963.

Paragraph (3)(B) of section 219(a) of the bill amends section 403(a)(2)(A) of the code (relating to capital gains treatment for certain distributions), which presently provides rules (comparable to rules in sec. 402) which accord long-term capital gain treatment for certain total distributions made under a qualified annuity plan. Section 403(a)(2)(A) as amended provides that distributions under a qualified annuity plan which are extended capital gain treatment are to be accorded class B capital gain treatment. The amendments made by paragraph (3)(B) to section 403 (a)(2)(A) of the code apply (under par. (3)(C)) with respect to amounts paid in taxable years of the distributee beginning after December 31, 1963.

Sale or exchange of patents

Paragraph (4) of section 219(a) of the bill amends section 1235(a) of the code (relating to the sale or exchange of patents) to reflect the new capital gain and loss treatment accorded to taxpayers other than corporations. New sentences are added at the end of such section to provide that gain or loss on a transfer (other than by gift, inheritance, or devise) of property consisting of all substantial rights to a patent, or of an undivided interest therein which includes a part of all such rights, by an individual whose efforts created such property is treated as class B capital gain or loss, regardless of the length of time such property is held. In the case of an individual who is described as a holder in section 1235(b)(2), any gain or loss on such a transfer is treated as a class B capital gain or loss if such property is held for not more than 2 years (even if held for less than 6 months), or as a class A capital gain or loss if such property is held for more than 2 years.

Employee termination payments

Paragraph (5) of section 219(a) of the bill amends section 1240 of the code (relating to taxability to employee of termination payments)

by striking out "6 months" and inserting in lieu thereof "6 months but not more than 2 years" so as to limit the payments under such section to class B capital gain treatment.

(b) *Unlimited capital loss carryover.*—Subsection (b) of section 219 of the bill amends section 1212 of the code (relating to capital loss carryover). Under the existing provisions of section 1212, if a taxpayer has a net capital loss for a taxable year, the amount thereof is a short-term capital loss in each of the 5 succeeding taxable years to the extent that such amount exceeds the total of any net capital gains of any taxable years intervening between the taxable year in which the net capital loss arose and such succeeding taxable year.

Section 1212(a) as designated and amended by this section of the bill retains all of the existing substantive rules of section 1212 but provides that these rules apply only with respect to corporate taxpayers.

Subsection (b) of section 219 of the bill adds to section 1212 of the code a new subsection (b) relating to taxpayers other than corporations. Paragraph (1) of the new section 1212(b) provides that to the extent a taxpayer other than a corporation has a net short-term, net class B, or net class A capital loss which does not, under the rules provided in section 1222(d), reduce capital gains, such loss, reduced as provided in paragraph (2) of the new section 1212(b), is carried forward and treated in the succeeding taxable year as a short-term, class B, or class A capital loss, as the case may be, sustained in such succeeding year. The portion of a net short-term, net class B, or net class A capital loss which is in excess of the capital gains which such loss reduces (as determined under the proper application of the rules) is a loss which, for purposes of section 1212(b), does not reduce capital gains.

Section 1211(b) of the code limits, in the case of a taxpayer other than a corporation, the capital loss deduction (otherwise allowable under sec. 165 of the code) for any taxable year to an amount equal to the taxpayer's capital gains for such year plus the lesser of $1,000 or his taxable income (computed as therein provided). Under paragraph (2) of the new section 1212(b), the sum allowable under section 1211(b), to the extent it exceeds capital gains, reduces, first, any net short-term capital loss available to be carried over to the succeeding year, then any net class B capital loss available to be carried over to the succeeding year, and, finally, any net class A capital loss available to be carried over to the succeeding taxable year.

The foregoing is illustrated by the following example:

Example.—X, a calendar-year taxpayer other than a corporation, has capital gains and losses for 1964 as follows: $1,200 net class A capital loss, $600 net class B capital loss, and $400 net short-term capital gain. Under the provisions of section 1222(d) of the code, the $400 net short-term capital gain is reduced by the $1,200 net class A capital loss, leaving an $800 net class A capital loss which does not reduce capital gains. Assuming that X had taxable income (determined as provided in sec. 1211(b) of the code) of $1,000 for 1964, such $1,000 first offsets the $600 net class B capital loss and the remaining $400 then offsets the $800 net class A capital loss, leaving a $400 net class A capital loss which may be carried forward and treated as a class A capital loss sustained in 1965.

Paragraph (3) of the new section 1212(b) provides that a net capital loss for a taxable year beginning before January 1, 1964, is to be determined under the law applicable to such taxable year, and the amount of any such capital loss so determined (which such applicable law allows to be carried over to the first taxable year of the taxpayer beginning after December 31, 1963) is to be treated as a short-term capital loss occurring in such first taxable year beginning after December 31, 1963.

(c) *Technical amendments.*—Subsection (c) of section 219 of the bill contains technical amendments to various provisions of the code. Most of these amendments merely conform the terminology of the provisions involved to the new classifications of capital gains and losses for taxpayers other than corporations. The remaining amendments are discussed below.

Taxation of regulated investment companies and their shareholders

Paragraph (7)(A) of section 219(c) of the bill amends subparagraphs (B) and (C) of section 852(b)(3) of the code (relating to taxation of regulated investment companies and their shareholders). Subparagraph (B) of section 852(b)(3) presently provides that a shareholder of a regulated investment company must treat a capital gain dividend as long-term capital gain. Subparagraph (C) of such section defines a capital gain dividend as any dividend, or part thereof, which is designated by the company as a capital gain dividend in a written notice mailed to its shareholders not later than 30 days after the close of its taxable year. Subparagraph (C) further provides that a shareholder may not treat as long-term capital gain an amount in excess of his proportionate share of the excess of the company's net long-term capital gain over its net short-term capital loss. These rules apply to corporate as well as noncorporate shareholders.

Subparagraph (B) of section 852(b)(3) of the code, as amended by this paragraph of the bill, provides that a capital gain dividend is to be treated by a shareholder other than a corporation as class A or class B capital gain to the extent so designated by the company. It also provides that corporate shareholders must treat a capital gain dividend as long-term capital gain. Subparagraph (C) of section 852(b)(3), as amended, defines a capital gain dividend as any dividend, or part thereof, which is designated by the company in a written notice mailed to its shareholders not later than 30 days after the close of its taxable year as a distribution of class A or class B capital gain. Thus, a regulated investment company is to indicate its capital gain dividends by designating portions of its distributions as class A or class B capital gain; however, the amounts so designated are to be treated by corporate shareholders as long-term capital gain. Subparagraph (C), as amended, also retains the rule of existing law that a shareholder may not treat as long-term capital gain an amount in excess of his proportionate share of the excess of the company's net long-term capital gain over its net short-term capital loss but limits the applicability of this rule to corporate shareholders. In the case of a shareholder other than a corporation, subparagraph (C), as amended, provides that if the company designates as class A or class B capital gain amounts which exceed its adjusted class A or adjusted class B capital gain, such shareholder is to treat only his proportionate share of such adjusted class A or adjusted class B capital gain as class A or class B

capital gain, respectively. For purposes of subparagraph (C), the company's adjusted class A and adjusted class B capital gains are computed as though the company were a taxpayer other than a corporation (except that the corporate capital loss carryover rules apply in lieu of the capital loss carryover rules applicable to taxpayers other than corporations).

Paragraph (7)(B) of section 219(c) of the bill amends clauses (i), (ii), and (iii) of section 852(b)(3)(D) of the code to conform the terminology of such clauses to the new classifications of capital gains applicable to taxpayers other than corporations.

Paragraph (7)(C) of section 219(c) of the bill amends paragraph (4) of section 852(b) of the code. In general, paragraph (4) of section 852(b) presently provides that when a person who holds a share in a regulated investment company for less than 31 days (1) incurs a loss on the sale or exchange of such share and (2) is required, with respect to such share, to treat any amount as long-term capital gain, then such loss, but not in excess of the amount required to be treated as long-term capital gain, is treated as long-term capital loss. Paragraph (4) as amended retains the present rules for corporate shareholders. It also provides that if a shareholder other than a corporation incurs a loss on the sale or exchange of such a share and is required, with respect to such share, to treat any amount as class A or class B capital gain, then the amount of such loss, but not in excess of the amount treated as class A or class B capital gain, is treated as class A or class B capital loss, respectively. If the sum of such class A and class B capital gains exceeds the loss on the sale or exchange of such share, a portion of such loss equal to the proportion which such class A capital gain bears to the sum of such class A and class B capital gains is a class A capital loss; and the remainder of such loss is a class B capital loss.

Taxation of real estate investment trusts and their beneficiaries

Paragraph (8)(A) of section 219(c) of the bill amends subparagraphs (B) and (C) of section 857(b)(3) of the code (relating to taxation of real estate investment trusts and their beneficiaries). Subparagraph (B) of section 857(b)(3) presently provides that a shareholder of (or a holder of a beneficial interest in) a real estate investment trust must treat a capital gain dividend as long-term capital gain. Subparagraph (C) of such section defines a capital gain dividend as any dividend, or part thereof, which is designated by the trust as a capital gain dividend in a written notice mailed to its shareholders before the expiration of 30 days after the close of its taxable year. Subparagraph (C) further provides that a shareholder may not treat as long-term capital gain an amount in excess of his proportionate share of the excess of the trust's net long-term capital gain over its net short-term capital loss. These rules apply to corporate as well as noncorporate shareholders.

Subparagraph (B) of section 857(b)(3) of the code, as amended by this paragraph of the bill, provides that a capital gain dividend is to be treated by a shareholder other than a corporation as class A or class B capital gain to the extent so designated by the trust. It also provides that corporate shareholders must treat a capital gain dividend as long-term capital gain. Subparagraph (C) of section 857(b)(3), as amended, defines a capital gain dividend as any dividend,

or part thereof, which is designated by the trust in a written notice mailed to its shareholders before the expiration of 30 days after the close of its taxable year as a distribution of class A or class B capital gain. Thus, a real estate investment trust is to indicate its capital gain dividends by designating portions of its distributions as class A or class B capital gain; however, the amounts so designated are to be treated by corporate shareholders as long-term capital gain. Subparagraph (C) as amended also retains the rule of existing law that a shareholder may not treat as long-term capital gain an amount in excess of his proportionate share of the excess of the trust's net long-term capital gain over its net short-term capital loss but limits the applicability of this rule to corporate shareholders. In the case of a shareholder other than a corporation, subparagraph (C) as amended provides that if the trust designates as class A or class B capital gain amounts which exceed its adjusted class A or adjusted class B capital gain, such shareholder is to treat only his proportionate share of such adjusted class A or adjusted class B capital gain as class A or class B capital gain, respectively. For purposes of subparagraph (C), the adjusted class A and adjusted class B capital gains are computed as though the trust were a taxpayer other than a corporation (except that the corporate capital loss carryover rules apply in lieu of the capital loss carryover rules applicable to taxpayers other than corporations).

Paragraph (8)(B) of section 219(c) of the bill amends paragraph (4) of section 857(b) of the code. In general, paragraph (4) of section 857(b) presently provides that when a person who holds a share in a real estate investment trust for less than 31 days (1) incurs a loss on the sale or exchange of such share and (2) is required, with respect to such share, to treat any amount as long-term capital gain, then such loss, but not in excess of the amount required to be treated as long-term capital gain, is treated as long-term capital loss. Paragraph (4) as amended retains the present rules for corporate shareholders. It also provides that if a shareholder other than a corporation incurs a loss on the sale or exchange of any such share held for less than 31 days and is required, with respect to such share, to treat any amount as class A or class B capital gain, then the amount of such loss, but not in excess of the amount treated as class A or class B capital gain, is treated as class A or class B capital loss, respectively. If the sum of such class A and class B capital gains exceeds the loss on the sale or exchange of such share, a portion of such loss equal to the proportion which such class A capital gain bears to the sum of such class A and class B capital gains is a class A capital loss; and the remainder of such loss is a class B capital loss.

Gains and losses from short sales

Paragraph (10)(A) of section 219(c) of the bill amends section 1233(b) of the code (relating to gains and losses from short sales). In general, section 1233(b) presently provides that if, on the date of a short sale of a capital asset, substantially identical property has been held by the taxpayer for not more than 6 months (or if substantially identical property is acquired by the taxpayer after such short sale and on or before the date of the closing thereof), any gain on the closing of the short sale is considered short-term capital gain, and the holding period of such substantially identical property begins

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on the date of the closing of such short sale. Section 1233(b), as amended by this paragraph of the bill, retains the present rules and provides for the situation in which a taxpayer other than a corporation has held on the date of a short sale of a capital asset substantially identical property for more than 6 months but not more than 2 years. In such a case, any gain on the closing of such short sale is treated as gain on the sale or exchange of a capital asset held for more than 6 months but not more than 2 years. Also, the holding period of such substantially identical property begins on the date of the closing of the short sale.

Paragraph (10)(B) of section 219(c) of the bill amends section 1233(d) of the code. In general, section 1233(d) presently provides that if, on the date of a short sale of a capital assset, substantially identical property has been held by the taxpayer for more than 6 months, then any loss on the closing of such short sale is to be considered as a loss from the sale or exchange of a capital asset held for more than 6 months. Section 1233(d) as amended by this paragraph of the bill retains the existing provisions as they relate to corporations. With respect to taxpayers other than corporations, section 1233(d) as amended provides that if substantially identical property is held on the date of the short sale of a capital asset and such substantially identical property has been held by the taxpayer (1) for more than 2 years, any loss on the closing of the short sale is considered as loss on the sale or exchange of a capital asset held for more than 2 years, or (2) for more than 6 months but not more than 2 years, any loss on the closing of the short sale is considered as loss on the sale or exchange of a capital asset held for more than 6 months but not more than 2 years.

Paragraph (10)(C) of section 219(c) of the bill amends paragraph (1) of section 1233(e) of the code. Paragraph (1) of section 1233(e) presently provides that the provisions of subsection (b)(1) or (d) of section 1233 (discussed above) do not apply to the gain or loss, respectively, on any quantity of property used to close a short sale which is in excess of the substantially identical property referred to in such subsections. Paragraph (1) of section 1233(e) as amended by this paragraph of the bill continues the existing rules but makes changes to conform with the changes made in section 1233 (b) and (d) by paragraphs (10)(A) and (10)(B) of section 219(c) of the bill (discussed above).

Paragraph (10)(D) of section 219(c) of the bill amends subparagraph (A) of section 1233(e)(4) of the code. In general, subparagraph (A) of section 1233(e)(4) presently provides that if a dealer in securities holds, on the date of a short sale of stock, substantially identical property which is a capital asset in his hands, and such property has been held by the dealer for not more than 6 months, and if such short sale is closed more than 20 days after the date on which it was made, then the holding period of such substantially identical property begins on the date of the closing of the short sale. Subparagraph (A) of such section as amended by this paragraph of the bill retains this rule for corporate dealers in securities and applies it in the case of noncorporate dealers in securities who, on the date of the short sale, have held substantially identical property for not more than 2 years.

Paragraph (10)(E) of section 219(c) of the bill makes a clerical change in section 1233(f) of the code to conform the language of such section to an organizational change made in section 1233(b)(2).

Election by foreign investment companies to distribute income currently

Paragraph (11)(A) of section 219(c) of the bill amends subparagraph (B) of section 1247(a)(1) of the code (relating to election by foreign investment companies to distribute income currently). Section 1247(a) presently provides, in general, that if a foreign investment company elects, on or before December 31, 1962, with respect to each taxable year beginning after December 31, 1962, (1) to distribute to its shareholders 90 percent or more of what its taxable income would be if it were a domestic corporation, (2) to designate in a timely mailed written notice to its shareholders the pro rata amount of the excess of the company's net long-term capital gain over its net short-term capital loss for the taxable year and the portion thereof which is being distributed, and (3) to furnish certain information to the Secretary of the Treasury or his delegate, then section 1246 of the code (relating to gain on foreign investment company stock) does not apply with respect to the qualified shareholders (see sec. 1247(c)) of such company during any taxable year to which such election applies. Subparagraph (B) of section 1247(a)(1) as amended by this paragraph of the bill provides that the company must designate to its shareholders the pro rata amount for the taxable year of the adjusted class A and adjusted class B capital gain (determined as though such company were a taxpayer other than a corporation, except that the corporate capital loss carryover rules apply in lieu of the capital loss carryover rules applicable to taxpayers other than corporations) and the portions thereof which are being distributed.

Subparagraphs (B), (C), and (D) of paragraph (11) of section 219(c) of the bill amend section 1247(a)(2)(A)(i), section 1247(a)(2)(C), and section 1247(c)(2) of the code, respectively, to conform the terminology of such sections to the new classifications of capital gains for taxpayers other than corporations.

Paragraph (11)(E) of section 219(c) of the bill amends section 1247(d) of the code. In general, section 1247(d) presently provides that every qualified shareholder (within the meaning of sec. 1247(c)) of the company for any taxable year with respect to which an election pursuant to section 1247(a) is in effect must include, in computing his long-term capital gains, his pro rata share of both the distributed and undistributed portion of the excess of the net long-term capital gain over the net short-term capital loss for such taxable year of such company. Section 1247(d) as amended by this paragraph of the bill retains the present rule for corporate shareholders but provides that shareholders other than corporations must include in computing their class A or class B capital gains their pro rata shares of the company's adjusted class A or adjusted class B capital gain (distributed and undistributed) in the appropriate taxable year.

Paragraph (11)(F) of section 219(c) of the bill amends section 1247(i) of the code. Section 1247(i) presently provides that if a qualified shareholder of a foreign investment company treats any amount designated under section 1247(a)(1)(B) with respect to a share of stock as long-term capital gain, and such share is held for less than 6 months, any loss on a sale or exchange of such share is, to the extent of such gain, treated as a long-term capital loss. Section 1247(i) as amended by this paragraph of the bill retains the present rule for corporate shareholders. In addition, it provides that if a shareholder other than a corporation treats any amounts designated under

section 1247(a)(1)(B) with respect to a share of stock in a foreign investment company as (1) class B capital gain, and such share is held for 6 months or less, then any loss on the sale or exchange of such share is, to the extent of such class B capital gain, treated as a loss from the sale or exchange of a capital asset held for more than 6 months but not more than 2 years, or (2) class A capital gain, and such share is held by the taxpayer for 2 years or less, then any loss on the sale or exchange of such share is, to the extent of such class A capital gain, treated as a loss from the sale or exchange of a capital asset held for more than 2 years. If such shareholder treats the amounts designated under section 1247(a)(1)(B) with respect to such share as both class A and class B capital gains and such share is held for 6 months or less, and there is a loss from the sale or exchange of such share which is less than the sum of the amount so designated, then there is treated as loss from the sale or exchange of a capital asset held for more than 6 months but not more than 2 years an amount of the loss from the sale or exchange of such share which bears the same relation to such loss as the class B capital gain so designated bears to the sum of such class A and class B capital gains so designated; and the remainder of such loss is treated as a loss from the sale or exchange of a capital asset held for more than 2 years.

(*d*) *Effective date.*—Subsection (d) of section 219 of the bill provides various rules concerning the effective date of the amendments made by section 219.

General rule

Paragraph (1) of section 219(d) of the bill provides that except as otherwise specifically provided, and except as provided by paragraph (2), the amendments made by section 219 are applicable to taxable years beginning after December 31, 1963.

Transition rules

Paragraph (2) of section 219(d) of the bill provides various transition rules relating to certain amounts which receive capital gain treatment.

Subparagraph (A)(i) of section 219(d)(2) of the bill provides that if a taxpayer, other than a corporation, is required to include as capital gain in his gross income for a taxable year beginning after December 31, 1963, an amount attributable to sales or exchanges of capital assets held for more than 6 months and such gain was realized in a taxable year beginning before January 1, 1964, by a person described in subparagraph (A)(iii), such amount is to be treated by such taxpayer as class B capital gain.

The foregoing is illustrated by the following example:

Example.—W, a shareholder (other than a corporation) of Z, a regulated investment company, is a calendar-year taxpayer. Z has a taxable year beginning March 1. In February 1964, Z distributes to W a capital gain dividend (as defined in existing sec. 852(b)(3)(C) of the code) of $90. W, since he received such dividend in a taxable year beginning after December 31, 1963, is to include $90 in his gross income as a class B capital gain.

Subparagraph (A)(ii) of section 219(d)(2) of the bill provides that if a taxpayer, other than a corporation, is required to include as capital gain in his gross income for a taxable year beginning before

January 1, 1964, an amount attributable to sales or exchanges of capital assets held for more than 6 months and such gain was realized in a taxable year beginning after December 31, 1963, by a person described in subparagraph (A)(iii), such amount is to be treated by such taxpayer as long-term capital gain.

The foregoing is illustrated by the following example:

Example.—X, a shareholder (other than a corporation) of Y, a regulated investment company, has a taxable year beginning December 1. Y is a calendar-year taxpayer. In November 1964, Y distributes a capital gain dividend (as defined in sec. 852(b)(3)(C) of the code, as amended by the bill) to its shareholders. With respect to such dividend, X receives from Y a notice properly designating $60 as class A capital gain and $30 as class B capital gain. Regardless of such designation, X, since he received such dividend in a taxable year beginning before January 1, 1964, is to treat $90 as a long-term capital gain.

Subparagraph (A)(iii) of section 219(d)(2) of the bill provides that the provisions of subparagraphs (A)(i) and (A)(ii) apply in respect of a regulated investment company or a real estate investment trust to which subchapter M of chapter 1 of the code applies, a foreign investment company to which section 1247 of the code applies, an electing small business corporation to which subchapter S of chapter 1 of the code applies, a common trust fund to which section 584 of the code applies, a partnership, an estate, and a trust.

Subparagraph (B) of section 219(d)(2) of the bill provides a transition rule in the case of loss on the sale or exchange of certain stock. This rule provides that if a shareholder (or a holder of a beneficial interest), other than a corporation, in a regulated investment company, real estate investment trust, or foreign investment company is required for a taxable year beginning before January 1, 1964, under section 852(b)(3) (B) or (D), section 857(b)(3)(B), or section 1247(d) of the code to treat an amount with respect to a share (or beneficial interest) as a long-term capital gain, and such share (or beneficial interest) is held by the taxpayer for less than 31 days (6 months or less in the case of a shareholder of a foreign investment company), then a loss on the sale or exchange of such share in a taxable year of such shareholder beginning after December 31, 1963, is to the extent of such long-term capital gain to be treated as loss from the sale or exchange of a capital asset held for more than 6 months but not more than 2 years.

The foregoing is illustrated by the following example:

Example.—On December 12, 1963, T, a calendar-year taxpayer (other than a corporation), purchases shares of V, a regulated investment company. On December 20, 1963, T receives a $100 dividend from V which is properly designated as a capital gain dividend. On January 3, 1964, T sells all such shares in V and incurs a loss of $80. Such loss is treated as class B capital loss.

Regulatory authority

Subparagraph (C) of section 219(d)(2) of the bill provides that the Secretary of the Treasury or his delegate is to prescribe such regulations as may be necessary to carry out the purposes of section 219(d).

Meaning of terms

Subparagraph (D) of section 219(d)(2) of the bill provides that terms used in section 219(d) have the same meaning as when used in chapter 1 of the code.

SECTION 220. GAIN FROM DISPOSITIONS OF CERTAIN DEPRECIABLE REALTY

(*a*) *Gain from dispositions of certain depreciable realty.*—Subsection (a) of section 220 of the bill adds to part IV of subchapter P of chapter 1 of the code (relating to special rules for determining capital gains and losses) a new section 1250. In general, the new section 1250 provides for the inclusion in gross income (as ordinary income) of the "applicable percentage" of the lower of (1) the gain from the disposition of certain depreciable realty, or (2) "additional depreciation" adjustments for periods after December 31, 1963, which are reflected in the adjusted basis of such realty.

SECTION 1250. GAIN FROM DISPOSITIONS OF CERTAIN DEPRECIABLE REALTY

(*a*) *General rule.*—Paragraph (1) of section 1250(a) provides the general rule that if "section 1250 property" is disposed of after December 31, 1963, the "applicable percentage" of the lower of (A) the "additional depreciation" in respect of the property, or (B) the excess of the amount realized (or the fair market value of such property in transactions in which no amount is realized) over the adjusted basis of the property, is treated as gain from the sale or exchange of property which is neither a capital asset nor property described in section 1231 of the code. The term "disposed of," which has the same meaning as when used in section 1245(a)(1) of the code, includes any transfer or involuntary conversion.

Paragraph (2) of section 1250(a) defines the term "applicable percentage" for these purposes as 100 percent minus 1 percentage point for each full month the property involved was held after the date on which the property had been held 20 full months. For purposes of determining the applicable percentage, the holding period of section 1250 property is determined under the rules of section 1250 (e) and (f), and not under the rules of section 1223 of the code. In the case of section 1250 property held 20 months or less, the applicable percentage is 100 percent and, in the case of property held more than 20 months, the applicable percentage is 100 percent minus 1 percentage point for each full month (not in excess of 100 months) the property was held after the date on which the property had been held 20 full months. For example, the applicable percentage for property purchased on January 17, 1962, would be 100 percent on October 16, 1963; 99 percent on October 17, 1963; 1 percent on December 17, 1971; 1 percent on January 16, 1972; and zero percent on and after January 17, 1972. Thus, upon a disposition of property held at least 10 years, the applicable percentage is zero and no gain is treated as ordinary income under section 1250.

Paragraph (1) of section 1250(a) further provides (as does sec. 1245(a)(1) in cases to which it applies) that gain is to be recognized notwithstanding any other provision of subtitle A of the code. Thus,

other nonrecognition sections of the code are overridden by the new section. For example, gain under section 1250(a)(1) would be recognized to a corporation in the case of a distribution of section 1250 property by it to a shareholder, notwithstanding the provisions of section 311(a) or 336 of the code. Likewise, gain under section 1250(a)(1) would be recognized to a corporation on a sale or exchange of such property, nothwithstanding the provisions of section 337 of the code. The operation of section 1250 may, however, be affected by the taxpayer's method of accounting. For example, the gain from a disposition to which section 1250 applies may be reported by the taxpayer under the installment method if such method is otherwise available under section 453 of the code. For another example, section 1250 does not require recognition of gain or loss upon normal retirement of an asset in a multiple asset account as long as the taxpayer's method of accounting, in accordance with Treasury regulations, does not require recognition of such gain or loss and clearly reflects income.

In the case of a disposition of section 1250 property by a sale, exchange, or involuntary conversion, the gain to which section 1250(a)(1) applies is the applicable percentage for the property multiplied by the lower of the additional depreciation in respect of the property or the excess of the amount realized over its adjusted basis. In the case of any other disposition, the gain to which section 1250(a)(1) applies is the applicable percentage multiplied by the lower of the additional depreciation or the excess of the fair market value of the property on the date of disposition over its adjusted basis.

The application of section 1250(a) is illustrated by the following examples:

Example (1).—Section 1250 property which has an adjusted basis of $2,000 is sold for $2,900. At the time of the sale the additional depreciation in respect of the property is $1,300 and the applicable percentage is 60 percent. Since the amount realized minus the adjusted basis of the property ($2,900 minus $2,000) is lower than the additional depreciation ($1,300), the amount of gain which is treated as ordinary income under section 1250(a)(1) is $540 (that is, 60 percent of $900).

Example (2).—Assume the same facts as in example (1) except that the property is distributed by a corporation to a stockholder in a distribution to which section 1250(a) applies and that at the time of the distribution the fair market value of the property is $3,700. Since the additional depreciation ($1,300) is lower than the fair market value minus the adjusted basis of the property ($3,700 minus $2,000), the amount of gain recognized and treated as ordinary income to the corporation under section 1250(a)(1) is $780 (that is, 60 percent of $1,300).

(*b*) *Additional depreciation defined.*—The term "additional depreciation" is defined in section 1250(b).

In general

Paragraph (1) of section 1250(b) provides that the term "additional depreciation" means, in the case of property which at the time of disposition has been held for not more than 1 year, the depreciation adjustments in respect of such property. The term "depreciation adjustments," which is limited to adjustments attributable to periods after December 31, 1963, is defined in section 1250(b)(3).

In the case of property which at the time of disposition has been held for more than 1 year, the term "additional depreciation" means depreciation in excess of straight line depreciation—that is, the excess (if any) of the sum of the depreciation adjustments in respect of the property (attributable to periods after December 31, 1963) over the sum of the depreciation adjustments which would have resulted (for periods after December 31, 1963) if such adjustments had been determined, for the entire period the property was held, under the straight line method of depreciation. However, "additional depreciation" for periods after December 31, 1963, is reduced by the excess (if any) of the sum of the depreciation adjustments which would have resulted under the straight line method attributable to periods before January 1, 1964, over the sum of the actual depreciation adjustments attributable to periods before such date.

Depreciation in excess of straight line depreciation may arise, for example, if the declining balance method, the sum of the years-digits method, or the units of production method is used, or for another example, if the cost of a leasehold improvement or of a leasehold is depreciated over a period which does not take into account certain renewal periods referred to in section 1250(b)(2).

For purposes of paragraph (1) of section 1250(b), if a useful life (or salvage value) was used in determining the amount allowed as a depreciation adjustment for any taxable year, such life (or value) is used in determining the depreciation adjustments which would have resulted for such taxable year under the straight line method. However, if for any taxable year a method of depreciation was used as to which a useful life was not taken into account, such as, for example, the units of production method, or as to which salvage value was not so taken into account in determining the annual allowances, such as, for example, the declining balance method or the amortization of a leasehold improvement over the term of a lease, then, for the purpose of determining the depreciation adjustments which would have resulted under the straight line method for such taxable year, there is used the useful life or salvage value which would have been proper if depreciation had actually been determined under the straight line method. For this purpose, such useful life or such salvage value is determined by taking into account for each taxable year the same facts and circumstances as would have been taken into account if the taxpayer had used such method.

The application of section 1250(b)(1) is illustrated by the following examples:

Example (1).—On January 1, 1968, a calendar-year taxpayer sells section 1250 property which he purchased for $10,000 on January 1, 1961. Throughout the period he held the property he computed depreciation under the declining balance method using a rate of 200 percent of the straight line rate and a useful life of 30 years. Under such method, salvage value is not taken into account in computing the annual allowance. If the taxpayer had computed depreciation under the straight line method he would have used a salvage value of $1,000. The depreciation on the property under both methods is set forth below:

Year	Declining balance	Straight line
1961	$667	$300
1962	622	300
1963	581	300
1964	542	300
1965	506	300
1966	472	300
1967	440	300
Sum of depreciation deductions for periods after Dec. 31, 1963	$1,960	$1,200

The additional depreciation for the property is $760—that is, the depreciation actually deducted for periods after December 31, 1963 ($1,960), minus the depreciation which would have resulted for such periods under the straight line method ($1,200).

Example (2).—A calendar-year taxpayer sells section 1250 property on January 1, 1971, which he purchased for $10,000 on January 1, 1964. For the period 1964 through 1968 he computed depreciation deductions in respect of the property under the declining balance method using a rate of 200 percent of the straight line rate and a useful life of 10 years. If the taxpayer had used the straight line method for such period, he would have used a salvage value of $1,000. As of January 1, 1969, the taxpayer elected to change to the straight line method. He redetermined the remaining useful life of the property to be 8 years and its salvage value to be $77. The depreciation of the property under both methods is set forth below:

Year	Actual depreciation	Straight line
1964	$2,000	[1] $900
1965	1,600	900
1966	1,280	900
1967	1,024	900
1968	819	900
1969	[2] 400	[3] 678
1970	400	678
Sum of depreciation deductions	$7,523	$5,856

[1] 1/10 of $9,000 ($10,000 minus $1,000).
[2] 1/8 of $3,200 ($3,277 minus $77).
[3] 1/8 of $5,423 ($5,500 minus $77).

The additional depreciation for the property is $1,667—that is, the depreciation actually deducted ($7,523), minus the depreciation which would have resulted under the straight line method ($5,856).

Property held by lessee

Paragraph (2) of section 1250(b) provides that, in the case of a lessee, in determining the depreciation adjustments which would have resulted under the straight line method in respect of any building erected (or other improvement made) on the leased property, or in respect of any cost of acquiring the lease, the lease period is treated as including all renewal periods. The term "renewal period" is defined in paragraph (2)(A) as any period for which the lease may be renewed, extended, or continued pursuant to an option exercisable by the lessee. However, paragraph (2)(B) provides that the inclusion of renewal periods does not extend the period taken into account by more than

two-thirds of the period on the basis of which the depreciation adjustments were allowed. Thus, for example, if a leasehold improvement was amortized on the basis of a 10-year initial lease term, and if the lease was renewable for an additional 0 years, then the period taken into account is 16⅔ years, that is, 10 years plus two-thirds of 10 years. If, however, the useful life of the leasehold improvement were only 15 years, then the period taken into account would be 15 years.

Depreciation adjustments

Paragraph (3) of section 1250(b) provides that the term "depreciation adjustments" means, in respect of any property, all adjustments attributable to periods after December 31, 1963, reflected in the adjusted basis of such property on account of deductions for depreciation, whether in respect of the same or other property and whether allowed or allowable to the taxpayer or to any other person. The depreciation deductions referred to are deductions for exhaustion, wear and tear, obsolescence, or amortization (other than amortization of emergency facilities under sec. 168 of the code).

Adjustments reflected in adjusted basis, for purposes of section 1250(b)(3), generally do not include deductions for depreciation in respect of retired or demolished portions of a piece of section 1250 property unless such deductions are reflected in the basis of replacement property which is section 1250 property. Thus, for example, if a wing of a building is totally destroyed by fire, the depreciation adjustments reflected in the adjusted basis of the building after the wing is destroyed do not include any deductions for depreciation attributable to the destroyed wing (unless the wing is replaced in a transaction described in sec. 1033 of the code (relating to involuntary conversions) and the adjustments for depreciation in respect of the destroyed property are reflected in the basis of the replacement property).

While the amount of the depreciation adjustments is determined with respect to adjustments to basis for deductions which were either allowed or allowable, if the taxpayer can establish by adequate records or other sufficient evidence that the amount allowed as a deduction for any taxable year was less than the amount allowable, the amount taken into account for such taxable year will be the amount allowed. For example, assume that in the year 1969 it becomes necessary to determine the additional depreciation in respect of section 1250 property, the adjusted basis of which reflects a depreciation adjustment of $1,000 with respect to depreciation deductions allowable for the calendar year 1964 under the sum of the years-digits method. If the taxpayer can establish by adequate records or other sufficient evidence that he did not take, and was not allowed, any deduction for depreciation in respect of the property in 1964, then, for purposes of section 1250, in respect of the property, the amount of the depreciation adjustments (and, accordingly, the additional depreciation) attributable to 1964 will be zero.

The application of section 1250(b)(3) is illustrated by the following example:

Example.—A taxpayer purchases section 1250 property on January 1, 1964, at a cost of $10,000 and takes depreciation deductions of $2,000 (the amount allowable), of which $500 is additional depreciation. The taxpayer then transfers the property to his son as a gift. Immediately after the transfer the son's adjusted basis in the property for purposes of determining gain is, under the provisions of sections

1015 (relating to the basis of property acquired by gift) and 1016 (relating to adjustments to basis) of the code, the same as his father's adjusted basis ($8,000), and the $2,000 of depreciation deductions, of which $500 is additional depreciation, taken by the father is reflected in the son's adjusted basis in the property. Moreover, if the son himself takes, in respect of the property, depreciation deductions of $1,000 (the amount allowable), of which $200 is additional depreciation, the adjusted basis of the property would then reflect depreciation deductions of $3,000, of which $700 would be additional depreciation

(*c*) *Section 1250 property.*—Section 1250(c) defines "section 1250 property" as any real property (other than sec. 1245 property, as defined in sec. 1245(a)(3) of the code) which is or has been property of a character subject to the allowance for depreciation provided in section 167 of the code. Section 1250 property must be depreciable in the same sense that section 1245 property must be depreciable. Even though the property may not be subject to the allowance for depreciation in the hands of the taxpayer, such property is nevertheless subject to the provisions of section 1250(a)(1) if the property was subject to the allowance for depreciation in the hands of any prior holder, and if such depreciation is taken into account in determining the adjusted basis of the property in the hands of the taxpayer.

The term "section 1250 property" includes three types of depreciable real property. The term "real property" means any property which is not personal property within the meaning of section 1245 (a)(3)(A) of the code. The first type is intangible real property. For purposes of section 1250(c), a leasehold of land or of section 1250 property is intangible real property, and accordingly such a leasehold is section 1250 property. However, since land itself is not depreciable, a fee simple interest in land is not section 1250 property. The second type is a building or its structural components (within the meaning of sec. 1245(a)(3)(B)). The third type is all other tangible real property except property described in section 1245(a)(3)(B). An elevator or escalator (within the meaning of sec. 1245(a)(3)(C), as added by sec. 202(d)(3) of the bill) is not section 1250 property.

Property may lose its character as section 1250 property and become section 1245 property. Thus, for example, if section 1250 property of the third type is held for 3 years and thereafter is converted to use as an integral part of manufacturing, the property would lose its character as section 1250 property and would become section 1245 property. However, once property in the hands of a taxpayer is section 1245 property, it can never become section 1250 property in the hands of such taxpayer.

(*d*) *Exceptions and limitations.*—Section 1250(d) sets forth certain exceptions and limitations to the general rule provided in section 1250(a)(1). Paragraphs (1), (2), and (3) of section 1250(d) are identical to paragraphs (1), (2), and (3) of section 1245(b), and paragraphs (4), (5), and (6) of section 1250(d) correspond to paragraphs (4), (5), and (6) of section 1245(b). Paragraph (7) of section 1250(d) has no counterpart in section 1245(b).

Gifts

Paragraph (1) of section 1250(d) provides that section 1250(a) will not apply to a disposition by gift.

Transfers at death

Paragraph (2) of section 1250(d) provides that, except as provided in section 691 of the code, section 1250(a) will not apply to a transfer at death.

Certain tax-free transactions

Paragraph (3) of section 1250(d) provides that if the basis of property in the hands of a transferee is determined by reference to its basis in the hands of the transferor by reason of the application of certain sections of the code providing for nonrecognition treatment, then the amount of gain taken into account by the transferor under section 1250(a)(1) is limited to the amount of gain recognized by the transferor under these sections (determined without regard to sec. 1250). These nonrecognition provisions are: Section 332 (relating to distributions in liquidation of an 80 percent or more controlled subsidiary corporation); section 351 (relating to transfers to a corporation controlled by the transferor); section 361 (relating to exchanges pursuant to certain corporate reorganizations); section 371(a) (relating to exchanges pursuant to certain receivership and bankruptcy proceedings); section 374(a) (relating to exchanges pursuant to certain railroad reorganizations); section 721 (relating to transfers to a partnership in exchange for a partnership interest); and section 731 (relating to distributions by a partnership to a partner).

Since the limitation provided in section 1250(d)(3) upon the gain recognized under section 1250(a) is confined to instances of "carryover basis," in the case of the liquidation of an 80-percent-or-more-controlled subsidiary the limitation is not applicable if the basis of the property in the hands of the parent corporation is determined under section 334(b)(2) of the code. Section 1250(d)(3) does not apply to a disposition of property to an organization (other than a cooperative described in section 521) exempt from taxation under chapter 1 of the code, but no implication is intended as to whether a transfer to such an exempt organization could or could not qualify for nonrecognition under the sections of the code set forth in section 1250(d)(3).

The application of section 1250(d)(3) is illustrated by the following example:

Example.—A taxpayer transfers section 1250 property to a corporation, which is not exempt from taxation, in exchange for cash of $1,000 and stock in the corporation worth $9,000, in a transaction qualifying under section 351 of the code. The property has a fair market value of $10,000 and an adjusted basis of $4,000. In respect of the property, the additional depreciation is $2,000 and the applicable percentage is 60 percent. Since the additional depreciation ($2,000) is lower than the fair market value of the property minus its adjusted basis ($10,000 minus $4,000), the amount of gain which would be treated as ordinary income under section 1250(a)(1) would be $1,200 (60 percent of $2,000) if the provisions of section 1250(d)(3) did not apply. Since under section 351(b) gain in the amount of $1,000 would be recognized to the transferor without regard to the new section 1250, section 1250(d)(3) limits the gain taken into account by the transferor under section 1250(a)(1) to $1,000.

Like kind exchanges; involuntary conversions, etc.

Paragraphs (4) (A), (B), and (C) of section 1250(d) provide that if section 1250 property is disposed of and gain (determined without regard to sec. 1250) is not recognized in whole or in part under section

1031 (relating to like kind exchanges) or 1033 (relating to involuntary conversions) of the code, then the amount of gain taken into account by the transferor under section 1250(a)(1) cannot in effect exceed the greater of two limitations. The first limitation is the sum of—

(A) the amount of gain recognized on the disposition under section 1031 or 1033 (determined without regard to sec. 1250), plus

(B) the amount specified in paragraph (4)(B) of section 1250(d)—that is, an amount equal to the fair market value of any stock purchased in a corporation which (but for sec. 1250(d)(4)) would result in nonrecognition of gain under section 1033(a)(3)(A).

The second limitation is the amount specified in paragraph (4)(C) of section 1250(d)—that is, the amount (if any) by which—

(i) the amount of gain which would (but for sec. 1250(d)(4)) be taken into account under section 1250(a)(1), exceeds

(ii) the fair market value (or cost in the case of a transaction described in sec. 1033(a)(3)) of the section 1250 property acquired in the transaction.

The application of section 1250(d)(4) (A), (B), and (C) is illustrated by the following example:

Example.—A taxpayer receives $116,000 in insurance proceeds upon the destruction of section 1250 property by fire. If section 1250(d)(4) did not apply to the disposition, $20,000 of gain would be recognized under section 1250(a)(1). In acquisitions qualifying under section 1033(a)(3)(A) of the code, he uses $110,000 of the proceeds to purchase property similar or related in service or use to the property destroyed, of which $15,000 is for section 1250 property and $95,000 is for land, and $5,000 of the proceeds to purchase stock in the acquisition of control of a corporation owning property similar or related in service or use to the property destroyed. The taxpayer properly elects under section 1033(a)(3)(A) and the regulations thereunder to limit recognition of gain (determined without regard to sec. 1250) to $1,000—that is, the amount by which the amount realized from the conversion ($116,000) exceeds the cost of the property acquired in acquisitions qualifying under section 1033(a)(3)(A) ($115,000, that is $110,000 plus $5,000). The amount of gain recognized under section 1250(a)(1) is $6,000, determined in the following manner:

The first limitation:	
(A) Amount of gain recognized under sec. 1033(a)(3)(A), determined without regard to sec. 1250(a)(1)	$1,000
(B) Fair market value of stock in a corporation which qualifies under sec. 1033(a)(3)(A)	5,000
Sum of (A) plus (B)	$6,000
The second limitation:	
(i) Amount of gain which would be recognized under sec. 1250(a)(1) if sec. 1250(d)(4) did not apply	$20,000
(ii) Cost of sec. 1250 property acquired in transaction	15,000
Excess of (i) over (ii)	$5,000

NOTE.—Since the first limitation ($6,000) exceeds the second limitation ($5,000), the amount of gain recognized under sec. 1250(a)(1) is $6,000.

Paragraph (4)(D) of section 1250(d) provides rules for reducing the basis of section 1250 property acquired in a like kind exchange or involuntary conversion in case gain is not recognized under section 1250(a)(1) by reason of the application of section 1250(d)(4). The first sentence of such paragraph (4)(D) states a special rule for applying the last sentence of section 1033(c) of the code (relating to involuntary conversion into money). The last sentence of section 1033(c) provides:

> In the case of property purchased by the taxpayer in a transaction described in subsection (a)(3) [of sec. 1033] which resulted in the nonrecognition of any part of the gain realized as the result of a compulsory or involuntary conversion, the basis shall be the cost of such property decreased in the amount of the gain not so recognized; and if the property purchased consists of more than one piece of property, the basis determined under this sentence shall be allocated to the purchased properties in proportion to their respective costs.

Under clause (i) of section 1250(d)(4)(D), the last sentence of section 1033(c) is first applied to determine a basis for the section 1250 properties purchased equal to the cost of such properties less the amount of gain not taken into account under section 1250(a)(1) by reason of the application of section 1250(d)(4); if more than one piece of section 1250 property is so purchased, such basis is allocated to each of the properties in proportion to their respective costs.

Clause (ii) of section 1250(d)(4)(D) applies in case the purchased properties which qualify under section 1033(a)(3) include not only section 1250 property but other property as well. In such a case the last sentence of section 1033(c) is applied to all such purchased properties in the following manner: First the basis determined under clause (i) (cost less unrecognized sec. 1250 gain) for the section 1250 properties purchased is treated as if it were the cost thereof. Then there is determined a basis for all the purchased properties equal to the cost of such properties less the excess of the amount of gain not taken into account by reason of the application of section 1033(a)(3)(A) over the amount of gain not taken into account under section 1250(a)(1) by reason of the application of section 1250(d)(4). Finally, such basis is allocated to each of such purchased properties in proportion to their respective costs.

The last sentence of section 1250(d)(4)(D) provides that in the case of a transaction not described in the preceding provisions thereof in which an amount was not recognized as gain under section 1250(a)(1) by reason of the application of section 1250(d)(4), rules consistent with such preceding provisions shall be applied under regulations prescribed by the Secretary of the Treasury or his delegate.

The application of section 1250(d)(4)(D) is illustrated by the following example:

Example.—A taxpayer owns section 1250 property B which is destroyed by fire and insurance proceeds of $90,000 are received. In acquisitions qualifying under section 1033(a)(3)(A) of the code, he uses all of the proceeds to purchase property similar or related in service or use to the property destroyed, of which $42,000 is for 2 pieces of section 1250 property ($10,500 for C, and $31,500 for D), and $48,000

is for 2 pieces of land ($12,000 for X, and $36,000 for Y). No gain is recognized upon the involuntary conversion. Assume that the gain not recognized under section 1033(a)(3)(A) is $60,000, of which gain of $10,000 is not recognized under section 1250(a)(1) by reason of the application of section 1250(d)(4). Under the last sentence of section 1033(c) and under clause (i) of section 1250(d)(4)(D), the tentative total basis of the section 1250 properties purchased is $32,000, that is, the cost of the properties ($42,000), minus the gain not recognized by reason of section 1250(d)(4) ($10,000). The tentative basis of C is $8,000 $\left(\$32{,}000\times\frac{\$10{,}500}{\$42{,}000}\right)$ and the tentative basis of D is $24,000 $\left(\$32{,}000\times\frac{\$31{,}500}{\$42{,}000}\right)$.

Under clause (ii) of section 1250(d)(4)(D) and the last sentence of section 1033(c), the basis of all the purchased properties is determined in the following manner:

Cost (tentative basis) of sec. 1250 property C		$8,000
Cost (tentative basis) of sec. 1250 property D		24,000
Cost of parcel of land X		12,000
Cost of parcel of land Y		36,000
Cost of properties purchased		80,000
Less: Gain not recognized by reason of sec. 1033(a)(3)(A)	$60,000	
Minus gain not recognized by reason of sec. 1250(d)(4)	10,000	
		50,000
Total basis of properties purchased		$30,000

The total basis of $30,000 is allocated to each property in the following manner:

Property		Basis
C	$30,000 × ($8,000/$80,000)	$3,000
D	$30,000 × ($24,000/$80,000)	9,000
X	$30,000 × ($12,000/$80,000)	4,500
Y	$30,000 × ($36,000/$80,000)	13,500
Total		$30,000

Paragraph (4)(E) of section 1250(d) provides that the amount of any gain which was not recognized under section 1250(a)(1), by reason of the application of section 1250(d)(4) upon a like kind exchange or involuntary conversion, is carried over to the section 1250 property acquired in such transaction as the amount of the additional depreciation attributable to the section 1250 property disposed of. A new holding period of such property begins under section 1250(e)(1) and the amount of the section 1250(a)(1) gain not recognized upon the like kind exchange or involuntary conversion may be recognized upon a subsequent disposition of the property acquired in such a transaction, but only to the extent of such gain multiplied by the applicable percentage for the acquired property.

The application of section 1250(d)(4)(E) is illustrated by the following example:

Example.—Section 1250 property X is condemned and all of the proceeds are used to purchase section 1250 property Y in a transaction qualifying under section 1033(a)(3)(A) of the code. The amount

of gain not recognized under section 1250(a)(1) by reason of the application of section 1250(d)(4) is $10,000. Purchased section 1250 property Y, after being held for 50 full months, is sold for $35,000, and at the time of the sale the adjusted basis of Y is $5,000 and the additional depreciation in respect of Y for periods after it was acquired is $2,500. Accordingly, the additional depreciation in respect of Y is $12,500—that is, the sum of the amount of gain which was not recognized under section 1250(a)(1) by reason of the application of section 1250(d)(4) upon the disposition of X ($10,000), plus the additional depreciation in respect of Y for periods after it was acquired ($2,500). Since the additional depreciation in respect of Y ($12,500) is lower than the excess of the amount realized over the adjusted basis of Y ($30,000—that is, $35,000 minus $5,000), the amount treated as ordinary income under section 1250(a)(1) upon the sale of Y is $8,750 (that is, 70 percent of $12,500). If, however, Y were sold for only $14,000, the excess of the amount realized over the adjusted basis of Y ($9,000—that is, $14,000 minus $5,000) would be lower than the additional depreciation ($12,500) and, accordingly, the amount treated as ordinary income under section 1250(a)(1) would be $6,300 (that is, 70 percent of $9,000).

Section 1071 and 1081 transactions

Paragraph (5) of section 1250(d) provides that the Secretary of the Treasury or his delegate is to prescribe regulations setting forth rules consistent with paragraphs (3) and (4) of section 1250(d) and with sections 1250 (e) and (f) in the case of transactions described in section 1071 (relating to gain from sale or exchange to effectuate policies of FCC) or section 1081 (relating to nonrecognition of gain or loss on exchanges or distributions in obedience to orders of SEC) of the code.

Property distributed by a partnership to a partner

Paragraph (6)(A) of section 1250(d) provides that, for purposes of section 1250, the basis of section 1250 property distributed by a partnership to a partner is deemed to be determined by reference to the adjusted basis of such property to the partnership. Paragraph (6)(B) provides in general that, after a distribution to which section 751(b) of the code did not apply, the additional depreciation attributable to periods before the distribution of such property is an amount equal to the gain referred to in clause (i) of paragraph (6)(B)—that is, the amount of gain to which section 1250(a)(1) would have applied if such property had been sold by the partnership immediately before the distribution at its fair market value at such time and the applicable percentage for the property had been 100 percent. If, however, section 751(b) applied to any part of the gain actually recognized under section 1250(a)(1), then after the distribution the additional depreciation attributable to periods before the distribution would be an amount equal to the gain referred to in clause (i) minus an amount (referred to in clause (ii) of paragraph (6)(B)) equal to the gain actually recognized under section 1250(a)(1) to which section 751(b) applied, such gain to be recomputed as if the applicable percentage for the property had been 100 percent. Thus, for example, if a partnership distributes section 1250 property to a partner at a time when the applicable percentage for the property is 60 percent, and

as a result of the distribution the amount of gain recognized to the partnership under section 1250(a)(1) and to which section 751(b) applied was $600 (that is, 60 percent of $1,000), then the amount referred to in clause (ii) of paragraph (6)(B) is $1,000 (that is, 100 percent of $1,000).

The application of section 1250(d)(6) is illustrated by the following example:

Example.—Asset X, which is section 1250 property held by partnership ABC, has an adjusted basis of $5,000 and a fair market value of $6,000. In respect of the property the additional depreciation is $2,000 and the applicable percentage is 75 percent. The property is distributed to B in complete liquidation of his partnership interest in a transaction to which section 751(b) of the code does not apply. If immediately before the distribution the partnership had sold the property at its fair market value at such time and if the applicable percentage were 100 percent, the gain to which section 1250(a)(1) applied would be $1,000—that is, 100 percent of the lower of the additional depreciation ($2,000) or the excess of fair market value over adjusted basis ($6,000 minus $5,000). Accordingly, under section 1250(6)(B), immediately after the distribution the additional depreciation in respect of the property is $1,000. Assuming that B's basis for his partnership interest is $4,000, under section 732 of the code this basis is allocated to the property. If B sells the property for $6,000 immediately after the distribution, then the gain to which section 1250(a)(1) applies is $750—that is, 75 percent of the lower of the additional depreciation ($1,000) or the excess of the amount realized over adjusted basis ($6,000 minus $4,000).

Principal residence

Paragraph (7)(A) of section 1250(d) provides that section 1250(a)(1) does not apply to a disposition of property by a taxpayer to the extent the property is used by the taxpayer as his principal residence. For purposes of paragraph (7)(A), the term "principal residence" has the meaning which such term has in section 1034(a) of the code (relating to sale or exchange of residence). Thus, for example, if a doctor sells his principal residence, a portion of which had properly been subject to the allowance for depreciation as property used in his trade or business, section 1250(a)(1) applies only in respect of the disposition of such portion of the residence. Moreover, even if section 1034 did not apply to the sale because, for example, the doctor did not invest in a new principal residence within the period specified in section 1034, section 1250(a)(1) would apply only to the disposition of such portion of the residence.

Paragraph (7)(B) of section 1250(d) provides that section 1250(a)(1) does not apply to a disposition of section 1250 property by a taxpayer who, in respect of the property, meets the age and ownership requirements of section 121 of the code (relating to exclusion from gross income of gain on sale or exchange of residence of individual who has attained age 65, added by sec. 206 of the bill), but only to the extent the taxpayer meets the use requirements of section 121 in respect of such property. Thus, if a taxpayer has attained the age of 65 before the date on which he disposes of section 1250 property, and if during the 8-year period ending on the date of the disposition the property has been owned and used by the taxpayer solely as his principal resi-

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dence for periods aggregating 5 years or more, then section 1250(a)(1) does not apply in respect of the disposition. This result would not be changed even if the taxpayer does not or cannot make the election provided for in section 121 and even if section 121 applies to only a portion of the gain because the adjusted sales price exceeds the $20,000 limitation in section 121(b)(1). If, however, only a portion of the property has been used as his principal residence for such periods aggregating 5 years or more, then section 1250(a)(1) applies to the portion not so used.

In the case of certain dispositions described in section 1250(d)(7), the amount of the depreciation adjustments and the amount of the additional depreciation is carried over to the property in the hands of the transferee—for example, where the disposition is a gift referred to in section 1250(d)(1). For the donee's holding period, see section 1250(e)(2). If section 1034 of the code applies to a disposition by a taxpayer described in section 1250(d)(7), such amounts will be carried over to the new principal residence of the taxpayer.

(*e*) *Holding period.*—Section 1250(e) provides that, for purposes only of determining the applicable percentage (as defined in sec. 1250(a)(2)) of section 1250 property, the holding period of the property is determined under the rules of section 1250(e) and not under the rules of section 1223 of the code. Section 1250(e) does not affect the determination of the amount of depreciation adjustments, or of additional depreciation, in respect of section 1250 property, and conversely the holding period determined under section 1250(e) is not affected if a depreciation adjustment was disallowed because, for example, the depreciation adjustment would have reduced the adjusted basis of the property below the amount realized on the disposition.

Beginning of holding period

Paragraph (1) of section 1250(e) states when the holding period of section 1250 property begins for the purpose of determining the applicable percentage in respect of the property.

Subparagraph (A) of section 1250(e)(1) provides that in the case of property acquired (other than in a transaction referred to in par. (2) or (3) of sec. 1250(e)) by a taxpayer, the holding period of the property in the hands of the taxpayer begins on the day after the date of the acquisition. Thus, for example, if a taxpayer purchases section 1250 property on January 1, 1965, the holding period of the property begins on January 2, 1965. If the taxpayer sells the property on September 1, 1966, the holding period of the property on the day of the sale is exactly 20 full months. This result would not be changed even if the property initially had been used solely as the taxpayer's residence for a portion of the 20-month period.

Subparagraph (B) of section 1250(e)(1) provides that in the case of property constructed, reconstructed, or erected by a taxpayer, the holding period of the property in the hands of the taxpayer begins on the first day of the month during which the property is placed in service. Thus, for example, if a taxpayer constructs section 1250 property and places it in service on January 15, 1965, the holding period of the property begins on January 1, 1965. If the taxpayer sells the property on December 31, 1966, the holding period of the property on the day of sale is exactly 24 months. For purposes of subparagraph (B), property is placed in service on the date on which

the property is first used, whether in a trade or business, in the production of income, or in a personal activity. Thus, for example, a residence constructed by a taxpayer for his personal use is placed in service on the date it is occupied as a residence. For purposes of determining the date property is placed in service, it is immaterial when the period begins for depreciation with respect to the property under any depreciation practice which begins depreciation in any month other than the month in which the property is placed in service. If two or more units of one new property are placed in service on different dates before the completion of the property, or if, after completion of the property, one or more improvements are made to the property, the holding period of the property is determined in accordance with the special rules for property which is substantially improved provided in section 1250(f).

Property with transferred basis

Paragraph (2) of section 1250(e) provides that if the basis of property acquired in a transaction described in certain paragraphs of section 1250(d) is determined by reference to its basis in the hands of the transferor, then the holding period of the property in the hands of the transferee includes the holding period of the property in the hands of the transferor. These paragraphs of section 1250(d) are: Paragraph (1) (relating to gifts); paragraph (2) (relating to transfers at death); paragraph (3) (relating to certain tax-free transactions); and paragraph (5) (relating to sec. 1071 and 1081 transactions). If, however, the adjusted basis of the property in the hands of the transferee immediately after a transaction to which section 1250(e)(2) otherwise applies exceeds its adjusted basis in the hands of the transferor immediately before the transaction, the holding period of the property is determined in accordance with the special rules for property which is substantially improved provided in section 1250(f).

Principal residence

Paragraph (3) of section 1250(e) provides that if the basis of property acquired in a transaction described in section 1250(d)(7) (relating to disposition of principal residence) is determined by reference to the basis in the hands of the taxpayer of other property, then the holding period of the property acquired includes the holding period of such other property. If, however, the adjusted basis of property acquired in a transaction to which section 1250(e)(3) otherwise applies exceeds the adjusted basis of the property disposed of, the holding period of the property acquired is determined in accordance with the special rules for property which is substantially improved provided in section 1250(f).

(*f*) *Special rules for property which is substantially improved.*—Section 1250(f) provides rules for determining the amount of gain to be taken into account as ordinary income under section 1250(a)(1) in the case of a disposition of property which, by reason of the application of section 1250(f)(3), consists of two or more "elements" with separate holding periods.

Amount treated as ordinary income

Paragraph (1) of section 1250(f) provides that, if section 1250 property consisting of more than one element is disposed of, the amount of gain taken into account under section 1250(a)(1) in respect

of the property as gain from the sale or exchange of property which is neither a capital asset nor property described in section 1231 of the code is the sum of the amounts of gain determined separately for each element in accordance with section 1250(f)(2).

Paragraph (2) of section 1250(f) provides, for purposes of section 1250(f)(1), the manner of determining separately the amount of gain for an element. The determination is made in three steps. The first step is to ascertain in respect of the property as a whole the lower of the additional depreciation in respect of the property (as defined in sec. 1250(b)) or the gain referred to in section 1250(a)(1)(B) (that is, the excess of the amount realized (in the case of a sale, exchange, or involuntary conversion of the property), or the fair market value of the property (in the case of any other disposition) over the adjusted basis of the property). The second step is to determine with respect to the element, as if it were a separate property, the additional depreciation for the element and the applicable percentage (as defined in sec. 1250(a)(2)) for the element. The final step is to determine the amount of gain to be taken into account for the element by multiplying—

(A) an amount which bears the same ratio to the lower of the additional depreciation in respect of the whole property or the gain referred to in section 1250(a)(1)(B) as the additional depreciation for the element bears to the sum of the additional depreciation for all the elements, by

(B) the applicable percentage for the element.

The application of section 1250(f) (1) and (2) is illustrated by the following example:

Example.—Assume that section 1250 property is sold for $60,000 at a time when it has an adjusted basis of $25,000 and the additional depreciation for the property is $20,000. Thus, in respect of the property as a whole, the additional depreciation ($20,000) is lower than the gain referred to in section 1250(a)(1)(B) ($60,000 minus $25,000). Assume further that, by reason of the application of section 1250(f)(3), the property consists of four elements (W, X, Y, and Z), and that the additional depreciation and applicable percentage for each element, determined as if each element were a separate property, are as follows:

Element	Additional depreciation	Applicable percentage
W	$12,000	0
X	6,000	50
Y	0	63
Z	6,000	75
Total	$24,000	

(With respect to element Y, additional depreciation is zero because depreciation allowed was $4,000 less than straight line and, accordingly, the sum of the additional depreciation for each element is $4,000 greater than the additional depreciation in respect of the property as a whole.) For purposes of section 1250(f)(1), the amount

of gain taken into account under section 1250(a)(1) for each element is determined as follows:

W	$\frac{\$12,000}{\$24,000} \times \$20,000 \times 0$ percent	0
X	$\frac{\$6,000}{\$24,000} \times \$20,000 \times 50$ percent	$2,500
Y	$\frac{\$0}{\$24,000} \times \$20,000 \times 63$ percent	0
Z	$\frac{\$6,000}{\$24,000} \times \$20,000 \times 75$ percent	3,750
	Total	$6,250

Thus, upon sale of the property, the amount of gain taken into account under section 1250(a)(1) is $6,250.

Property consisting of more than one element

Paragraph (3)(A) of section 1250(f) provides that, for purposes of applying section 1250(f) in the case of section 1250 property, each "separate improvement" (as defined in par. (4) of sec. 1250(f)) to the property is treated as a separate element. Thus, for example, if before January 1, 1966, no portion of a 5-year-old building of six floors is a separate element, and if on such date there is added to the building two new floors which are one separate improvement (within the meaning of par. (4)(A)), then the building consists of two separate elements; the two new floors are one element and the residue of the building is the second element.

Paragraph (3)(B) of section 1250(f) provides that if, prior to completion of section 1250 property, units thereof (as distinguished from improvements) were placed in service, each such unit of the section 1250 property is treated as a separate element. Thus, for example, if a taxpayer who constructs an apartment house consisting of 100 identical apartments places in service 30 apartments on January 1, 1965, 50 on July 15, 1965, and 20 on January 19, 1966, and if the taxpayer disposes of the apartment house on January 1, 1969, then on such date the apartment house consists of 3 elements, and, accordingly, 30 percent of the apartment house, which has a holding period of 48 full months, has an applicable percentage of 72 percent; 50 percent of the apartment house, which has a holding period of 42 full months, has an applicable percentage of 78 percent; and 20 percent of the apartment house, which has a holding period of 36 full months, has an applicable percentage of 84 percent. Moreover, if there were also one or more separate improvements on the apartment house, each such separate improvement would also be a separate element.

Paragraph (3)(C) of section 1250(f) provides that the remaining property which is not taken into account under paragraph (3) (A) or (B) of such section is also treated as a separate element.

Property which is substantially improved

Paragraph (4)(A) of section 1250(f) defines the term "separate improvement" for the purpose of determining when an improvement (within the meaning of par. (4) (B) and (C)) is an element. The term "separate improvement" means, in respect of any section 1250 property, each improvement added during the 36-month period ending on the last day of any taxable year to the capital account for the property, but only if the sum of the amounts added as improvements to such account during such 36-month period exceeds the greatest of the amounts specified in clauses (i), (ii), and (iii) of paragraph (4)(A), that is—

(i) 25 percent of the adjusted basis of the property,

(ii) 10 percent of the adjusted basis of the property, determined without regard to the adjustments provided in section 1016(a) (2) and (3) (that is, generally, 10 percent of the cost or unadjusted basis of the property), or

(iii) $5,000.

The basis described in clause (ii) (hereinafter referred to as "unadjusted basis") is, in effect, the adjusted basis of the property recomputed by adding back the depreciation adjustments referred to in section 1250(b)(3) (without regard to the last sentence thereof) and adjustments for amortization under section 168 of the code, without regard to whether such depreciation or amortization adjustments were for periods before January 1, 1964, or were allowed or allowable to another taxpayer or in respect of other property.

Paragraph (4)(A) of section 1250(f) further provides that, for purposes of clauses (i) and (ii) thereof, the adjusted basis or unadjusted basis of section 1250 property is determined as of the beginning of the first day of the 36-month period, or the first day of the holding period of the property (within the meaning of sec. 1250(e)), whichever is the later. For purposes of clause (i) (or clause (ii)), the adjusted basis (or unadjusted basis) of section 1250 property includes the depreciated cost (or the cost) of any improvements to the property (including improvements which are not taken into account for purposes of par. (4)(A) because of the application of par. (4)(B)). However, such adjusted basis (or unadjusted basis) does not include the cost of retired components which are no longer a portion of the section 1250 property unless the adjusted basis of such retired portions is reflected in the basis of the replacement property.

Paragraph (4)(B) of section 1250(f), an exception to the definition of separate improvement, provides that improvements to section 1250 property in any taxable year are taken into account for purposes of paragraph (4)(A) only if the sum of the amounts added to the capital account for the property during such taxable year exceeds the greater of—

(i) $2,000, or

(ii) 1 percent of the unadjusted basis of the property, determined as of the first day of such taxable year.

Thus, for example, if the unadjusted basis of section 1250 property on January 1, 1960, is $300,000, and if the only improvements added to the property during the taxable year ending on December 31, 1960, are improvement A, costing $1,000, and improvement B, costing $600, the sum of the cost of improvements added during such

taxable year is less than $2,000, and, accordingly, A and B cannot become separate improvements upon the application of section 1250(f)(4)(A) or be considered under such section as improvements for purposes of determining whether other improvements are separate improvements. This result would not be changed if improvement C, costing $600, were added on December 15, 1960, since although the sum of the amounts added ($1,000 plus $600 plus $600, or $2,200) exceeds $2,000, such sum is less than 1 percent of the unadjusted basis of the property ($3,000, that is 1 percent of $300,000). If, however, C cost $1,500, then A, B, and C would each be considered an improvement and be taken into account for purposes of determining whether such improvements and other improvements are separate improvements.

The application of section 1250(f)(4) (A) and (B) is illustrated by the following example:

Example.—On January 1, 1970, X, a calendar-year taxpayer, sells a piece of section 1250 property which he purchased on January 1, 1958. In the table below, assume that each improvement was added on January 1 of the year shown.

Date	Improvements	Unadjusted basis	Adjusted basis
1958: Dec. 31		$100,000	$94,000
1959:			
Jan. 1	A $10,000		
Dec. 31		110,000	97,030
1960:			
Jan. 1	B 4,000		
Dec. 31		114,000	94,041
1961:			
Jan. 1	C 6,000		
Dec. 31		120,000	92,799
1962: Dec. 31		120,000	86,158
1963: Jan. 1	D 18,000		

Since the sum of the amounts added to the capital account of the section 1250 property for the 36-month period ending on December 31, 1961, is $20,000 (that is, $10,000 for A, plus $4,000 for B, plus $6,000 for C), and since this sum is less than $23,500 (that is, 25 percent of the adjusted basis ($94,000) of the section 1250 property immediately preceding the beginning of the period), there were no separate improvements on the property as of such date. Nevertheless C, as well as D, is a separate improvement, since the sum of the amounts added for the 36-month period ending December 31, 1963, is $24,000 (that is, $6,000 for C plus $18,000 for D), and this sum exceeds the greatest of—

(i) 25 percent of the adjusted basis ($94,041) of the section 1250 property as of December 31, 1961, or $23,510,

(ii) 10 percent of the unadjusted basis ($120,000) of the property as of such date, or $12,000, or

(iii) $5,000.

Paragraph (4)(B) of section 1250(f) further provides in effect that, solely for the purpose of determining the applicable percentage in respect of certain separate improvements, such separate improvements are treated as placed in service on that first day of a calendar month which is the first day of a calendar month closest to the middle of the

taxable year. If two such first days are equally close to the middle of the taxable year, the earliest of such days is the applicable day. In the case of a taxable year (other than a short taxable year) ending December 31, 1960, the applicable day is July 1, 1960. In the case of a taxable year beginning on January 1, 1963, and ending on November 29, 1963, the applicable day is June 1, 1963. This rule, which does not affect the date an improvement is added for purposes of paragraph (4)(A), applies only in respect of a separate improvement the amount of which does not exceed the greater of $2,000 or 1 percent of the unadjusted basis of the section 1250 property, determined as of the beginning of the taxable year in which the improvement is added to the property.

Paragraph (4)(C) of section 1250(f) provides that the term "improvement" means, in the case of any section 1250 property, any addition to capital account in respect of such property after its initial acquisition or completion. An addition to the capital account of section 1250 property may arise, for example, if there is an expenditure for section 1250 property which is an improvement, replacement, addition, or alteration to such property. In such a case, the "addition to capital account" is the gross addition, unreduced by amounts attributable to replaced property, to the net capital account and not the net addition to such account. Thus, if a taxpayer replaces a roof which has an adjusted basis of $20,000 by constructing a new roof at a cost of $50,000, the gross addition is $50,000 and, accordingly, the amount of the improvement is the "addition to capital account," $50,000. The $20,000 of adjusted basis of the old roof is no longer reflected in the basis of this property. If the new roof is a separate improvement, the holding period of the new roof begins on the date it is placed in service. An addition to capital account is an improvement whether it is capitalized or charged against the depreciation reserve. For purposes of section 1250(f), the status of an improvement is not affected by whether or not it is treated as a separate property for purposes of determining depreciation adjustments.

Any addition to capital account after the initial acquisition or completion of the section 1250 property is an improvement, even if the addition does not arise because of an expenditure for an improvement, replacement, addition, or alteration to the property. Thus for example the excess, if any, of the adjusted basis of section 1250 property in the hands of a transferee immediately after a transaction referred to in section 1250(e)(2) over its adjusted basis in the hands of the transferor immediately before the transaction is considered an improvement. Similarly, any excess of the adjusted basis of section 1250 property acquired in a transaction referred to in section 1250(e)(3) over the adjusted basis of the property disposed of, as well as any increase in the adjusted basis of section 1250 property of a partnership by reason of the application of section 734(b) or 743(b) of the code (relating to optional basis adjustments), is considered an improvement.

(*g*) *Adjustments to basis.*—Section 1250(g) provides that the Secretary of the Treasury or his delegate is to prescribe such regulations as he may deem necessary to provide for adjustments to the basis of property to reflect gain to which section 1250(a)(1) applies.

(*h*) *Application of section.*—Section 1250(h) provides that section 1250 applies notwithstanding any other provision of subtitle A of the code. Thus, section 1250 overrides any nonrecognition provision of

subtitle A or any "income characterizing" provision. For example, the gain to which section 1250(a)(1) applies might otherwise be considered as gain from the sale or exchange of a capital asset under section 1231 of the code (relating to property used in the trade or business and involuntary conversions). Since section 1250 overrides section 1231, the gain to which section 1250(a)(1) applies is treated as ordinary income, and only the remaining gain, if any, from the property may be considered as gain from the sale or exchange of a capital asset if section 1231 is applicable. For example, assume that a taxpayer sells for $130 section 1250 property with an adjusted basis of $40 for a gain of $90. If, in respect of the property, the additional depreciation is $60 and the applicable percentage is 25 percent, the portion of the gain treated as gain under section 1250(a)(1) is $15 (that is, the applicable percentage (25 percent) of the lower of additional depreciation ($60) or the excess of amount realized over adjusted basis ($130 minus $40)). The residue of the gain ($90 minus $15, or $75) may be considered under section 1231 as gain from the sale of a capital asset.

Section 1250(h) is not intended to prevent gain not recognized under section 1250 from being considered as gain under another provision of the code. Thus, if the section 1250 property in the preceding example were sold in a transaction to which section 1239 of the code (relating to gain from sale of depreciable property between certain related persons) applies, $15 of the gain would be recognized as ordinary income under section 1250(a)(1) and nothing in section 1250(h) would prevent the remaining $75 of the gain from being treated as ordinary income under section 1239.

SECTION 220. GAIN FROM DISPOSITIONS OF CERTAIN DEPRECIABLE REALTY (Continued)

(*b*) *Technical amendments.*—Paragraph (1) of section 220(b) of the bill amends section 170(e) of the code (relating to special rules for charitable contributions of certain property). Under existing law, section 170(e) provides that the amount of a charitable contribution of section 1245 property will be reduced by the amount which would have been treated (but was not actually treated) as gain to which section 1245(a) applies if the property had been sold at its fair market value instead of contributed to the charity. Under section 170(e) as amended, the same result is provided in the case of a charitable contribution of section 1250 property. Thus, for example, if gain of $4,000 would be recognized under section 1250(a)(1) upon a sale of section 1250 property at its fair market value of $17,000, then the amount of the charitable contribution under section 170(e) would be $13,000 ($17,000 minus $4,000).

Paragraph (2) of section 220(b) of the bill amends section 301 (b) and (d) of the code (relating to the amount distributed and basis in a corporate distribution of property) by striking out "under section 1245(a)" and inserting in lieu thereof "under section 1245(a) or 1250(a)".

Paragraph (3) of section 220(b) of the bill amends section 312(c)(3) of the code (relating to adjustments to earnings and profits) by striking out "or under section 1245(a)" and inserting in lieu thereof "or under section 1245(a) or 1250(a)".

Paragraph (4) of section 220(b) of the bill amends paragraph (12) of section 341(e) of the code (relating to collapsible corporations) by striking out "section 1245(a)" and inserting in lieu thereof "sections 1245(a) and 1250(a)".

Paragraph (5) of section 220(b) of the bill amends subparagraphs (A) and (B) of section 453(d)(4) of the code (relating to distribution of installment obligations in certain corporate liquidations) by striking out "section 1245(a)" and inserting in lieu thereof "section 1245(a) or 1250(a)".

Paragraph (6) of section 220(b) of the bill amends subsection (c) of section 751 of the code (relating to definition of "unrealized receivables" for purposes of subchapter K) by striking out "(as defined in section 1245(a)(3))" and inserting in lieu thereof "(as defined in section 1245(a)(3)) and section 1250 property (as defined in section 1250(c))" and by striking out "to which section 1245(a)" and inserting in lieu thereof "to which section 1245(a) or 1250(a)".

Paragraph (7) of section 220(b) of the bill amends the table of sections for part IV of subchapter P of chapter 1 of the code.

(*c*) *Effective date.*—Subsection (c) of section 220 of the bill provides that the amendments made by such section apply to dispositions after December 31, 1963, in taxable years ending after such date.

SECTION 221. AVERAGING

(*a*) *General rule.*—Subsection (a) of section 221 of the bill amends subchapter Q of chapter 1 of the code by substituting a new part I (secs. 1301–1305, relating to income averaging) for the existing part I (secs. 1301–1307, relating to income attributable to several taxable years).

SECTION 1301. LIMITATION ON TAX

Section 1301 provides that if an eligible individual (as defined in sec. 1303) has averagable income (as defined in sec. 1302(a)) for the computation year (as defined in sec. 1302(e)(1)), and if the amount of such income exceeds $3,000, then such individual may choose (pursuant to the provisions of sec. 1304(a)) to compute the tax attributable to his averagable income under section 1301.

Section 1301 provides that, for the computation year, the tax imposed by section 1 of the code which is attributable to the amount of an individual's averagable income for such year is equal to 5 times the increase in tax under section 1 of the code which would result from adding 20 percent of the individual's averagable income for the computation year to the sum of—

(1) 133⅓ percent of the individual's average base period income (as defined in sec. 1302(c)), and

(2) the amount (if any) of the individual's average base period capital gain net income (as defined in sec. 1302(d)(2)).

SECTION 1302. DEFINITION OF AVERAGABLE INCOME; RELATED DEFINITIONS

(*a*) *Averagable income.*—Section 1302(a) defines the term "averagable income."

In general

Paragraph (1) of section 1302(a) provides that the term "averagable income" means, except as provided in paragraph (2) of such section, the amount (if any) by which an individual's adjusted taxable income (as defined in sec. 1302(b)) for the computation year exceeds 133⅓ percent of his average base period income (as defined in sec. 1302(c)).

Adjustment in certain cases for capital gains

Paragraph (2) of section 1302(a) provides for an adjustment to averagable income where an individual's capital gain net income for the computation year is less than his average base period capital gain net income. Paragraph (2) provides that if an individual's average base period capital gain net income (as defined in sec. 1302(d)(2)) exceeds his capital gain net income (as defined in sec. 1302(d)(1)) for the computation year, then the term "averagable income" means the amount determined under paragraph (1) of section 1302(a) reduced by an amount equal to such excess. For example, if an individual's average base period capital gain net income is $5,000 and his capital gain net income for the computation year is $3,000, then the amount of his averagable income (determined under par. (1) of sec. 1302(a)) is reduced by $2,000.

(*b*) *Adjusted taxable income.*—Section 1302(b) provides that the term "adjusted taxable income" means the amount of an individual's taxable income for the computation year decreased by the sum of certain amounts. The term "adjusted taxable income" relates only to the amount which an individual takes into account, for purposes of averaging computations, in a computation year. If a computation year subsequently becomes a base period year, the amount of income for such year which is taken into account in any averaging computation is the base period income for such year, computed under section 1302(c)(2). An individual's adjusted taxable income is a computational amount for averaging purposes only and does not affect, for example, the amount of a credit or deduction based upon the income of a taxable year.

Capital gain net income for the computation year

Paragraph (1) of section 1302(b) provides that in determining an individual's adjusted taxable income for the computation year his taxable income for such year is decreased by the amount (if any) of the individual's capital gain net income (as defined in sec. 1302(d)(1)) for the computation year.

Income attributable to gifts, bequests, etc.

Paragraph (2) of section 1302(b) provides that in determining an individual's adjusted taxable income for the computation year his taxable income for such year is decreased by certain amounts of ordinary income attributable to interests in property which were received, during the computation year or any base period year, by the individual as a gift, bequest, devise, or inheritance, but only if the amount of such income for the computation year exceeds $3,000.

In general

Subparagraph (A) of section 1302(b)(2) provides the general rule that (in determining adjusted taxable income) an individual's taxable income for the computation year is decreased by the amount of net

income attributable to an interest in property where such interest was received by the individual as a gift, bequest, devise, or inheritance during the computation year or any base period year. The general rule does not, however, apply to income attributable to gifts, bequests, devises, or inheritances between husband and wife if they make a joint return (including a joint return filed by a survivor with his deceased spouse for the year of the death of such spouse), or if one of them makes a return as a surviving spouse (as defined in sec. 2(b) of the code), for the computation year. The general rule applies to income attributable to any interest in property received by an individual during the requisite years, whether the individual has legal or equitable ownership of the interest to which the income is attributable. Thus, income of an individual attributable to an interest in a trust is covered by the general rule.

Amount of net income

Subparagraph (B) of section 1302(b)(2) provides that, unless an individual otherwise establishes it to the satisfaction of the Secretary of the Treasury or his delegate, the amount of net income attributable to an interest in property to which subparagraph (A) applies is deemed to be 6 percent of the fair market value of such interest determined in accordance with the provisions of chapter 11 (relating to the estate tax) or chapter 12 (relating to the gift tax), as the case may be, of the code. Under this 6-percent rule, the amount of net income attributable to such an interest is not adjusted for any increase or decrease in the fair market value of the interest or any increase or decrease in the amount of income actually produced. However, an individual may establish for any taxable year that the amount of net income attributable to an interest in property is other than 6 percent of its value.

Limitation

Subparagraph (C) of section 1302(b)(2) limits the application of section 1302(b)(2) in any computation year to cases in which the sum of the net incomes attributable to interests in property described in subparagraph (A) of section 1302(b)(2) exceeds $3,000.

Net income

Subparagraph (D) of section 1302(b)(2) provides that the term "net income" means, with respect to any interest in property, the excess of the amount of the items of gross income attributable to such interest over the deductions properly allocable to or chargeable against such items. For purposes of computing net income, capital gains and losses are not taken into account.

Wagering income

Paragraph (3) of section 1302(b) provides that in determining an individual's adjusted taxable income for the computation year his taxable income for such year is decreased by the amount (if any) by which his gains from wagering transactions for the computation year exceed his losses from such transactions for such year. Thus (in determining adjusted taxable income), such individual's taxable income is reduced by the amount included in his gross income which is attributable to gains from wagering transactions and which exceeds his deduction for wagering losses under section 165(d) of the code.

Certain amounts received by owner-employees

Paragraph (4) of section 1302(b) provides that in determining an individual's adjusted taxable income for the computation year his taxable income for such year is decreased by the amounts (if any), described in section 72(m)(5)(A) of the code, to which a penalty under section 72(m)(5) of the code is applicable.

(*c*) *Average base period income.*—Section 1302(c) deals with the method by which an individual computes his average income for the base period.

In general

Paragraph (1) of section 1302(c) provides that the term "average base period income" means an amount which is one-fourth of the sum of an individual's base period incomes for the base period. The term "base period" is defined in section 1302(e)(2) as the 4 taxable years immediately preceding the computation year.

Base period income

Paragraph (2) of section 1302(c) provides that an individual's base period income for any taxable year is his taxable income for such year, first increased under subparagraph (A) of such paragraph and then decreased (but not below zero) under subparagraphs (B) and (C) thereof. For purposes of determining an individual's base period income for any taxable year, taxable income includes all of such individual's income and deductions for such taxable year. For example, certain accumulation distributions from trusts under section 666(a) of the code (relating to accumulation distribution allocated to 5 preceding years) are included in an individual's gross income for the taxable year in which such distributions are properly paid, credited, or required to be distributed to him even though the tax attributable to such distributions is determined in accordance with section 668 of the code (relating to treatment of amounts deemed distributed in preceding years). Similarly, if an individual restores an amount held under a claim of right to which section 1341 of the code applies, the amount of such restoration is (for purposes of determining base period income) a deduction from the individual's gross income for the taxable year of restoration.

Subparagraph (A) of section 1302(c)(2) provides that in determining an individual's base period income for any taxable year his taxable income for such year is increased by an amount equal to the excess (under clause (i)) of the amount excluded from gross income under section 911 of the code (relating to earned income from sources without the United States) and subpart D of part III of subchapter N of the code (sec. 931 and following, relating to income from sources within possessions of the United States) over the deductions (under clause (ii)) which would have been properly allocable to or chargeable against such amount but for the exclusion of such amount from gross income.

Subparagraph (B) of section 1302(c)(2) provides that in determining an individual's base period income for any taxable year his taxable income for such year is decreased by the amount of his capital gain net income for such year.

Subparagraph (C) of section 1302(c)(2) provides that if, for any computation year, an individual's taxable income includes an amount

of net income in excess of $3,000 attributable to gifts, bequests, devises, or inheritances (and, therefore, the individual's taxable income is decreased by the amount of such net income, pursuant to sec. 1302(b)(2)), then any amount (whether or not in excess of $3,000) of net income for any base period year attributable to gifts, bequests, devises, or inheritances received within the base period is subtracted from his taxable income for such year in computing his base period income for such year. In any case in which section 1302(b)(2) does not apply in the computation year, an individual's taxable income for any base period year is not decreased by any amount attributable to gifts, bequests, devises, or inheritances.

(*d*) *Capital gain net income, etc.*—Section 1302(d) contains definitions relating to capital gain net income.

Capital gain net income

Paragraph (1) of section 1302(d) provides that, for any taxable year beginning after December 31, 1963, the term "capital gain net income" means the amount (if any) by which (1) the sum of the adjusted class A capital gain (as defined in sec. 1222(c)(10) of the code as amended by sec. 219 of the bill) and the adjusted class B capital gain (as defined in sec. 1222(c)(9) of the code as amended by sec. 219 of the bill) exceeds (2) the deduction for capital gains allowable under section 1202(a) of the code (relating to deduction for capital gains). For any taxable year beginning before January 1, 1964, paragraph (1) of section 1302(d) provides that the term "capital gain net income" means the amount which is equal to 50 percent of the excess of the net long-term capital gain over the net short-term capital loss. An individual's capital gain net income for any taxable year cannot be less than zero.

Average base period capital gain net income

Paragraph (2) of section 1302(d) provides that the term "average base period capital gain net income" means one-fourth of the sum of an individual's capital gain net incomes for his 4 base period years. However, for purposes of determining an individual's average base period capital gain net income, the amount of his capital gain net income for any single base period year may not exceed the amount of his base period income for such year, computed without regard to the decrease (if any) contained in section 1302(c)(2)(B) for capital gain net income for such base period year. For example, if an individual's base period income (before the application of sec. 1302(c)(2)(B)) for a base period year is $1,000, and if the amount of his capital gain net income for such year is $4,000, then, for purposes of computing his average base period capital gain net income he takes into account only $1,000 as his capital gain net income for such base period year.

(*e*) *Other related definitions.*—Section 1302(e) contains definitions of four other terms used in the averaging provisions.

Computation year

Paragraph (1) of section 1302(e) provides that the term "computation year" means the taxable year for which an eligible individual chooses under section 1304(a) the benefits of income averaging.

Base period

Paragraph (2) of section 1302(e) provides that the term "base period" means the 4 taxable years immediately preceding the taxable year which is the computation year.

Base period year

Paragraph (3) of section 1302(e) provides that the term "base period year" means any single taxable year which is one of the 4 taxable years immediately preceding the computation year.

Joint return

Paragraph (4) of section 1302(e) provides that the term "joint return" means the return of a husband and wife made under section 6013 of the code.

SECTION 1303. ELIGIBLE INDIVIDUALS

Section 1303 describes those individuals who are eligible to choose the benefits of income averaging.

(*a*) *General rule.*—Section 1303(a) provides that, except as otherwise provided in section 1303, the term "eligible individual" means any individual who is a citizen or resident of the United States throughout the computation year. Where a husband and wife make a joint return under section 6013 of the code, both the husband and wife must be eligible individuals in order to choose the benefits of income averaging.

(*b*) *Nonresident alien individuals.*—Section 1303(b) provides that an individual is not an eligible individual for the computation year if such individual was, at any time during such year or any of his base period years, a nonresident alien.

(*c*) *Individuals receiving support from others.*—Section 1303(c) deals with the eligibility of individuals receiving support from others.

In general

Paragraph (1) of section 1303(c) provides that an individual is not an eligible individual for the computation year if, for any base period year, such individual (and his spouse) furnished less than 50 percent of his support.

Exceptions

Paragraph (2) of section 1303(c) provides three exceptions to the general rule in paragraph (1).

Subparagraph (A) of section 1303(c)(2) provides that section 1303(c)(1) does not apply to any computation year if such year ends after the individual attained age 25 and if, during at least four of his taxable years beginning after he attained age 21 and ending with his computation year, he was not a full-time student.

The application of the rule contained in subparagraph (A) of section 1303(c)(2) is illustrated by the following example:

Example.—A, an unmarried U.S. citizen, was born in January 1937 and completed college in June 1958. He then entered military service, from which he was discharged in December 1960. For the taxable years 1961 and 1962 he was a full-time student in Y university and

furnished less than one-half of his support for those years. He was employed by Z corporation beginning in January 1963. If A is otherwise eligible, he may choose the benefits of income averaging for the taxable year 1964, notwithstanding the fact he furnished less than one-half of his support for each of his base period years (1960 through 1963), since the taxable year 1964 ends after he attained age 25 and he was not a full-time student for at least four of his taxable years beginning after he attained age 21 and ending with his computation year. That is, he was not a full-time student for 1959, 1960, 1963, and 1964.

Subparagraph (B) of section 1303(c)(2) provides that section 1303(c)(1) does not apply to any computation year if more than 50 percent of the individual's adjusted taxable income for the computation year is attributable to work performed by him in substantial part during 2 or more of his 4 base period years.

The application of the rule contained in subparagraph (B) of section 1303(c)(2) is illustrated by the following example:

Example.—B, an unmarried U.S. citizen who was born on January 15, 1945, is a calendar-year taxpayer. B, who had no income previously and whose parents have always furnished more than 50 percent of his support, sells for a large sum in 1964 a novel which he wrote in substantial part in 1962 and 1963. The proceeds of the sale constitute more than 50 percent of B's adjusted taxable income for 1964. Accordingly, B is an eligible individual in 1964 and, if he otherwise qualifies, may choose the benefits of income averaging.

Subparagraph (C) of section 1303(c)(2) provides that section 1303(c)(1) does not apply to any computation year if the individual makes a joint return for such year and not more than 25 percent of the aggregate adjusted gross income of such individual and his spouse for such year is attributable to such individual.

The application of the rule contained in subparagraph (C) of section 1303(c)(2) is illustrated by the following example:

Example.—H and W, who are U.S. citizens and calendar-year taxpayers, were married in August 1963. W's parents furnished more than 50 percent of her support for each year prior to her marriage. For 1964, H and W file a joint return showing an aggregate adjusted gross income of $10,000, all of which is attributable to H. If H and W are otherwise qualified under section 1301, they may choose the benefits of income averaging.

In applying subparagraph (C) to determine the amount of the aggregate adjusted gross income attributable to an individual, amounts of earned income (within the meaning of sec. 911(b) of the code) which are community income under community property laws applicable to such income are taken into account as if such amounts did not constitute community income.

(*d*) *Student defined.*—Section 1303(d) provides that, for purposes of section 1303, the term "student" means, with respect to a taxable year, an individual who during each of 5 calendar months during his taxable year either (1) was a full-time student at an educational institution (as defined in sec. 151(e)(4) of the code) or (2) was pursuing a full-time course of institutional on-farm training under the supervision of an accredited agent of an educational institution (as defined in sec. 151(e)(4) of the code) or of a State or political subdivision of a State. When used in section 1303(d), the term "educa-

tional institution" has the same meaning as is given such term in section 151(e)(4) of the code.

SECTION 1304. SPECIAL RULES

(*a*) *Taxpayer must choose benefits.*—Section 1304(a) provides that part I of subchapter Q of the code applies to a taxable year only if the taxpayer chooses to have the benefits of income averaging for such taxable year. The taxpayer may make or change his choice of such benefits at any time before the expiration of the period prescribed for making a claim for credit or refund of the tax imposed by chapter 1 of the code for the taxable year.

(*b*) *Certain provisions inapplicable.*—Section 1304(b) provides that certain sections of the code do not apply to an individual for a taxable year for which he chooses the benefits of income averaging. However, in the event that an individual who chooses the benefits of income averaging for any taxable year subsequently becomes ineligible for such benefits for such year, the sections of the code listed in section 1304(b) may be applied in the recomputation of the tax imposed by section 1 of the code upon the income of such individual. For example, if an individual has a net operating loss in a taxable year subsequent to a computation year, and if the carryback of such loss deduction affects the individual's income for the computation year so that the individual is no longer eligible (under sec. 1301) for the benefits of income averaging, then the provisions listed in section 1304(b), which are not available in a computation year, may apply to such individual since such year is no longer a computation year.

Paragraph (1) of section 1304(b) provides that section 3 of the code (relating to optional tax if adjusted gross income is less than $5,000) does not apply to an individual for any computation year. An individual may not, therefore, make use of the tax table contained in section 3 of the code for any year in which he chooses the benefits of income averaging.

Paragraph (2) of section 1304(b) provides that section 72(n)(2) of the code (relating to limitation of tax in case of certain distributions with respect to contributions by self-employed individuals) does not apply to any distribution received by an individual in a computation year.

Paragraph (3) of section 1304(b) provides that section 911 of the code (relating to earned income from sources without the United States) does not apply to an individual for a computation year. Thus, if an individual chooses the benefits of income averaging, he may not exclude from his gross income for the computation year any portion of his earned income from sources without the United States.

Paragraph (4) of section 1304(b) provides that subpart D of part III of subchapter N of the code (sec. 931 and following, relating to income from sources within possessions of the United States) does not apply to an individual for a computation year. Thus, if an individual chooses to have the benefits of income averaging, he may not exclude any portion of his income from sources within possessions of the United States from his gross income for the computation year.

(*c*) *Failure of certain married individuals to make joint return, etc.*—An individual who is or who has been married for any of the 5 years taken into account in an income averaging computation may be

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required to reconstruct his income so that it properly reflects the comparison required by section 1301 between his income for the computation year and his average base period income. Section 1304(c) contains the rules under which an individual makes such a reconstruction of his income for any taxable year, whether it is a computation year or a base period year.

Application of subsection

Paragraph (1) of section 1304(c) provides that paragraphs (2), (3), and (4) of such section apply in the case of any individual who was married for any base period year or the computation year. This general rule is subject to the exceptions contained in subparagraphs (A) and (B) of paragraph (1).

Paragraph (1)(A) of section 1304(c) provides that paragraphs (2), (3), and (4) of such section do not apply to a base period year of an individual who was married for such year if (under clause (i)) such individual and his spouse make a joint return, or such individual makes a return as a surviving spouse (as defined in sec. 2(b) of the code), for the computation year, and (under clause (ii)) such individual was not married to any other spouse for such base period year. In any case in which married individuals make a joint return for the computation year and were both single, or were married to each other but filed separate returns, for any base period year, their separate base period incomes for such year are combined to achieve the required comparison between their aggregate income for such base period year and their aggregate income for the computation year. For example, if H and W (who are otherwise eligible to choose the benefits of averaging for 1964) were married in June 1963 (neither having been previously married) and made joint returns for 1963 and 1964, their aggregate base period incomes for 1960, 1961, and 1962 are the amounts for each such year which are equal to the sum of their separate base period incomes for each such year.

Paragraph (1)(B) of section 1304(c) provides that paragraph (4) of such section (relating to community income attributable to services) does not apply to the computation year of an individual who was married for such year if the individual and his spouse make a joint return for such computation year.

Minimum base period income

Paragraph (2) of section 1304(c) provides that, for purposes of income averaging, the base period income of an individual for any base period year cannot be less than 50 percent of the base period income which would result from combining his income and deductions for such year (under subpar. (A)) with the income and deductions for such year of the individual who is his spouse for the computation year, or (under subpar. (B)), if greater, with the income and deductions of the individual who was his spouse for such base period year. Thus, for example, at a minimum the base period income of an individual who is unmarried for his computation year but who was married for any base period year is an amount equal to 50 percent of the base period income (which results from the combination of income and deductions) of such individual and his spouse for such base period year.

The base period income of an individual who is married for the computation year and who was married to a different spouse for any

base period year is at least 50 percent of the aggregate base period income of the individual and his present spouse or, if greater, 50 percent of the aggregate base period income of the individual and his prior spouse for such base period year. The base period income of an individual who makes a return as a surviving spouse (as defined in sec. 2(b) of the code) for the computation year and who was married, in any base period year, to a spouse other than the spouse with respect to whom such return is made, is at least 50 percent of the aggregate base period income of such individual and his deceased spouse for the computation year or, if greater, 50 percent of the aggregate base period income of such individual and his spouse for such base period year.

The amount of base period income resulting from a computation under paragraph (2) of section 1304(c) is, however, only the minimum amount an individual must take into account as his base period income. In any case in which paragraph (2) of section 1304(c) applies, an individual must take into account as his base period income for a base period year the largest of the following amounts:

(1) The base period income resulting from his income and deductions for such year;

(2) An amount equal to 50 percent of the aggregate base period income resulting from the combined income and deductions of himself and the individual who is his spouse in the computation year; or

(3) An amount equal to 50 percent of the aggregate base period income resulting from the combined income and deductions of himself and the individual who was his spouse in the relevant base period year.

Minimum base period capital gain net income

Paragraph (3) of section 1304(c) deals with the minimum amount of capital gain net income which an individual must take into account for any base period year when such individual is required to determine his minimum base period income in accordance with paragraph (2) of section 1304(c). If paragraph (2) applies for any base period year, then an individual combines his capital gain net income for such year with the same individual with whom he combined his base period income under such paragraph.

Paragraph (3) of section 1304(c) provides that, for purposes of income averaging, the capital gain net income of any individual for any base period year cannot be less than 50 percent of the amount of capital gain net income which would result from combining his capital gain net income for such year (determined without regard to par. (3)) with the capital gain net income for such year (similarly determined) of the individual with whom he is required by paragraph (2) of section 1304(c) to combine his income and deductions for such year.

The application of the rule contained in section 1304(c)(3) is illustrated by the following example:

Example.—H was single for the taxable year 1960, married to A for the taxable years 1961 and 1962, divorced from A in the taxable year 1963, and married to B for the taxable year 1964. B was single for the taxable years 1960 through 1963. H and B make a joint return for 1964 and are eligible to choose the benefits of averaging. If H was required by section 1304(c)(2) to combine his income and deductions for the taxable years 1961 and 1962 with A, then H must

combine his capital gain net income for those years with A and treat not less than 50 percent of the resulting amount as his base period capital gain net income. In addition, for such years H must combine his capital gain net income with that of B in order to determine their aggregate capital gain net income for such years. Thus, H is required (1) to determine his portion of the aggregate capital gain net income (of himself and A) for the taxable years 1961 and 1962, and (2) to combine such portion with B's capital gain net income for such years. H must combine his capital gain net income for the taxable years 1960 and 1963 with B.

Community income attributable to services

Paragraph (4) of section 1304(c) deals with the treatment of amounts of earned income which are attributable to services and which are community income under community property laws applicable to such income. Subparagraph (A) of paragraph (4) deals with the treatment of such income in base period years, while subparagraph (B) deals with the treatment of such income in the computation year.

Subparagraph (A) of section 1304(c)(4) provides that, in the case of amounts which constitute earned income (within the meaning of sec. 911(b) of the code) and are community income under community property laws applicable to such income, the amount taken into account by an individual for any base period year for purposes of determining his base period income cannot be less than the amount which would be taken into account if such amounts did not constitute community income. Thus, if H and W had $10,000 of community income attributable to services for a base period year, all of which was attributable to H, then H must take the entire $10,000 into account in determining his base period income for such year. W must take $5,000 into account where she is determining her separate base period income for such year.

Subparagraph (B) of section 1304(c)(4) provides that, in the case of amounts which constitute earned income (within the meaning of sec. 911(b) of the code) and are community income under community property laws applicable to such income, the amount taken into account by an individual for purposes of determining adjusted taxable income for the computation year cannot exceed the amount which would be taken into account if such amounts did not constitute community income. Thus, if H and W's total income for a taxable year consists of $60,000 of community income attributable to services, $40,000 of which is attributable to H, and if H and W make separate returns for such taxable year and are individually eligible to choose the benefits of income averaging, then the amount of such income which H takes into account for determining his adjusted taxable income cannot exceed $30,000 and the amount of such income which W takes into account for determining her adjusted taxable income cannot exceed $20,000. The additional $10,000 of W's income for such year (which results from the application of community property laws) is not subject to income averaging.

Marital status

Paragraph (5) of section 1304(c) provides that, for purposes of such section, the provisions of section 143 of the code (relating to determination of marital status) apply in determining whether an individual is married for any taxable year.

(*d*) *Dollar limitations in case of joint returns.*—Section 1301 provides, in part, that the limitation on tax contained therein applies only if an eligible individual has an amount of averagable income for his computation year in excess of $3,000. Section 1304(d) provides that, in the case of a joint return for a computation year, the $3,000 figure contained in section 1301 applies to the aggregate averagable income of the taxpayers making the joint return.

Section 1302(b)(2)(C) provides that in determining an individual's adjusted taxable income for the computation year his taxable income for such year is decreased for gift, etc., income only if the sum of the net incomes attributable to interests in property described in section 1302(b)(2)(A) exceeds $3,000. Section 1304(d) provides that in the case of a joint return for a computation year, the $3,000 figure contained in section 1302(b)(2)(C) applies to the aggregate net incomes of the taxpayers making the joint return.

(*e*) *Special rules where there are capital gains.*—Section 1304(e) deals with the methods for determining (1) the tax attributable to the portion of adjusted gross income for the computation year that is attributable to capital gains, and (2) the alternative tax under section 1201(b) of the code (relating to the alternative tax on taxpayers other than corporations).

For purposes of the income-averaging provisions, an individual's income for the computation year must be divided into certain segments in order to determine the total amount of tax imposed by section 1 of the code for the computation year which is attributable to such income. Listed in ascending order from the standpoint of the tax rate brackets applicable to such segments of income, an individual's income for the computation year (for these purposes) consists of the following segments:

(1) An amount equal to the sum of 133⅓ percent of average base period income.

(2) The amount (if any) of the adjustment for capital gains made to averagable income under section 1302(a)(2).

(3) The amount (if any) of capital gain net income for the computation year which is less than or equal to average base period capital gain net income.

(4) Twenty percent of averagable income.

(5) The amount (if any) of certain other items of income (including, for example, amounts under sec. 1304(f)(1), relating to gift or wagering income).

(6) The amount (if any) of capital gain net income which exceeds average base period capital gain net income.

(7) The amount (if any) of other items of income (including, for example, amounts under sec. 1304(f)(2), relating to certain owner-employee amounts).

Treatment of capital gains in computation year

Paragraph (1) of section 1304(e) provides that, in the case of any individual who has capital gain net income for the computation year, the tax imposed by section 1 of the code for the computation year which is attributable to the amount of such net income is computed (under subpar. (A) of par. (1)) by adding so much of such net income as does not exceed the individual's average base period capital gain net income above 133⅓ percent of his average base period income, and

(under subpar. (B) of par. (1)) by adding the remainder (if any) of such net income above 20 percent of his averagable income as taken into account for purposes of computing the tax imposed by section 1 of the code (and above the amounts (if any) of his gift or wagering income, referred to in sec. 1304(f)(1)).

Example.—A, an eligible individual who was not married for the taxable years 1960 through 1964, has taxable income for those years as indicated in the table below. For the taxable years 1960 through 1963, all of his ordinary income is from salary and all of his capital gain is net long-term capital gain. For the taxable year 1964, A's ordinary income includes $5,000 of net income attributable to a bequest received by A in 1964. All of A's capital gain for 1964 is adjusted class A capital gain. The tax rates applicable to A's income for 1964 are those prescribed under the amendments made by section 111 of the bill.

A's eligibility to choose the benefits of income averaging under section 1304(a) and the amount of his averagable income for 1964 are determined in the following manner:

Year	Taxable income		
	Total	Ordinary income	Capital gains
1960	$8, 250	$2, 000	$12, 500
1961	7, 750	4, 000	7, 500
1962	7, 500	3, 500	8, 000
1963	8, 500	2, 500	12, 000
1964	59, 000	49, 000	25, 000

(1) Adjusted taxable income for 1964 (the computation year):

(*a*) Taxable income for 1964	$59, 000
Less:	
(*b*) (i) Capital gain net income for the computation year (40 percent of $25,000)	10, 000
(ii) Income attributable to bequest	5, 000
Total	15, 000
Adjusted taxable income	$44, 000

(2) Average base period income for years 1960–63 (the base period years):

(*a*) 1960	2, 000
1961	4, 000
1962	3, 500
1963	2, 500
	12, 000
(*b*) $12,000÷4	3, 000

(3) Average base period capital gain net income:

(*a*) 1960, $12,500×50 percent	6, 250
1961, $7,500×50 percent	3, 750
1962, $8,000×50 percent	4, 000
1963, $12,000×50 percent	6, 000
	20, 000
(*b*) $20,000÷4	5, 000

(4) Averagable income for 1964:

(*a*) Adjusted taxable income	$44, 000
Less:	
(*b*) 133⅓ percent of average base period income (4/3×$3,000)	4, 000
Total	$40, 000

Since A has an amount of averagable income which exceeds $3,000, he is eligible to choose the benefits of averaging. The entire amount ($40,000) of his averagable income is subject to averaging.

Computation of tax due for computation year (1964):

(1) Tax on the sum ($27,000) of the following amounts:	
(*a*) 133⅓ percent of the average base period income	$4, 000
(*b*) The average base period capital gain net income	5, 000
(*c*) 20 percent of the averagable income ($40,000÷5)	8, 000
(*d*) Income attributable to bequest	5, 000
(*e*) Excess of computation year capital gain net income over average base period capital gain net income	5, 000
	$27, 000
Tax on $27,000	$10, 160
(2) Tax attributable to the averagable income:	
(*a*) Tax on $17,000	5, 055
(*b*) Tax on 20 percent of averagable income ($5,055−$2,055)	3, 000
(*c*) Multiply tax by 5 (5×$3,000)	15, 000
(3) Tax attributable to the income attributable to bequest ($7,460 −$5,055)	2, 405
(4) Tax attributable to the excess of computation year capital gain net income over average base period capital gain net income ($10,160 −$7,460)	2, 700
(5) Total tax for 1964:	
(*a*) Tax on first $9,000 of income	2, 055
(*b*) Tax on averagable income ($40,000)	15, 000
(*c*) Tax on income attributable to bequest ($5,000)	2, 405
(*d*) Tax on excess capital gain net income ($5,000)	2, 700
Total	$22, 160

Without the benefits of income averaging, the total tax for 1964 would be $28,555. Thus, the tax saving resulting from income averaging is $6,395.

If the amount of an individual's capital gain net income for the computation year is less than his average base period capital gain net income, then the tax imposed by section 1 of the code for the computation year which is attributable to the amount of such net income is computed by adding the amount of such net income to the amount equal to the sum of 133⅓ percent of the individual's average base period income plus the amount of the adjustment for capital gains made to his averagable income under section 1302(a)(2).

Example.—The facts are the same as in the example above, except that A's taxable income for 1964 is $47,000, of which $44,000 is ordinary income and the remaining $3,000 is attributable to his $7,500 adjusted class A capital gain.

(1) Adjusted taxable income for 1964 (the computation year):

(*a*) Taxable income for 1964	$47, 000
Less:	
(*b*) Capital gain net income for the computation year	3, 000
Adjusted taxable income	$44, 000

(2) Average base period income for years 1960–63 (the base period years)	$3, 000
(3) Average base period capital gain net income	5, 000
(4) Averagable income for 1964:	
(a) Adjusted taxable income	44, 000
Less:	
(b) 133⅓ percent of average base period income (4/3×$3,000)	4, 000
Total	$40, 000
Less:	
(c) The adjustment for capital gains:	
(i) Average base period capital gain net income 5, 000	
Less:	
(ii) Capital gain net income for the computation year 3, 000	
Total	2, 000
Averagable income	$38, 000

Since A has an amount of averagable income which exceeds $3,000, he is eligible to choose the benefits of averaging. The entire amount ($38,000) of his averagable income is subject to averaging.

Computation of tax due for computation year (1964):

(1) Tax on the sum ($16,600) of the following amounts:	
(a) 133⅓ percent of the average base period income and the adjustment for capital gains (4/3×$3,000+$2,000)	$6, 000
(b) The amount of the computation year capital gain net income	3, 000
(c) 20 percent of the averagable income ($38,000÷5)	7, 600
Total	$16, 600
Tax on $16,600	$4, 877
(2) Tax attributable to the averagable income:	
(a) Tax on $16,600	4, 877
(b) Tax on 20 percent of averagable income ($4,877−$2,055)	2, 822
(c) Multiply tax by 5 (5×$2,822)	14, 110
(3) Total tax for 1964:	
(a) Tax on first $9,000 of income	2, 055
(b) Tax on averagable income ($38,000)	14, 110
Total	$16, 165

Without the benefits of income averaging, the total tax for 1964 would be $21,705. Thus, the tax saving resulting from income averaging is $5,540.

Computation of alternative tax

Paragraph (2) of section 1304(e) deals with the method by which an individual computes his alternative tax under section 1201 of the code for any computation year. Paragraph (2) provides that if an individual has capital gain net income for the computation year, then section 1201(b) of the code is treated as imposing a tax on the individual's income which is equal to the tax imposed by section 1 of the code, reduced by the amount (if any) by which the amount of tax imposed by section 1 of the code which is attributable to an individual's capital gain net income for such year (as determined under paragraph (1) of sec. 1304(e)) exceeds the sum of 21 percent of the

adjusted class A capital gain and 25 percent of the adjusted class B capital gain for the computation year.

Therefore, an individual's alternative tax for the computation year is the total tax imposed by section 1 of the code upon his taxable income for such year reduced by the amount (if any) by which the amount of tax imposed by section 1 of the code upon segments (3) and (6) of his income (as described in the second paragraph of the discussion of sec. 1304(e), above) exceeds the sum of 21 percent of his adjusted class A capital gain and 25 percent of his adjusted class B capital gain.

Example.—The facts are the same as in the example above, except that A's taxable income for 1964 is $84,000, of which $44,000 is ordinary income and the remaining $40,000 is attributable to his $100,000 adjusted class A capital gain.

(1) Adjusted taxable income for 1964 (the computation year):	
(*a*) Taxable income for 1964	$84, 000
Less:	
(*b*) Capital gain net income for the computation year	40, 000
Adjusted taxable income	$44, 000
(2) Average base period income for years 1960–63 (the base period years)	$3, 000
(3) Average base period capital gain net income	$5, 000
(4) Averagable income for 1964:	
(*a*) Adjusted taxable income	$44, 000
Less:	
(*b*) 133⅓ percent of average base period income (4/3×$3,000)	4, 000
Total	$40, 000

Since A has an amount of averagable income which exceeds $3,000, he is eligible to choose the benefits of averaging. The entire amount ($40,000) of his averagable income is subject to averaging.

Computation of the tax due for computation year (1964):

(1) Tax on the sum ($52,000) of the following amounts:	
(*a*) 133⅓ percent of the average base period income	$4, 000
(*b*) The average base period capital gain net income	5, 000
(*c*) 20 percent of the averagable income ($40,000÷5)	8, 000
(*d*) Excess of computation year capital gain net income over average base period capital gain net income	35, 000
Total	$52, 000
Tax on $52,000	$25, 260
(2) Tax attributable to the averagable income:	
(*a*) Tax on $17,000	5, 055
(*b*) Tax on 20 percent of averagable income ($5,055−$2,055)	3, 000
(*c*) Multiply tax by 5 (5×$3,000)	15, 000
(3) Tax attributable to the excess of computation year capital gain net income over average base period capital gain net income ($25,260−$5,055)	20, 205
(4) Total tax for 1964:	
(*a*) Tax on first $9,000 of income	2, 055
(*b*) Tax on averagable income ($40,000)	15, 000
(*c*) Tax on excess capital gain net income ($35,000)	20, 205
Total	$37, 260

Computation of alternative tax for computation year (1964):

(1) Tax equal to the tax imposed by sec. 1 of the code	$37, 260
(2) Amount (if any) of reduction in tax:	
(a) Tax imposed by sec. 1 of the code which is attributable to the amount of capital gain net income for the computation year which is equal to the average base period capital gain net income ($5,000)	1, 315
(b) Tax imposed by sec. 1 of the code which is attributable to the excess of capital gain net income for the computation year over the average base period capital gain net income ($35,000)	20, 205
Total tax attributable to capital gain net income for the computation year	21, 520
(c) Amount which is 21 percent of adjusted class A capital gain for computation year ($100,000)	21, 000
Reduction in tax	520
(3) Alternative tax for 1964 ($37,260−$520)	$36, 740

Without the benefits of income averaging, the total tax for 1964 would be $41,130. Thus, the tax saving resulting from income averaging is $4,390.

(f) *Treatment of certain other items.*—Section 1304(f) deals with the treatment for purposes of income averaging of certain other items of income.

Gift or wagering income

Paragraph (1) of section 1304(f) provides that the tax imposed by section 1 of the code for the computation year which is attributable to the amounts by which an individual's taxable income was decreased under section 1302(b)(2) (relating to income attributable to gifts, bequests, etc.) and section 1302(b)(3) (relating to wagering income) equals the increase in tax under section 1 of the code which results from adding the amounts of such decreases above the 20 percent of the individual's averagable income as taken into account for purposes of computing the tax imposed thereon by section 1 of the code.

Section 72(m)(5)

Paragraph (2) of section 1304(f) provides that the provisions of section 72(m)(5) of the code which impose penalties upon certain amounts (described in sec. 72(m)(5)(A) of the code) received by owner-employees are to be applied as if part I of subchapter Q had not been enacted.

Other items

Paragraph (3) of section 1304(f) provides that, except as otherwise provided in part I of subchapter Q, the order and the manner in which any eligible individual to whom section 1301 applies for the computation year takes items of his income for the computation year and his base period into account, in computing the tax imposed by chapter 1 of the code on his income, is to be determined under regulations prescribed by the Secretary of the Treasury or his delegate.

(g) *Short taxable years.*—Section 1304(g) provides that the provisions of part I of subchapter Q are to be applied to any computation year or base period year which is a short taxable year in the manner

provided in regulations by the Secretary of the Treasury or his delegate.

SECTION 1305. REGULATIONS

Section 1305 provides that the Secretary of the Treasury or his delegate will prescribe such regulations as may be necessary to carry out the purposes of part I of subchapter Q.

For example, in applying the averaging provisions, the Secretary of the Treasury or his delegate will prescribe appropriate adjustments where the taxable income of an individual includes distributions from trusts under section 666(a) of the code (relating to accumulation distribution allocated to 5 preceding years) if the tax attributable to such distributions is determined, as though such amounts had been distributed in preceding years, under the provisions of section 668 of the code (relating to treatment of amounts deemed distributed in preceding years).

SECTION 221. AVERAGING (Continued)

(*b*) *Repeal of section 72(e)(3)*.—Subsection (b) of section 221 of the bill repeals section 72(e)(3) of the code, which relates to the limit on the tax attributable to a lump sum amount described in section 72(e) of the code which is not received as an annuity.

(*c*) *Statute of limitations*.—Subsection (c) of section 221 of the bill amends subparagraph (B) of section 6511 (d)(2) of the code (relating to special period of limitation with respect to net operating loss carrybacks) by redesignating the existing language of the subparagraph as clause (i) and adding a new clause (ii). The new clause (ii) provides that, for purposes of the special period of limitation for filing a claim for credit or refund, such a claim for a computation year is determined to relate to an overpayment attributable to a net operating loss carryback when such carryback relates to any base period year. Thus, if (1) an individual has a net operating loss for a taxable year subsequent to a taxable year for which he had chosen the benefits of income averaging, and (2) such net operating loss carryback is wholly utilized in any one or more of his base period years preceding his computation year (which would result in an increased amount of averagable income for such computation year), the special period of limitation with respect to such individual's computation year applies and a timely claim for credit or refund with respect to the computation year may be filed. A deficiency which may result from the application of a net operating loss carryback to an individual's computation year may be assessed within the period allowed under section 6501(h) of the code (relating to limitation on assessment and collection for net operating loss carrybacks).

(*d*) *Technical amendments*.—Subsection (d) of section 221 of the bill makes technical amendments, reflecting the repeal of section 72(e)(3) of the code by subsection (b) of section 221 of the bill, to various provisions of sections 402 and 403 of the code.

(*e*) *Clerical amendments*.—Subsection (e) of section 221 of the bill makes clerical amendments to section 4(f) and section 5(b) of the code, and to the table of parts for subchapter Q of chapter 1 of the code.

(*f*) *Effective date.*—Section 221(f) of the bill provides the effective date for the amendments made by section 221 and continues the treatment of present law for certain compensation from an employment.

General rule

Paragraph (1) of section 221(f) provides that the amendments made by section 221 apply with respect to taxable years beginning after December 31, 1963. For computational purposes, however, taxable years beginning before January 1, 1964, may be taken into account as base period years.

Income from an employment

Paragraph (2) of section 221(f) provides that if, in a taxable year beginning after December 31, 1963, an individual or partnership receives or accrues compensation from an employment (as defined by sec. 1301(b) of the code as in effect immediately before the enactment of the bill) and the employment began before February 6, 1963, the tax attributable to such compensation may, at the election of the taxpayer, be computed under the provisions of sections 1301 and 1307 of the code as in effect immediately before the enactment of the bill. If a taxpayer so elects, at the time and in the manner prescribed by the Secretary of the Treasury or his delegate by regulations, he may not choose for such taxable year the benefits provided by part I of subchapter Q of chapter 1 of the code (relating to income averaging) as amended by section 221 of the bill.

SECTION 222. REPEAL OF ADDITIONAL 2-PERCENT TAX FOR CORPORATIONS FILING CONSOLIDATED RETURNS

(*a*) *Repeal of tax.*—Subsection (a) of section 222 of the bill, by amending section 1503(a) of the code, repeals the 2-percent increase in tax applicable under existing law to corporations which file, or are required to file, a consolidated return under chapter 6 of subtitle A of the code. Section 1503(a) presently provides, in part, that the tax imposed under section 11(c) or section 831 of the code is increased for any taxable year by 2 percent of the consolidated taxable income of an affiliated group of includible corporations. Section 1503(a) as amended by this section of the bill contains no provision for any increase in tax. The computation of the tax liability of an affiliated group of corporations filing a consolidated return for a taxable year beginning in 1963 and ending in 1964 is made under section 21 of the code.

(*b*) *Technical and conforming amendments.*—Subsection (b) of section 222 of the bill (containing pars. (1) through (8)) makes technical and conforming amendments to various sections of the code to reflect the repeal of the 2-percent increase in tax and the rearrangement of certain provisions affected by such repeal.

(*c*) *Effective date.*—Subsection (c) of section 222 of the bill provides that the amendments made by subsections (a) and (b) of such section apply with respect to taxable years beginning after December 31, 1963.

SECTION 223. REDUCTION OF SURTAX EXEMPTION IN CASE OF CERTAIN CONTROLLED CORPORATIONS, ETC.

(*a*) *In general.*—Subsection (a) of section 223 of the bill adds a new part II to subchapter B of chapter 6 of the code (pertaining to related rules for consolidated returns). The new part contains three new sections, section 1561 (relating to surtax exemptions in case of certain controlled corporations), section 1562 (relating to privilege of groups to elect multiple surtax exemptions), and section 1563 (relating to definitions and special rules).

In general, the new section 1561 provides that certain members of a controlled group of corporations are entitled to a single $25,000 surtax exemption (to be divided among the members of the group) in lieu of the multiple surtax exemptions which may be available to these corporations under existing law. However, section 1561 is not applicable to the members of a controlled group of corporations if, under the new section 1562, the group elects the privilege of retaining multiple surtax exemptions. In such case, each member of the group will pay the additional tax imposed by section 1562(b). The new section 1563 contains certain definitions (including the definition of a "controlled group of corporations") and special rules for purposes of the new part II.

SECTION 1561. SURTAX EXEMPTIONS IN CASE OF CERTAIN CONTROLLED CORPORATIONS

(*a*) *General rule.*—Section 1561(a) provides the general rule for determining the amount of the surtax exemption of a corporation which is a component member (as defined in sec. 1563(b)) of a controlled group of corporations. The amount determined under section 1561(a) is to be used for purposes of subtitle A of the code, and where applicable is in lieu of the $25,000 amount specified in section 11(d) of the code (as amended by sec. 121 of the bill). In addition, a corporation which is a component member of a controlled group of corporations and which computes its tax by reference to the amount of the surtax exemption provided by section 11 is also affected. For example, section 511(a)(1) of the code imposes a tax on the unrelated business taxable income of the organizations described in section 511(a)(2). This tax is "computed as provided in section 11." If an organization which has income subject to tax under section 511 is a component member of a controlled group of corporations on a December 31, the computation of the tax liability of such organization for its taxable year including such December 31 is computed by reference to a surtax exemption in the amount determined under section 1561(a), in lieu of the $25,000 amount otherwise provided by section 11.

Paragraph (1) of section 1561(a) provides that the surtax exemption of a corporation which is a component member of a controlled group of corporations on a December 31, for its taxable year which includes such December 31, will be an amount equal to $25,000 divided by the number of corporations which are component members of such group on such December 31. However, paragraph (2) of section 1561(a) provides that in lieu of this pro rata share, such component members

may consent to an apportionment plan at such time and in such manner as the Secretary of the Treasury or his delegate by regulations prescribes. If a plan is properly consented to, the $25,000 will be apportioned among the corporations in accordance with such plan. Such a plan may be changed in future years. In no event, however, may the sum of the amounts apportioned among the component members of a group under paragraph (2) of section 1561(a), or the surtax exemption of any one corporation, exceed $25,000.

If the surtax exemption of a corporation for its taxable year beginning in 1963 and ending in 1964 is less than $25,000 by reason of the application of section 1561(a), the computation of such corporation's tax liability for such taxable year is made under section 21 of the code. See section 21(d) as amended by section 132 of the bill.

The provisions of section 1561(a) are illustrated by the following examples:

Example (1).—Corporations W, X, Y, and Z are component members of a controlled group of corporations on December 31, 1964, and each corporation files its income tax return on the basis of a calendar year. For their taxable years ending on December 31, 1964, corporations W and X each incur a net operating loss; corporation Y has $5,250 of taxable income; and corporation Z has $30,000 of taxable income. If the four corporations do not consent to an apportionment plan under section 1561(a)(2), the surtax exemption of each corporation will be $6,250 ($25,000 divided by 4). However, by consenting to an apportionment plan under section 1561(a)(2), the four corporations may avoid a pro rata division of the $25,000 amount (and the consequent wastage of the $6,250 allocated to corporations W and X, and $1,000 of the $6,250 allocated to corporation Y) and may agree to apportion the $25,000 amount in any manner they deem proper—for example, $25,000 to Z.

Example (2).—Corporation A files its income tax return on the basis of a calendar year; corporation B files its income tax return on the basis of a fiscal year ending on March 31. If corporations A and B are the only component members of a controlled group of corporations on December 31, 1964, the surtax exemption of A for its calendar year ending December 31, 1964, and the surtax exemption of B for its fiscal year ending March 31, 1965, are each in an amount equal to $12,500 ($25,000 divided by 2) under section 1561(a)(1) or, if an apportionment plan is filed under section 1561(a)(2), are in the amounts apportioned pursuant to such plan.

(*b*) *Certain short taxable years.*—Section 1561(b) provides a rule for determining the amount of the surtax exemption of a corporation which has a short taxable year (as described in sec. 443(a) of the code) that does not include a December 31 and which is a component member of a controlled group of corporations on the last day of such short taxable year. The amount of the surtax exemption of such corporation is equal to $25,000 divided by the number of corporations which are component members of such group on the last day of the short taxable year.

The determination of whether a corporation is a component member of a controlled group of corporations on the last day of a short taxable year is made by applying the definition of component member contained in section 1563(b) as if the last day of such short taxable year were substituted for the date "December 31" wherever it appears

in section 1563 (b). If a corporation's surtax exemption for a short taxable year is determined under section 1561(b) and the corporation makes a return for such short taxable year under section 443(a)(1) of the code (relating to a return for a year in which a taxpayer changes its annual accounting period), the amount determined under section 1561(b) will be used in lieu of the $25,000 amount otherwise applicable in the computation of tax liability for the short taxable year under section 443(b).

The provisions of section 1561(b) are illustrated by the following example:

Example.—On January 2, 1964, corporation P transfers cash to newly formed corporation T (which begins business on that date) and receives all the stock of corporation T in return. Corporation P also owns all the stock of corporation S on each day of 1963 and 1964. Corporation P uses the calendar year and corporation S uses a fiscal year ending on August 31 for their taxable years. Corporation T adopts a fiscal year ending on June 30 as its annual accounting period and, therefore, has a short taxable year during the first year of its existence, which begins on January 2, 1964, and ends on June 30, 1964. On June 30, 1964, corporation T is a component member of a parent-subsidiary controlled group of corporations of which corporation P is the common parent and corporations P, S, and T are component members. Accordingly, the surtax exemption of corporation T for its short taxable year ending on June 30, 1964, is $8,333.33 ($25,000 divided by 3). On December 31, 1964, corporations P, S, and T are component members of a parent-subsidiary controlled group of corporations. Accordingly, the surtax exemption of each such corporation for its taxable year including December 31, 1964 (i.e., P's calendar year ending December 31, 1964, S's fiscal year ending August 31, 1965, and T's fiscal year ending June 30, 1965) is $8,333.33 ($25,000 divided by 3) under section 1561(a)(1), or, if an apportionment plan is filed under section 1561(a)(2), is the amount apportioned to such corporation pursuant to such plan.

SECTION 1562. PRIVILEGE OF GROUPS TO ELECT MULTIPLE SURTAX EXEMPTIONS

(*a*) *Election of multiple surtax exemptions.*—Under paragraph (1) of section 1562(a), a controlled group of corporations has the privilege of electing to have each of its component members (as defined in sec. 1563(b)) make its income tax returns without regard to section 1561 (relating to surtax exemptions in the case of certain controlled corporations). An election under paragraph (1) of section 1562(a) is to be made by a controlled group of corporations, with respect to a December 31 specified by the group, in the manner and time prescribed in section 1562(e) and the regulations thereunder. Under subparagraph (A) of section 1562(a)(1), the election is valid only if each corporation which was a component member of the electing controlled group on the specified December 31 consents to the election. If a controlled group retroactively makes an election by specifying a December 31 other than the December 31 immediately preceding the date on which the election is filed, subparagraph (B) of section 1562 (a)(1) requires the consent of each other corporation which was a

component member of the group on any December 31 succeeding the specified December 31 and preceding the date on which the election is filed, in addition to the consents of the corporations which are component members on the specified December 31.

Years for which effective

Paragraph (2) of section 1562(a) provides that a valid election under paragraph (1) is effective with respect to the taxable year of each component member of the electing controlled group of corporations which includes the specified December 31 and also is effective (without renewal) for each taxable year of each corporation which is a component member of the group (or a successor group) on a succeeding December 31 included within such taxable year, unless the election is terminated under section 1562(c). Accordingly, an election under paragraph (1) of section 1562(a) affects not only the tax liability of corporations which are component members of an electing controlled group on the December 31 specified in the election, but it also affects the tax liability of corporations which are component members of the electing group on a December 31 subsequent to the specified December 31.

The provisions of section 1562(a) (1) and (2) are illustrated by the following examples:

Example (1).—Corporation P is the common parent of a parent-subsidiary controlled group of corporations of which corporations P, X, and Y are component members on December 31, 1964. On December 31, 1965, the controlled group of corporations consists of the same component members as on December 31, 1964, except that corporation Z is also a component member on December 31, 1965. On December 31, 1966, the controlled group of corporations consists of the same component members as on December 31, 1965, except that corporation X is no longer a component member on December 31, 1966. Assume that in January 1967 this controlled group of corporations makes an election under section 1562(a)(1) designating December 31, 1964, as the specified December 31. Corporations P, X (even though not a member of the group in January 1967), Y, and Z (even though it was not a member on December 31, 1964) must and do consent to this election to make the election valid. Under section 1562(a)(2), the election (unless terminated) is effective with respect to the taxable years of corporations P, X, and Y which include December 31, 1964. The election is also effective (unless terminated) with respect to the taxable years of corporations P, X, Y, and Z which include December 31, 1965, and with respect to the taxable years of corporations P, Y, and Z which include December 31, 1966.

Example (2).—Assume the same facts as in example (1) and that on December 31, 1967, the controlled group of corporations consists of the same component members as on December 31, 1966 (corporations P, Y, and Z), except that corporation T is also a component member on December 31, 1967. In such case, the election is effective (unless terminated) with respect to the taxable years of corporations P, Y, Z, and T which include December 31, 1967.

Effect of election

Paragraph (3) of section 1562(a) provides that, for any taxable year of a corporation with respect to which an election under paragraph (1) is effective, section 1561 does not apply, but the additional tax imposed by section 1562(b)(1) applies to such corporation for such taxable year. Thus, for each such taxable year the corporation is not denied a separate $25,000 surtax exemption by section 1561 but it is required to pay the additional tax imposed by section 1562(b)(1). However, if the surtax exemption is disallowed to the corporation under section 269 or 1551 of the code, the additional tax does not apply; see section 269(d) (as added by sec. 223(c) of the bill) and section 1551(c) (as amended by sec. 223(b) of the bill).

(*b*) *Additional tax imposed.*—Paragraph (1) of section 1562(b) imposes a tax on the taxable income of a corporation for the taxable year of such corporation with respect to which an election under section 1562(a)(1) is effective. This tax is in addition to taxes imposed by other sections of the code on such corporation for such taxable year. The additional tax imposed by paragraph (1) is equal to 6 percent of so much of a corporation's taxable income for a taxable year as does not exceed $25,000. In computing the tax liability of a corporation which is subject to the additional tax imposed by paragraph (1) for a taxable year which begins in 1963 and ends in 1964, section 21 of the code is applicable. See section 21(d)(2) (as amended by sec. 132 of the bill).

The last sentence of paragraph (1) of section 1562(b) provides an exception to the imposition of the additional tax on the taxable income of a component member of an electing controlled group of corporations. The additional tax is not applicable to the taxable year of a corporation if no other corporation which is a component member of such controlled group on the December 31 included in such corporation's taxable year has taxable income for its taxable year including such December 31. However, the application of this rule does not constitute a termination of an election and, therefore, an election by a controlled group would continue in effect for any succeeding year unless terminated under section 1562(c).

Tax treated as imposed by section 11, etc.

Paragraph (2) of section 1562(b) provides that if a corporation is subject to the tax imposed by section 11 of the code for a taxable year, and for the same taxable year the corporation is also subject to the additional tax imposed by paragraph (1) of section 1562(b), then the additional tax is treated for purposes of the code as a tax imposed by section 11. It is so treated, for example, for purposes of section 38 of the code (relating to credit against tax for investment in certain depreciable property) which allows a credit against the tax imposed by chapter 1 of subtitle A of the code. In addition, paragraph (2) of section 1562(b) provides that if a corporation is subject to a tax imposed by any section of the code other than section 11 but such tax is computed by reference to section 11, the additional tax imposed by paragraph (1) of section 1562(b) is treated for purposes of the code as imposed by such other section. Thus, for example, the tax imposed by section 831(a) of the code is "computed as pro-

vided in section 11"; therefore if a corporation is subject to both the tax imposed by section 831(a) and the additional tax under paragraph (1) of section 1562(b) for any taxable year, the additional tax is treated as imposed by section 831 for such taxable year. If section 1201 of the code is applicable, the additional tax applies only to the taxable income reduced by the excess of the net long-term capital gain over the net short-term capital loss.

Taxable income defined

Paragraph (3) of section 1562(b) provides that if certain special types of corporations are component members of a controlled group of corporations which has made a valid election under section 1562(a)(1), then for purposes of applying paragraphs (1) and (2) of section 1562(b) with respect to such corporations the term "taxable income" means—

(A) in the case of a corporation subject to tax under section 511 of the code, its unrelated business taxable income (within the meaning of sec. 512);

(B) in the case of a life insurance company, its life insurance company taxable income (within the meaning of sec. 802(b) of the code);

(C) in the case of a regulated investment company, its investment company taxable income (within the meaning of sec. 852(b)(2) of the code); and

(D) in the case of a real estate investment trust, its real estate investment trust taxable income (within the meaning of sec. 857(b)(2) of the code).

Special rules

Paragraph (4) of section 1562(b) contains a special rule to be used for purposes of certain sections of the code in which the normal tax rate or the surtax rate (or both) of a corporation subject to the additional tax imposed by paragraph (1) of section 1562(b) must be determined. Paragraph (4) provides that sections 244 (relating to dividends received on certain preferred stock), 247 (relating to dividends paid on certain preferred stock of public utilities), 804(a)(3) (relating to deduction for partially tax-exempt interest in the case of a life insurance company), and 922(2)(B) (relating to special deduction for Western Hemisphere trade corporations) are to be applied without regard to the additional tax imposed by paragraph (1) of section 1562(b). Thus, for example, in the case of a corporation subject to the tax imposed by section 11 and the additional tax imposed by paragraph (1) of section 1562(b) for its taxable year ending December 31, 1967, the deduction under section 244 of the code for such taxable year would be computed by using the fraction fourteen forty-eighths.

(*c*) *Termination of election.*—An election by a controlled group of corporations under section 1562(a) is terminated by any one of the occurrences described in paragraphs (1), (2), (3), and (4) of section 1562(c).

Consent of the members

Under paragraph (1) of section 1562(c), a controlled group of corporations may voluntarily terminate an election made under section 1562(a) by filing a termination of the election in the manner and time

prescribed by section 1562(e) and the regulations thereunder. The termination of an election is made with respect to a December 31 specified by the controlled group. The rules designating which component members of a controlled group of corporations are required to consent (and thus validate the termination) are similar to the rules with respect to an election under section 1562(a). Thus, each corporation which is a component member of the group on the specified December 31 must consent to the termination and, if a controlled group retroactively terminates an election with respect to a December 31 other than the December 31 immediately preceding the day on which the termination is filed, each other corporation which was a component member of such group on any December 31 succeeding the specified December 31 and preceding the day on which the termination is filed must consent.

Refusal by new member to consent

Under paragraph (2) of section 1562(c), an election is terminated by the refusal of a new member of a controlled group of corporations to consent to an election which is in effect with respect to such group. In order for a new member to terminate the group's election, the new member must file a statement that it does not consent to the election. Such statement must be filed within the time and in the manner provided by regulations prescribed by the Secretary of the Treasury or his delegate. A new member of a controlled group is a corporation which on December 31 of any year is a component member of a controlled group of corporations and on the immediately preceding January 1 was not a member (within the meaning of sec. 1563(a)) of such group.

Consolidated returns

Under paragraph (3) of section 1562(c), an election by a controlled group of corporations is terminated if—

(A) a corporation is a component member (determined without regard to the "additional member" rules provided in sec. 1563 (b)(3)) of such group on a December 31 included within a taxable year ending on or after January 1, 1964, and

(B) such corporation is a member of an affiliated group of corporations which makes a consolidated return under chapter 6 of the code (sec. 1501 and following) for such taxable year.

Thus, for example, a controlled group of corporations is, in effect, precluded from making an election under section 1562(a) with respect to the December 31 included within the taxable year of a component member of such group if such member joins in the filing of a consolidated return with respect to such taxable year.

Controlled group no longer in existence

Under paragraph (4) of section 1562(c), an election terminates if the electing controlled group of corporations is considered as no longer in existence with respect to any December 31. The determination of whether a controlled group of corporations is considered as no longer in existence for purposes of paragraph (4) is made under section 1562 (f)(1) and the regulations thereunder.

Years for which termination effective

The termination of an election under paragraph (1), (2), (3), or (4) of section 1562(c) is effective with respect to the December 31

referred to in the particular paragraph of such section under which the termination occurs. An election, once terminated, is no longer effective. Thus, a termination is effective with respect to the taxable year of each component member of a controlled group of corporations which includes such December 31 and with respect to all succeeding taxable years of each corporation which is a component member of the group. Moreover, the group may not make a new election, except as provided in section 1562(d).

(*d*) *Election after termination.*—Section 1562(d) provides that if a controlled group of corporations has made a valid election under section 1562(a) and the election is terminated under section 1562(c), the group (or any successor group within the meaning of sec. 1562(f)(1)(B)) is not eligible to make an election with respect to any December 31 before the sixth December 31 after the December 31 with respect to which the termination was effective.

The provisions of section 1562(d) are illustrated by the following example:

Example.—In 1967, a controlled group of corporations makes a valid election under section 1562(a) in which December 31, 1964, is designated as the "specified December 31." In 1968, the group files a termination of its election under section 1562(c)(1) in which December 31, 1965, is designated as the "specified December 31." Such termination is effective with respect to the taxable year of each component member of the group which includes December 31, 1965, and for all succeeding taxable years of each corporation which is a component member of the group. Thus, the election is effective only with respect to the taxable year of each component member of the group which includes December 31, 1964. Moreover, under section 1562 (d), the group (and any successor group) is not eligible to make another election with respect to any December 31 before December 31, 1971 (i.e., the sixth December 31 after December 31, 1965, the December 31 with respect to which the termination was effective under sec. 1562(c)(1)).

(*e*) *Manner and time of giving consent and making election, etc.*—Section 1562(e) provides that an election under section 1562(a)(1), a termination under section 1562(c)(1), and the consents of the corporations which are required to validate such election or termination are to be made in such manner as the Secretary of the Treasury or his delegate by regulations prescribes and at the time provided in paragraph (1) or (2) of section 1562(e).

Paragraph (1) of section 1562(e) provides that an election under section 1562(a) by a controlled group of corporations must be made before the expiration of 3 years after the date on which the income tax return for the taxable year of the component member of the controlled group which has the taxable year ending first on or after the specified December 31 is required to be filed (without regard to any extensions of time). Thus, for example, an election with respect to December 31, 1964, by a controlled group of corporations consisting of 2 calendar-year corporations could not be made after March 15, 1968. If, in the preceding example, both corporations had fiscal years in lieu of calendar years and one of the corporations had a taxable year ending January 31, 1965, and the other corporation had a taxable year ending June 30, 1965, the last day on which an election could be made with respect to December 31, 1964, is April 15, 1968.

Paragraph (2) of section 1562(e) provides that a termination under section 1562(c)(1) with respect to any December 31 must be made before the expiration of 3 years after such December 31.

The last sentence of section 1562(e) provides that a consent by a corporation to an election or termination, and the failure of a corporation which is a new component member described in section 1562(c)(2) to file a statement that it does not consent to an election of a controlled group of corporations, is deemed to be a consent to the application of section 1562(g)(1) (relating to tolling of statute of limitations on assessment of deficiencies) with respect to such corporation.

(*f*) *Special rules.*—Paragraph (1) of section 1562(f) provides that the determination of whether a controlled group of corporations is considered as no longer in existence with respect to any December 31, or is a successor to another controlled group of corporations and, in the case of the latter determination, the effect which the determination has with respect to any election or termination made by the predecessor or successor controlled group of corporations, is to be made under regulations prescribed by the Secretary of the Treasury or his delegate. Thus, regulations prescribed pursuant to the authority granted by section 1562(f) will provide rules for determining whether a controlled group of corporations is considered as no longer in existence with respect to any December 31 within the meaning of section 1562(c)(4). The regulations might appropriately provide, for example, that a controlled group of corporations remains in existence under the following circumstances: Corporations P and S file their returns on the basis of the calendar year. Corporation P owns all the stock of corporation S from January 1, 1965, through December 1, 1965. On December 2, 1965, corporation P sells the stock of S to the public. After December 2, 1965, a controlled group of corporations (within the meaning of sec. 1563(a)) is not in existence. However, corporations P and S will be additional members pursuant to section 1563(b)(3) and, therefore, component members of a controlled group of corporations on December 31, 1965. Accordingly, the controlled group of corporations consisting of corporations P and S did not go out of existence with respect to such December 31. Thus, if an election under section 1562(a) was in effect with respect to December 31, 1964, the election would not be terminated under section 1562(c)(4) with respect to December 31, 1965.

Regulations promulgated pursuant to the authority granted the Secretary of the Treasury or his delegate under paragraph (1) of section 1562(f) to provide rules for determining whether a controlled group of corporations is a successor to another controlled group of corporations are required by the last sentence of section 1562(f)(1) to be based on the continuation (or termination) of predominant equitable ownership. For example, assume that corporation X is the common parent of a controlled group of corporations which is not eligible to make an election by virtue of section 1562(d). Corporation X merges into corporation Y, a common parent of a controlled group of corporations with respect to which an election under section 1562(a) is in effect. Corporation Y (and not corporation X) is the surviving legal entity after the merger. If the stockholders of corporation X acquire, as a result of the merger, more than 50 percent of the equitable ownership of corporation Y, the regulations might appropriately provide that the group resulting from the

merger is a successor to the controlled group of which corporation X was the common parent. Thus, the successor group would be subject to the same limitations on making an election as were applicable to the group of which corporation X was the common parent. Correspondingly, the group of which corporation Y was the common parent prior to the merger would be considered as no longer in existence within the meaning of section 1562(c)(4), and the election of such group would be terminated.

Certain short taxable years

Paragraph (2) of section 1562(f) provides a special rule with respect to corporations which have a short taxable year not including a December 31. If one or more corporations have such short taxable years and are component members of a controlled group of corporations with respect to such taxable years (determined by applying sec. 1563(b) as if the last day of each such taxable year were substituted for December 31), then an election by such group under section 1562(a) is applicable with respect to such corporations with respect to such taxable years, provided the requirements of either subparagraph (A) or (B) of section 1562(f)(2) are met.

Subparagraph (A) of section 1562(f)(2) provides that if an election is in effect with respect to both the December 31 immediately preceding the short taxable years (not including a December 31) and the December 31 immediately succeeding the short taxable years, such election will apply with respect to such short taxable years.

Subparagraph (B) of section 1562(f)(2) provides that if an election is in effect with respect to either the December 31 immediately preceding or succeeding the short taxable years (not including a December 31) and each corporation with a short taxable year files a consent to the application of such election to its short taxable year, such election will apply with respect to such short taxable year. A consent under subparagraph (B) must be filed at such time and in such manner as the Secretary of the Treasury or his delegate prescribes by regulations.

(*g*) *Tolling of statute of limitations.*—Section 1562(g) provides for a tolling of the statute of limitations with respect to (1) the assessment of deficiencies, and (2) the credit or refund of overpayments, which are attributable to the application of part II of subchapter B of chapter 6 of the code.

Paragraph (1) of section 1562 provides that the statutory period for assessment of any deficiency against a corporation which is a component member of a controlled group of corporations for any taxable year, to the extent such deficiency is attributable to the application of the new part II, will not expire before the expiration of 1 year after the date the election or termination under section 1562 is made.

Paragraph (2) of section 1562 provides that if credit or refund of any overpayment of tax by a corporation which is a component member of a controlled group of corporations for any taxable year is prevented, at any time on or before the expiration of 1 year after the date an election or termination under section 1562 is made, by the operation of any law or rule of law, credit or refund of such overpayment may

nevertheless be allowed or made, to the extent such overpayment is attributable to the application of the new part II, if claim therefor is filed on or before the expiration of such 1-year period.

For purposes of section 1562(g), the date when an election under section 1562(a) or termination under section 1562(c)(1) is made is the date when the election or termination is filed. Thus, for example, assume that on December 1, 1968, a controlled group of calendar-year corporations files an election under section 1562(a) designating December 31, 1965, as the specified December 31. The statute of limitations for the assessment of deficiencies and for the credit or refund of overpayments for the taxable years of the component members of the controlled group ending on December 31, 1965, otherwise expires March 15, 1969, which date is less than 1 year after December 1, 1968 (the date when the election is filed). Section 1562(g)(1) provides that the statutory period for assessing deficiencies attributable to the application of the new part II for the taxable years of the component members of the group ending on December 31, 1965, does not expire before December 1, 1969.

SECTION 1563. DEFINITIONS AND SPECIAL RULES

(*a*) *Controlled group of corporations.*—Section 1563(a) defines the term "controlled group of corporations" for purposes of the new part II of subchapter B of chapter 6 of the code and provides rules for determining whether a corporation is a member of such a group. Included in the definition are four classifications of controlled groups of corporations. Paragraph (1) of section 1563(a) defines a "parent-subsidiary controlled group" and paragraph (2) defines a "brother-sister controlled group." Paragraphs (3) and (4) deal with two additional classifications of controlled groups—"combined groups" and "certain insurance companies."

Parent-subsidiary controlled group

Paragraph (1) of section 1563(a) defines a parent-subsidiary controlled group of corporations, in general, as one or more chains of corporations connected through stock ownership with a common parent corporation. For purposes of paragraph (1), a chain of corporations includes the common parent corporation and, therefore, may consist of only two corporations, one of which is a common parent corporation.

Subparagraph (A) of section 1563(a)(1) provides that in order for a corporation to be a member of a parent-subsidiary controlled group, stock possessing at least 80 percent of the total combined voting power of all classes of stock entitled to vote or at least 80 percent of the total value of shares of all classes of stock of the corporation (except the common parent corporation) must be owned (within the meaning of sec. 1563(d)(1)) by one or more of the other corporations in the chain. In determining whether stock possessing at least 80 percent of the total combined voting power of all classes of stock entitled to vote of a corporation is so owned, all classes of such stock are aggregated; it is not necessary that 80 percent of each class of voting stock be so owned. Likewise, in determining whether stock possessing at least 80 percent of the total value of shares of all classes of stock is so owned, all classes of stock of the corporation are aggre-

gated; it is not necessary that 80 percent of the value of shares of each class be so owned.

Subparagraph (B) of section 1563(a)(1) provides that the common parent corporation must own (within the meaning of sec. 1563(d)(1)) stock possessing at least 80 percent of the total combined voting power of all classes of stock entitled to vote or at least 80 percent of the total value of shares of all classes of stock of at least one of the other corporations in the group, excluding for purposes of computing such voting power or value any stock owned directly by other corporations in the group.

The definition of a parent-subsidiary controlled group of corporations contained in section 1563(a)(1) is illustrated by the following examples:

Example (1).—Corporation P owns 80 percent of the total combined voting power of all classes of stock entitled to vote of corporation S. Corporation S, in turn, owns 80 percent of the total value of shares of all classes of stock of corporation S–1. Corporation P is the common parent corporation of a parent-subsidiary controlled group of corporations consisting of member corporations P, S, and S–1.

Example (2).—Corporation P owns 75 percent of the total combined voting power of all classes of stock entitled to vote of corporations S and S–1; S owns all the remaining voting stock of S–1; and S–1 owns all the remaining voting stock of S. Since intercompany stockholdings are excluded for purposes of determining whether corporation P owns at least 80 percent of the voting power of at least one of the other corporations, P is treated as the owner of 100 percent of the voting power of either S or S–1 for purposes of section 1563(a)(1)(B). Also, 100 percent of the voting power of S and S–1 is owned by the other corporations in the group within the meaning of section 1563 (a)(1)(A) (P and S–1 together own 100 percent of the voting power of S, and P and S together own 100 percent of the voting power of S–1). Therefore, corporation P is the common parent corporation of a parent-subsidiary controlled group of corporations consisting of member corporations P, S, and S–1.

Brother-sister controlled group

Paragraph (2) of section 1563(a) defines a brother-sister controlled group of corporations as two or more corporations if stock possessing at least 80 percent of the total combined voting power of all classes of stock entitled to vote or at least 80 percent of the total value of shares of all classes of stock of each of the corporations is owned (within the meaning of sec. 1563(d)(2)) by one person who is an individual, estate, or trust. For example, individual A owns 80 percent of the total combined voting power of all classes of stock entitled to vote of corporations X and Y. Corporations X and Y are members of a brother-sister controlled group of corporations as defined in section 1563(a)(2).

Combined group

Paragraph (3) of section 1563(a) defines a combined group as a separate controlled group of corporations consisting of three or more corporations if—

(1) each corporation is a member of either a parent-subsidiary controlled group of corporations (as defined in sec. 1563(a)(1)) or

a brother-sister controlled group of corporations (as defined in sec. 1563(a)(2)), and

(2) at least one of the corporations is a common parent corporation included in a parent-subsidiary controlled group of corporations and also is included in a brother-sister controlled group of corporations.

The definition of a combined group of corporations contained in section 1563(a)(3) is illustrated by the following examples:

Example (1).—Individual A owns 80 percent of the total combined voting power of all classes of the stock of corporations B and P. Corporation P, in turn, owns all the stock of corporation S. Since—

(1) corporations B, P, and S are each members of either a parent-subsidiary or brother-sister controlled group of corporations, and

(2) corporation P is a common parent corporation included in a parent-subsidiary controlled group of corporations (consisting of member corporations P and S) and also is a member of a brother-sister controlled group of corporations (consisting of member corporations P and B),

corporations P, B, and S are members of a combined group of corporations within the meaning of section 1563(a)(3).

Example (2).—Assume the same facts as in example (1), except that corporation B owns all the stock of corporation T. Corporations P, B, S, and T are members of a combined group of corporations within the meaning of section 1563(a)(3).

Certain insurance companies

Paragraph (4) of section 1563(a) provides that two or more life insurance companies subject to taxation under section 802 of the code which are members of a controlled group of corporations described in paragraph (1), (2), or (3) of section 1563(a) are, for purposes of the new part II, considered as a controlled group of corporations consisting of only such insurance companies. Corporations which are not life insurance companies, but which would be members of the same controlled group of corporations as the life insurance companies were it not for the application of paragraph (4), are treated as members of a separate controlled group of corporations.

The definition of a controlled group of insurance companies contained in section 1563(a)(4) is illustrated by the following example:

Corporation P owns all the stock of corporation I which, in turn, owns all the stock of corporation X. Also, corporation P owns all the stock of corporation Y which, in turn, owns all the stock of corporation J. Corporations I and J are life insurance companies taxable under section 802 of the code. Since corporations I and J are members of a parent-subsidiary controlled group of corporations described in section 1563(a)(1), such companies are treated as members of a controlled group of corporations separate from corporations P, X, and Y for the purposes of new part II. Also, corporations P, X, and Y are treated as members of a parent-subsidiary controlled group of corporations separate from the group consisting of corporations I and J.

(*b*) *Component member.*—Section 1563(b) provides the rules for determining whether a corporation is a component member of a controlled group of corporations. The term "component member"

is used throughout the new part II. For example, section 1561, which reduces the surtax exemption of certain corporations, affects only a corporation which is a component member of a controlled group of corporations. Also, under section 1562, only a corporation which is a component member of a controlled group of corporations is required to pay the additional tax imposed by section 1562(b).

General rule

Paragraph (1) of section 1563(b) states the general rule that a corporation is a component member of a controlled group of corporations on a December 31 (and with respect to the taxable year of such corporation which includes such December 31) if such corporation—

(A) is a member of a controlled group of corporations (as defined in sec. 1563(a)) on the December 31 included in such year and is not, for such year, treated as an "excluded member" under section 1563(b)(2), or

(B) is not a member of such controlled group of corporations on the December 31 included in such year but is, for such year, treated as an "additional member" of such group under section 1563(b)(3).

Excluded members

Paragraph (2) of section 1563(b) provides that a corporation which is a member of a controlled group of corporations (within the meaning of sec. 1563(a)) on any December 31 is treated as an excluded member of such group for its taxable year which includes such December 31 if any one of subparagraphs (A) through (E) of section 1563(b)(2) is applicable.

Under subparagraph (A) of section 1563(b)(2), a corporation is treated as an excluded member if it has been a member of the group for less than one-half the number of days in its taxable year which precede the December 31 included within such taxable year.

Under subparagraph (B) of section 1563(b)(2), a corporation is treated as an excluded member if it is exempt from taxation under section 501(a) of the code (except a corporation which has unrelated business taxable income subject to tax under sec. 511) for such taxable year.

Under subparagraph (C) of section 1563(b)(2), a corporation is treated as an excluded member if it is a foreign corporation subject to tax under section 881 of the code for such taxable year. Thus, a foreign corporation not engaged in trade or business in the United States is not treated as a component member.

Under subparagraph (D) of section 1563(b)(2), a corporation is treated as an excluded member if it is an insurance company subject to taxation under section 802 or 821 of the code for such taxable year. If a life insurance company taxable under section 802 is a member of a controlled group of insurance companies described in section 1563(a)(4), it is not treated as an excluded member of the life insurance company group of which it is a member. However, in such a case, the life insurance company is treated as an excluded member of a controlled group of corporations described in section 1563(a) (1), (2), or (3) of which it is a member. Thus, for example, if corporation P owns all the stock of corporations X, L_1, and L_2 (L_1 and L_2 being life insurance companies taxable under sec. 802) corporations L_1 and L_2 are treated as excluded members of the parent-sub-

sidiary controlled group of corporations consisting of P, X, L_1, and L_2, but are not treated as excluded members of the controlled group of insurance companies consisting of L_1 and L_2.

Under subparagraph (E) of section 1563(b)(2), a franchised corporation defined in section 1563(f)(4) is treated as an excluded member. (See the discussion in this report of franchised corporations under sec. 1563(f)(4).)

Additional members

Paragraph (3) of section 1563(b) provides that a corporation which—

(1) was a member of a controlled group of corporations at any time during a calendar year;

(2) is not a member of such group on December 31 of such calendar year; and

(3) is not described, with respect to such group, in paragraph (2) (B), (C), (D), or (E) of section 1563(b),

is treated as an additional member of such group for the corporation's taxable year which includes such December 31 if the corporation was a member of the group (within the meaning of sec. 1563(a)) for one-half (or more) of the number of days in such taxable year which precede such December 31.

The provisions of section 1563(b) (1), (2), and (3) are illustrated by the following examples:

Example (1).—Individual A owns all the stock of corporations W and X on each day of 1964. Corporation W and corporation X each uses the calendar year as its taxable year. On January 1, 1964, A also owned all the stock of corporation Y (a fiscal year corporation with a taxable year beginning on July 1, 1964, and ending on June 30, 1965) which he sells on October 15, 1964. On December 1, 1964, A purchases all the stock of corporation Z (a fiscal year corporation with a taxable year beginning on September 1, 1964, and ending on August 31, 1965). On December 31, 1964, individual A is the common owner of a brother-sister controlled group of corporations within the meaning of section 1563(a)(2) consisting of member corporations W, X, and Z. However, the component members of the group on such December 31, within the meaning of section 1563(b), are corporations W, X, and Y. Under subparagraph (A) of section 1563(b)(2), corporation Z is treated as an excluded member of this group since Z was a member of the group less than one-half of the number of days (29 out of 121 days) in the period September 1 (the first day of its taxable year) to (but not including) December 31, 1964. Under section 1563(b)(3), corporation Y is treated as an additional member since Y was a member of the group one-half or more of the number of days (107 out of 183 days) in the period July 1 (the first day of its taxable year) to (but not including) December 31, 1964.

Example (2).—On January 1, 1964, corporation P owns all the stock of corporation S–1, which in turn owns all the stock of corporation S–2. Also, on January 1, 1964, corporation X owns all the stock of corporation Y. On November 1, 1964, corporation P purchases all of the stock of corporation X and sells all of the stock of corporation S–1 to the public. Corporations P, S–1, S–2, X, and Y file their returns on the basis of the calendar year. On December 31, 1964, corporations P, X, and Y are members of a parent-subsidiary controlled group of

corporations (within the meaning of sec. 1563(a)(1)); also, corporations S–1 and S–2 are members of a separate parent-subsidiary controlled group on such date. However, since corporations X and Y have been members of the parent-subsidiary controlled group of which corporation P is the common parent for less than one-half the number of days in the period January 1 through December 30, 1964, they are not component members of such group on such date. On the other hand, corporations X and Y have been members of a parent-subsidiary controlled group (consisting of member corporations X and Y) for one-half (or more) of the number of days in the period January 1 through December 30, 1964, and therefore they are component members of such group on such date. Also, since corporations S–1 and S–2 were members of the parent-subsidiary controlled group of which corporation P is the common parent for one-half (or more) of the number of days in the taxable years of each such corporation in the period January 1 through December 30, 1964, P, S–1, and S–2 are component members of such group on December 31, 1964.

Example (3).—Throughout calendar year 1964, corporation P owns all the stock of corporation F which, in turn, owns all the stock of corporations X and I. Corporation F is a foreign corporation subject to tax under section 881 of the code on its U.S. source income, corporation I is a life insurance company subject to tax under section 802 of the code, and corporations P and X are domestic corporations subject to tax under section 11 of the code. Each corporation files its returns on the basis of the calendar year. On December 31, 1964, corporations P, F, X, and I are members of a parent-subsidiary controlled group of corporations as defined in section 1563(a)(1). However, corporations F and I are not component members of such group because they are excluded members within the meaning of section 1563(b)(2) (C) and (D). Thus, on December 31, 1964, the component members of the parent-subsidiary controlled group of which corporation P is the common parent are corporations P and X.

Example (4).—Corporation P owns all the stock of corporation S from January 1, 1964, through September 1, 1964. Each corporation files its returns on the calendar year basis. On September 2, 1964, corporation P sells its stock in corporation S to the public. The additional member rule contained in section 1563(b)(3) results in corporation P and corporation S being treated as component members of a parent-subsidiary controlled group of corporations consisting of corporations P and S on December 31, 1964.

Overlapping groups

Paragraph (4) of section 1563(b) provides that if a corporation is a component member (within the meaning of sec. 1563(b)(1)) of more than one controlled group of corporations with respect to any taxable year, such corporation is treated as a component member of only one controlled group.

The determination as to the group of which a corporation described in paragraph (4) is a component member for purposes of applying the rules contained in the new part II is to be made under regulations prescribed by the Secretary of the Treasury or his delegate which are consistent with the purposes of the new part II. The regulatory provisions issued pursuant to the authority granted to the Secretary

of the Treasury or his delegate under paragraph (4) could appropriately provide that—

(1) in any case where 80 percent or more of the total value of shares of all classes of stock of a corporation is owned by a common owner of a brother-sister controlled group (or by a member, or members, of a parent-subsidiary controlled group of corporations) and 80 percent or more of the total combined voting power of all classes of stock of the corporation entitled to vote is owned by a different common owner (or by a member, or members, of a different parent-subsidiary controlled group of corporations), such corporation will be assigned to the controlled group with respect to which 80 percent or more of the total value of its shares is owned; and

(2) in any case in which a corporation is a component member of one controlled group of corporations as a result of its stock being owned directly by a common owner (or by a member, or members, of a parent-subsidiary controlled group of corporations) and such corporation is also a component member of another controlled group of corporations as a result of its stock being owned constructively (within the meaning of sec. 1563(e)) by a different common owner (or by a member, or members, of a different parent-subsidiary group of corporations), such corporation will be assigned to the controlled group with respect to which its shares are directly owned.

(c) *Certain stock excluded.*—Paragraph (1) of section 1563(c) provides that for purposes of the new part II the term "stock" does not include—

(A) nonvoting stock which is limited and preferred as to dividends,

(B) treasury stock, and

(C) stock which is treated as "excluded stock" under section 1563(c)(2).

Stock treated as "excluded stock"

Paragraph (2) of section 1563(c) provides that for purposes of determining whether the requisite stock ownership exists so as to make a corporation a member of a controlled group of corporations described in section 1563(a), any stock in the corporation held by certain shareholders is to be treated as if it were not part of the corporation's capital structure.

Subparagraph (A) of section 1563(c)(2) specifies the stock which is treated as excluded stock for purposes of applying the stock ownership tests contained in the definition of parent-subsidiary controlled groups of corporations (sec. 1563(a)(1)). Subparagraph (B) contains similar provisions with respect to brother-sister controlled groups of corporations (sec. 1563(a)(2)). The rules contained in subparagraphs (A) and (B) of section 1563(c)(2) are also applicable for purposes of determining whether a combined group (as defined in sec. 1563(a)(3)) or a controlled group of insurance companies (as defined in sec. 1563(a)(4)) exists.

Parent-subsidiary controlled group

Subparagraph (A) of section 1563(c)(2) specifies the stock which is excluded for purposes of determining whether a corporation (re-

ferred to herein as a "subsidiary corporation") is a member of a parent-subsidiary controlled group of corporations within the meaning of section 1563(a)(1). A condition precedent to the treatment of any stock as excluded stock is that 50 percent or more of the total combined voting power of all classes of stock entitled to vote or 50 percent or more of the total value of shares of all classes of stock in the subsidiary corporation must be owned (within the meaning of sec. 1563(d)(1) and after applying the constructive ownership rule contained in sec. 1563(e)(4)) by another corporation (referred to herein as the "parent corporation"). For purposes of determining whether the parent corporation owns the requisite 50 percent of stock in the subsidiary corporation, the term "stock" does not include nonvoting stock which is limited and preferred as to dividends, or treasury stock. (See sec. 1563(c)(1).)

Subparagraph (A)(i) specifies as excluded stock any stock in a subsidiary corporation held by a trust which is part of a plan of deferred compensation for the benefit of employees of the parent corporation or of the subsidiary corporation. A trust forming part of a stock bonus, pension, or profit-sharing plan (whether or not the plan is one described in sec. 401 of the code, and whether or not the trust is exempt from tax under sec. 501(a) of the code) is an example of a deferred compensation plan. The term "employee" is defined in section 1563(f)(1) (by reference to the definition of "employee" in sec. 3306(i) of the code).

Subparagraph (A) (ii) specifies as excluded stock any stock in a subsidiary corporation owned by an individual who is a principal stockholder or officer of the parent corporation. Ownership of stock by the individual is determined under section 1563(d)(2) (except that stock owned by the parent corporation is not excluded stock even though it is constructively owned by the individual by virtue of sec. 1563(e)(4)). The term "principal stockholder" of a corporation is defined by subparagraph (A)(ii) to mean an individual who owns (within the meaning of sec. 1563(d)(2)) 5 percent or more of the total combined voting power of all classes of stock entitled to vote or 5 percent or more of the total value of shares of all classes of stock in the corporation.

Subparagraph (A)(iii) specifies as excluded stock any stock in a subsidiary corporation which is owned (within the meaning of sec. 1563(d)(2)) by an employee of the subsidiary corporation if such stock is subject to conditions which run in favor of the parent corporation or subsidiary corporation and which substantially restrict or limit the employee's right (or, if the employee constructively owns such stock, the direct owner's right) to dispose of the stock. As used in subparagraph (A)(iii),the term "employee" includes an officer of the corporation (see sec. 1563(f)(1) for the definition of "employee" for purposes of sec. 1563). An example of a condition which substantially restricts or limits an employee's right to dispose of his stock within the meaning of subparagraph (A)(iii) is a condition whereby the parent corporation is given a right of first refusal if such stock is offered for sale.

The provisions of subparagraph (A) of section 1563(c)(2) are illustrated by the following examples:

Example (1).—Corporation P owns 70 of the 100 shares of the only class of stock of corporation S. The remaining shares of corporation S are owned as follows: 4 shares by individual A (the president of

corporation P), and 26 shares by individual B (who owns directly 10 percent of the voting stock of corporation P). Corporation P meets the 50-percent stock ownership requirement which is a condition precedent to the treatment of any stock as excluded stock under subparagraph (A) of section 1563(c)(2). Since individual A is an officer of corporation P, and individual B is a principal stockholder of corporation P, the stock owned by A in corporation S (4 shares) and the stock owned by B in corporation S (26 shares) is treated as excluded stock under subparagraph (A)(ii) of section 1563(c)(2). Thus, the total outstanding stock in corporation S is considered to consist of 70 shares, all of which are owned by corporation P. Therefore, corporations P and S are members of a parent-subsidiary controlled group of corporations.

Example (2).—Corporation P owns 60 percent of the only class of stock of corporation S. Individual E, the general manager of corporation S, owns the remaining 40 percent of the stock of corporation S. Individual E has agreed that if he offers his stock in S for sale he will first offer the stock to corporation P at a price equal to the then fair market value of the stock. Since the stock in S held by E is subject to conditions which run in favor of the parent corporation and substantially restrict E's right to dispose of such stock, such stock is treated as excluded stock under subparagraph (A)(iii) of section 1563(c)(2), and P is treated as owning 100 percent of the stock of S. Therefore, corporation P is the common parent of a parent-subsidiary controlled group of corporations consisting of member corporations P and S.

Brother-sister controlled group

Subparagraph (B) of section 1563(c)(2) specifies the stock of a corporation which is excluded for purposes of determining whether such corporation is a member of a brother-sister controlled group of corporations within the meaning of section 1563(a)(2). A condition precedent to the treatment of any stock of a corporation as "excluded stock" is that 50 percent or more of the total combined voting power of all classes of stock of the corporation entitled to vote or 50 percent or more of the total value of shares of all classes of stock in the corporation must be owned (within the meaning of sec. 1563(d)(2)) by a person who is an individual, estate, or trust (hereinafter referred to as the "common owner"). For purposes of determining whether the common owner owns the requisite 50 percent of stock in a corporation, the term "stock" does not include nonvoting stock which is limited and preferred as to dividends, or treasury stock. (See sec. 1563(c)(1).)

Subparagraph (B)(i) specifies as excluded stock any stock in a corporation held by an employees' trust described in section 401(a) of the code which is exempt from tax under section 501(a) of the code and which is for the benefit of the employees of such corporation.

Subparagraph (B)(ii) specifies as excluded stock any stock in a corporation which is owned (within the meaning of sec. 1563(d)(2)) by an employee of such corporation subject to certain conditions which run in favor of the common owner or the corporation and which substantially restrict or limit the employee's right (or, if the employee constructively owns the stock, the right of the person who directly owns the stock) to dispose of the stock. However, if a condition

which limits or restricts an employee's right (or the direct owner's right) to dispose of his stock in a corporation is also applicable to stock in such corporation held by the common owner pursuant to a bona fide reciprocal stock purchase arrangement, such condition is not treated as one which restricts or limits the employee's right to dispose of such stock. For example, if two stockholders of a corporation, both of whom are employees, enter into a "buy-sell agreement" which provides that the stockholder-employees may not sell their stock interest to outsiders without first offering it to the other stockholder-employee (or the corporation) at a determinable price, such condition would not be treated as one which restricts or limits the employee's right to dispose of the stock.

(*d*) *Rules for determining stock ownership.*—Paragraph (1) of section 1563(d) provides the rules of stock ownership used in determining whether a corporation is a member of a parent-subsidiary controlled group of corporations (within the meaning of sec. 1563(a)(1)). Paragraph (1) provides that stock owned by a corporation means the stock owned directly by such corporation and also any stock which such corporation has an option to acquire (within the meaning of sec. 1563(e)(1)). Paragraph (2) provides the stock ownership rules for purposes of determining whether a corporation is a member of a brother-sister controlled group of corporations (within the meaning of sec. 1563(a)(2)). Under paragraph (2), stock owned by a person who is an individual, estate, or trust means the stock owned directly by such person and also any stock constructively owned with the application of section 1563(e). The rules contained in paragraphs (1) and (2) are also applicable for purposes of determining whether a combined group (within the meaning of sec. 1563(a)(3)) or a controlled group of insurance companies (as defined in sec. 1563(a)(4)) exists.

(*e*) *Constructive ownership.*—Section 1563(e) provides rules for determining constructive ownership of stock for purposes of the new part II. For these purposes, the term "stock" does not include non-voting stock which is limited and preferred as to dividends, or treasury stock (see sec. 1563(c)(1)).

Options

Paragraph (1) of section 1563(e) provides that a person is considered as owning any outstanding stock of a corporation if he has an option to acquire such stock. For purposes of this paragraph, an option to acquire such an option (and each one of a series of such options) is considered as an option to acquire such stock.

Attribution from partnerships

Paragraph (2) of section 1563(e) provides for the attribution of stock owned, directly or indirectly, by or for a partnership to a partner in proportion to the partner's interest in the partnership. The proportionate interest of a partner is based on his interest in the profits or the capital of the partnership, whichever such interest is the greater. However, no stock owned by or for the partnership is attributed to a partner who does not have at least a 5-percent interest in either the capital or profits of the partnership.

Attribution from estates or trusts

Paragraph (3)(A) of section 1563(e) provides for the attribution of stock owned, directly or indirectly, by or for an estate or trust to the

beneficiaries of these entities. Attribution is determined on the basis of each beneficiary's actuarial interest in the stock so owned by an estate or trust (and not on the basis of the beneficiary's interest in the estate or trust). This rule applies with respect to a beneficiary without regard to whether his interest is present or future, and without regard to whether his interest is vested or contingent. In applying this rule, the actuarial interest of each beneficiary in stock is determined by assuming the maximum exercise of discretion by the fiduciary in favor of such beneficiary and the maximum use of such stock to satisfy his rights as a beneficiary. However, there is no attribution of stock from an estate or trust to a beneficiary who has less than a 5-percent actuarial interest in such stock.

Paragraph (3)(B) of section 1563(e) provides a special rule in the case of certain trusts. Stock owned, directly or indirectly, by or for any portion of a trust of which a person is considered the owner under subpart E of part I of subchapter J of chapter 1 of the code (relating to grantors and others treated as substantial owners) is considered as owned by such person.

Paragraph (3)(C) of section 1563(e) provides that there is no attribution of ownership of stock to beneficiaries from an employees' trust if the trust is described in section 401(a) of the code and is exempt from tax under section 501(a) of the code.

Attribution from corporations

Paragraph (4) of section 1563(e) provides that a person is considered as owning stock owned, directly or indirectly, by or for a corporation in proportion to the value of his stock interest in the corporation. However, there is no attribution to a person who owns less than 5 percent of the value of all the stock in such corporation. For purposes of determining whether a person owns 5 percent or more of the stock of a corporation, the stock in such corporation owned by such person within the meaning of section 1563(d)(1) (if the person is a corporation), or section 1563(d)(2) (if the person is an individual, estate, or trust), is taken into account.

Spouse

Paragraph (5) of section 1563(e) provides the general rule that an individual is considered as owning stock in a corporation owned, directly or indirectly, by or for his spouse. The term "spouse" does not include a spouse who is legally separated from the individual under a decree of divorce whether interlocutory or final, or a decree of separate maintenance. Paragraph (5) also contains an exception to the general rule of attribution between spouses. An individual is not considered as owning (on any day of the taxable year of a corporation) stock in such corporation owned, directly or indirectly, by or for his spouse, provided the following conditions are satisfied with respect to such taxable year:

(A) The individual does not, at any time during such taxable year, own directly any stock in such corporation;

(B) The individual is not a director or employee and does not participate in the managment of the corporation at any time during such taxable year;

(C) Not more than 50 percent of the corporation's gross income for such taxable year was derived from royalties, rents, dividends, interest, and annuities; and

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(D) The stock in the corporation is not, at any time during such taxable year, subject to conditions which substantially restrict or limit the spouse's right to dispose of such stock and which run in favor of the individual or his children who have not attained the age of 21 years.

For purposes of paragraph (5), the term "employee" is defined in section 1563(f)(1), and "child" includes a legally adopted child.

Children, grandchildren, parents, and grandparents

Paragraph (6) of section 1563(e) provides the attribution rules with respect to lineal descendents and ancestors. Subparagraph (A) of section 1563(e)(6) provides that an individual is considered as owning stock owned, directly or indirectly, by or for his children who are under the age of 21 years. Conversely, an individual who has not attained the age of 21 years is considered as owning stock owned, directly or indirectly, by or for his parents.

Subparagraph (B) provides the rules for attribution in the case of adult children, as well as grandchildren (regardless of age). If an individual owns, within the meaning of section 1563(d)(2) but without regard to such subparagraph (B), more than 50 percent of the total combined voting power of all classes of stock entitled to vote or more than 50 percent of the total value of shares of all classes of stock in a corporation, then such individual is also considered as owning any stock in such corporation owned, directly or indirectly, by or for his parents, grandparents, grandchildren, and children who have attained the age of 21 years. A legally adopted child is treated as if such child were a child by blood.

(f) Other definitions and rules.—Paragraph (1) of section 1563(f) defines the term "employee" for purposes of section 1563 to have the same meaning as such term has in section 3306(i) of the code (relating to definitions for purposes of the Federal Unemployment Tax Act).

Operating rules

Paragraph (2) of section 1563(f) contains operating rules for applying the constructive stock ownership provisions of section 1563(e).

Subparagraph (A) of section 1563(f)(2) provides that stock which is constructively owned by a person by reason of the constructive ownership provisions of section 1563(e) is considered as actually owned by such person for purposes of again applying such provisions. An exception, contained in subparagraph (B) of section 1563(f)(2), provides that stock constructively owned by an individual by reason of the application of paragraphs (5) or (6) of section 1563(e) (relating to attribution among certain members of the family) is not considered as owned by him for purposes of again applying such paragraphs in order to make another the constructive owner of such stock.

Special rules

Paragraph (3) of section 1563(f) contains two special rules for purposes of section 1563.

The first special rule is contained in subparagraph (A) of section 1563(f)(3). Under this rule, if stock may be considered as owned by a person under paragraph (1) of section 1563(e) (relating to attribution

through option to acquire stock) and under any other paragraph of section 1563(e), it is considered as owned by him under paragraph (1). For example, assume individual F has an option to purchase the stock of a corporation which is owned by his son, S, aged 17 years. In such case, the stock is considered as owned by F under paragraph (1) of section 1563(e) and paragraph (6)(A) of section 1563(e). Under the special rule contained in subparagraph (A) of section 1563(f)(3), F is considered as owning the stock under paragraph (1) of section 1563(e). Since F is considered as owning the stock under paragraph (1) of section 1563(e), such stock may be reattributed under the rules relating to family attribution without violating the rule contained in subparagraph (B) of section 1563(f)(2).

The second special rule is contained in subparagraph (B) of section 1563(f)(3). This rule provides that if stock may be considered as owned by two or more persons, such stock is considered as owned by the person whose ownership of the stock results in the corporation being a component member of a controlled group of corporations. For example, assume individual W owns all the stock of corporation X and the conditions described in subparagraphs (A) through (D) of section 1563(e)(5) are satisfied. Therefore, the stock of corporation X owned by W is not attributed to her husband, H. Also, assume that H and W each directly own 50 percent of the only class of stock of corporation Y. Thus, all of the stock of corporation Y may be considered as owned by either H or W as a result of applying the general rule of spouse attribution of section 1563(e)(5) (H owns directly 50 percent of the stock of Y and is considered as owning the 50 percent owned by W; conversely, W owns directly 50 percent of the stock of Y and is considered as owning the 50 percent owned by H). Applying the special rule contained in subparagraph (B) of section 1563(f)(3), W is considered to own H's stock in corporation Y since only if H's stock holdings are attributed to W will corporation Y be a component member of a brother-sister controlled group of corporations for purposes of the new part II.

If the application of the operating rule of subparagraph (B) results in a corporation being a component member of two (or more) controlled groups, the corporation is treated as a component member of only one such controlled group. The determination of the controlled group of which such corporation is treated as a component member is to be made under regulations prescribed by the Secretary of the Treasury or his delegate which are consistent with the purposes of the new part II.

Franchised corporation

Paragraph (4) of section 1563(f) provides that a corporation (referred to as a "franchised corporation") which is franchised to sell the products of another member (or the common owner) of a controlled group of corporations will be treated as an excluded member of such group (under sec. 1563(b)(2)) for its taxable year if all of the following conditions are met for one-half (or more) of the number of days in such year preceding the December 31 included in such year (or, if the taxable year does not include December 31, one-half (or more) of the number of days preceding the last day of such year):

(1) The parent corporation (as defined in sec. 1563(c)(2)(A)), or common owner (as defined in sec. 1563(c)(2)(B)), of such

franchised corporation is under a duty (arising out of a written agreement) to sell stock of such franchised corporation.

(2) The stock of the franchised corporation is to be sold to an employee (or employees) of such corporation pursuant to a bona fide plan designed to eliminate the stock ownership of the parent corporation or of the common owner in the franchised corporation. This requirement is satisfied whether the stock is to be sold to the employee (or employees) or is to be redeemed by the franchised corporation.

(3) The plan provides a reasonable selling price for the stock.

(4) The plan requires that a portion of the employee's share of the profits of the franchised corporation (whether received as compensation or as a dividend) be applied to the purchase of the stock held by the parent corporation or common owner. Such profits may also be applied to the purchase of notes, bonds, debentures, or other similar evidence of indebtedness of the franchised corporation held by the parent corporation or the common owner. This provision does not require that a percentage of every dollar of the profits received by the employee must be applied to the purchase of the stock (or the indebtedness). The requirements of this provision are met even though the employee's share of the profits will not be applied unless certain specified conditions (such as a requirement that the corporation earn a specified profit) are met, provided such conditions are reasonable.

(5) The employee (or employees) own directly more than 20 percent of the total value of shares of all classes of stock in the franchised corporation.

(6) More than 50 percent of the inventory of the franchised corporation is acquired from members of the controlled group, the common owner, or both.

SECTION 223. REDUCTION OF SURTAX EXEMPTION IN CASE OF CERTAIN CONTROLLED CORPORATIONS, ETC. (Continued)

(*b*) *Disallowance of surtax exemption and accumulated earnings credit.*—Subsection (b) of section 223 of the bill amends section 1551 of the code (relating to disallowance of surtax exemption and accumulated earnings credit) in several respects. Section 1551 of the code provides, in general, that if a corporation transfers all or part of its property (other than money) to a corporation which was created for the purpose of acquiring such property or was not actively engaged in business at the time of the acquisition, the transferee corporation is not permitted the $25,000 surtax exemption or the $100,000 accumulated earnings credit if after the transfer the transferor or its shareholders, or both, are in control of the transferee, unless the transferee establishes by the clear preponderance of the evidence that the securing of the surtax exemption or the accumulated earnings credit was not a major purpose of the transfer.

Section 1551 of the code, as amended by this section of the bill, provides that in the case of transfers of property after June 12, 1963, an

indirect (as well as a direct) transfer of property (other than money) by a transferor corporation to a transferee corporation is within the scope of the section. Also, the coverage of section 1551 is extended to include certain transfers of property to a corporation after June 12, 1963, by individuals if after the transfer certain stock ownership requirements are met. Finally, section 1551, as amended, provides that if a surtax exemption is disallowed to a corporation under such section for any taxable year, the additional tax imposed by section 1562(b) of the code (as added by sec. 223(a) of the bill) is not applicable to such corporation for such taxable year.

Section 1551(a)(1) as amended refers to a transfer by a corporation made on or after January 1, 1951, and on or before June 12, 1963. Such a transfer is governed by the provisions of existing law, since (under the effective date contained in sec. 223(d) of the bill) the amended section 1551 applies only to transfers made after June 12, 1963.

Under section 1551(a)(2) as amended, the direct or indirect transfer of property (other than money) after June 12, 1963, by a transferor corporation to a transferee corporation is a transfer of property subject to the provisions of section 1551, if after such transfer the transferor corporation is in control of the transferee corporation for any part of the latter's taxable year. An "indirect transfer" within the meaning of section 1551(a)(2) is illustrated by the following examples:

Example (1).—On June 15, 1963, corporation X organizes corporation Y (a wholly owned subsidiary) and transfers cash to such corporation which it then uses to purchase stock in trade from corporation X. The exception for transfers of money does not apply to the transfer by corporation X to corporation Y. X has made an indirect transfer of property (other than money) within the meaning of subsection (a)(2) of section 1551.

Example (2).—The stockholders of corporation X acquire property (other than money) of corporation X and as part of the same transaction transfer such property to corporation Y (a corporation which was created for the purpose of acquiring such property). The transfer of property to corporation Y by the stockholders of corporation X is an indirect transfer of property by corporation X.

Under section 1551(a)(3) as amended section 1551 is extended to include the direct or indirect transfer of property (other than money) to a transferee corporation after June 12, 1963, by five or fewer individuals who are in control of a corporation, if after such transfer such individuals are in control of the transferee corporation for any part of its taxable year. Control is defined for this purpose in section 1551(b)(2).

Section 1551(a) as amended provides that in the case of a transfer described in paragraph (2) or (3) thereof, if the transferee corporation was created for the purpose of acquiring the property involved or was not actively engaged in business at the time of such acquisition, and if after such transfer the transferor or transferors are in control of the transferee corporation during any part of the taxable year of the transferee corporation, then for such taxable year of the transferee corporation the Secretary of the Treasury or his delegate may (except

as may be otherwise determined under sec. 1551(d)) disallow the surtax exemption (as defined in sec. 11(d) of the code), or the $100,000 accumulated earnings credit provided in paragraph (2) or (3) of section 535(c) of the code, unless the transferee corporation establishes by the clear preponderance of the evidence that the securing of such exemption or credit was not a major purpose of such transfer.

Section 1551(b) as amended defines the term "control" for purposes of section 1551(a).

Paragraph (1) of section 1551(b) provides that the term "control" means, with respect to a transferee corporation described in section 1551(a)(2), the ownership by the transferor corporation, its shareholders, or both, of stock possessing at least 80 percent of the total combined voting power of all classes of stock entitled to vote or at least 80 percent of the total value of shares of all classes of the stock. This definition is substantially the same as the definition presently contained in section 1551 except that the new section 1563(e) of the code applies in determining the ownership of stock.

Paragraph (2) of section 1551(b) provides that five or fewer individuals are in control if such individuals own—

(A) at least 80 percent of the total combined voting power of all classes of stock entitled to vote or at least 80 percent of the total value of shares of all classes of stock of (i) the transferee corporation, and (ii) at least one corporation which such individual (or individuals) controlled (within the meaning of sec. 1551(b)(2)(A), as amended) before the transfer, and

(B) more than 50 percent of the total combined voting power of all classes of stock entitled to vote or more than 50 percent of the total value of shares of all classes of stock of each such corporation, taking into account the stock ownership of each such individual only to the extent such stock ownership is identical with respect to each such corporation.

For purposes of applying the stock ownership tests contained in section 1551(b) as amended, the constructive ownership rules of section 1563(e) of the code (as added by sec. 223(a) of the bill) apply.

The application of the definition of "control" contained in section 1551(b)(2), in the case of a transfer described in section 1551(a)(3), is illustrated by the following example:

Example.—On January 1, 1964, individual A owns 65 percent of the only class of stock of corporation X and individual B owns the remaining 35 percent of the stock. Also, on January 1, 1964, A and B transfer property (other than money) to corporation Y (a newly formed corporation) and receive stock of corporation Y in return. After the transfer, A and B own the stock of corporations X and Y in the following proportions:

	Corporation X	Corporation Y	Identical ownership
A	65	35	35
B	35	65	35
Total	100	100	70

The transfer of property by individuals A and B to corporation Y is a transfer described in section 1551(a)(3), as amended, since the same five or fewer individuals (A and B) own more than 80 percent of the stock of corporations X and Y as required under section 1551(b)(2)(A) and the identical ownership equals more than 50 percent as required under section 1551(b)(2)(B). The identical ownership of A and B is 70 percent, even though together they actually own 100 percent of the stock, since the stock taken into account for A is 35 percent and for B is 35 percent. Thus, the Secretary of the Treasury or his delegate may disallow the surtax exemption or the accumulated earnings credit to corporation Y, unless corporation Y establishes by the clear preponderance of the evidence that the securing of such exemption or credit was not a major purpose of the transfer of property to corporation Y.

Section 1551(c) as amended provides that if the surtax exemption is disallowed to a transferee corporation for any taxable year, the additional tax imposed under section 1562(b) of the code (as added by sec. 223(a) of the bill) is not applicable with respect to such transferee corporation for such taxable year.

Section 1551(d) as amended retains the provisions contained in the last sentence of the existing section 1551 relating to the application of the provisions of section 269(b) of the code.

(*c*) *Technical amendments.*—Paragraph (1) of section 223(c) of the bill makes a technical amendment to the second sentence of section 802(a)(1) of the code (relating to tax on life insurance companies).

Paragraph (2) of section 223(c) of the bill amends section 269(a) of the code (relating to acquisitions made to evade or avoid income tax) to make changes corresponding to the changes in the provisions of the new section 1551(c) (and the related provision of sec. 1551(a)) made by section 223(b) of the bill (see above).

Paragraph (3) of section 223(c) of the bill amends section 441(f)(2)(A) of the code (relating to effective date with respect to special rules for 52-53 week year). Under this amendment, if a corporation elects a 52-53 week taxable year under section 441(f)(1) of the code and such taxable year includes more than one December 31, the applicability of the new part II of subchapter B of chapter 6 of the code to such taxable year would be determined by applying the provisions of section 441(f)(2)(A). Accordingly, such year is treated as containing only one December 31, and such December 31 is applicable in applying the new part II.

Paragraph (4) of section 223(c) of the bill adds a table of parts and a heading to subchapter B of chapter 6 of the code.

(*d*) *Effective date.*—Subsection (d) of section 223 of the bill provides that the amendments made by subsections (a) and (c) of such section apply with respect to taxable years ending after December 31, 1963. The amendment by subsection (b) of such section applies with respect to transfers made after June 12, 1963.

TITLE III—OPTIONAL TAX ON INDIVIDUALS; COLLECTION OF INCOME TAX AT SOURCE ON WAGES

SECTION 301. OPTIONAL TAX IF ADJUSTED GROSS INCOME IS LESS THAN $5,000

(*a*) *Optional tax.*—Subsection (a) of section 301 of the bill amends section 3 of the code (relating to optional tax if adjusted gross income is less than $5,000). Under the existing provisions of section 3, there is imposed on the taxable income of each individual whose adjusted gross income is less than $5,000, and who has elected to pay the tax imposed by section 3, the tax shown in the table set out in section 3

Taxable years beginning in 1964

Section 3(a) of the code, as amended by this section of the bill, is applicable to taxable years beginning on or after January 1, 1964, and before January 1, 1965. It retains the substantive rules contained in the existing section 3 but substitutes for the table in the existing section 3 the following tables:

Table I—Single person, NOT head of household.
Table II—Head of household.
Table III—Married persons filing JOINT returns.
Table IV—Married persons filing SEPARATE returns, 10 PERCENT STANDARD DEDUCTION.
Table V—Married persons filing SEPARATE returns, MINIMUM STANDARD DEDUCTION.

Taxable years beginning after December 31, 1964

Section 3(b) as amended is applicable to taxable years beginning after December 31, 1964. Like the amended section 3(a), the amended section 3(b) retains the substantive rules of the existing section 3 but substitutes for the table in the existing section 3 tables with captions identical to the captions of the tables in the amended section 3(a).

(*b*) *Rules for optional tax.*—Subsection (b) of section 301 of the bill amends section 4 of the code (relating to rules for optional tax).

Husband or wife filing separate return

Paragraph (1) of section 301(b) of the bill amends section 4(c) of the code (relating to husband or wife filing separate returns). Under the provisions of the existing section 4(c), a husband or wife may not elect to pay the optional tax imposed by section 3 if the tax of the other spouse is determined under section 1 of the code on the basis of taxable income computed without regard to the standard deduction. This rule is retained in paragraph (1) of section 4(c) as amended. The existing section 4(c) also provides that, for purposes of such section, determination of marital status is to be made under section 143 of the code. This rule is retained in paragraph (4) of section 4(c) as amended.

Paragraph (2) of section 4(c) as amended provides that, except as otherwise provided in such section, in the case of a husband or wife filing a separate return and electing to pay the tax imposed by section 3, the tax shall be the lesser of the tax shown in the Table IV (married persons filing separate returns, 10 percent standard deduction) or the

Table V (married persons filing separate returns, minimum standard deduction) which is applicable for the taxable year.

Paragraph (3) of section 4(c) as amended provides that neither Table V of section 3(a) nor Table V of section 3(b) applies in the case of a married individual filing a separate return if the tax of his spouse is determined with regard to the 10-percent standard deduction. Thus, notwithstanding the rule of section 4(c)(2), a married individual filing a separate return and electing to pay the tax imposed by section 3 must use Table IV (10-percent standard deduction) if his spouse takes the 10-percent standard deduction (including the case where his spouse uses Table IV).

Paragraph (3) of section 4(c) also provides that a married individual may elect to pay the tax shown in Table V in lieu of the tax shown in Table IV if he is a person described in section 141(d)(2) of the code (relating to standard deduction). A person described in section 141 (d)(2) is a married individual who files a separate return, provided that the minimum standard deduction of such individual is less than his 10-percent standard deduction and provided that the minimum standard deduction of such individual's spouse is greater than such spouse's 10-percent standard deduction. The definitions of the terms "10-percent standard deduction" and "minimum standard deduction" are contained in sections 141(b) and 141(c), respectively.

Paragraph (3) of section 4(c) also provides that, for purposes of the code, an election under such paragraph is treated as an election made under section 141(d)(2). Thus, the rules applicable to elections under section 141(d)(2) which are provided in section 144 (relating to election of standard deduction), including the rules as to changes of election provided in section 144(b) and (c), are applicable to an election under section 4(c)(3).

Amendment of section 6014

Paragraph (2) of section 301(b) of the bill amends section 6014(a) of the code (relating to income tax return-tax not computed by taxpayer). Under the existing provisions of section 6014(a), an individual entitled to elect to pay the tax imposed by section 3 of the code may, in certain cases, elect not to show on his return the tax imposed by section 1. The existing section 6014(a) further provides that in such cases the Secretary of the Treasury or his delegate computes the tax imposed by section 3, but, in determining the amount of tax payable, certain credits are not allowable and the tax is computed without regard to the taxpayer's status as head of household or as a surviving spouse. Paragraph (2) of section 301(b) of the bill adds to section 6014(a) the rule that, in the case of a married taxpayer filing a separate return and claiming the benefits of section 6014(a), neither Table V in section 3(a) nor Table V in section 3(b) is applicable. Thus, a married taxpayer filing a separate return who elects under section 6014(a) not to compute his tax is not entitled to have his tax determined with regard to the minimum standard deduction.

Technical amendments

Paragraph (3)(A) of section 301(b) of the bill amends section 4(a) of the code (relating to rules for optional tax) to reflect the fact that section 3 of the code (relating to optional tax if adjusted gross income is less than $5,000), as amended by this section of the bill, contains a new series of tables showing the tax imposed by section 3.

Paragraph (3)(B) of section 301(b) of the bill amends section 4(f) of the code by adding a cross reference to section 6014(a) (relating to income tax return-tax not computed by taxpayer), calling attention to the nonapplicability of Table V in section 3(a) and Table V in section 3(b) in cases where a married taxpayer filing a separate return elects under section 6014(a) to have his tax computed by the Secretary of the Treasury or his delegate.

(c) *Effective date.*—Subsection (c) of section 301 of the bill provides that, except for purposes of section 21 of the code (relating to effect of changes in rates during a taxable year), the amendments made by section 301 apply to taxable years beginning after December 31, 1963.

SECTION 302. INCOME TAX COLLECTED AT SOURCE

(a) *Percentage method of withholding.*—Subsection (a) of section 302 of the bill amends section 3402(a) of the code (relating to income tax collected at source) to provide a 15-percent withholding rate in the case of wages paid during the calendar year 1964 and a 14-percent withholding rate in the case of wages paid after December 31, 1964.

(b) *Wage bracket withholding.*—Subsection (b) of section 302 of the bill amends section 3402(c)(1) of the code (relating to wage bracket withholding) by providing new withholding tables for wages paid during the calendar year 1964, and new tables for wages paid after December 31, 1964.

(c) *Withholding of tax on certain nonresident aliens.*—Subsection (c)(1) of section 302 of the bill amends section 1441(a) of the code (relating to withholding of tax on nonresident aliens) to provide a 15-percent withholding rate in the case of payments made during the calendar year 1964, and a 14-percent withholding rate in the case of payments made after December 31, 1964.

Subsection (c)(2) of section 302 of the bill amends section 1441(b) of the code (relating to income items) to refer to the new rates of 15 percent or 14 percent, as the case may be, provided by the amended section 1441(a).

(d) *Effective dates.*—Subsection (d) of section 302 of the bill provides that the amendments made by subsections (a) and (b) of such section apply with respect to remuneration paid after December 31, 1963, and that the amendment made by subsection (c) applies with respect to payments made after December 31, 1963.

SUPPLEMENTAL VIEWS OF

HONORABLE A. SYDNEY HERLONG, Jr., AND HONORABLE HOWARD H. BAKER

ON INDIVIDUAL TAX RATE REDUCTION

SUPPLEMENTAL VIEWS OF A. SYDNEY HERLONG, JR., AND HOWARD H. BAKER ON INDIVIDUAL TAX RATE REDUCTION

A nation will welcome and benefit from a reduction in a tax burden which still reflects wartime conditions. For this reason we have joined in sending to the House H.R. 8363, which reduces this burden by more than $9 billion for individuals and by more than $2 billion for corporations.

Our purpose in filing these further views is not to object to what the committee has done in approving income tax rate reduction, but rather to what it has not done. While the new individual rate schedule would bring the confiscatory top rate down from 91 to 70 percent, and reduce the burden on the lowest taxable incomes by 30 percent, it neglects the problem of rate graduation in between.

Rate graduation or progression has become a widely accepted part of our individual income tax rate structure. It is not practical to expect that graduation will be eliminated or that we will move to a proportional system of income taxation. We strongly believe, however, that within accepted bottom and top rates, there should be sensible and equitable reform of graduation. Committee hearings and executive sessions over the years have resulted in a clear record that the present system of graduation has no economic or scientific basis, but, like Topsy, "it just growed."

Although the new schedule in H.R. 8363 provides rate reduction in the lowest bracket of 30 percent and in the highest bracket of about 23 percent, the reductions in the middle income brackets are as little as 15 percent. The result is that the H.R. 8363 rate structure climbs more steeply than the present structure through the lower portion of the graduated scale, that is, up to the bracket of $20,000 to $22,000.

The present rate structure and the schedule contained in H.R. 8363, imposes—relative to income total and bracket size—the heaviest graduation through the middle brackets. The extent of graduation is best visualized by the number of percentage points by which the rates increase from bracket to bracket. The key to systematic reform of rate graduation is minimizing the percentage points between brackets as an individual progresses up the income scale through the middle brackets.

The following table shows for the first 10 graduated brackets, encompassing taxable income from $2,000 to $22,000, (1) the present rate schedule; (2) the H.R. 8363 rate schedule; (3) a schedule providing for full reform of graduation, that is, the minimum percentage points between brackets; and (4) a schedule providing for partial reform of graduation.

B3

Taxable income brackets	Present rates (1)	H.R. 8363 rates (2)	Full reform of graduated rates (3)	Partial reform of graduated rates (4)	Percentage points between brackets			
					(1)	(2)	(3)	(4)
	Percent	*Percent*	*Percent*	*Percent*				
$2,000 to $4,000	22	19	18	19	----	----	----	----
$4,000 to $6,000	26	22	19	21	4	3	1	2
$6,000 to $8,000	30	25	20	23	4	3	1	2
$8,000 to $10,000	34	28	21	25	4	3	1	2
$10,000 to $12,000	38	32	22	27	4	4	1	2
$12,000 to $14,000	43	36	23	29	5	4	1	2
$14,000 to $16,000	47	39	24	31	4	3	1	2
$16,000 to $18,000	50	42	25	33	3	3	1	2
$18,000 to $20,000	53	45	26	35	3	3	1	2
$20,000 to $22,000	56	48	27	37	3	3	1	2

The rates under (1) could be called ideal at these income levels and those under (2) would make a start toward the ideal.

The table presents the rate schedules only for the first 10 graduated brackets because it is in these brackets that the income jumps are the smallest—$2,000. The H.R. 8363 rate schedule, like the existing schedule, contains rate jumps between these brackets that are as great or in some instances greater than those applying to much higher brackets where the income jumps are double and triple those in the lower portion of the graduated rate scale. How the rates in these 10 brackets fit into overall rate schedules is shown in a second table (app. A) of these views.

Taking the overall rate structure, the best indication of the intensity of graduation is the division of percentage points of graduation between the middle brackets and the higher brackets.

Under the present rate structure 36 out of 71 of the percentage points of graduation are reached at the taxable income bracket of $20,000 to $22,000.

Under the schedule in H.R. 8363, 35 out of 56 of the percentage points of graduation are reached at this level. In other words, H.R. 8363 increases from one-half to nearly two-thirds the concentration of percentage points of graduation up through the $20,000 to $22,000 bracket.

It is somewhat ironic perhaps that in present law and under H.R. 8363 1 and 2 percentage point jumps do exist in the higher and larger graduated brackets but not through the middle income brackets. We believe that the only kind of graduation which would be logical and equitable and make any economic sense would be one under which rate jumps of more than 1 or 2 percentage points would come at the top and not at the bottom or through the middle of the graduated scale.

The President, in submitting his 1963 tax program to the Congress, stated that adoption of a new rate structure along the lines recommended would "restore an idea that has helped make our country great—that a person who devotes his efforts to increasing his income, thereby adding to the Nation's income and wealth, should be able to retain a reasonable share of the results." There obviously are many different views as to what is a "reasonable share" of a person's income. We believe, however, that the American people accept the idea that those citizens who work harder, put in longer hours, and contribute more in any undertaking are entitled to higher rate of pay and income. The extreme graduation of our tax rate structure that is perpetuated

and even compounded in H.R. 8363 operates in reverse; namely, to penalize our most productive citizens. A good analogy of the way the extremes of rate graduation operate to penalize these citizens would be a business firm that cut salesmen's commissions every time the sales are increased.

There is no case in equity for the disproportionate taxation of any part of the income of people whose achievements in life are totally dependent upon their own efforts. The increasing rate of taxation as they make their way up the income ladder is repugnant to the universally accepted principle of extra compensation for extra effort. The graduated rates place a penalty on what is considered meritorious and deserving outside of the tax field.

The extra and increasing burden rate graduation placed on these productive citizens smothers incentives, severely limits the accumulation of new venture capital, discourages the venturesome use of such new capital as it is accumulated, and, in general, inhibits the starting of new businesses and the expansion of old. The burden of rate graduation also serves to dull the incentives of our Nation's junior executives, budding small businessmen, and professional people—a story which has been told to the committee many times by representatives of the U.S. Junior Chamber of Commerce. It is these young people that we must rely upon to provide the enterprising spirit, the long hours of hard work and the management skills needed if the economy is to provide enough jobs to get and keep unemployment down to a relatively low level through the years ahead. The savings of citizens in the middle income brackets have historically been a prime source of venture capital needed for the creation of new jobs and for a dynamically expanding economy. It is a historic fact of our "free" economy that when it is not artificially restrained by excessive tax rates, or by other means, there never is enough venture capital or total capital to meet all the opportunities for investment and growth.

There are a number of widely held myths surrounding our system of tax graduation. One of these is that graduation is an instrument for redistributing wealth. It is often forgotten that the tax is levied on income, not on wealth. Steep graduation is only a device to prevent the accumulation of wealth out of income. Those who have wealth or inherit it can keep it insofar as the income tax is concerned.

Another of these myths is that extreme rate graduation is necessary from a revenue standpoint. Under the existing rate structure only 15 percent of the total revenue comes from the graduated portion of the rate scale with 85 percent coming from the 20 percent rate applied to all taxable income. Under the H.R. 8363 schedule, graduation above the $2,000 bracket would produce 20 percent of the total revenue, and the four lowest rates applied to all taxable income would provide 80 percent. These figures explain why partial reform of rate graduation as illustrated in column 4 of the tables can be achieved at a revenue cost of only a little more than $1 billion greater than the revenue cost of the H.R. 8363 schedule, retaining the same starting rate of 14 percent. Full reform of graduation would cost slightly over $3 billion additional.

The Secretary of the Treasury, in presenting the administration's tax program, told the committee that its "primary objective is to release our economy from the shackles of an overly repressive income

tax rate structure so that it can move ahead to full capacity utilization of its human and physical resources and avoid the recurring recessions that have characterized the postwar years." More recently the President has stated that H.R. 8363 will, among other things, "provide much needed jobs for our economy" and "increase our rate of economic growth." While we agree the lower burden of taxes including the lowering of the top rate, provided in the H.R. 8363 schedule, will have beneficial economic results, we are confident that the objectives stated by the President would be much better assured for the long range if the committee had approved a rate schedule providing full, or even partial, reform of the graduated rate structure. We believe it unfortunate that enactment of H.R. 8363, as now written, would leave the upward sweep of graduation through the middle brackets as a problem for the future.

APPENDIX A

Taxable income bracket	Present rates	H.R. 8363 rates	Full reform of graduated rates	Partial reform of graduated rates	Percentage points between brackets			
	(1)	(2)	(3)	(4)	(1)	(2)	(3)	(4)
	Percent	*Percent*	*Percent*	*Percent*				
0 to $2,000	20							
0 to $500		14	14	14				
$500 to $1,000		15	15	15		1	1	1
$1,000 to $1,500		16	16	16		1	1	1
$1,500 to $2,000		17	17	17		1	1	1
$2,000 to $4,000	22	19	18	19	2	2	1	2
$4,000 to $6,000	26	22	19	21	4	3	1	2
$6,000 to $8,000	30	25	20	23	4	3	1	2
$8,000 to $10,000	34	28	21	25	4	3	1	2
$10,000 to $12,000	38	32	22	27	4	4	1	2
$12,000 to $14,000	43	36	23	29	5	4	1	2
$14,000 to $16,000	47	39	24	31	4	3	1	2
$16,000 to $18,000	50	42	25	33	3	3	1	2
$18,000 to $20,000	53	45	26	35	3	3	1	2
$20,000 to $22,000	56	48	27	37	3	3	1	2
$22,000 to $26,000	59	50	29	39	3	2	2	2
$26,000 to $32,000	62	53	31	41	3	3	2	2
$32,000 to $38,000	65	55	33	43	3	2	2	2
$38,000 to $44,000	69	58	35	45	4	3	2	2
$44,000 to $50,000	72	60	37	47	3	2	2	2
$50,000 to $60,000	75	62	39	49	3	2	2	2
$60,000 to $70,000	78	64	41	51	3	2	2	2
$70,000 to $80,000	81	66	43	53	3	2	2	2
$80,000 to $90,000	84	68	45	55	3	2	2	2
$90,000 to $100,000	87	69	47	57	3	1	2	2
$100,000 to $150,000	89	70	51	61	2	1	4	4
$150,000 to $200,000	90		55	65	1		4	4
$200,000 and over	91			70	1			5
$200,000 to $300,000			59				4	
$300,000 to $400,000			64				5	
$400,000 and over			70				6	

A. SYDNEY HERLONG, Jr.
HOWARD H. BAKER.

COMMITTEE ON WAYS AND MEANS

SEPARATE VIEWS OF REPUBLICANS ON H.R. 8363

SEPTEMBER 13, 1963

SUBMITTED BY

Representatives

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Bruce Alger,
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SEPARATE VIEWS OF REPUBLICANS ON H.R. 8363

GENERAL STATEMENT

H.R. 8363 embarks upon a program of deliberate and planned deficits in the guise of tax reform. The undersigned members of the Ways and Means Committee are in favor of a reduction in both individual and corporate tax rates. However, we believe that a tax cut of more than $11 billion, with no hope of a balanced budget for the foreseeable future, is both morally and fiscally wrong.

From the outset, the Kennedy administration has sought vainly to convince the Congress and the people that the Nation should and could buy greater prosperity on borrowed money. In the President's tax message in January of this year, he said it would be "a grave mistake to require that any tax reduction today be offset by a corresponding cut in expenditures." While the administration has sought subsequently to allay the concern of the Congress with reassuring statements to the contrary, the administration's deeds speak louder than its words. The administration's fiscal posture is clearly predicated upon both large Federal expenditures and large tax cuts *to be paid for with borrowed money.*

When the Kennedy administration took over the budget was balanced for fiscal 1961. This was soon converted to a deficit of $3.8 billion. For fiscal 1962, the administration had a deficit of $6.4 billion. Then in fiscal 1963, the administration submitted a balanced budget. However, fiscal 1963 ended up with a deficit of $6.2 billion even after deducting some $2 billion of nonrecurring revenue from the sales of Government loans and other assets. For fiscal 1964, the administration forecasts a deficit of $9.2 billion, again after allowing for sales of Government assets at the same rate as during fiscal 1963. The trend of the administration is toward constantly increasing expenditures, and constantly increasing deficits. This is demonstrated by the following table:

TABLE 1.—*Comparative budget receipts and expenditures*

[In billions]

	Fiscal 1961 estimate [1]	Fiscal 1961 actual	Fiscal 1962 actual	Fiscal 1963 actual	Fiscal 1964 estimate [2]	Fiscal 1965 estimate [2]	Increase
Budget receipts	$79.0	$77.7	$81.4	$86.4	$88.8	$92.0	$13.0
Budget expenditures	78.9	81.5	[3] 87.8	[4] 92.6	[5] 98.0	102.0	23.1
Budget deficit	(0.1)	3.8	6.4	6.2	9.2	10.0	----------

[1] Contained in fiscal 1962 budget message, released Jan. 16, 1961.
[2] Secretary of the Treasury, during committee consideration of tax bill, assumes tax cut effective Jan. 1, 1964.
[3] Actual expenditure rate $89.2 billion, less sale of Government assets of $1.4 billion.
[4] Actual expenditure rate $94.5 billion, less sale of Government assets of $1.9 billion.
[5] Actual expenditure rate $99.8 billion, less sale of Government assets of $1.8 billion.

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By fiscal 1965, Federal expenditures under the Kennedy administration will have increased by some $23 billion. On the basis of the administration's own estimates, revenues will have increased by only $13 billion. The annual fiscal posture of the Government will have deteriorated in progressive stages from a proposed balanced budget to a $10 billion deficit. As the new proposed tax rates become effective we will only add to the deficit, and increase the public debt. Unless and until the administration by its deeds makes a sincere effort to reverse this trend, the undersigned Republican members of the committee believe that the risks inherent in reducing taxes outweigh any possible benefits.

Our opposition in this respect is shared by the Republican Members of the Joint Economic Committee, who held extensive hearings on the economic aspects of the Administration's fiscal program. In the report submitted by that committee, the Republicans state:

> The tax reduction program—coupled with the lack of restraint in spending which characterizes the administration and the Democratic Congress—would result in a series of large and prolonged budget deficits. These would create difficult problems of debt management, further increase the burden of interest payments on the public debt, probably lead to renewed inflationary pressures, and have an adverse effect on our persistent balance-of-payments and gold problems. Approval of the President's tax program should be contingent upon more vigorous steps to hold the line on expenditures, with the objective of bringing the budget into balance within the very near future.[1]

The basic issue presented by the tax bill does not involve the question whether tax reduction as such is desirable. Taxes should be levied only to meet Government expenditures. The level of Federal taxation must necessarily bear some relationship to such expenditures. Not only has the Administration failed to take action in order to "hold the line" on expenditures, but has continued to promote new and expanded Federal spending programs. There is even reason to believe that the Administration at the present time is busily engaged in devising new spending programs for fiscal 1965, an election year. Because of these conditions, we are unalterably opposed to the reduction of tax rates until there is a realistic control over expenditures.

DISCUSSION

REPUBLICANS FAVOR SOUND TAX REDUCTION

In opposing the enactment of this bill, the undersigned Republican members of the committee do not abandon the long-standing Republican position that the excessive tax burden, and steeply progressive tax rates, should be reduced. It is our position that such reductions can be made with constructive results only when the overall fiscal policy of the Government will justify them. In other words, tax reduction should be accompanied by a reduction, and not an increase, in the level of Government expenditures. This was the Republican position in 1947, and again in 1954, and it is our position today.

In 1947, the Truman administration anticipated a budget surplus of over $6 billion for fiscal 1948. The Republican majority in the Congress thereupon proposed a tax reduction of $3.8 billion, thereby reducing the expected budget surplus to between $2.3 and $3.8 billion.

[1] S. Rept. 78, 88th Cong., 1st Sess., p. 72 (1963).

In other words, of the budget surplus projected for fiscal 1948, the Republicans proposed to apply roughly 50 percent to the reduction of the public debt, then at $258 billion, and 50 percent to the reduction of the heavy wartime tax rates. Despite three successive vetos by President Truman, the bill became law as the Revenue Act of 1948. The act finally provided for a $7.1 billion tax reduction in fiscal 1949 and left an amount in excess of $7 billion for reduction of the public debt.

Again in 1954, the Eisenhower administration made a concentrated effort to reduce Government spending. This enabled the Republicans to reduce taxes by $7.4 billion, $4.6 billion of which went directly to individuals. Expenditures were simultaneously reduced from a level of $74.1 billion in fiscal 1953 to $64.4 billion in 1955. This remarkable reduction of $9.7 billion in the level of Government spending made possible the largest tax reduction in any single year in the history of our country. The 1954 tax reduction was followed by budget surpluses for fiscal 1956 and 1957.

In contrast with the fiscal policy of the Republican's tax reduction programs, the Kennedy Administration proposes tax reduction of $11 billion in the face of a $9 billion deficit, and planned increases in expenditures of at least $3 billion, and more likely $5 billion, per year thereafter. In commenting on this program, as contrasted with the policy of the Eisenhower administration, Dr. Raymond J. Saulnier, a former Chairman of the Council of Economic Advisers, said:

> The Eisenhower administration took a very firm stand against policies that would favor, or give any encouragement to, inflation. The Kennedy administration, on the other hand, * * * are prepared, themselves, to take substantial risks in fiscal matters. This is illustrated by their proposal to cut taxes heavily while expenditures are rising at a rapid rate. They want to do this at a time when we already have a substantial deficit in the federal budget and in our balance of international payments and when the economy is showing a good momentum. I can't conceive of General Eisenhower's administration proposing a policy of this type.[3]

The Democratic Party historically has advocated a policy of "tax and spend." Since the Democratic Congress enacted the first Income Tax Act in 1913, under a Democratic President, the Democrats have done little toward making tax reduction possible. Taxes have been increased on 14 separate occasions by a Democrat-controlled Congress, or House of Representatives, and a Democrat-controlled Ways and Means Committee. Only on one occasion during the past 50 years have the Democrats adopted a tax reduction program. On the other hand, the Republicans have reduced taxes on nine separate occasions, and were responsible for only one increase.

KENNEDY SPENDING INCOMPATIBLE WITH TAX REDUCTION

In proposing tax reduction at this time, the Kennedy administration seeks to preempt the historical position of the Republicans that the heavy burdens of excessive taxation should be reduced, while at the same time maintaining the traditional Democratic position with respect to public spending. The administration seeks to have its cake and eat it too. As Dr. Arthur F. Burns, professor of economics at Columbia University, also a former Chairman of the Council of

[3] Challenge: The Magazine of Economic Affairs, Institute of Economic Affairs, New York University, p. 18 (July 1963).

Economic Advisers, appearing before the Joint Economic Committee in the hearings on the 1963 Economic Report of the President, said:

> My purpose in going as far as I have is to emphasize the general conclusion to which the arithmetic inescapably points; namely, that unless the rising trend of Federal expenditures is halted or sharply curbed, the adoption of the recommended tax proposal is likely to involve our Nation in budget deficits over many years and on a very substantial scale. We are not dealing here with a proposal for a temporary deficit.
>
> If the Congress sanctions long-range budget deficits, it will be adopting a novel concept for our country. This concept marks a departure not only from the old-fashioned theory that the budget should be balanced every year, but also from the modern theory that the Federal budget should be balanced over a business cycle or over a few years.[3]

The Kennedy administration seeks to embrace both the spending philosophy of the New Deal and the tax philosophy of the Republicans. It is indeed a "novel concept." We believe that the two are incompatible. Tax reduction without spending reform not only is meaningless, but is fraught with grave dangers.

Even the so-called Business Committee for Tax Reduction in 1963, a group "fathered" by the Treasury Department, recognized the need for expenditure control. In explanation of its fiscal position, this Committee stated:

> As the Committee has said, control of our current and future expenditures is vital. Unless this is done, we will hurt, if not negate, the good results anticipated from the recommended tax cuts. This control is needed to restore the Nation's confidence in its own fiscal affairs, to reassure our foreign creditors, and to assist in solving our critical balance-of-payments problem.[4]

As contrasted with the attitude of the Kennedy administration with respect to expenditure control, the Tax Reduction Committee also agreed with the Republican position that the Federal budget for fiscal 1964 could and should be reduced, and that the budget for fiscal 1965 and 1966 should be maintained at the level of the fiscal 1964 budget. The Tax Reduction Committee stated:

> The committee believes that a reduction in the 1964 budget is reasonable and practicable. Furthermore, it believes that there is no situation foreseeable which would necessarily require the 1965 and 1966 budgets to increase over that proposed for 1964. We have had large, progressive increases in recent years, and there is no justification for a continuation of the upward trend.[5]

The Kennedy administration still plans Federal expenditures of $98 billion for fiscal 1964, and admittedly has no intention of maintaining future expenditures at the 1964 level. In fact, the Secretary

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[3] Hearings on January 1963 Economic Report of the President before the Joint Economic Committee, 88th Cong., 1st sess., pt. 1, pp. 492–93 (1963).
[4] The Business Committee For Tax Reduction in 1963, Statement of Executive Committee (May 28, 1963).
[5] Ibid.

of the Treasury advised the committee that the administrative budget for fiscal 1965 would entail expenditures of about $102 billion, and that the administrative budget for fiscal 1966 would be at least $3 billion in excess of that amount, or would entail expenditures of at least $105 billion. Thus, the very conditions upon which the Tax Reduction Committee predicated its support for tax reduction do not exist and will not exist.

Adherence to the principles enunciated by the Tax Reduction Committee would require opposition to this legislation. As the Tax Reduction Committee pointed out, a tax cut of $11 billion, financed through additional Government borrowing, can be adopted only at the risk of loss of confidence in the dollar both at home and abroad. We agree. It is extremely foolhardy, and a cruel deception on the American people, to enact a tax cut of this magnitude so long as continuing pressures are being brought to bear by the administration for greater and greater spending.

TAX CUT ON BORROWED MONEY MORALLY WRONG

This bill provides for an ultimate tax cut of some $11 billion, and as a corollary, planned Federal deficits of $10 billion per year and upward for the foreseeable future. We are opposed to tax relief thus financed, not only out of concern for its economic effect, but because we believe it is morally wrong.

As Mr. Bernard Baruch, in testifying before the Senate Finance Committee, in April 1958, said:

> To reduce taxes with an unbalanced budget and so swollen a national debt is both uneconomic and immoral. * * * Before we ask the cook in the White House to bake us up a new inflationary pie, let us try to digest the inflation already loose in our system and to restore the value of earnings and savings.[6]

Tax reduction financed through additions to the public debt is contrary to the Puritan ethic of an overwhelming majority of the American people. They fully realize that it is morally wrong to mortgage the future earnings of their children and their grandchildren in order to enjoy presently the questionable luxury of grandiose spending and lower taxes.

In recognition of this "moral" concern, the Kennedy administration set about to "indoctrinate" the people in the New Frontier code of economic morality. This was to be a major educational effort. As much was freely acknowledged before the Joint Economic Committee, on January 28, 1963, by Dr. Walter W. Heller, Chairman of the Council of Economic Advisers, in a colloquy with Representative Martha W. Griffiths, of Michigan, as follows:

> Representative GRIFFITHS. Of course, it is very persuasive when I asked the question, "What would you do with a $100 reduction in taxes spread over a period of 12 months?" and I get a reply to a question I didn't ask, and 62 percent of all who reply was, "Don't cut the taxes." That is very persuasive.

[6] Hearings on Investigation of the Financial Condition of the United States, 85th Cong., 2d sess., pt. 5, pp. 1655–56 (1958).

> Mr. HELLER. Yes, that does indicate, and I think it well worth commenting on that part of your question, an enormous need for public education in the field of economics, economic policy, tax policy. * * * Major efforts have to be made along this line.[7]

Dr. Heller went on to say that "it is quite remarkable that the basic puritan ethic of the American people should be such that they want to deny themselves tax reduction * * * because of their fears of deficits, and the additions to the national debt." [8]

In an effort to overcome this "basic puritan ethic" and to allay these fears, the administration has sought to relate the national debt to private debt, or to the gross national product, or to population. The fact is that the national debt, which will have increased from a postwar low of $252.3 billion to $315.6 billion on June 30, 1964, will increase by at least another $10 billion each year thereafter if we endorse the fiscal policies of the Kennedy administration by the enactment of this bill. Interest charges alone on the public debt have doubled. Public debt is nonproductive, as compared with private debt. An interest burden of $10 billion annually is a heavy burden, irrespective of what relationship this might bear to other sectors of the economy. The increasing trend of the public debt, and the interest charges thereon, as shown in the table below, should be of concern to puritans and nonpuritans alike.

TABLE 2.—*Public debt increases and annual interest on public debt*

[In billions]

Fiscal year	Public debt at end of year	Annual interest on public debt [1]	Fiscal year	Public debt at end of year	Annual interest on public debt [1]	Fiscal year	Public debt at end of year	Annual interest on public debt [1]
1947	$258.3	$5.0	1953	$266.1	$6.5	1959	$284.7	$7.6
1948	252.3	5.2	1954	271.3	6.4	1960	286.3	9.2
1949	252.8	5.4	1955	274.4	6.4	1961	289.0	9.0
1950	257.4	5.7	1956	272.8	6.8	1962	298.2	9.1
1951	255.2	5.6	1957	270.5	7.2	1963	306.1	9.9
1952	259.1	5.9	1958	276.3	7.6	1964 est.	315.6	10.0

[1] Figures do not include interest on refunds of receipts or interest on uninvested trust funds which total somewhat under $100,000,000 depending on year.

Source: Fiscal 1964 Budget and prior budgets.

As of June 30, 1963, the Kennedy administration had already added $19.8 billion to the public debt, and now proposes a program of tax reduction coupled with increased expenditures *which will add at least another $50 billion to the debt, and with no plans of reducing or paying off these additions to the debt at any time.* Not only is this morally wrong, most of our States have laws making it a crime for an individual to incur bills which he does not intend to pay. It is a fraud.

By continuing to spend and borrow, and through tax reduction to avoid our responsibility to pay our bills, we will pass on to our children an unbearable burden of public debt. Repudiation may be the only course open to them. The ever-increasing public debt places in jeopardy the savings of the American people, their life insurance, and their expectations for pensions and old-age security. That is also why this tax-cut program is morally wrong.

[7] Hearings on January 1963 Economic Report, supra at 45.
[8] Ibid.

TAX CUT ON BORROWED MONEY FISCALLY WRONG—A "TIME BOMB" FOR INFLATION

In addition to the moral issue presented by this bill, there is also serious question whether a tax reduction of $11 billion, accompanied by planned deficits of $10 billion a year for the foreseeable future, is fiscally sound. Dr. Burns, when he appeared before the Joint Economic Committee, raised this question. He said:

> I believe that the danger of inflation and the risk of devaluation of the dollar are being understated these days. Let me mention only the fact that liquid assets held by the public have recently risen sharply. The increase was $25 billion in 1961 and $34 billion in 1962, in contrast to an average annual increase from 1955 to 1960 of only $13 billion.
>
> It takes time before an increase in the supply of money or of liquid assets has an effect on the price level, but if experience is any guide the effect will eventually be felt. * * * I seriously doubt if we could have a protracted and substantial increase of the Federal debt without exposing our currency, and with it our economy and international political prestige, to a very grave risk.
>
> Nor is inflation or its speculative anticipation the only danger of a policy of long-range deficits. A nation's mood can change suddenly. A series of large deficits in times when the economy is advancing may cause a revulsion of feeling and later paralyze the Government's ability to deal with a recession.[9]

The administration seeks to minimize the long-range fiscal danger in this bill. On the one hand the administration refers in its press releases to this tax cut of $11 billion as the largest in the history of our Nation. On the other hand, the administration states that notwithstanding an existing revenue gap of $8 to $10 billion, future Federal deficits will be reduced and the budget will ultimately be balanced by the "stimulative" economic effect of this bill. The administration claims that after the tax cut becomes fully effective, Federal revenues will increase at a steady rate of $6 billion per year while expenditure increases will be held to $3 billion per year. Thus, the deficit will be "narrowed" at the rate of $3 billion per year. Is this realistic? Obviously not. Even if so, at the rate of $3 billion per year it will be almost 4 years before the tax cut alone will be fully offset by increased revenues.

In the meanwhile, under the Kennedy administration expenditures have been increasing at the rate of $5.5 billion per year. Increases totaling $9.4 billion are scheduled for fiscal 1964 and fiscal 1965. Thereafter, according to a statement of the Secretary of the Treasury, the built-in increase in expenditures, which would take place even if the Congress enacted no new programs, amounts to $3 billion per year. Yet, as we well know, the Congress is being pressured daily by the administration to approve additional funds for programs such as foreign aid, Area Redevelopment Administration, Domestic Peace Corps, Youth Conservation Corps, urban mass transportation, accelerated public works, and general aid to education. The administra-

[9] Hearings on January 1963 Economic Report, supra at 493.

tion has been unrestrained in its demands for new and increased spending programs.

The assumption that budget receipts will increase at the rate of $6 billion per year is even more unrealistic. At no time in our past history have receipts shown a sustained growth from year to year. Table 3 shows the budget receipts and expendit· res since 1952. There is no consistent pattern which can be relied upon as a basis for projecting future receipts. Major increases in receipts never come "back to back."

TABLE 3.—*Administrative budget receipts and expenditures, 1952–63*

[In billions]

Fiscal year	Receipts		Expenditures	
	Actual	Increases from prior year	Actual	Increases from prior year
1952	$61.3		$65.3	
1953	64.7	$3.4	74.1	$8.8
1954	64.4	−.3	67.5	−6.6
1955	60.2	−4.2	64.4	−3.1
1956	67.9	7.7	66.2	1.8
1957	70.6	2.7	69.0	2.8
1958	68.6	−2.0	71.4	2.4
1959	67.9	−.7	80.3	8.9
1960	77.8	9.9	76.5	−3.8
1961	77.7	−.1	81.5	5.0
1962	81.4	3.7	[1] 87.8	6.3
1963	86.4	5.0	[2] 92.6	4.8

[1] Actual expenditure rate $89.2 billion, less sale of Government assets of $1.4 billion.
[2] Actual expenditure rate $94.5 billion, less sale of Government assets of $1.9 billion.
Source: 1952 through 1962, fiscal 1964 Budget; 1963, Secretary of the Treasury.

The so-called "multiplier" theory, which is relied upon by the administration to produce an increase of $6 billion per year in Federal tax revenues, is based upon a chain of assumptions. It is a "novel" economic theory, which cannot be tested against any demonstrable facts. The Department of Commerce freely acknowledged this before the Joint Economic Committee.[10] It completely ignores the psychological factors which in the final analysis, are the real motivators of a free economy. It is wholly unrealistic. A Republican member of the Joint Economic Committee pointed this out in his report as follows:

> To make up the $10 billion net revenue loss involved in the President's tax reduction and reform proposal plus the current fiscal 1963 budget deficit of nearly $9 billion plus anticipated increases in Government expenditures (likely to run at least $5 billion a year under administration policies) would require an increase in gross national product on the order of $135 billion over the 3-year period to supply the tax revenue. Such an increase would mean an annual rate of growth in excess of 7 percent. In the last year our rate was slightly over 3 percent, so we can hardly expect a 7-percent rate to be achieved under this administration. It should be pointed out that even if the President's tax reduction stimulated an increase in rate to 5 percent, the annual deficit could well exceed $10 billion or more if the spending side of the budget is not brought under control. It is hard, cold figures like these, coupled with the Federal spending policies of the administration and the Democratically controlled Congress, which prompt the critical projections of Dr. Arthur Burns and Maurice Stans in the minority report.[11]

[10] Hearings on January 1963 Economic Report, supra at 247.
[11] S. Rept. 78, supra at 108.

There is no evidence of a real intention on the part of this administration to work toward a balanced budget either now, or at any date in the foreseeable future. The Chairman of the President's Council of Economic Advisers openly advocates deficit financing as the panacea for all of our economic, social, and political problems. He has not been repudiated by the administration, but only kept "under wraps" until the Congress votes on this bill.

The deficits which have been incurred by the Kennedy administration have not produced accelerated "economic growth." We do not believe that more and greater deficits will be any more productive. Even if we assumed that future increases in expenditures would not exceed increases in revenues, and based upon the past record of this administration this is highly unlikely, by the fiscal year 1969, when the administration claims the budget will be in balance, we will instead have added at least another $50 billion to the Federal debt.

Even our estimate of an increase of $50 billion in the public debt over the next few years is extremely optimistic. Dr. Arthur F. Burns, in his appearance before the Joint Economic Committee, projected that the public debt might increase by an additional $75 billion by fiscal 1972.[12] Mr. Maurice Stans, former Director of the Budget, foresaw possible deficits aggregating $100 to $150 billion.[13]

Regardless whether $50 billion, $75 billion, $100 billion, or $150 billion, it is indisputable that the bill increases the need for additional deficit financing at the very time when the financing of existing deficits presents a major problem. In financing this additional deficit, the Treasury may get money by the sale of obligations to the public. If this course is adopted, however, any stimulative effect of tax reduction will be offset by the increase in borrowing. On the other hand, if the Treasury finances the deficit through the banking system and the monetary authorities permit the supply of money and credit to rise, the effect will be the same as if the Treasury printed money to pay for the expenditures which taxes will no longer cover. Tax reduction financed by borrowing which increases the money supply must ultimately produce inflation. The fiscal program of the administration will superimpose additional deficits of $50 billion or more on a financial structure to which there will already have been added Kennedy deficits of $20 billion. This is a "time bomb" for inflation, not an incentive to sound economic growth.

TAX BILL FIRST STEP TO BIGGER DEFICITS

The Kennedy administration's tax program cannot be considered "in a vacuum." It is part of an overall fiscal policy of *planned deficits*. Dr. Heller explained this before the Joint Economic Committee, as follows:

> Senator PROXMIRE. What you are asking for, then, is an increased deficit rather than a tax cut, and it makes very little difference if we spend more or reduce taxes, but on the other hand, increased Government spending would provide a greater multiplier effect and, therefore, that would tend to balance the increase in incentives you would have?

[12] Hearings on January 1963 Economic Report, supra at 492.
[13] S. Rept. 78, supra at 79.

Mr. HELLER. I would restate it this way: It isn't the deficit we seek. What we seek is an increase in the total demand in the economy, a removal, as it were, of the fiscal drag on spending in the economy. The President has pointed out——

Senator PROXMIRE. I understand that, but in order to achieve that, you say no matter whether we do it through the tax route or the spending route, we will have to achieve a bigger deficit in order to promote greater demand, stimulate the economy.

Mr. HELLER. Under current circumstances, the net effect is going to be the achievement of a bigger deficit, as you either increase spending or cut taxes. The choice between the two is made on the basis of whether you want to do your primary stimulating in spending through the private economy or through the public economy. The President has hoped in this $10 billion tax cut program, obviously, to do it through the private market economy.[14]

There is no assurance that continued deficits of the magnitude of $10 billion, whether planned or otherwise, will produce either accelerated economic growth or full employment. Suppose that the tax cut produced neither! Will the administration be prepared to abandon its philosophy of *planned* deficits?

We need only cite the experience of the area redevelopment program as an example of the administration's attitude. When the program proved to be a failure, the administration's reaction was to ask for more money. When annual deficits of $10 billion do not produce economic utopia, the administration will undoubtedly claim that the "plan" failed only because the deficits were not large enough. More and bigger deficits will be planned.

The danger of embarking on such a course should be obvious. It is self-destructive. The Russians will not "bury us," we will bury ourselves. A long-range program of "planned deficits" means a long-range program of planned inflation. Lord Keynes, from whom the Heller school of economics derived the concept of *planned* deficits, warned of the resulting danger. Keynes wrote:

> Lenin is said to have declared that the best way to destroy the Capitalist System was to debauch the currency. By a continuing process of inflation, governments can confiscate, secretly and unobserved, an important part of the wealth of their citizens. By this method they not only confiscate, but they confiscate *arbitrarily*; and while the process impoverishes many, it actually enriches some. The sight of this arbitrary rearrangement of riches strikes not only at security, but at confidence in the equity of the existing distribution of wealth. Those to whom the system brings windfalls, beyond their deserts and even beyond their expectations or desires, become "profiteers," who are the object of the hatred of the bourgeoisie, whom the inflationism has impoverished, not less than of the proletariat. As the inflation proceeds and the real value of the currency fluctuates wildly from month to month, all permanent relations between

[14] Hearings on January 1963 Economic Report, supra at 55.

> debtors and creditors, which form the ultimate foundation of capitalism, become so utterly disordered as to be almost meaningless; and the process of wealth-getting degenerates into a gamble and a lottery.
>
> Lenin was certainly right. There is no subtler, no surer means of overtunring the existing basis of society than to debauch the currency. The process engages all the hidden forces of economic law on the side of destruction, and does it in a manner which not one man in a million is able to diagnose.[15]

That is the real danger of embarking on a course of planned deficits. If the initial "dose" of inflation fails, larger doses will be required. Not even the New Frontier economists can guarantee that this bill will produce full employment, balanced budgets, and an end to our balance-of-payments deficits. Let us suppose, instead, that the economy experiences a recurring cyclical recession. Will the Congress then be called upon to further reduce taxes? What will be the resulting deficit? These are the questions which we face, and the risks, in embarking on a heretofore untried course of planned deficits. Responsible economists urge that we not take that risk.

DEMOCRATS SHARE CONCERN OVER SPENDING—COMMITTEE ACTION INEFFECTIVE

Our Democrat colleagues on the committee obviously share our concern over the future spending plans of the Kennedy Administration. Their puritan ethic was aroused. The Democrats wanted "to do something." Accordingly, the majority added to the bill "a hope and a prayer" that any future revenue increases would first be used "to eliminate the deficits in the administrative budget and then to reduce the public debt." The declaration, approved by the majority, further states: "To further the objective of obtaining balanced budgets in the near future, Congress by this action, recognizes the importance of taking all reasonable means to restrain Government spending and urges the President to declare his accord with this objective."

In adopting the "sense of Congress" declaration, the majority recognized the need for taking some affirmative action to bring expenditures under control. The adoption of this declaration might salve the "nagging" conscience of fiscal responsibility for some Democrats. But, it will do little more, except possibly to defeat the very purpose for which it was intended. Their fears of future deficits may be allayed, but not rightfully so.

There should be no illusions regarding the fiscal policy of the administration. It is a policy of planned deficits to be brought about either through tax reduction or increased spending, or a combination of both. That was the Hobson's choice offered to the business community by President Kennedy this week. It rests upon the basic principles that planned deficits are desirable, regardless of the current state of the economy, as a means of promoting future economic growth. The Democrat members of the committee must either accept or reject that premise. The "sense of Congress" amendment does neither. It is wholly ineffective, because it does not meet the

[15] Keynes, John Maynard, "The Economic Consequences of the Peace," pp. 235–36 (New York: Harcourt, Brace and Howe, Inc., 1920).

issue. That is why the Republicans opposed the "sense of Congress" amendment.

An amendment was offered by the Republicans in committee whereby the second stage of the tax reduction scheduled to take effect January 1, 1965 would be forestalled if expenditures for the fiscal years 1964 and projected expenditures for the fiscal year 1965 were not maintained below the $98 billion level. This was not asking too much. It was $5.4 billion more than the expenditures for fiscal 1963. The amendment was narrowly rejected by the committee, undoubtedly as a result of extreme administration pressure.

If the majority is sincere in seeking the objectives as expressed in their declaration—and we do not intend to question that sincerity—they might better accomplish those objectives by supporting the Republican substitute. In fact, the only real objection that the Administration has advanced to the adoption of this substitute is that it might make uncertain the second stage of the tax cut. By this objection, the administration clearly indicates its unwillingness to have tax reduction *and* expenditure control. Otherwise, the administration could readily stay within the budgetary limitations proposed by the Republicans. This is the very reason why the Republicans feel that it is incumbent upon the Congress, if taxes are to be reduced, to ensure at the same time that budgetary deficits will not get completely out of hand.

KENNEDY EXPENDITURE LETTER MISLEADING

In recognition of the general concern of the public and the Congress over the administration's expenditure budgets, the President addressed a letter to the chairman of the Ways and Means Committee, dated August 19, 1963, in which the President stated that Federal expenditures will be limited "only to those which meet strict criteria of national need." The letter goes on to state that the President will submit a budget for fiscal 1965 involving an estimated deficit of less than $9.2 billion. *The letter is noticeably silent with respect to fiscal 1965 expenditures.*

As Shakespeare wrote "the lady doth protest too much." For, concurrently with these protestations of expenditure control, if a $9.2 billion deficit can be called such, the Secretary of the Treasury advised the committee that the administrative budget expenditures would amount to $98 billion for fiscal 1964 and that projected expenditures would amount to $102 billion for fiscal 1965. For fiscal 1965, the budget will have been increased $9.4 billion over 1963, or at a rate of almost $5 billion per year. The President can always hold the estimated 1965 deficit to less than $9.2 billion, just as he submitted a balanced budget for fiscal 1963, by overestimating revenues. The Congress should not be "taken in" again.

In the separate views of the Republicans on the bill to increase the public debt limit in the 2d session of the 87th Congress (H.R. 11990), we stated:

> The fiscal pattern of the Kennedy administration is clear. A balanced budget is submitted "on paper" to satisfy the advocates of fiscal responsibility, and to forestall, if possible, any further drain on the gold required to meet our foreign obligations. At the same time, the administration is pur-

suing a policy of increasing Federal expenditures, irrespective of the Federal revenues. That course satisfies that group of economists, including the White House "inner circle," who advocate public spending and Federal deficits as a means of insuring national prosperity.

There was thus submitted to the Congress for fiscal 1963 a Federal budget which was balanced through the simple expedient of forecasting Federal revenues sufficient to meet the desired level of Federal expenditures. Since that time, notwithstanding the failure of the economy to meet such expectations, the administration has stubbornly clung to the "myth" of a balanced budget.[16]

Once the appropriation requests had passed the Congress, and the 1962 congressional election was history, the administration felt it was no longer necessary to preserve the "fiction" of a balanced budget. The budget was revised. Revenues forecast for fiscal 1963 were reduced by $7.5 billion below the forecast submitted to the Congress in the President's budget message for fiscal 1963.

TABLE 4.—*Fiscal year 1963*

[In billions]

	Kennedy budget [1]	Revision [2]	Revision [3]	Revision [4]	Revision [5]	Actual	Change from beginning (+) or (−)
Budget receipts	$93.0	$93.0	$85.9	$85.5	$85.5	$86.4	−$6.6
Budget expenditures	92.5	93.0	93.7	94.3	94.3	92.6	+.1
Surplus (+) or deficit (−)	+0.5	0.0	−7.8	−8.8	−8.8	−6.2	−6.7
N.O.A	99.3	100+	102.2	103.2	103.2	101.2	+1.9
Public debt at end of year	295.2	294.0	(6)	303.5	305.3	306.1	+10.9

[1] Contained in fiscal 1963 budget message, released Jan. 18, 1962. Applicable on Mar. 13, 1962, when debt limit was increased from $298 to $300 billion.
[2] May 31, 1962—at this time limit increase from $300 to $308 billion to drop to $305, $300, and $285 billion was being considered (increase became effective July 1, 1962).
[3] Midyear review (Nov. 13, 1962)—released 1 week after 1962 congressional elections.
[4] Contained in fiscal 1964 budget message, released Jan. 17, 1963.
[5] May 1, 1963—at this time debt limit increased from $305 to $307 billion and then to $309 billion through Aug. 31, 1963, was being considered ($307 billion increase became effective May 29, 1963; $309 billion effective July 1, 1963.)
[6] Not given in midyear review.

Apparently, the administration is planning to resort to the type of financial manipulation for fiscal 1965 which characterized the budget for fiscal 1963. This should reassure no one.

KENNEDY CLAIMS OF EXPENDITURE REDUCTION A MIRAGE—SPENDING HAS NOT BEEN REDUCED

The Kennedy letter also claims that through the exercise of expenditure control the estimated Federal deficit for fiscal 1963 has been reduced from $8.8 billion to $6.2 billion, or a decrease of $2.6 billion. The administration can claim little credit for this improvement in the fiscal 1963 budget.

The so-called savings of $2.6 billion are attributable to several factors, none of which resulted from any positive action on the part of the administration to reduce spending.

[16] H. Rept. 1789, 87th Cong., 2d sess., pp. 15–16 (1962).

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First, the administration proceeded to sell some $2 billion of disposable assets (principally loans held by the Government) in order to realize an additional $1 billion in excess of the January 1963 budget forecast. These additional sales occurred in the last few months of fiscal 1963, after the administration had been refused an increase in the debt limitation by the committee until the administration took positive action to improve its debt picture.

TABLE 5.—*Sales of assets, fiscal year 1963*

[In millions]

Budget accounts	Estimated in January budget	Actual	Amounts applied in reduction of expenditures
HHFA:			
Special assistance	$50	$294	$244
Management and liquidation	6	14	3
College housing	0	0	0
FHA purchase money	0	0	0
Public facilities	0	0	0
VA:			
Direct loan program	18	180	162
Loan guaranty program (vendee loans)	150	279	129
Export-Import Bank	60	336	276
FSLIC	3	3	0
SBA		8	8
Total (excluding Agriculture)	287	1,114	827
Agriculture (CCC certificates of interest)	639	[1] 823	184
Total	926	[1] 1,937	1,011

[1] Preliminary.

Source: Office of the Secretary of the Treasury, Office of Debt Analysis, June 24, 1963.

Second, tax revenues have increased by an estimated $0.9 billion over earlier forecasts because of an improvement in the economy. This improvement resulted from increased economic activity. Nothing was done by the Kennedy administration to bring about this increase.

Third, the improvement in the economy resulted in a $46 million reduction in claims for welfare. This was another factor which reduced budget expenditures—a factor over which the administration had no control. As the economy improved there was less need for welfare payments.

Fourth, in order to offset the unfavorable balance of payments, the Defense Department collected about $340 million in advance for military equipment sold overseas. This was used to offset other expenditures. While net defense expenditures were decreased by about $340 million on account of the advance collection, there was no change in the actual rate of spending.

Fifth, the so-called accelerated public works program was delayed because the States and local authorities were unable to initiate programs as rapidly as had been claimed by the administration. This does not reflect any real economy but merely an "involuntary" postponement of these expenditures.

In all, it is clear that the improvement of $2.6 billion in the fiscal 1963 budget cannot be ascribed to any change in attitude on the part of the administration with respect to spending. In fact, positive action taken by the administration to take advantage of a favorable

market for Government-held loans was brought about by reason of the urging of the Republican members of the committee, accompanied by the close vote in the House last May on the debt increase. The collection in advance of some $340 billion due for military equipment sold abroad was brought about by the pressure of an unfavorable balance-of-payments trend. Other "savings" were fortuitous, not intentional.

In addition, the administration claims credit for a decline in the rate of growth of civilian employment in the executive branch. What the administration really is saying is that new employees were not added as rapidly as had been contemplated. Employment in the executive branch on June 30, 1963, was still 5,000 above a year earlier. Moreover, employment in the executive branch has increased by 137,000 during the Kennedy administration and, according to the fiscal 1964 budget, executive branch employment is estimated to increase by another 36,000 during fiscal 1964.

At the same time that the President stated his intention to cut back expenditures, the administration was also urging committees of the Senate to restore cuts which had previously been made by the House of Representatives. In a recent vote, the House of Representatives cut back the foreign aid authorization bill (H.R. 7885) by some $585 million. This reduction reflected widespread belief that there was tremendous waste in our foreign aid expenditures. This action by the House provoked an intemperate attack by the President against those who voted for the cut. The President said the action was "a shortsighted, irresponsible, and dangerously partisan action. * * * The action of the House in drastically cutting the mutual security authorization bill is unprecedented, unwarranted, and unwise." [17]

Similarly, when the House voted down the bill (H.R. 4996) to increase the appropriation for the Area Redevelopment Agency by an additional $455 million, the President refused to accept that decision. The President said: "The tragic defeat of area redevelopment legislation could not have come at a worse time. * * * This program must not be allowed to die—and it is my intention to give the Congress another opportunity to support it." [18]

Any effort by Congress to exert restraints on spending meets with extreme counterpressures by the administration. In the face of this, it should be apparent that the administration has not and will not change its attitude with respect to planned deficits.

PLANNED DEFICITS NOT AN ECONOMIC PANACEA

The Kennedy administration states that the people should be prepared to set aside their "puritan ethic" not for personal gain, but for the good of the country as a whole. The New Frontier economists claim that the "planned deficits" which tax reduction will serve to insure for the future will cure the major economic failures of this administration. Tax reduction is offered as a cure to the persistent "hard core" unemployment at home and to the equally persistent balance-of-payments deficits which have destroyed confidence in the dollar abroad. In advancing tax reduction and greater deficits as the panacea for these economic problems, the administration ignores reality. It is purely wishful thinking.

[17] Press statement, Aug. 23, 1963.
[18] Press statement, June 13, 1963.

Our views in this respect are shared by many of our Democratic colleagues both in the House and in the Senate. After a full hearing on the economic effects of the administration's tax program, a Democratic member of the Joint Economic Committee made the following observation:

> Will deficits in fact stimulate sound long-term growth? Our recent history has plenty to say about the answer to this question.
>
> In the past 32 years this Nation has become thoroughly ex-experienced in Federal deficits. Deficits have been a continuous way of life for our National Government almost throughout this period. These deficits have been so immense that the national debt has exploded twentyfold since 1930: from $16 billion to over $300 billion.
>
> With this experience, this Nation should be expert on the stimulative effect of deficits on the economy. What has been the result?
>
> Except in World War II when deficits were astronomical, there is no evidence that continuous deficits have promoted economic growth. The evidence is all to the contrary.
>
> The biggest growth in peacetime Federal debt, for example, was in the decade of the thirties and in the period since 1957. The thirties period was characterized by disastrous economic stagnation and record unemployment, coinciding with 10 years of such heavy deficits that they would be equivalent to $20 billion annually today. From 1957 to date, Federal deficits have averaged a heavy $6 billion per year. And yet, economic growth has been the slow-moving despair of current economists during this very period.
>
> Advocates of the deficit route point to the impressive economic progress in Europe during the past decade to support the deficit stimulus theory. The economic situation in European countries during the past 10 years is so vastly different from ours—particularly in terms of demand—that the comparison is not a valid one.
>
> But even here what does the record show? The industrial star of Europe, Germany, enjoyed a mammoth 92-percent growth in industrial production in the 8 years between 1953 and 1961 (most recent year for which figures are available) compared to 20 percent in this country; but its deficit averaged 0.1 percent of GNP during this period compared to an average deficit of 0.4 percent of GNP in the United States. In terms of GNP, Germany had one-fourth the deficit and four times the growth of this country.[19]

The tax bill is intended to create more jobs through larger Federal deficits. For its stimulating effect the bill relies most heavily on increasing consumer spending. Admittedly, increased consumer spending will produce more "work." That does not mean that it will produce more "jobs." The basic problem is not a scarcity of jobs for skilled labor. The basic problem is to provide those seeking jobs with the needed skills. The most recent study shows that

[19] S. Rept. 78, supra at 33.

unemployment among males in the 25-to-54-age groups is 3.1 to 3.6 percent and among the skilled within those groups is reported to be less than 3 percent.

TABLE 6.—*Unemployment rate, by age and sex, July 1963*

Age and sex	*Percent unemployed*
Total	5. 7
Male	5. 1
14 to 19 years	15. 5
14 and 15 years	10. 0
16 to 19 years	17. 2
20 to 24 years	8. 3
25 to 34 years	3. 6
35 to 44 years	3. 1
45 to 54 years	3. 1
55 to 64 years	3. 7
65 years and over	3. 1
Female	7. 1
14 to 19 years	17. 7
14 and 15 years	10. 1
16 to 19 years	19. 3
20 to 24 years	9. 5
25 to 34 years	6. 9
35 to 44 years	4. 8
45 to 54 years	4. 4
55 to 64 years	3. 6
65 years and over	2. 5

Source: U.S. Department of Labor, Bureau of Labor Statistics, "Monthly Report on the Labor Force," p. 25 (August 1963).

As the above table clearly shows, unemployment is concentrated largely among males and females under 20 years of age, where skills are lacking. Increased consumer spending will mean more "work," or a longer workweek, for males in the 25-to-54 age groups. It cannot reduce the unemployment for the skilled much below 3 percent without creating severe pressure on the wage structure. It then becomes inflationary and only as such will have any impact on the unskilled group which presently constitutes the major unemployment problem. Job training and improvement of the mobility of labor are the proper solutions for the unemployment problem.

The committee originally incorporated in the proposed bill a provision for the deduction of moving expenses. While this provision only scratched the surface, it at least recognized that one of the major problems facing labor today is one of mobility. The rapid technological improvements which are taking place, and will be accelerated over the next few years, require a highly mobile labor force. Those who are "left behind" will be left jobless. A bill which purports to be directed towards the structural unemployment problem is highly deficient if it does not seek to create a highly mobile labor force.

BALANCE OF PAYMENTS WILL BE WORSENED

What will be the effect of tax reduction on our balance of payments? *First*, even the New Frontier economists will admit that the *immediate* effect will be adverse. The tax bill is intended to increase consumer spending. With an increase in consumer spending, an increase in imports will inevitably follow without any offsetting increase in our exports. As a *secondary* result, an increase in consumer spending

could well serve to raise the U.S. price level, which would adversely affect our exports. The administration argues, however, that increased consumer spending will *ultimately* serve to increase investment opportunity in the United States and thereby reverse the flow of capital to foreign investments. Even that is challenged by responsible economists.

Our balance-of-payments problem is not "long range." It is immediate. In fact, the administration proposes a so-called "interest equalization tax" in recognition of the urgency of this problem today, not at some distant day in the future. The tax bill will inevitably aggravate that problem, whether or not it might be helpful in the future, as optimistically hoped for by the administration.

THE TAX BILL CREATES GREATER COMPLEXITY AND INEQUITY

The tax bill adds some 300 pages mainly of so-called structural reforms to a statute already overburdened with exceptions, exemptions, special rules, and complex formulas. For the most part, these structural changes produce no revenue. Revenue-producing provisions in this bill are derived almost wholly from the limitation of the sick pay exclusion, the limitation of the deduction of certain State and other taxes, the limitation of the deduction for casualty losses, and the repeal of the dividend credit. Added together, these changes account for about 10 pages of the total of 300 pages in the bill. Not only does the bill fail to produce equity, it actually is a major step toward greater inequity. The revenue which will be derived from these changes will ultimately be more than offset by the $4.4 billion revenue loss which will result from the repeal of the so-called Long amendment to the investment credit (Section 202 of the bill).

The bill purports to raise $520 million in additional revenue by excluding certain State and local taxes as deductions. This burden will be borne solely by those individuals who itemize their deductions. No corresponding adjustment is made for those who elect to use the standard deduction. On the contrary, through the enlargement of the standard deduction it has been liberalized at a revenue loss of $320 million. This shifting of the tax burden certainly cannot be justified on the grounds of producing greater equity. It is the opposite.

Organized labor insisted that the dividend credit must be repealed. The administration acceded to that demand but, in order to make the repeal more palatable, provided a "sweetener" for the benefit of the lower income group. The repeal of the 4-percent tax credit for dividends received, while at the same time increasing the exclusion for such dividends from $50 to $100 per person, resulted in a further shifting of the tax burden. It certainly was not a "reform."

Innumerable other examples could be cited in this bill where political or other considerations resulted in "bad law." In effect, the structural reforms increase the taxes of the sick, of those who itemize deductions, and of those who invest in dividend-paying stocks, while giving a gratuitous "handout" of billions to big business by doubling the benefit of the investment credit. The tax system as a whole will be better if this bill is rejected by the Congress.

INVESTMENT CREDIT LOOPHOLE MADE BIGGER

In the Revenue Act of 1962 a tax credit or subsidy of 7 percent was provided for investors in depreciable property, other than real estate. By means of this credit, the taxpayer was reimbursed by the Government for $7 of each $100 invested in such depreciable property. The Republican members of the committee opposed this provision.

When the investment credit originally came before the House for consideration as part of the revenue bill of 1962, the Republican members of the committee pointed out that the investment credit was inherently discriminatory. In substitution thereof, the Republicans offered a "package" which would do equity to all taxpayers alike. The Republican proposal consisted of (1) a provision whereby taxpayers would be permitted accelerated depreciation on a basis comparable to the investment credit and (2) a provision where taxpayers would be permitted to set up an inventory reserve equal to 20 percent of the first $100,000 of finished goods in inventory. The Republicans said:

> The provision with respect to depreciation, when coupled with the revision of Bulletin F by the Treasury, should provide industry with the latitude in accounting for depreciation which has been overwhelmingly supported in the testimony before the committee. As a corollary to the relief to industry, we also believe that the Congress should grant relief to the small businessman who must reinvest his funds in inventory. Unless the wholesale and retail trades are willing and able to stock the goods produced by industry, any increased capacity to produce will remain idle.[20]

The Republicans in 1962 also proposed that, if the investment credit was to be adopted, the taxpayer's cost, whether for depreciation or for determining subsequent gain or loss on the sale of the property, should be reduced by the amount of the credit which the taxpayer had received on account of its purchase. This proposal was rejected by a majority of the committee, but was adopted as subsection (g) of section 48 when the 1962 bill was under consideration by the Senate Finance Committee. It became popularly known as the Long amendment.

Under the Senate amendment (Section 48 (g)), a taxpayer was required to reduce the cost or basis of the property for tax purposes by the amount of the investment credit. For example, if the taxpayer erected a new steel mill or a new pipeline at a cost of $100 million and received an investment credit of $7 million, the taxpayer would only be permitted to set up the property on its books at its net cost of $93 million. The effect of the Senate amendment was to deny the taxpayer a double deduction for an amount which the taxpayer had already recovered in full through the investment credit.

Even the Treasury recognized the discrimination in favor of big business which was inherent in the investment credit. The so-called "flip over" in this bill (whereby the normal tax rate applicable to corporations was reduced and the surtax rate increased) was advanced by the Treasury Department in recognition of the fact that small business had derived very little benefit from the investment credit. Nevertheless, the disparity will remain the same because the tax

[20] H. Rept. 1447, 87th Cong., 2d sess., p. B11 (1962).

benefits of the investment credit will be doubled through the repeal of the Senate amendment.

With the repeal of section 48 (g) of the Code, the taxpayer will not be required to reduce the basis of the property on account of the investment credit. The taxpayer will recover $100 in depreciation for each $93 of investment. The amount of the subsidy was, in effect, increased twofold. The investment credit became a 100-percent subsidy. The repeal of the Senate amendment will result in a revenue loss of $4.4 billion over the next 10 years, when we are supposed to be working towards a balanced budget. This loss will increase from year to year thereafter. (Table 7.)

TABLE 7.—*Estimated revenue loss resulting from repeal of subsec. (G) of sec. 48 of the Internal Revenue Code of 1954,*[1] *fiscal years 1964–73,*[2] *under present law tax rates and under tax rates reported by Ways and Means Committee*

[Millions]

Fiscal year (1)	Under present law tax rates (2)	Under tax rates reported by Ways and Means Committee (3)	Fiscal year (1)	Under present law tax rates (2)	Under tax rates reported by Ways and Means Committee (3)
1964	$15	$15	1970	$620	$560
1965	260	245	1971	685	615
1966	335	305	1972	745	670
1967	410	370	1973	805	725
1968	485	435			
1969	555	500	Total	4,915	4,440

[1] In the form of repeal agreed to by Ways and Means Committee on Aug. 25, 1963: effective July 1, 1963, the depreciation base for property eligible for the investment credit would not be reduced by the amount of the credit. In the case of property, the base for which has already been reduced, the taxpayer would increase the base by this amount and depreciate it in the future.

[2] Assuming an annual increase of 5 percent in investment in assets eligible for the investment tax credit (the rate of increase assumed by the Treasury in 1962 in projections of revenue impact of the investment tax credit and alternatives).

Source: Joint Committee on Internal Revenue Taxation, Sept. 6, 1963, estimate.

The repeal of the Senate amendment was approved by a majority of the committee, at the urging of the Treasury Department, on the representation that the Senate amendment unduly complicated the accounting for depreciable property. It has been described by the Treasury as a "bookkeeping" or "accounting" change. A revenue loss of $4 to $5 billion over 10 years certainly cannot be passed off as a "bookkeeping" or "accounting" change. This provision is a major substantive change in the law, which will create greater and greater inequity with the passage of time.

IS THE TAX CUT WORTH THE PRICE?

The fact is that the Congress is being called upon to enact an $11 billion tax cut at a time when, at the rate of expenditure growth projected by the New Frontier, it is facing long-range continuing deficits even without this tax cut. While we favor tax rate reduction as certainly desirable, can it be justified at the cost of Federal deficits of $10 billion or more for years to come? In view of the administration's failure to curtail its projected expenditure programs, the ultimate result is inevitable. Inflation and the cheapening of the

dollar—which already has lost much of its lustre abroad—will follow at home. That is the real fiscal price of this bill.

Does this bill offer any "gain" commensurate with the risk? Each must ask himself the question—are the modest savings in taxes worth adding billions to the Federal debt, to be passed on to the next generation? Or, should we first cut spending?

For the married taxpayer with two dependents and an income of $5,000, the tax reduction by the year 1965 ranges from a minimum of $77 per year for the taxpayer who itemizes to a maximum of $130 per year for the taxpayer who uses the standard deduction form. (Table 8.)

For the average wage earner, the bill results in a tax reduction of between $1.50 to $2 per week. Are these taxpayers willing to have the Government go into debt at the rate of $10 billion per year for the foreseeable future to give them the equivalent of "cigarette money"?

TABLE 8.—*Comparison of tax liability at various income levels under present law—Married taxpayer with 2 dependents*

Adjusted gross income (wage and salary income only)	With standard deduction [1]			With typical average itemized deductions [2]		
	Present law	Tax bill	Savings	Present law	Tax bill	Savings
$5,000	$420	$290	$130	$300	$223	$77
$7,500	877	686	191	720	576	144
$10,000	1,372	1,114	258	1,196	994	202
$15,000	2,616	2,172	444	2,213	1,865	348
$20,000	4,124	3,428	696	3,410	2,875	535

[1] For taxpayers who take the standard deduction, the impact of rate reduction and the minimum standard deduction under the tax bill.

[2] For taxpayers who itemize deductions, the impact of rate reduction and the disallowance of certain State and local taxes paid under the tax bill.

Source: Office of the Secretary of the Treasury, Office of Tax Analysis, Aug. 20, 1963.

We have more confidence in the "basic puritan ethic" of the American people, than to believe that they are so anxious for "cigarette money" they will pass on to their children and to their grandchildren $10 billion of additional Federal debt each year. Is the benefit they will derive—a dollar or two per week—worth it? The people certainly did not think so before the administration unleashed its campaign of "indoctrination," or propaganda. Have the people been successfully "brainwashed" by the New Frontier pragmatists into suppressing their "puritan ethic"? We think not.

TAX BILL INCENTIVES MISPLACED

The tax bill is also deficient in that it seeks to bring about economic expansion through increasing consumer spending, rather than to provide more effective incentives for increased capital investment. In some respects the bill even penalizes the investor.

In 1954 Congress recognized the tax incident in regard to the three methods of corporate financing which was unequal with regard to new equity financing and resulted in a penalty exacted of corporate stockholders by taxing their corporate earnings at the rate of 52 percent and then taxing again the same income when distributed as dividends

to individuals. As a partial alleviation of this inequity the Congress exempted the first $50 of dividends received by an individual and allowed a tax credit of 4 percent for any dividend income in excess of the $50 exclusion.

Initially, the Kennedy administration recommended that the $50 exclusion and the 4-percent credit for dividends be repealed. It was claimed that the reduction of corporate taxes would alleviate the problem of double taxation. The committee rejected this proposal by a substantial majority. Subsequently, a "compromise" was offered whereby the 4-percent credit would be repealed, but the $50 exclusion would be raised to $100. After several efforts failed, the administration exerted sufficient pressure on the committee to bring about the approval of this "compromise" by a slim margin of one vote. How was this justified?

An unidentified labor economist put his finger on the crux of the matter. The 4-percent dividend credit was termed "class legislation." As this economist said, the repeal of this provision would affect less than 6 percent of American families. Even if this is correct, it does not make double taxation of investment earnings any more equitable. The repeal of this provision epitomizes the demagogic approach which has been resorted to time and time again by the majority.

The repeal of the tax credit on dividends is not only inequitable, but shortsighted. The Kennedy administration has constantly bemoaned the rate of economic growth, and exaggerated the unemployment problem. Tax proposals, trade bills, and other gimmicks have been foisted upon the Congress as economic stimulants to produce full employment. On the other hand, this bill sets about to take away one of the most justifiable stimulants to business investment. Equity capital is needed to create jobs. Yet, by the repeal of the 4-percent credit the tax on equity capital is made more burdensome.

The effect of making equity financing more burdensome will be to force the more heavy reliance on borrowing and retained earnings. The tax laws already impose a much lesser burden on the fruits of borrowed capital and retained earnings than on the fruits of equity capital. This has created a narrow equity base, which is more vulnerable to economic fluctuations. Stock prices are inflated because of imbalance between supply and demand. Industry is burdened with fixed interest charges on borrowed capital, rather than with the flexible dividend cost of maintaining high equity capital. A tax bill which is designed to expand the economy should provide greater, not lesser, incentives for equity capital.

At the corporate level, any incentive for greater investment is likewise taken away through the acceleration of corporate tax payments. The actual taxes to be paid by corporations having a tax liability in excess of $100,000 will not be significantly reduced under this bill for several years. The corporate payments have been accelerated so as to offset the effect of tax reduction. The so-called "cash flow," which will be available for investment in jobmaking facilities,

will not be materially increased on account of the reduction in rates until the calendar year 1969.

Finally, the combined rate structure and so-called "structural reforms" discriminate against the middle-income group on whom the economy must largely rely for investment funds. This group is the "backbone" both of managerial talent and investment funds. The tax relief for this group in the bill is considerably less than the tax relief which is granted to the lower income group and to the very rich. With respect to the middle income group, the administration has adopted the "filter down" theory. It is claimed that at some future date, increased corporate earnings, resulting from lower corporate taxes, will "filter down" to this group through the means of larger dividend payments. This certainly is no incentive, and provides no funds for tomorrow's investment.

CONCLUSION

The Republican members of the committee have always favored sound tax reduction and reform. In fact, the only major revision of our tax laws in the last 30 years was undertaken in the Eisenhower administration, over the vehement objection of many Democratic members of the committee. We sincerely believe that steps should be taken at the earliest practical date to further lighten the oppressive burden of taxation. However, this burden can only be permanently lightened as a part of a program simultaneously to bring Government expenditures more nearly in balance with tax revenues. The Republicans accomplished this in 1954, and there is no doubt that it could be done again. On the other hand, the Kennedy administration seeks tax reduction to bring about the opposite result. This is not a tax program, but merely a part of an overall program of planned deficits into the foreseeable future. That, we cannot support.

It cannot be said that the Nation's economy is faced with an imminent recession. The economic indicators cannot be relied on to justify recessionary measures. In fact, the economy has reached an "all time" high. In a period such as this, there is no justification for enlarging the Federal deficit through tax reduction. Faced with fiscal problems both at home and abroad, we should be moving toward a balanced budget.

In many respects, the tax bill itself is deficient. Sound tax legislation should simplify, not compound tax problems; remove, not add complexities to the law; and as a bare minimum, avoid creating or enlarging "loopholes." As was the case in 1962, this bill is another "patchwork" of tax juggling, which fails to meet these tests. However, our objection is more basic.

For the welfare of the Nation, the Republicans must adhere to the principle of "fiscal responsibility." This is basic for the survival of our free system. It is not a partisan concept. In fact, it is Jeffersonian in origin. It is axiomatic that the only real restraint on the Government's proclivity to spend is the people's willingness to pay the taxes to finance those expenditures. When we abandon this principle we undermine the very foundation of a free society. That

is why we must oppose the fiscal policy of this administration, of which the tax bill is an integral part. We believe that it is morally and fiscally wrong, and will do irreparable damage to the Republic.

JOHN W. BYRNES.
THOMAS B. CURTIS.
VICTOR A. KNOX.
JAMES B. UTT.
JACKSON E. BETTS.
BRUCE ALGER.
STEVEN B. DEROUNIAN.
HERMAN T. SCHNEEBELI.
HAROLD R. COLLIER.

ADDITIONAL VIEWS OF HON. HOWARD H. BAKER

I join in the additional views of my colleague, Hon. Herman T. Schneebeli, to the following extent:

> I am in full agreement with my Republican colleagues that tax reduction of $11 billion based upon a mere wish or a hope that expenditures will be controlled is fiscally irresponsible. Mere protestations of economy on the part of the Kennedy administration, which are belied by its actions in constantly presenting new and expanding expenditure programs to the Congress, are not sufficient to convince me that we will be able to balance the budget for the foreseeable future.
>
> On the other hand, I am convinced that the excessive tax burden should be alleviated both with respect to individuals and with respect to business. While there is considerable risk in reducing taxes before reducing expenditures, I would be willing to take that risk if tax reduction were accompanied by a corresponding statutory deterrent to increased spending.
>
> Such a deterrent was presented by the amendment offered by the Republicans in committee whereby the second stage of the tax reduction, scheduled to take effect January 1, 1965, would be forestalled if expenditures exceeded certain specified levels. I am confident that the House of Representatives will have the opportunity to vote on this proposal. This amendment was narrowly rejected by the committee, only as a result of extreme administration pressure. If the administration is sincere in its stated intention of holding down expenditures, it should not oppose an amendment that merely translates this intention into legislative language.
>
> * * * * *
>
> We have am opportunity to allay these fears by adopting an effective restriction on the ever-increasing Federal deficits which are at the root of these problems.
>
> We offer a specific and certain brake on Federal expenditures and deficits, without which the majority of our people, including former Presidents Truman and Eisenhower, are opposed to this bill.
>
> The confidence of business would be restored in the knowledge that impending runaway Federal deficits were being restrained by this legislative formula, which would serve to test each expenditure against the pocketbook of the voter.
>
> In my opinion, the adoption of the proposal, whereby the second stage of the tax reduction to take effect January 1, 1965, would be forestalled if the Kennedy administration does not keep its promises to maintain closer control over

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> expenditures, would offset the fiscal risks involved in enacting this bill in the face of a large deficit for fiscal 1964. * * * Accordingly, I hope that the expenditure-control amendment will receive favorable consideration by the House, as I believe in tax reduction and would like to vote for this bill.

Comprehensive tax reduction and tax reform conditioned upon mandatory statutory control of expenditures leading to the elimination of deficits and reestablishment of balanced budgets is the basic concept of the Herlong-Baker tax bills, which have been introduced by the gentleman from Florida, Mr. Herlong, and myself over a period of years, and which have attracted wide support over the Nation.

The Herlong-Baker proposals are bipartisan in nature.

I am convinced that the only method of accomplishing balanced budgets and comprehensive tax reduction and revision is by statutory restraint upon both the Congress and the executive department.

If this proposal, which was initiated by me in the committee, to make the second stage of the tax reduction provided for in H.R. 8363 contingent upon no further increase in expenditures is adopted, it is my intention to support the bill on final passage.

HOWARD H. BAKER.

ADDITIONAL VIEWS OF HON. VICTOR A. KNOX

I have joined as a signatory to the Republican views which appear in an earlier part of this report. Those views present irrefutable argument in pointing out the fiscal fraudulence involved in attempting to grant tax reduction while the administration actively resists efforts to control mounting Government spending. Each dollar of tax reduction granted under existing fiscal conditions will add $1 to our public debt.

I am prompted to file these additional separate views to comment further on what I believe to be the appropriate course of action in behalf of sound tax reduction. I voted to report this legislation to the House because I believe that substantial tax reduction is an urgent national necessity to relieve the currently existing oppressive tax burdens that have thwarted economic development.

In voting to report this bill I expressively reserved my rights in connection with its subsequent legislative consideration. I am convinced that an essential condition precedent to the final approval of tax reduction must be the adoption by the Congress of a meaningful and effective control over spending. It is my considered judgment that the membership of the House should be given opportunity to decide the crucial issue of whether or not the Federal Government should spend less so that we can tax less. This bill should not be supported for final passage if the end result of the House action is to affirm the declared administration policy of spending more and taxing less.

If success is attained in establishing a firm and effective demonstration of the Congressional intent to control spending, then I believe, on balance, this legislation merits the support of the House membership. I reach this conclusion even though I am concerned and disappointed over many features of this tax bill. For example, I believe it is not proper to remove 1.5 million persons from our tax rolls under the present budgetary situation. I believe that many of the substantive changes contained in the bill are contradictory to the stated objectives of encouraging investment, increasing job opportunities, and improving the equity in our tax structure. Specifically I believe that the allocation of tax relief among income classes could be more fairly accomplished than under the formula contained in this legislation. The substantive changes reimposing double taxation on dividend income, taxing certain group-term life insurance premiums, denying the deductibility of certain State and local taxes, and imposing unnecessarily stringent rules in regard to stock options should be modified as a result of further congressional consideration prior to the time this legislation becomes public law. I am also concerned that the economic growth prospects from tax reduction will be impaired by the impact of the acceleration of corporate tax payments upon the corporate cash flow.

In the three decades that I have been in public office I have never thought the time would come when I would have misgivings over a tax

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reduction program urged by the Executive. I have misgivings over this proposal to provide tax reduction in the context of our existing fiscal posture because the administration seeks to finance the cost of the reduction out of substantially increased deficits rather than through Government economy. It is within the authority and the responsibility of the Congress to make tax reduction sound and feasible in 1963 by manifesting now its determination to enforce frugality in spending.

Private enterprise can flourish and Government enterprise can be restrained within proper bounds only by imposing on our people the minimum tax burden consistent with out obligation to pay our own way.

I urge my colleagues in the House to support the efforts that will be made to achieve both spending reduction and tax reduction this year.

VICTOR A. KNOX.

ADDITIONAL VIEWS OF HON. HERMAN T. SCHNEEBELI

I am in full agreement with my Republican colleagues that tax reduction of $11 billion based upon a mere wish or a hope that expenditures will be controlled is fiscally irresponsible. Mere protestations of economy on the part of the Kennedy administration, which are belied by its actions in constantly presenting new and expanding expenditure programs to the Congress, are not sufficient to convince me that we will be able to balance the budget for the foreseeable future.

On the other hand, I am convinced that the excessive tax burden should be alleviated both with respect to individuals and with respect to business. While there is considerable risk in reducing taxes before reducing expenditures, I would be willing to take that risk if tax reduction were accompanied by a corresponding statutory deterrent to increased spending.

Such a deterrent was presented by the amendment offered by the Republicans in committee whereby the second stage of the tax reduction, scheduled to take effect January 1, 1965, would be forestalled if expenditures exceeded certain specified levels. I am confident that the House of Representatives will have the opportunity to vote on this proposal. This amendment was narrowly rejected by the Committee, only as a result of extreme administration pressure. If the administration is sincere in its stated intention of holding down expenditures, it should not oppose an amendment that merely translates this intention into legislative language.

Why is it that more than 72 percent of my constituents and over 80 percent of the business leaders in my District, when directly queried, voted to forego the benefits of the proposed tax cuts? We all know the answer: It is because of the mounting fears over our growing public debt at home and the run on our gold from abroad.

We have an opportunity to allay these fears by adopting an effective restriction on the ever-increasing Federal deficits which are at the root of these problems.

We offer a specific and certain brake on Federal expenditures and deficits, without which the majority of our people, including former Presidents Truman and Eisenhower, are opposed to this bill.

The confidence of business would be restored in the knowledge that impending runaway Federal deficits were being restrained by this legislative formula, which would serve to test each expenditure against the pocketbook of the voter.

In my opinion, the adoption of the proposal, whereby the second stage of the tax reduction to take effect January 1, 1965, would be forestalled if the Kennedy administration does not keep its promises to maintain closer control over expenditures, would offset the fiscal risks involved in enacting this bill in the face of a large deficit for fiscal 1964. Under those circumstances, I would support the bill. Accordingly, I hope that the expenditure-control amendment will receive favorable consideration by the House, as I believe in tax reduction and would like to vote for this bill.

HERMAN T. SCHNEEBELI.

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