

## REVENUE ACT OF 1950

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SEPTEMBER 21, 1950.—Ordered to be printed

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

### CONFERENCE REPORT

[To accompany H. R. 8920]

The committee of conference on the disagreeing votes of the two Houses on the amendments of the Senate to the bill (H. R. 8920) to reduce excise taxes, and for other purposes, having met, after full and free conference, have agreed to recommend and do recommend to their respective Houses as follows:

That the Senate recede from its amendments numbered 48, 64, 87, 99, and 110.

That the House recede from its disagreement to the amendments of the Senate numbered 1, 2, 3, 4, 5, 6, 7, 8, 9, 10, 11, 12, 13, 15, 16, 17, 18, 19, 20, 21, 22, 23, 24, 25, 26, 27, 28, 29, 30, 32, 33, 34, 35, 36, 37, 42, 43, 46, 47, 51, 52, 53, 54, 58, 59, 60, 63, 66, 67, 69, 70, 71, 77, 78, 79, 80, 81, 84, 85, 89, 90, 93, 94, 95, 96, 97, 98, 101, 104, 105, 112, 115, 116, 117, 118, 119, 120, 123, 124, 125, 126, 127, 128, 129, 130, 131, 132, 133, 134, 135, 136, 138, 139, 140, 141, 142, 143, 144, 145, 147, 148, 150, 151, 152, 153, 154, 155, 156, 158, 160, 161, 163, 164, 165, 166, 167, 168, 169, 170, 171, 172, 173, 174, 175, 176, 177, 178, 179, 180, 181, 182, 183, 184, 185, 186, 187, 188, and 189 and agree to the same.

Amendment numbered 14:

That the House recede from its disagreement to the amendment of the Senate numbered 14, and agree to the same with an amendment as follows:

Strike out the matter proposed to be stricken out by the Senate amendment and on page 153, after line 4, of the House bill, following

the matter inserted by the amendment of the Senate numbered 189, insert the following:

**SEC. 608. ALLOWING STAMPS TO BE ATTACHED IN FOREIGN COUNTRIES TO CERTAIN TOBACCO PRODUCTS.**

(a) *TOBACCO AND SNUFF.*—Section 2103 (c) (relating to supply of stamps) is hereby amended by adding at the end thereof the following new sentence: “If the government of a foreign country permits the revenue stamps of such country to be affixed in the United States to tobacco or snuff manufactured in the United States and imported into such foreign country, then, if tobacco or snuff manufactured in such foreign country is imported into the United States from such foreign country, the importer may, under such rules and regulations as the Secretary may prescribe, have the United States revenue stamps attached to such tobacco or snuff in such foreign country.”

(b) *CIGARS.*—The second sentence of section 2112 (c) (relating to attaching stamps to cigarettes in foreign countries) is hereby amended by striking out “cigarettes” wherever appearing therein and inserting in lieu thereof “cigars or cigarettes”.

(c) *EFFECTIVE DATE.*—The amendments made by this section shall take effect on the first day of the first month which begins more than ten days after the date of the enactment of this Act.

And the Senate agree to the same.

Amendment numbered 31:

That the House recede from its disagreement to the amendment of the Senate numbered 31, and agree to the same with an amendment as follows:

Strike out the matter proposed to be stricken out by the Senate amendment and on page 153, after line 4, of the House bill, immediately preceding the matter inserted by the amendment of the Senate numbered 190, insert the following:

**SEC. 609. ARTICLES SOLD FOR USE OF AIRCRAFT ENGAGED IN FOREIGN TRADE.**

*Effective with respect to articles purchased (by the user thereof) on or after the first day of the first month which begins more than ten days after the date of the enactment of this Act, section 3443 (a) (3) (A) (ii) (relating to refunds in the case of articles used or resold for use as ships' stores, etc.) is hereby amended to read as follows:*

“(ii) used or resold for use for any of the purposes, but subject to the conditions, provided in section 3451;”.

And the Senate agree to the same.

Amendment numbered 38:

That the House recede from its disagreement to the amendment of the Senate numbered 38, and agree to the same with an amendment, as follows:

On page 11 of the Senate engrossed amendments strike out lines 15 and 16 and insert the following:

*Except as provided in section 103, the amendments made by this part shall be applicable only with respect to taxable*

And the Senate agree to the same.

Amendment numbered 39:

That the House recede from its disagreement to the amendment of the Senate numbered 39, and agree to the same with an amendment as follows:

On page 15 of the Senate engrossed amendments strike out lines 3, 4, and 5 and insert the following:

(b) *AMENDMENT OF SECTION 14 (a).*—*So much of section 14 (relating to normal tax on special classes of corporations) as precedes subsection (b) thereof is hereby amended to read as follows:*

**“SEC. 14. TAX ON SPECIAL CLASSES OF CORPORATIONS IN CASE OF TAXABLE YEARS (OTHER THAN THE CALENDAR YEAR 1950) BEGINNING BEFORE JULY 1, 1950.**

And the Senate agree to the same.

Amendment numbered 40:

That the House recede from its disagreement to the amendment of the Senate numbered 40, and agree to the same with the following amendments:

On page 16 of the Senate engrossed amendments strike out the semicolon in line 15 and insert a period, and strike out lines 16, 17, and 18.

On page 17 of the Senate engrossed amendments, beginning in line 21, strike out “a surtax of 19 per centum of the amount of the corporation surtax net income in excess of \$25,000.” and insert the following: *a surtax determined by computing a tentative surtax of 19 per centum of the amount of the corporation surtax net income in excess of \$25,000, and by reducing such tentative surtax by an amount equal to 1 per centum of the lower of (A) the amount of the credit provided in section 26 (a), or (B) the amount by which the corporation surtax net income exceeds \$25,000.*

And the Senate agree to the same.

Amendment numbered 41:

That the House recede from its disagreement to the amendment of the Senate numbered 41, and agree to the same with an amendment as follows:

On page 21 of the Senate engrossed amendments strike out lines 11 to 15, inclusive, and insert the following:

*“(ii) Surtax.—A surtax on the corporation surtax net income, in an amount computed as provided in section 15 (b) (2), or in an amount equal to one and one-half times the surtax which would be computed under section 15 (b) (2) if the corporation surtax net income were reduced by \$25,000, whichever amount is the lesser.”*

And the Senate agree to the same.

Amendment numbered 44:

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

On page 24 of the Senate engrossed amendments strike out lines 1 to 13, inclusive, and insert the following:

*(3) Effective with respect to taxable years beginning after June 30, 1950, and with respect to taxable years beginning on January 1,*

1950, and ending on December 31, 1950, section 201 (a) (1) (relating to tax on life insurance companies) is hereby amended by striking out "at the rates provided in section 13 or section 14 (b) and in section 15 (b)" and inserting in lieu thereof "computed as provided in section 13 (b) and in section 15 (b)".

(4) Effective with respect to taxable years beginning after June 30, 1950, and with respect to taxable years beginning on January 1, 1950, and ending on December 31, 1950, section 204 (a) (1) (relating to insurance companies other than life or mutual) is hereby amended by striking out "at the rates specified in section 13 or section 14 (b) and in section 15 (b)" and inserting in lieu thereof "computed as provided in section 13 (b) and in section 15 (b)".

And the Senate agree to the same.

Amendment numbered 45:

That the House recede from its disagreement to the amendment of the Senate numbered 45, and agree to the same with the following amendments:

On page 25 of the Senate engrossed amendments strike out all after "chapter" in line 16 down to and including "23 (s)" in line 19, and strike out all after "chapter" in line 25 down to and including "23 (s)" in line 3 on page 26.

On page 26 of the Senate engrossed amendments, beginning in line 6, strike out "the date of the enactment of the Revenue Act of 1950" and insert the following: *August 31, 1950*

And the Senate agree to the same.

Amendment numbered 49:

That the House recede from its disagreement to the amendment of the Senate numbered 49, and agree to the same with an amendment as follows:

On page 29 of the Senate engrossed amendments strike out lines 7 and 8 and insert the following:

*The amendments made by this part shall be applicable only with respect to taxable*

And the Senate agree to the same.

Amendment numbered 50:

That the House recede from its disagreement to the amendment of the Senate numbered 50, and agree to the same with the following amendments:

On page 29 of the Senate engrossed amendments strike out lines 16 to 18, inclusive, and insert the following:

(a) *AMENDMENT OF SECTION 108.—Section 108 is hereby amended by striking out subsection (e) and inserting in lieu thereof the*

On page 31 of the Senate engrossed amendments strike out the quotation marks in line 17, and insert after line 17 the following:

*"(g) SPECIAL CLASSES OF TAXPAYERS.—This section shall not apply to an insurance company subject to Supplement G or an investment company subject to Supplement Q."*

(b) *EFFECTIVE DATE.—The amendment made by subsection (a) in striking out subsection (e) of section 108 of the Internal Revenue Code shall not apply in the case of any taxable year described in subsections (a), (b), or (c) of such section.*

And the Senate agree to the same.

Amendment numbered 55:

That the House recede from its disagreement to the amendment of the Senate numbered 55, and agree to the same with an amendment as follows:

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

**SEC. 202. INCOME TAX EXEMPTIONS FOR MEMBERS OF THE ARMED FORCES SERVING IN COMBAT AREAS.**

(a) *EXCLUSION FROM GROSS INCOME.*—Section 22 (b) (13) (relating to exclusions from gross income) is hereby amended to read as follows:

“(13) Additional allowance for certain members of the armed forces.—

“(A) *ENLISTED PERSONNEL.*—Compensation received for active service as a member below the grade of commissioned officer in the armed forces of the United States for any month during any part of which such member served in a combat zone after June 24, 1950, and prior to January 1, 1952.

“(B) *COMMISSIONED OFFICERS.*—In the case of compensation received for active service as a commissioned officer in the armed forces of the United States for any month during any part of which such officer served in a combat zone after June 24, 1950, and prior to January 1, 1952, so much of such compensation as does not exceed \$200.

“(C) *Definitions.*—For the purposes of this paragraph—

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

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

“(iii) service is performed in a combat zone only if performed on or after the date designated by the President by Executive Order as the date of the commencing of combatant activities in such zone, and on or before the date designated by the President by Executive Order as the date of the termination of combatant activities in such zone; and

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

And the Senate agree to the same.

Amendment numbered 56:

That the House recede from its disagreement to the amendment of the Senate numbered 56, and agree to the same with an amendment as follows:

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

(b) *WITHHOLDING OF INCOME TAX ON WAGES.*—Effective with respect to wages paid after October 31, 1950, section 1621 (a) (relating to definition of wages for income tax withholding purposes) is hereby amended by inserting before paragraph (2) thereof the following:

“(1) for active service as a member of the armed forces of the United States performed prior to January 1, 1952, in a month

during any part of which such member performed service in a combat zone as determined under section 22 (b) (13), or”.

And the Senate agree to the same.

Amendment numbered 57:

That the House recede from its disagreement to the amendment of the Senate numbered 57, and agree to the same with an amendment as follows:

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

(c) *RECEIPTS*.—Sections 1625 (a) and 1633 (a) (relating to receipts for employees) are hereby amended by adding at the end of each the following: “In the case of compensation paid for service as a member of the armed forces, the statement shall show, as wages paid during the calendar year, the amount of such compensation paid during the calendar year which is not excluded from gross income under chapter 1 (whether or not such compensation constituted wages as defined in section 1621 (a)); such statement to be furnished if any tax was withheld during the calendar year or if any of the compensation paid is includible under chapter 1 in gross income.”

And the Senate agree to the same.

Amendment numbered 61:

That the House recede from its disagreement to the amendment of the Senate numbered 61, and agree to the same with the following amendments:

On page 42 of the Senate engrossed amendments, beginning in line 9, strike out “newspapers, magazines, or other periodicals” and insert the following: *any part of the business of another publisher of a newspaper, magazine, or other periodical*

On page 43 of the Senate engrossed amendments, strike out lines 3, 4, and 5 and insert the following:

(c) *EFFECTIVE DATE*.—*The amendments made by this section shall be applicable with respect to taxable years beginning after December 31, 1945, except that in the case of any taxable year beginning prior to January 1, 1950—*

(1) *the amendments shall not be applicable with respect to expenditures for which a deduction was not allowed the taxpayer for such year, if allowance of credit or refund with respect to such year is barred on the date of the enactment of this Act by reason of any law or rule of law; and*

(2) *the election provided in section 23 (bb) of the Internal Revenue Code shall not (despite the last sentence of such section) be applicable with respect to any expenditure for which a deduction was claimed by the taxpayer under his latest treatment, prior to the date of the enactment of this Act, of such expenditure in connection with his tax liability for such taxable year.*

And the Senate agree to the same.

Amendment numbered 62:

That the House recede from its disagreement to the amendment of the Senate numbered 62, and agree to the same with the following amendments:

On page 43 of the Senate engrossed amendments strike out lines 7, 8, and 9 and insert the following:

**SEC. 205. PAYMENT OF INCOME TAX BY INSTALLMENT PAYMENTS, AND RETURNS OF ESTATES AND TRUSTS.**

(a) *PAYMENT OF INCOME TAX BY INSTALLMENT PAYMENTS.—Effective with respect to taxable years ending on or*

On page 45 of the Senate engrossed amendments insert after line 6 the following:

(b) *FILING OF RETURNS AND PAYMENT OF TAX BY FIDUCIARIES OF ESTATES AND TRUSTS.—*

(1) *Section 53 (a) (1) (relating to time for filing returns) is hereby amended to read as follows:*

*“(1) GENERAL RULE.—Returns made on the basis of the calendar year shall be made on or before the fifteenth day of March following the close of the calendar year, except that in the case of the return of the fiduciary of an estate or trust, the return shall be made on or before the fifteenth day of April following the close of the calendar year. Returns made on the basis of a fiscal year shall be made on or before the fifteenth day of the third month following the close of the fiscal year, except that in the case of the return of the fiduciary of an estate or trust, the return shall be made on or before the fifteenth day of the fourth month following the close of the fiscal year.”*

(2) *Section 56 (a) (relating to time for payment of tax) is hereby amended by inserting before the period at the end thereof the following: “, except that in the case of the tax imposed upon an estate or trust the tax shall be paid on the fifteenth day of April following the close of the calendar year, or, if the return should be made on the basis of a fiscal year, then on the fifteenth day of the fourth month following the close of the fiscal year”.*

(3) *The amendments made by this subsection shall be applicable only with respect to taxable years ending after the date of the enactment of this Act.*

And the Senate agree to the same.

Amendment numbered 65:

That the House recede from its disagreement to the amendment of the Senate numbered 65, and agree to the same with an amendment, as follows:

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

**SEC. 207. PERCENTAGE DEPLETION.**

(a) *TRANSPORTATION FROM MINE.—The second sentence of section 114 (b) (4) (B) (relating to the definition of gross income from property) is hereby amended to read as follows: “The term ‘mining’ as used herein shall be considered to include not merely the extraction of the ores or minerals from the ground but also the ordinary treatment processes normally applied by mine owners or operators in order to obtain the commercially marketable mineral product or products, and so much of the transportation of ores or minerals (whether or not by common carrier) from the point of extraction from the ground to the plants or mills in which the ordinary treatment processes are applied thereto as is not in excess of 50 miles unless the Secretary finds that the physical and other requirements are such that the ore or mineral must be transported a greater distance to such plants or mills.”*

(b) *EFFECTIVE DATE.*—*The amendment made by subsection (a) shall be applicable with respect to taxable years beginning after December 31, 1949.*

And the Senate agree to the same.

Amendment numbered 68:

That the House recede from its disagreement to the amendment of the Senate numbered 68, and agree to the same with an amendment, as follows:

In lieu of the matter proposed to be inserted by the Senate amendment insert the following: *208*

And the Senate agree to the same.

Amendment numbered 72:

That the House recede from its disagreement to the amendment of the Senate numbered 72, and agree to the same with an amendment as follows:

In lieu of the matter proposed to be inserted by the Senate amendment insert the following: *August 31, 1950*

And the Senate agree to the same.

Amendment numbered 73:

That the House recede from its disagreement to the amendment of the Senate numbered 73, and agree to the same with an amendment, as follows:

In lieu of the matter proposed to be inserted by the Senate amendment insert the following: *209*

And the Senate agree to the same.

Amendment numbered 74:

That the House recede from its disagreement to the amendment of the Senate numbered 74, and agree to the same with an amendment as follows:

In lieu of the matter proposed to be inserted by the Senate amendment insert the following: *(determined without the application of section 875) or within 90 days after the expiration of such period*

And the Senate agree to the same.

Amendment numbered 75:

That the House recede from its disagreement to the amendment of the Senate numbered 75, and agree to the same with an amendment, as follows:

Restore the matter proposed to be stricken out by the Senate amendment, omit the matter proposed to be inserted by the Senate amendment, and on page 62, line 2, of the House bill strike out "70" and insert the following: *50*

And the Senate agree to the same.

Amendment numbered 76:

That the House recede from its disagreement to the amendment of the Senate numbered 76, and agree to the same with an amendment, as follows:

In lieu of the matter proposed to be inserted by the Senate amendment insert the following: *210*

And the Senate agree to the same.



Amendment numbered 82:

That the House recede from its disagreement to the amendment of the Senate numbered 82, and agree to the same with an amendment, as follows:

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

(b) *AMENDMENT OF SECTION 117 (j).*—*The first sentence of section 117 (j) (1) is hereby amended by inserting before the period at the end thereof the following: “, or (C) a copyright, a literary, musical, or artistic composition, or similar property, held by a taxpayer described in subsection (a) (1) (C)”.*

And the Senate agree to the same.

Amendment numbered 83:

That the House recede from its disagreement to the amendment of the Senate numbered 83, and agree to the same with the following amendments:

Strike out the matter proposed to be stricken out by the Senate amendment and on page 66, line 24, of the House bill strike out “3” and insert the following: 6

On page 67, line 8, of the House bill strike out “3” and insert the following: 6

On page 68, line 3, of the House bill strike out “3” and insert the following: 6

On page 68, line 6, of the House bill strike out “3” and insert the following: 6

On page 70, line 15, of the House bill strike out “3” and insert the following: 6

On page 73 of the House bill, beginning in line 8, strike out all after “date.” down through the period in line 12.

And the Senate agree to the same.

Amendment numbered 86:

That the House recede from its disagreement to the amendment of the Senate numbered 86, and agree to the same with an amendment, as follows:

Omit the matter proposed to be inserted by the Senate amendment and, on page 66 of the House bill, beginning in line 8, strike out all after “Act” down to and including “date” in line 12.

And the Senate agree to the same.

Amendment numbered 88:

That the House recede from its disagreement to the amendment of the Senate numbered 88, and agree to the same with an amendment, as follows:

In lieu of the matter proposed to be inserted by the Senate amendment insert the following: 211

And the Senate agree to the same.

Amendment numbered 91:

That the House recede from its disagreement to the amendment of the Senate numbered 91, and agree to the same with an amendment, as follows:

In lieu of the matter proposed to be inserted by the Senate amendment insert the following: 212

And the Senate agree to the same.

Amendment numbered 92:

That the House recede from its disagreement to the amendment of the Senate numbered 92, and agree to the same with an amendment as follows:

On page 52, line 11, of the Senate engrossed amendments, strike out "212 (a)" and insert the following: 211 (a)

And the Senate agree to the same.

Amendment numbered 100:

That the House recede from its disagreement to the amendment of the Senate numbered 100, and agree to the same with an amendment as follows:

In lieu of the matter proposed to be inserted by the Senate amendment insert the following: 213

And the Senate agree to the same.

Amendment numbered 102:

That the House recede from its disagreement to the amendment of the Senate numbered 102, and agree to the same with an amendment as follows:

In lieu of the matter proposed to be inserted by the Senate amendment insert the following: 214

And the Senate agree to the same.

Amendment numbered 103:

That the House recede from its disagreement to the amendment of the Senate numbered 103, and agree to the same with an amendment as follows:

In lieu of the matter proposed to be inserted by the Senate amendment insert the following: 215

And the Senate agree to the same.

Amendment numbered 106:

That the House recede from its disagreement to the amendment of the Senate numbered 106, and agree to the same with the following amendments:

On page 54, line 18, of the Senate engrossed amendments, strike out "218" and insert the following: 216

On page 61 of the Senate engrossed amendments strike out the quotation marks in line 15, and insert after line 15 the following:

*"(i) CROSS REFERENCE.—For special rule with respect to gain derived from the sale or exchange of property the adjusted basis of which is determined with regard to this section, see section 117 (g) (3)."*

On page 61 of the Senate engrossed amendments, after line 18, insert the following:

*(c) GAIN ATTRIBUTABLE TO AMORTIZATION DEDUCTION.—Section 117 (g) is hereby amended by striking out the period at the end of paragraph (2) and inserting in lieu thereof "; and", and by inserting after paragraph (2) the following new paragraph:*

*"(3) gain from the sale or exchange of property, to the extent that the adjusted basis of such property is less than its adjusted basis determined without regard to section 124A (relating to amortization deduction), shall be considered as gain from the sale or exchange of*

*property which is neither a capital asset nor property described in subsection (j)."*

On page 61 of the Senate engrossed amendments, line 19, strike out "(e)" and insert: (d)

And the Senate agree to the same.

Amendment numbered 107:

That the House recede from its disagreement to the amendment of the Senate numbered 107, and agree to the same with an amendment as follows:

In lieu of the matter proposed to be inserted by the Senate amendment insert the following: 217

And the Senate agree to the same.

Amendment numbered 108:

That the House recede from its disagreement to the amendment of the Senate numbered 108, and agree to the same with the following amendments:

On page 62 of the Senate engrossed amendments strike out all after line 1 over to and including line 9 on page 63, and insert the following:

**SEC. 218. STOCK OPTIONS.**

*(a) TREATMENT OF CERTAIN EMPLOYEE STOCK OPTIONS.—Supplement B of chapter 1 is hereby amended by adding at the end thereof the following new section:*

**"SEC. 130A. EMPLOYEE STOCK OPTIONS.**

*"(a) TREATMENT OF RESTRICTED STOCK OPTIONS.—If a share of stock is transferred to an individual pursuant to his exercise after 1949 of a restricted stock option, and no disposition of such share is made by him within two years from the date of the granting of the option nor within six months after the transfer of such share to him—*

*"(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;*

*"(2) no deduction under section 23 (a) shall be allowable at any time to the employer corporation of such individual or its parent or subsidiary corporation with respect to the share so transferred; and*

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

*This subsection and subsection (b) shall not apply unless (A) the individual, at the time he exercises the restricted stock option, is an employee of the corporation granting such option or of a parent or subsidiary corporation of such corporation, or (B) the option is exercised by him within three months after the date he ceases to be an employee of any of such corporations.*

*"(b) SPECIAL RULE WHERE 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 upon his exercise after 1949 of a restricted stock option is made by him within two years from the date of the granting of the option nor within six months after the transfer of such share to him, but, at the time the restricted stock option was granted, the option price was less than 95 per centum 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 is applicable, an amount equal to the amount (if any) by which the option price is exceeded by the lesser of—*

*“(1) the fair market value of the share at the time of such disposition or death, or*

*“(2) the fair market value of the share at the time the option was granted.*

*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.*

*“(c) ACQUISITION OF NEW STOCK.—If stock trans-*

*On page 63, line 13, of the Senate engrossed amendments strike out “112 (b) (11) or”.*

*On page 63, line 20, of the Senate engrossed amendments strike out “(c)” and insert the following: (d)*

*On page 66, line 6, of the Senate engrossed amendments strike out “(d)” and insert the following: (e)*

*On page 66, line 7, of the Senate engrossed amendments strike out “(c)” and insert in lieu thereof the following: (d)*

*And the Senate agree to the same.*

*Amendment numbered 109:*

*That the House recede from its disagreement to the amendment of the Senate numbered 109, and agree to the same with an amendment as follows:*

*On page 67, line 2, of the Senate engrossed amendments strike out “221” and insert the following: 219*

*And the Senate agree to the same.*

*Amendment numbered 111:*

*That the House recede from its disagreement to the amendment of the Senate numbered 111, and agree to the same with an amendment as follows:*

*In lieu of the matter proposed to be inserted by the Senate amendment insert the following: 220*

*And the Senate agree to the same.*

*Amendment numbered 113:*

*That the House recede from its disagreement to the amendment of the Senate numbered 113, and agree to the same with an amendment as follows:*

*On page 69, line 3, of the Senate engrossed amendments strike out “1950” and insert the following: 1949*

*And the Senate agree to the same.*

*Amendment numbered 114:*

*That the House recede from its disagreement to the amendment of the Senate numbered 114, and agree to the same with an amendment as follows:*

*In lieu of the matter proposed to be inserted by the Senate amendment insert the following: 221*

*And the Senate agree to the same.*

## Amendment numbered 121:

That the House recede from its disagreement to the amendment of the Senate numbered 121, and agree to the same with an amendment as follows:

On page 72, line 15, of the Senate engrossed amendments strike out "225" and insert the following: 222

And the Senate agree to the same.

## Amendment numbered 122:

That the House recede from its disagreement to the amendment of the Senate numbered 122, and agree to the same with an amendment as follows:

On page 73, line 12, of the Senate engrossed amendments strike out "226" and insert the following: 223

And the Senate agree to the same.

## Amendment numbered 137:

That the House recede from its disagreement to the amendment of the Senate numbered 137, and agree to the same with an amendment as follows:

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

*"(7) There shall be excluded all income derived from research for (A) the United States, or any of its agencies or instrumentalities, or (B) any State or political subdivision thereof; and there shall be excluded all deductions directly connected with such income.*

*"(8) (A) In the case of a college, university, or hospital, there shall be excluded all income derived from research performed for any person, and all deductions directly connected with such income.*

*"(B) In the case of an organization operated primarily for the purposes of carrying on fundamental research the results of which are freely available to the general public, there shall be excluded all income derived from research performed for any person, and all deductions directly connected with such income.*

And the Senate agree to the same.

## Amendment numbered 146:

That the House recede from its disagreement to the amendment of the Senate numbered 146, and agree to the same with the following amendments:

On page 77, line 6, of the Senate engrossed amendments insert after "occupancy" the following: *, and occupied,*

On page 77, line 9, of the Senate engrossed amendments strike out "less" and insert the following: *not more*

And the Senate agree to the same.

## Amendment numbered 149:

That the House recede from its disagreement to the amendment of the Senate numbered 149, and agree to the same with an amendment as follows:

On page 79, line 22, of the Senate engrossed amendments insert after "indebtedness" the following: *with respect to such corporation or such organization*

And the Senate agree to the same.

Amendment numbered 157:

That the House recede from its disagreement to the amendment of the Senate numbered 157, and agree to the same with an amendment as follows:

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

**SEC. 302. EXEMPTION OF CERTAIN ORGANIZATIONS FOR PAST YEARS.**

(a) *TRADE OR BUSINESS NOT UNRELATED.*—For any taxable year beginning prior to January 1, 1951, no organization shall be denied exemption under paragraph (1), (6), or (7) of section 101 of the Internal Revenue Code on the grounds that it is carrying on a trade or business for profit if the income from such trade or business would not be taxable as unrelated business income under the provisions of Supplement U of the Internal Revenue Code, as amended by this Act, or if such trade or business is the rental by such organization of its real property (including personal property leased with the real property).

(b) *PERIOD OF LIMITATIONS.*—In the case of an organization which would otherwise be exempt under section 101 of the Internal Revenue Code were it not carrying on a trade or business for profit, the filing of the information return required by section 54 (f) of the Internal Revenue Code (relating to returns by tax-exempt organizations) for any taxable year beginning prior to January 1, 1951, shall be deemed to be the filing of a return for the purposes of section 275 of the Internal Revenue Code (relating to period of limitation upon assessment and collection). In the case of such an organization which was, by the provisions of section 54 (f) of the Internal Revenue Code, specifically not required to file such information return, for the purposes of the preceding sentence a return shall be deemed to have been filed at the time when such return should have been filed had it been so required. The provisions of this subsection shall not apply to a taxable year of such an organization with respect to which, prior to September 20, 1950, (1) any amount of tax was assessed or paid, or (2) a notice of deficiency under section 272 of the Internal Revenue Code was sent to the taxpayer.

(c) *DENIAL OF DEDUCTIONS.*—A gift or bequest to an organization prior to January 1, 1951, for religious, charitable, scientific, literary, or educational purposes (including the encouragement of art and the prevention of cruelty, to children or animals) otherwise allowable as a deduction under section 23 (o) (2), 23 (q) (2), 162 (a), 505 (a) (2), 812 (d), 861 (a) (3), 100½ (a) (2) (B), or 100½ (b) (2) or (3) of the Internal Revenue Code, may not be denied under such sections if a denial of exemption to such organization for the taxable year of the organization in which such gift or bequest was made is prevented by the provisions of subsections (a) or (b) of this section.

And the Senate agree to the same.

Amendment numbered 159:

That the House recede from its disagreement to the amendment of the Senate numbered 159, and agree to the same with the following amendments:

On page 84, line 23, of the Senate engrossed amendments strike out "other than" and insert the following: *in excess of*

On page 85, line 5, of the Senate engrossed amendments strike out "other" the second time it appears and insert the following: *more*

On page 85, line 9, of the Senate engrossed amendments strike out "other" and insert the following: *less*

On page 88 of the Senate engrossed amendments strike out the quotation marks in line 9 and after line 9 insert the following:

"(4) *ACCUMULATED INCOME.*—If the amounts permanently set aside, or to be used exclusively, for the charitable and other purposes described in subsection (a) during the taxable year or any prior taxable year and not actually paid out by the end of the taxable year—

"(A) are unreasonable in amount or duration in order to carry out such purposes of the trust; or

"(B) are used to a substantial degree for purposes other than those described in subsection (a); or

"(C) are invested in such a manner as to jeopardize the interests of the religious, charitable, scientific, etc., beneficiaries, the amount otherwise allowable under subsection (a) as a deduction shall be limited to the amount actually paid out during the taxable year and shall not exceed 15 per centum of the net income of the trust (computed without the benefit of subsection (a))."

And the Senate agree to the same.

Amendment numbered 162:

That the House recede from its disagreement to the amendment of the Senate numbered 162, and agree to the same with the following amendments:

On page 89, line 7, of the Senate engrossed amendments strike out "section" and insert the following: *sections*

On page 90, line 18, of the Senate engrossed amendments strike out "other than" and insert the following: *in excess of*

On page 90, line 24, of the Senate engrossed amendments strike out "other" the second time it appears and insert the following: *more*

On page 91, line 2, of the Senate engrossed amendments strike out "other" the second time it appears and insert the following: *less*

On page 93 of the Senate engrossed amendments strike out the quotation marks in line 20, and after line 20 insert the following:

**"SEC. 3814. DENIAL OF EXEMPTION UNDER SECTION 101 (6) IN THE CASE OF CERTAIN ORGANIZATIONS ACCUMULATING INCOME.**

"In the case of any organization described in section 101 (6) to which section 3813 is applicable, if the amounts accumulated out of income during the taxable year or any prior taxable year and not actually paid out by the end of the taxable year—

"(1) are unreasonable in amount or duration in order to carry out the charitable, educational, or other purpose or function constituting the basis for such organization's exemption under section 101 (6); or

"(2) are used to a substantial degree for purposes or functions other than those constituting the basis for such organization's exemption under section 101 (6); or

"(3) are invested in such a manner as to jeopardize the carrying out of the charitable, educational, or other purpose or function constituting the basis for such organization's exemption under section 101 (6),

exemption under section 101 (6) shall be denied for the taxable year."

On page 94, line 12, of the Senate engrossed amendments strike out "section 3813" and insert the following: *sections 3813 and 3814*

On page 95, line 17, of the Senate engrossed amendments after "section 3813" insert the following: *and section 3814*

On page 95, line 20, of the Senate engrossed amendments strike out "such section" and insert the following: *section 3813*

And the Senate agree to the same.

Amendment numbered 190:

That the House recede from its disagreement to the amendment of the Senate numbered 190, and agree to the same with an amendment as follows:

On page 111, line 4, of the Senate engrossed amendments strike out "608" and insert the following: *610*

And the Senate agree to the same.

Amendment numbered 191:

That the Senate recede from its disagreement to the amendment of the House (made by H. Res. 842) to the amendment of the Senate numbered 191, and agree to the same with an amendment as follows:

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

#### TITLE VII—EXCESS PROFITS TAX

##### **SEC. 701. EXCESS PROFITS TAX.**

(a) *The House Committee on Ways and Means and the Senate Committee on Finance are hereby directed to report to the respective Houses of Congress a bill for raising revenue by the levying, collection, and payment of corporate excess profits taxes with retroactive effect to October 1, or July 1, 1950, said bill to originate as required by article I, section 7, of the Constitution. Said bill shall be reported as early as practicable during the Eighty-first Congress after November 15, 1950, if the Congress is in session in 1950 after such date; and if the Congress is not in session in 1950 after November 15, 1950, said bill shall be reported during the first session of the Eighty-second Congress, and as early as practicable during said session.*

(b) *The Joint Committee on Internal Revenue Taxation, or any duly authorized subcommittee thereof, is hereby authorized and directed to make a full and complete study of the problems involved in the taxation of excess profits accruing to corporations as the result of the national defense program in which the United States is now engaged. The joint committee shall report the results of its study to the House Committee on Ways and Means and the Senate Committee on Finance as soon as practicable.*

And the House agree to the same.

Amendment numbered 192:

That the House recede from its disagreement to the amendment of the Senate numbered 192, and agree to the same with an amendment as follows:

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



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*TITLE VII—EXCESS PROFITS TAX*

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And the Senate agree to the same.

That the House recede from its disagreement to the amendment of the Senate to the title of the bill and agree to the same.

R. L. DOUGHTON,  
JERE COOPER,  
JOHN D. DINGELL,  
WILBUR D. MILLS,  
DANIEL A. REED,  
ROY O. WOODRUFF,  
THOMAS A. JENKINS,

*Managers on the Part of the House.*

WALTER F. GEORGE,  
TOM CONNALLY,  
HARRY F. BYRD,  
E. D. MILLIKIN,  
HUGH BUTLER,

*Managers on the Part of the Senate.*

## STATEMENT OF THE MANAGERS ON THE PART OF THE HOUSE

The managers on the part of the House at the conference on the disagreeing votes of the two Houses on the amendments of the Senate to the bill (H. R. 8920) to reduce excise taxes, and for other purposes, submit the following statement in explanation of the effect of the action agreed upon by the conferees and recommended in the accompanying conference report:

Amendments Nos. 1 to 37, inclusive: These amendments strike out all of the provisions of title I of the House bill, which dealt with excise taxes. However, those provisions of the House bill which increase the revenue derived from excise taxes are shifted to title VI of the bill by Senate amendments Nos. 183, 184, 185, 186, and 188. The House recedes from its disagreement to each of the amendments Nos. 1 to 37, inclusive, other than amendments Nos. 14 and 31. In the case of amendment No. 14, which strikes out section 133 of the House bill (relating to the attaching of stamps in foreign countries to certain tobacco products), the House recedes with an amendment adding to title VI of the bill a new section 608 which is substantially identical to section 133 stricken from the House bill. In the case of amendment No. 31, which strikes out section 162 of the House bill (relating to credits and refunds of manufacturers' excise tax in the case of articles sold for use of aircraft engaged in foreign trade), the House recedes with an amendment adding to title VI of the bill a new section 609 which is identical to section 162 stricken from the House bill. The conferees recognize that there are inequities in our excise tax system and believe that the subject should have continuing consideration.

Amendment No. 38: This is the first of a series of amendments adding a new title I to the bill providing for increases in income-tax rates. This amendment adds sections 101 to 104, inclusive, to the bill which (together with section 131, added to the bill by Senate amendment No. 50) result in an increase in the individual income tax for all taxable years ending after September 30, 1950. This is accomplished as follows: For taxable years beginning after September 30, 1950, the percentage reductions of the tentative tax provided by the Revenue Act of 1945 and by the Revenue Act of 1948 are entirely eliminated. For the calendar year 1950 the percentage reductions are cut by approximately 25 percent. In the case of individuals who have fiscal years beginning prior to October 1, 1950, and ending subsequent to that date, proportionate cuts in the reductions are made by computing a portion of the tax on the basis of existing tax rates and the other portion of the tax on the basis of the tax rates applicable to taxable years beginning after September 30, 1950. The House recedes with an amendment clarifying the effective date provision contained in the Senate amendment.

Amendment No. 39: This amendment adds to the House bill the heading "Part II—Corporation Income Taxes" and subsections (a) and (b) of a new section 121, relating to increase in rate of corporation income taxes. This amendment and Senate amendment No. 40

define normal tax net income and surtax net income, and eliminate the so-called notch provisions, in substantially the same manner as provided in section 218 of the House bill. Under amendment No. 39 a normal tax of 25 percent is imposed on corporations for taxable years beginning after June 30, 1950, and a normal tax of 23 percent is imposed on corporations for the calendar year 1950. Special provision is made by Senate amendment No. 50 for taxable years (other than the calendar year 1950) which begin before July 1, 1950, and end after June 30, 1950. The House recedes with an amendment which makes a clerical amendment to section 14 of the Internal Revenue Code.

Amendment No. 40: In addition to defining corporation surtax net income, this amendment provides for a surtax of 20 percent on corporation surtax net income for taxable years beginning after June 30, 1950, and a surtax of 19 percent for the calendar year 1950. Special provision is made by Senate amendment No. 50 for taxable years (other than the calendar year 1950) which begin before July 1, 1950, and end after June 30, 1950. Senate amendment No. 40 (together with Senate amendment No. 48, which adds a new section 26 (j) to the Internal Revenue Code) also allows a credit in the case of a taxable year which is the calendar year 1950 for a certain percentage of partially tax-exempt interest received by a corporation. The House recedes with amendments which provide that, in lieu of such credit, the surtax for the calendar year 1950 shall be reduced by one percent of the lower of the corporation's credit under section 26 (a) or the amount by which the corporation's surtax net income exceeds \$25,000. The credit under section 26 (a) is, in effect, the amount of the partially tax-exempt interest adjusted as provided in the Internal Revenue Code.

Amendment No. 41: This amendment makes certain amendments in section 207 (a) of the Internal Revenue Code to reflect the new corporate tax rates provided in Senate amendments Nos. 39 and 40. The House recedes with a technical amendment.

Amendment No. 42: This amendment relates to the normal tax and surtax on regulated investment companies, and amends section 362 (b) of the Internal Revenue Code to reflect the new corporate tax rates provided in Senate amendments Nos. 39 and 40. The House recedes.

Amendment No. 43: This amendment relates to the computation and payment of tax on consolidated returns. It provides that the 2 percent additional surtax provided by section 141 (c) of the Internal Revenue Code shall not apply to the portion of the consolidated corporation surtax net income attributable to Western Hemisphere trade corporations in the affiliated group. The House recedes.

Amendment No. 44: This amendment makes certain technical amendments. The House recedes with further technical amendments.

Amendment No. 45: This amendment makes certain amendments to section 26 (b) of the Internal Revenue Code, relating to credits allowed corporations with respect to dividends received. The House recedes with two amendments eliminating the limitations on the credit allowed in section 26 (b) (2) (A) and (B) in respect of dividends received on the preferred stock of certain public utilities, and with a further amendment providing that the provisions of amendment No. 45 with respect to dividends in kind shall apply to such dividends received after August 31, 1950, instead of after the date of the enactment of the Revenue Act of 1950.

Amendment No. 46: This amendment, relating to amount of credit for dividends paid on certain preferred stock, corresponds to section 218 (c) of the House bill with the necessary changes to reflect the different tax rates provided by the Senate amendments. The House recedes.

Amendment No. 47: This amendment corresponds to section 218 (d) of the House bill. It amends section 26 of the Internal Revenue Code by adding a new subsection (i) which provides a credit for Western Hemisphere trade corporations applicable in computing both normal tax net income and surtax net income. The House recedes.

Amendment No. 48: This amendment provides corporations a special surtax credit for the calendar year 1950 in respect of partially tax-exempt interest. This amendment is no longer necessary in view of the amendment to Senate amendment No. 40 and is eliminated. The Senate recedes.

Amendment No. 49: This amendment provides the effective dates for the increases in the corporate rates. The House recedes with a clarifying amendment.

Amendment No. 50: This amendment provides for the computation of the individual income tax in the case of a taxable year (other than the calendar year 1950) which begins prior to October 1, 1950, and ends after September 30, 1950, and for the computation of the corporation income tax in the case of a taxable year (other than the calendar year 1950) which begins before July 1, 1950, and ends after June 30, 1950. The House recedes with technical amendments.

Amendment No. 51: Effective with respect to wages paid on or after October 1, 1950, this amendment changes the percentage rate of withholding of tax from 15 to 18 percent and provides new wage bracket withholding tables to reflect the increased tax rates. The House recedes.

Amendment No. 52: This is a clerical amendment which changes the heading of title II of the bill. The House recedes.

Amendment No. 53: This amendment strikes out section 201 of the House bill providing that where proceeds of insurance are paid in installments the interest element in each installment be subjected to income tax. The House recedes.

Amendment No. 54: This amendment extends for one year the application of sections 22 (b) (9) and (10) of the Internal Revenue Code, which permit a corporation to exclude from income certain amounts attributable to discharge of indebtedness. The House recedes.

Amendment No. 55: This amendment (together with Senate amendments Nos. 56 and 57) grants an exclusion from gross income in the case of compensation received prior to January 1, 1952, for service as a member of the armed forces of the United States based on the time spent in a combat zone in the taxable year in which the compensation was received. In the case of an enlisted man, the exclusion would be the same portion of his total compensation for service for the taxable year as the number of months during any part of which he served in a combat zone in the taxable year is of the total number of months he served anywhere in the taxable year. In the case of an officer, the exclusion would be \$200 times the number of months during any part of which he served in a combat zone during the taxable year.

The House recedes with an amendment which will base the exclusion on service prior to January 1, 1952, in a combat zone. In the

case of an enlisted man, the exclusion will be the compensation received during the taxable year for service for any month during any part of which he served in a combat zone. In the case of an officer, the exclusion will be the first \$200 of the compensation received for service for any month during any part of which he served in a combat zone, and the balance of such compensation received in any taxable year will not be excluded. The fact that the compensation is received outside a combat zone or in a different year (including years after 1951) from that in which such service is performed will be immaterial.

Amendment No. 56: This amendment would exempt from the requirement of withholding wages paid on or after the first day of the second month which begins after the date of enactment of the act for active service as a member of the armed forces of the United States for a month during any part of which such member served in a combat zone. The House recedes with an amendment to provide that no withholding of tax will be made on wages paid on or after November 1, 1950, for service performed prior to 1952 in a combat zone.

Amendment No. 57: This amendment relates to the income tax withholding statement furnished members of the armed services. The House recedes with an amendment which requires the statement to show (1) the amount of taxable compensation paid during the calendar year, and (2) the amount of tax withheld during such year. The amendment requires the statement to be furnished if any tax was withheld during the taxable year or if (even though no tax was withheld) any taxable compensation was paid during the calendar year.

Amendment No. 58: This is a clerical amendment. The House recedes.

Amendment No. 59: This amendment provides that the provisions of the bill relating to treatment of bond premium in case of dealers in tax-exempt securities shall be applicable to taxable years ending after June 30, 1950, but in the case of a taxable year beginning before and ending after such date such provisions are to apply only with respect to obligations acquired after such date. Under the House bill such provisions would have applied to taxable years beginning after 1949. The House recedes.

Amendment No. 60: This amendment strikes out section 203 of the House bill, relating to credits allowed corporations with respect to dividends received in property other than money. The provisions of this section, with a change in the effective date, are incorporated in section 122 as added to the bill by Senate amendment No. 45. The House recedes.

Amendment No. 61: This amendment adds to section 23 of the Internal Revenue Code a new subsection (bb) providing, effective with respect to taxable years beginning after December 31, 1945, for the deduction by a publisher from gross income of expenditures (with certain exceptions) to establish, maintain, or increase the circulation of a newspaper, magazine, or other periodical, but allows the publisher to elect to capitalize, instead of deducting, that portion of such expenditures which is chargeable to capital account under regulations prescribed by the Secretary. Such election to capitalize is binding for the taxable year for which made and such treatment must be



adhered to with respect to similar expenditures made in all subsequent years unless the Secretary permits a change. This Senate amendment also makes a conforming change in section 113 (b) (1) (A) of the Internal Revenue Code. The House recedes with a clarifying amendment as to the expenditures which are to be excepted from the rule of the new subsection and with a further amendment providing for certain limitations on the retroactive application of the provision in the case of any taxable year beginning after December 31, 1945, and before January 1, 1950.

These retroactive limitations are as follows: (1) The provisions of the new subsection shall not be applicable with respect to circulation expenditures for which a deduction was not allowed the taxpayer for such year, if allowance of a credit or refund with respect to such year is barred on the date of enactment of the bill by reason of any law or rule of law; and (2) the election provided in the new subsection shall not (despite the last sentence of such provision) be permitted with respect to any circulation expenditure for which a deduction was claimed by the taxpayer under his latest treatment (prior to the date of enactment of the bill) of such expenditure in connection with his tax liability for such year. The first limitation has the effect of preventing its application to expenditures which have been capitalized for any taxable year beginning after December 31, 1945, and before January 1, 1950, where the allowance of credit or refund for such year attributable to such deduction would be barred on the date of enactment of the bill. Accordingly, such capitalization will continue to be reflected in basis. However, where the allowance of a credit or refund for such taxable year is not barred on the date of enactment of the bill, such expenditures by such a taxpayer may not be capitalized (unless he so elects) and he may obtain a refund by claiming a deduction for such expenditures in lieu of their previous capitalization. The second limitation prevents a taxpayer who, for any taxable year beginning after December 31, 1945, and before January 1, 1950, claimed a deduction from gross income for a circulation expenditure from subsequently electing under section 23 (bb) of the code, to capitalize such expenditures for such a year in lieu of the deduction. Whether a deduction is to be considered claimed by such a taxpayer, for the purposes of this limitation, depends on his latest treatment (for example, in a return, claim for refund, or petition or amended petition to the Tax Court), prior to the enactment of the bill, of such expenditure in connection with his tax liability for such year.

Amendment No. 62: This amendment adds to the bill section 205, relating to payment of income tax by installment payments. This section is identical to section 603 of the House bill which is stricken by Senate amendment No. 182. The House recedes with an amendment adding a provision contained in the House bill to extend for one month the date for filing the return of (and for paying the tax imposed upon) an estate or trust.

Amendment No. 63: This amendment restores, with respect to certain corporate distributions made pursuant to a plan of liquidation adopted after December 31, 1950, and effected during any one calendar month in 1951, the provisions of sections 112 (b) (7) and 113 (a) (18) of the Internal Revenue Code (relating to election as to recognition of gain in certain corporate liquidations and relating to the basis of property received in such liquidations). The House recedes.

Amendment No. 64: This amendment provides for the nonrecognition of gain in certain cases where, pursuant to a plan of reorganization, a shareholder of a corporation which is a party to the reorganization receives stock (other than preferred stock) in another corporation, a party to the reorganization, without the surrender by such shareholder of stock. The Senate recedes.

Amendment No. 65: The House bill (1) increased the percentage depletion allowance for coal, (2) allowed percentage depletion for the first time for certain minerals, and (3) provided that the gross income from mining upon which percentage depletion allowances are based should in no case include transportation beyond the property. The Senate amendment (1) strikes out these provisions of the House bill, (2) provides, effective with respect to taxable years beginning after December 31, 1949, that gross income from mining shall include transportation from the point of extraction from the ground to the plants or mills in which the ordinary treatment processes are applied thereto, and (3) amends, effective with respect to taxable years beginning after December 31, 1946, the definition of "ordinary treatment processes" with respect to bentonite.

The House recedes with an amendment which eliminates those provisions of the Senate amendment relating to bentonite and limits the transportation permitted by the Senate amendment to be included as gross income from mining to so much of such transportation as does not exceed 50 miles unless the Secretary finds conditions to be such that the mineral must be transported to a greater distance to the plant or mill in which the ordinary treatment processes are applied.

Amendment No. 66: This amendment strikes out section 205 of the House bill which provided for the taxation as dividends to the stockholder of distributions made out of corporate earnings and profits accumulated prior to March 1, 1913, or out of appreciation in the value of property which accrued before that date. The House recedes.

Amendment No. 67: This amendment strikes out section 206 of the House bill relating to the treatment for income-tax purposes of distributions to domestic corporations in liquidation of certain foreign subsidiaries. The House recedes.

Amendment No. 68: This is a clerical amendment. The House recedes with an amendment making a change in section number.

Amendment No. 69: This is a technical amendment conforming to Senate amendment No. 66. The House recedes.

Amendment No. 70: This is a clerical amendment. The House recedes.

Amendment No. 71: Section 115 (g) of the Internal Revenue Code provides for the treatment as taxable dividends of amounts distributed by a corporation in cancellation or redemption of its stock if the cancellation or redemption and the related distribution are effected so as to be essentially equivalent to the distribution of a taxable dividend. Section 207 of the House bill amended section 115 (g) to cover the situation where shares in a parent corporation are purchased by its subsidiaries or where shares of one corporation are acquired by another corporation and both corporations are controlled directly or indirectly by the same interests. The Senate amendment limits the application of the bill to purchases by a subsidiary. The House recedes.

Amendment No. 72: Section 207 of the House bill (relating to treatment of certain redemptions of stock as dividends) applied only with respect to amounts received after December 31, 1949. The Senate amendment provided a later effective date. The House recedes with an amendment making such provisions applicable to amounts received after August 31, 1950.

Amendment No. 73: This is a clerical amendment. The House recedes with an amendment making a change in section number.

Amendment No. 74: Under the House bill certain distributions in redemption of stock included in a decedent's gross estate were excepted from the application of section 115 (g) of the Internal Revenue Code if made within the period of limitations provided in section 874 (a). The Senate amendment provided that the period within which distributions might be made tax-free should include the period of any suspension under section 875, where applicable. The House recedes with an amendment permitting the distribution to be tax-free if made within the period provided in section 874 (a) or within 90 days after the expiration of such period, but specifically excluding any suspension under section 875. Thus, under the conference amendment, no suspension of the 3-year period of limitations provided for by section 874 (a) will operate to extend the time within which such distributions must be made.

Amendment No. 75: Under the House bill distributions in redemption of stock included in a decedent's gross estate would be relieved from the application of section 115 (g) of the Internal Revenue Code only if the value of such stock comprised more than 70 percent of the value of the decedent's net estate. The Senate amendment eliminated this limitation. The House recedes with an amendment restoring the provisions of the House bill, but providing that the value of the stock of the corporation must comprise more than 50 percent of the value of the net estate. The percentage relationship is computed by taking, as the numerator, the value of the stock included in determining the value of the decedent's gross estate, and by taking, as the denominator, the value of the decedent's net estate.

Amendment No. 76: This is a clerical amendment. The House recedes with an amendment making a change in section number.

Amendments Nos. 77 and 78: The bill as passed by the House amended section 117 (a) (1) of the Internal Revenue Code so as to exclude copyrights, patents, inventions, designs, and literary, musical, or artistic compositions, and similar property from the definition of "capital assets" when held by certain taxpayers. Amendments Nos. 77 and 78 remove patents, inventions and designs from this exclusion. The House recedes.

Amendment No. 79: This amendment eliminates the amendment made by the House bill to section 117 (j) of the Internal Revenue Code which, in general, would have treated gain and loss from the sale or exchange of property used in a trade or business as gain and loss from the sale or exchange of capital assets. The House recedes.

Amendment No. 80: This is a conforming amendment to amendment No. 83. The House recedes.

Amendment No. 81: This is a conforming amendment to amendment No. 79. The House recedes.

Amendment No. 82: This amendment excludes copyrights and literary, musical, or artistic compositions, and similar property in the

hands of certain taxpayers from, and includes certain cattle used for breeding or dairy purposes in, the definition of "property used in a trade or business" which is entitled to the benefits of section 117 (j) of the Internal Revenue Code. The House recedes with an amendment which eliminates that part of the Senate amendment dealing with cattle. While it may be necessary for Congress to legislate with respect to the tax treatment of sales of livestock, the conferees agreed that cattle alone should not be dealt with to the exclusion of other livestock, the treatment of which was not in conference, and that the subject matter is deserving of further study. It is the hope of the conferees that, pending such study and further legislation, the Treasury will follow the decision of the Eighth Circuit Court in the Albright case (173 Fed. (2) 339).

Amendment No. 83: This amendment eliminates the provisions of the House bill which would change the holding period used for determining whether a capital gain or loss is long-term or short-term from 6 to 3 months. The House recedes with conforming amendments.

Amendment No. 84: This is a conforming amendment to amendments Nos. 77 and 78. The House recedes.

Amendment No. 85: This is a clerical amendment. The House recedes.

Amendment No. 86: This is a conforming amendment to amendment No. 83. The House recedes with a clarifying amendment.

Amendment No. 87: This amendment provides for the effective date of that part of amendment No. 82 which would include certain cattle in the definition of "property used in a trade or business" which is entitled to the benefits of section 117 (j) of the Internal Revenue Code. In view of the action on that part of amendment No. 82, the Senate recedes.

Amendments Nos. 88, 89, 90, 91, 92, and 93: These amendments are clerical. The House recedes with amendments making the necessary changes in section numbers and cross-references.

Amendments Nos. 94, 95, and 96: These amendments make technical and clarifying changes in the section dealing with collapsible corporations. The House recedes.

Amendment No. 97: This amendment extends the application of section 117 (m), added to the Internal Revenue Code by this bill, to a shareholder who, at any time after the commencement of the manufacture, construction, or production of property by a collapsible corporation, owned stock which was considered as owned at such time by another shareholder who then owned (or was considered as owning) more than 10 percent in value of the outstanding stock of the corporation. The House recedes.

Amendment No. 98: This is a clerical amendment. The House recedes.

Amendment No. 99: This amendment, effective for taxable years beginning after December 31, 1950, adds a section to the bill which provides that amounts received by an assignor for the assignment of certain oil, gas, and mineral rights, where such rights terminate upon the receipt by the assignee of a fixed or determinable amount of oil, gas, or mineral, shall be treated as amounts received from the sale or exchange of capital assets. The Senate recedes.

Amendments Nos. 100, 101, 102, 103, 104, and 105: These amendments are clerical. The House recedes with amendments making the necessary changes in section numbers.

Amendment No. 106: This amendment inserts in the Internal Revenue Code a new section 124A, applicable with respect to taxable years ending after December 31, 1949, providing for the amortization over a period of 60 months of emergency facilities constructed or acquired after December 31, 1949, and certified as necessary in the interest of national defense during the present emergency period. The determination of that part of an investment in a facility which is attributable to defense purposes will be made under such standards and procedures as may be included in regulations prescribed by the certifying authority with the approval of the President. The amortization deduction may be taken at the election of the taxpayer, in lieu of depreciation, and may be discontinued (and depreciation resumed) before the expiration of the 60-month period. The provision is similar to section 124 of the code which authorized the amortization of emergency facilities during World War II. This amendment also makes a technical change in section 23 (t) of the code to conform it to the new section 124A. The House recedes with amendments, one of which adds to section 117 (g) of the code a new paragraph (3) providing that gain from the sale or exchange of property, to the extent that the adjusted basis of such property is less than its adjusted basis determined without regard to section 124A, shall be considered as ordinary income. For example, on December 31, 1950, a taxpayer making his income-tax returns on the calendar-year basis acquires at a cost of \$10,000 an emergency facility (used in his business) which normally would have a useful life of 20 years. Under section 124A he elects to begin the 60-month amortization period on January 1, 1951. He takes amortization deductions in the amount of \$4,000 for the years 1951 and 1952 (24 months). On December 31, 1952, he sells the facility for \$9,500. The adjusted basis of the facility on that date is \$6,000 (\$10,000 cost less \$4,000 amortization). Without regard to section 124A, the facility would have been depreciated at the rate of \$500 a year, and its adjusted basis on December 31, 1952, would have been \$9,000 (\$10,000 cost less \$1,000 depreciation). The difference between the facility's actual adjusted basis (\$6,000), and its adjusted basis determined without regard to section 124A (\$9,000) is \$3,000. Accordingly, under the House amendment, of the \$3,500 gain on the sale of the facility (\$9,500 sale price less \$6,000 adjusted basis), \$3,000 would be treated as ordinary income and \$500 as long-term capital gain.

If the taxpayer acquired other property, in a tax-free exchange, for an emergency facility with respect to which the amortization deduction was allowed, the basis of such other property would be determined with regard to section 124A of the Internal Revenue Code, and therefore the provisions of section 117 (g) (3) of such code would apply with respect to gain realized on a sale or exchange of such other property. The provisions of section 117 (g) (3) likewise apply with respect to gain realized upon the sale or exchange of an emergency facility (or other property, as described in the preceding sentence) by a taxpayer in whose hands the basis of such facility (or other property) is determined by reference to the basis thereof in the hands of another person who was allowed deductions with respect to such facility under section 124A.

Amendment No. 107: This amendment is clerical. The House recedes with an amendment making a change in section number.

Amendment No. 108: This amendment adds a new section 130A to the Internal Revenue Code to provide special income tax treatment of income in respect of "restricted stock options" in cases where the option price is at least 85 percent of the fair market value of the stock subject to the option. The house recedes with amendments providing ordinary income treatment, at disposition of the stock in certain cases, to the amount of the "spread", at the time the option was granted. The amendments revise subsection (a) of section 130A and insert a new subsection (b).

New subsection (b) provides a special rule applicable where the option price in respect of a restricted stock option is, at the time the option is granted, between 85 and 95 percent of the fair market value of the stock. This rule provides that if no disposition of a share of stock, acquired by an individual upon 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 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, 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 during which the date of such disposition falls, an amount equal to the amount, if any, by which the option price is exceeded by the lesser of (1) the fair market value of the share at the time of such disposition or (2) the fair market value of the share at the time the option was granted. Death of the individual, at any time (including death within the 2-year period or within the 6-month period) while he owns the share of stock, has the same effect for the purposes of subsection (b) as a disposition of such share by him during the taxable year closing with his death. Subsection (b) also provides that, in case of a disposition of such a share of stock by the individual, the basis of the share in his hands as of the time of such disposition shall be increased by an amount equal to the amount includible as compensation in his gross income. The rule of subsection (a) regarding denial of deduction under section 23 (a) to the employer corporation or its parent or subsidiary also applies to any amounts treated as ordinary income under subsection (b).

In order to make it clear that the special treatment provided in subsection (a) and new subsection (b), when applicable, applies separately to each share of stock, subsection (a) of section 130A has been rephrased to refer to "a share of stock", instead of to "stock." Former subsections (b), (c), and (d) have been redesignated (c), (d), and (e), respectively.

The operation of new subsection (b) may be illustrated by the following examples:

(1) On January 1, 1951, X, an employee of M corporation, receives a restricted stock option to purchase a share of stock of M corporation for \$85. The fair market value on that date is \$100. On January 1, 1953, X exercises the option, the fair market value of the share on that date being \$125. On January 1, 1954, X sells the share for \$150. The difference between the fair market value at the date the option was granted and the option price was \$15. Therefore, \$15 is included as ordinary income in X's gross income for 1954. This \$15 increases the \$85 cost basis of the share to X, thus giving him a basis

for determining gain or loss on the sale of the share of stock of \$100. Having sold the share for \$150, X has a gain on the sale of \$50, of which \$25 is taken into account as long-term capital gain.

(2) If the fair market value of the share in example (1) above at the time of the sale had been only \$75, and if X had sold it for \$75, no amount in respect of the sale would be includible as compensation in X's gross income for 1954. In such case, X's basis for determining gain or loss on the sale would remain \$85. Having sold the share for \$75, X would have a loss on the sale of \$10, of which \$5 would be taken into account as a long-term capital loss.

(3) If, in example (1) above, instead of selling the share on January 1, 1954, X had made a gift of the share on that day, the \$15 would be included as compensation in X's gross income for 1954. Similarly, X's basis in respect of the share is increased to \$100, which would become the donee's basis, as of the time of the gift, for determining gain or loss on the share of stock.

(4) If, in example (2) above, instead of selling the share on January 1, 1954, X had made a gift of the share on that date, no amount in respect of the transaction would be includible as compensation in X's gross income for 1954. X's basis would remain \$85, which also would become the donee's basis, as of the time of the gift, for the purpose of determining gain on the share of stock. The donee's basis for the purpose of determining loss would be determined under section 113 (a) (2), and would be \$75.

(5) If, in example (1) above, after acquiring the stock on January 1, 1953, X died during the year 1953, at a time when the share had a fair market value of \$150, the \$15 spread which existed at the time the option was granted would be included as compensation in X's gross income for the taxable year closing with his death. This is the rule whether X's death occurred during or after a 6-month period running from the date the share was acquired. The basis of the share in the estate of X for the purposes of determining gain or loss would be determined under section 113 (a) (5), and would be \$150.

Amendment No. 109: This amendment relates to the time of payment of tax withheld at source from nonresident aliens and corresponds, except for a minor change, to section 601 (d) of the House bill. The House recedes with an amendment making a change in section number.

Amendment No. 110: This amendment adds to the Internal Revenue Code certain rules applicable to the treatment of family partnerships for income-tax purposes, retroactive to taxable years beginning after 1938. The Senate recedes.

Amendment No. 111: This is a clerical amendment. The House recedes with an amendment making a change in section number.

Amendment No. 112: This is a clerical amendment. The House recedes.

Amendment No. 113: This amendment changes the effective date for the taxation of amounts paid for services performed in a possession of the United States by a citizen of the United States as an employee of the United States or any agency thereof from taxable years beginning after December 31, 1949, to taxable years beginning after December 31, 1950. The House recedes with an amendment which restores the effective date contained in the House bill.

Amendment No. 114: This is a clerical amendment. The House recedes with an amendment making a change in section number.

Amendments Nos. 115 and 116: These are clarifying amendments. The House recedes.

Amendment No. 117: This amendment amends section 3811 of the Internal Revenue Code to extend to Puerto Rico administrative, collection, and enforcement provisions considered necessary because of the changes made by the bill relating to the income-tax treatment of individuals resident in Puerto Rico. The House recedes.

Amendment No. 118: This amendment makes technical and conforming changes to section 481 (a) (7) of the Internal Revenue Code and to section 211 (a) (7) of the Social Security Act, each of which relates to the computation of net earnings from self-employment in the case of residents of Puerto Rico. These changes are necessary because of the changes made by the bill in the tax treatment of residents of Puerto Rico. The House recedes.

Amendment No. 119: This is a clerical amendment. The House recedes.

Amendment No. 120: This amendment provides that the amendment made by Senate amendment No. 117 shall be effective on the date of the enactment of the bill. The House recedes.

Amendment No. 121: This amendment adds to the Internal Revenue Code a new paragraph which, for certain purposes, would allow a regulated investment company, at its option, to treat certain dividends as having been paid in the taxable year preceding that of their actual payment. The House recedes with an amendment making a change in section number.

Amendment No. 122: This amendment provides that section 502 (f) of the Internal Revenue Code, relating to use of corporation property by a shareholder, shall not apply to rents received during taxable years ending after December 31, 1945, and prior to January 1, 1950, if such rents were received for the use by the lessee, in the operation of a bona fide commercial, industrial, or mining enterprise, of property of the corporation. The House recedes with an amendment making a change in section number.

Amendment No. 123: This amendment strikes out section 218 of the House bill, relating to increase in rate of corporation-income taxes. The increase in corporate rates is effected under Senate amendments Nos. 39 and 40. The House recedes.

Amendments Nos. 124 and 125: These are clerical amendments which change the headings of part I of title III of the bill, and of Supplement U of chapter 1 of the Internal Revenue Code, respectively, to conform to the changes made by Senate amendment No. 151. The House recedes.

Amendment No. 126: This is a technical amendment to conform the rate of tax on organizations subject to the Supplement U tax at corporate rates to the increased corporate tax rate provided in Senate amendment No. 39. The House recedes.

Amendments Nos. 127 and 128: These are clarifying amendments. They make clear that the word "church" in the new section 421 (b) (1) of the Internal Revenue Code as it appeared in the House bill, includes a convention or association of churches as an organization exempt from the Supplement U tax. The House recedes.



Amendment No. 129: This is a technical amendment to conform to Senate amendment No. 151, which eliminates the proposed tax on accumulated investment income. The House recedes.

Amendment No. 130: This amendment continues the exclusion of dividends, interest, and annuities from unrelated business net income for purposes of the Supplement U tax as provided for in the comparable House bill provision and sets forth specifically the royalties which are also to be excluded from unrelated business net income. The House recedes.

Amendment No. 131: This amendment is a change in paragraph number. The House recedes.

Amendment No. 132: This is a technical amendment. The provision stricken thereby from the House bill is covered in Senate amendment No. 135. The House recedes.

Amendments Nos. 133 and 134: These amendments are changes in paragraph numbers. The House recedes.

Amendment No. 135: This amendment adds a new paragraph, (5) to the new section 422 (a) of the Internal Revenue Code which broadens the exclusion from unrelated business net income subject to the Supplement U tax provided in section 422 (a) (2) in the House bill for capital gains or losses. The House recedes.

Amendment No. 136: This amendment is a change in a paragraph number. The House recedes.

Amendment No. 137: This amendment extends the House bill provision which excluded, from unrelated business income subject to the Supplement U tax, income derived from research for the United States or any of its agencies. The amendment adds to the code in lieu of the House provision a section numbered 422 (a) (7) which excludes all income derived from work performed under a contract with the United States or any of its agencies or instrumentalities or with any State or political subdivision thereof. The amendment also adds a provision, numbered section 422 (a) (8), excluding income derived by a college, university, or hospital from research performed for any person.

The House recedes with amendments limiting the exclusion in section 422 (a) (7) to income derived from research for the Federal Government or the States and adding a subparagraph to section 422 (a) (8) providing that, in the case of an organization operated primarily for the purposes of carrying on fundamental research the results of which are freely available to the general public, income derived from all research is to be excluded from unrelated business income.

Amendments Nos. 138 and 139: These amendments change paragraph numbers. The House recedes.

Amendment No. 140: This amendment is clerical. The House recedes.

Amendment No. 141: This amendment excepts from the definition of "unrelated trade or business" under new code section 422 (b) as it appeared in the House bill, any trade or business which consists of selling merchandise, substantially all of which has been received by the organization as gifts or contributions. The House recedes.

Amendment No. 142: This is a technical amendment conforming to Senate amendment No. 159. The House recedes.

Amendment No. 143: This amendment changes the definition in new code section 423 (a) of the phrase "Supplement U lease" to mean,

in general, a lease for a term of more than 5 years of real property on which there is a Supplement U lease indebtedness; whereas, under the corresponding provision of the House bill, leases of 5 years or more were covered where such indebtedness existed. The House recedes.

Amendments Nos. 144 and 145: These are clerical amendments. The House recedes.

Amendment No. 146: This amendment excepts certain types of leases from the definition of a "Supplement U lease" as such term is defined in new code section 423 (a). Rents from such leases will not be subject to the Supplement U tax. The excepted types of leases are those entered into primarily for purposes which are substantially related to the lessor organization's exempt purposes; leases of premises in a building primarily designed for occupancy by the lessor organization; certain long-term leases of portions of the premises where both the rents derived from such leases are less than certain percentages of the total rents derived from the entire premises and the area covered under such long-term leases represents less than certain percentages of the total area covered by leases on the entire premises. The House recedes with a technical amendment conforming to Senate amendment No. 143 and with an amendment requiring that the building primarily designed for occupancy by the organization also be occupied by the organization if a lease of premises in such a building is to be excepted from the definition of a Supplement U lease.

Amendment No. 147: This is a technical amendment conforming to Senate amendment No. 143. The House recedes.

Amendment No. 148: This amendment clarifies the manner in which a "Supplement U lease indebtedness" may be incurred. The House recedes.

Amendment No. 149: This amendment provides that where real property was acquired by gift, bequest, or devise prior to July 1, 1950, subject to a mortgage or subject to a lease requiring improvements, the mortgage indebtedness or indebtedness incurred in so improving the property shall not be considered as Supplement U indebtedness. A similar result is also provided under certain circumstances where an organization described in section 101 (1), (6) or (7) acquires all the stock of a corporation described in section 101 (14). The House recedes with a clarifying amendment.

Amendment No. 150: This is a clerical amendment. The House recedes.

Amendment No. 151: This amendment strikes out provisions of the House bill which would have added sections 424 and 425 to the Internal Revenue Code, which would have subjected to the Supplement U tax certain accumulated investment income of trusts and certain other organizations exempt under section 101 (6) of the code. The House recedes.

Amendment No. 152: This amendment is a change in section number. The House recedes.

Amendment No. 153: This amendment strikes out section 301 (c) of the House bill which set up specific standards under which certain organizations exempt under section 101 (6) of the Internal Revenue Code must operate in order to retain their exempt status. However, the provisions of this section, with modifications, are incorporated in

new code section 3813 as added by Senate amendment No. 162. The House recedes.

Amendments Nos. 154, 155, and 156: These amendments are clerical and technical conforming changes. The House recedes.

Amendment No. 157: This amendment adds section 302 to the bill, for which there was no corresponding section in the bill as it was passed by the House. Section 302 deals with possible tax liability for taxable years beginning prior to 1951 of certain organizations which for such years were carrying on a trade or business the profits of which were dedicated exclusively to exempt purposes; such section also deals with deductibility of contributions made prior to 1951 to such organizations.

The House recedes with an amendment which revises section 302 of the bill. As amended, section 302 (a) provides that for taxable years beginning prior to 1951, no organization shall be denied exemption under section 101 (1), (6), or (7) of the code on the ground that it is carrying on a trade or business for profit, if the income from this source would not be taxable under Supplement U as amended by this bill, or if such trade or business is the rental by such organization of its real property (including personal property leased therewith).

Subsection (b) of section 302 provides that the statute of limitations against assessment of income tax shall begin to run, for any taxable year prior to 1951, with the filing of an information return (Form 990) in the case of an organization which would be exempt under section 101 of the code were it not carrying on a trade or business for profit. If under section 54 (f) of the code such organization was not required to file an information return, assessment is barred 3 years after the date such return would have been due if such organization had been required to file such return. However, the provisions of this subsection are not to apply to a taxable year with respect to which, prior to September 20, 1950, any amount of tax was assessed or paid, or a notice of deficiency under section 272 of the code was sent to the organization.

Subsection (c) of section 302 provides that a gift or bequest for charitable, etc., purposes, otherwise allowable as a deduction under the appropriate income-, estate- or gift-tax provisions of the code, may not be denied for any taxable year prior to January 1, 1951, if the denial of exemption to the recipient organization for the time in which such contribution was made is prevented by section 302.

The conferees were unable to consider the question of taxability for years prior to 1951 of income derived by a college or university from the conduct of a trade or business whether carried on directly by the institution or through a subsidiary. This matter is in litigation and was not in conference. However, it is the view of the conferees that undue hardship will arise if such institutions are required to pay taxes on income which has already been spent to carry out their educational programs; and the conferees express the hope that this matter may be reviewed in subsequent legislation.

Amendment No. 158: This amendment is a change in section number. The House recedes.

Amendment No. 159: This amendment eliminates those provisions of the House bill which would have denied a deduction under section 162 (a) of the Internal Revenue Code with respect to income which was accumulated, and also the privilege of election which would have been granted trustees to deduct under section 162 (a) for cer-

tain distributions made after the close of the taxable year. This amendment retains, with modifications, the limitations proposed in the House bill on the unlimited charitable deduction allowed trusts under section 162 (a) of the code. These provisions appeared in section 162 (g) (2) and (4), as added to the code by section 321 of the bill as passed by the House. These limitations, which now appear as section 162 (g) (1) and (2), result in the denial of a deduction under section 162 (a) of the code for amounts attributable to income derived from business activities of the trust and for amounts in excess of 15 percent of the net income if the trust has engaged in certain prohibited transactions, directly or indirectly with the creator of, or a substantial donor to, such trust. Section 162 (g) (2) (C) and (D) provide rules with respect to the taxable years affected where the deduction of a trust has been so limited because of engaging in prohibited transactions. Section 162 (g) (2) (E) provides rules for the disallowance to the donor of a deduction under the appropriate income, estate, and gift tax provisions of the Internal Revenue Code, for gifts or bequests in trust where at the time of the gift or bequest the trust is not allowed the unlimited deduction under section 162 (a) of the code.

The House recedes with clerical amendments and an amendment which adds paragraph (4) to section 162 (g), which paragraph provides that the amount which would otherwise be allowed under section 162 (a) as a deduction for amounts permanently set aside for charitable and related purposes during the taxable year or any prior taxable year and not actually paid out at the end of the taxable year shall be limited to such amounts as actually paid out as are not in excess of 15 percent of the net income of the trust, computed without the benefit of section 162 (a), where the accumulations are (1) unreasonable either in size or duration, or (2) used to a substantial degree for other than charitable or related purposes, or (3) invested in such a manner as to jeopardize the interests of the religious, charitable, scientific, etc., beneficiaries. The deductions are to be so limited as provided in this paragraph in the year in which the accumulation becomes unreasonable or is misused and will continue to be so limited until such situation is corrected.

Amendment No. 160: This is a technical amendment. The House recedes.

Amendment No. 161: This is a technical amendment to conform the effective date of part II of title III of this bill to additions made therein by Senate amendment No. 159. The House recedes.

Amendment No. 162: This amendment strikes part III of title III of the bill as it was passed by the House, the provisions of which disallowed certain charitable, etc., deductions for income-, estate-, and gift-tax purposes for gifts and bequests to certain organizations exempt under section 101 (6) of the Internal Revenue Code where the instruments under which the recipient organizations were operated did not provide that such organizations might not engage in certain prohibited acts. However, the provisions of this part, with certain modifications, are incorporated in section 3813 as added to the Internal Revenue Code by this amendment.

The principal changes made by the Senate amendment are to broaden the categories of organizations not subject to the provisions of the section; to omit the requirement that the mandate against pro-

hibited transactions be incorporated in the governing instrument of the organization; to limit the categories of prohibited transactions to those which are not at arm's length; to omit the provisions denying charitable deductions for certain contributions of stock in a family business; and to provide specific rules regarding the taxable years affected when an organization engages in a prohibited transaction.

The House recedes with clerical and technical amendments and an amendment adding after section 3813 of the code a new section 3814. Section 3814 provides that exemption under section 101 (6) of the code shall be denied for the taxable year in the case of an organization described in section 101 (6) to which section 3813 of the code is applicable, if the accumulations out of income during the taxable year or any prior taxable year and not actually paid out by the end of the taxable year, are either unreasonable in amount or duration in order to carry out the organization's exempt purposes; or are used to a substantial degree for purposes or functions other than such organization's exempt purposes; or are invested in such a manner as to jeopardize the carrying out of the organization's exempt purposes. In effect, section 3814 denies exemption to a section 101 (6) organization in the year in which its accumulation of income becomes unreasonable or is misused, and such organization will continue to be denied exemption as long as such situation continues.

Amendment No. 163: This amendment adds to title III of the bill as it passed the House a new part designated part IV which requires, for taxable years beginning after December 31, 1949, that certain organizations exempt under section 101 (6) of the Internal Revenue Code and trusts taxable under Supplement E of the code claiming charitable, etc., deductions under section 162 (a) of the code shall furnish annually information respecting income, expenses, disbursements, accumulations, and a balance sheet, which information is to be made available to the public. The House recedes.

Amendments Nos. 164 to 174, inclusive: These amendments restrict the provisions which would apply a corrected formula in computing the income taxes of life insurance companies to 1949 and 1950, instead of to 1947, 1948, 1949, and 1950, as provided for by the House bill. The House recedes.

Amendment No. 175: This amendment strikes out section 403 of the House bill relating to income taxes of insurance companies in receivership during 1947 or 1948. The House recedes.

Amendments Nos. 176 and 177: These amendments are clerical. The House recedes.

Amendment No. 178: This amendment adds to the bill a new section which amends section 404 (c) of the Revenue Act of 1942 to limit the inclusion in the gross estate of a decedent for estate-tax purposes of proceeds of life-insurance policies upon his own life, purchased in whole or in part with premiums or other consideration paid by him on or before January 10, 1941, and receivable by persons other than his executor. The House recedes.

Amendments Nos. 179 and 180: These amendments strike out title VI and section 601 of the House bill providing for collection of income tax at source on dividends. The House recedes.

Amendment No. 181: This amendment strikes out section 602 of the House bill, which dealt with the reduction of the rate of interest on overpayments. The House recedes.

Amendment No. 182: This amendment strikes out section 603 of the House bill, relating to payment of income tax by installment payments. The provisions of that section are incorporated in Senate amendment No. 62. The House recesses.

Amendment No. 183: This amendment adds to the bill the heading "Title VI—Excise Taxes" and section 601 relating to retailers' excise taxes in the case of sales of jewelry or furs by an auctioneer or other agent. This section is identical to subsection (e) of section 102 of the House bill, which was stricken by Senate amendment No. 3. The House recesses.

Amendment No. 184: This amendment adds to the bill a new section 602, relating to retail sales by the United States or by its agencies or instrumentalities. This section is identical to section 104 of the House bill, which was stricken by Senate amendment No. 5. The House recesses.

Amendment No. 185: This amendment adds to the bill a new section 603, relating to excise tax on coin-operated gaming devices. The amendment made by this section to the Internal Revenue Code is the same as the amendment made by section 142 (a) of the House bill, stricken by Senate amendment No. 17. The House recesses.

Amendment No. 186: This amendment adds to the bill a new section 604, relating to the payment of occupational taxes by Federal agencies and instrumentalities. This section is identical to section 144 of the House bill stricken by Senate amendment No. 19. The House recesses.

Amendment No. 187: This amendment adds to the bill a new section 605 which extends the 10 percent manufacturers' excise tax on radio receiving sets and parts to television receiving sets and parts. The House recesses.

Amendment No. 188: This amendment adds to the bill a new section 606 which extends the 10 percent manufacturers' excise tax on mechanical refrigerators and air-conditioning units to quick-freeze units. Section 155 of the House bill (stricken by Senate amendment No. 24) also provided for taxing quick-freeze units, but at a lower rate. The House recesses.

Amendment No. 189: This amendment adds to the bill a new section 607, relating to taxes on transportation. Subsection (a), relating to the tax on the transportation of persons, imposes the tax on amounts paid without the United States for the transportation of persons which begins and ends in the United States, and subsection (b), relating to the tax on the transportation of property, imposes the tax on amounts paid without the United States for the transportation of property from one point in the United States to another. The House recesses.

Amendment No. 190: This amendment provides an effective date for the amendments made by the new sections 601, 602, 605, and 606. The provisions of this section are substantially the same as the corresponding provisions of the House bill. The House recesses with a change in section number.

Amendment No. 191: Senate amendment No. 191 added a new section to the bill directing the House Committee on Ways and Means and the Senate Committee on Finance to report to the respective Houses a bill for raising revenue by the levying, collection, and payment of corporate excess profits taxes with retroactive effect to

October 1 or July 1, 1950, such bill to originate as required by article I, section 7 of the Constitution. Such bill was to be reported as early as practicable during the first session of the Eighty-second Congress. The Senate amendment further directed the Joint Committee on Internal Revenue Taxation to make a full and complete study of the problems involved in the taxation of excess profits accruing to corporations as the result of the national-defense program in which the United States is now engaged, and to report the results of its study to the House Committee on Ways and Means and the Senate Committee on Finance as soon as practicable.

The House (by the adoption of H. Res. 842) agreed to Senate amendment No. 191 with an amendment which directed that such bill be reported as early as practicable during the second session of the Eighty-first Congress. In all other respects, the language of the House amendment was identical to Senate amendment No. 191.

The Senate recedes with an amendment which provides that the bill required by both Senate amendment No. 191 and the House amendment thereto shall be reported as early as practicable after November 15, 1950, to the Eighty-first Congress, if in session after such date; and if the Congress is not in session in 1950 after such date, the bill shall be reported as early as practicable during the first session of the Eighty-second Congress.

Amendment No. 192: This amendment conforms the table of contents to the amendments made by the Senate to the House bill. The House recedes with an amendment conforming the table of contents to the bill as agreed to in conference.

Amendment to the title: The House recedes.

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WILBUR D. MILLS,  
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