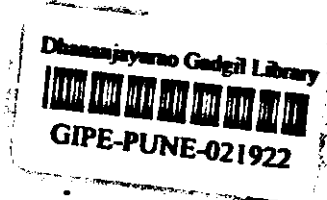


21922



United States Senate. Congress.

- (1) A bill to regulate the transportation of passengers and property... by motor carriers, etc. <sup>1932</sup> XA13:273 2G2
- (2) ~~Revenue Act of 1942~~ Appropriations for the Treasury and Post Office Departments for the year ending June 1944. X71:73 H-1
- (3) Revenue Act of 1942 X72:273 2H2

21922

72D CONGRESS  
1ST SESSION

# H. R. 12739

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IN THE HOUSE OF REPRESENTATIVES

JUNE 21, 1932

Mr. RAYBURN introduced the following bill; which was referred to the Committee on Interstate and Foreign Commerce and ordered to be printed

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## A BILL

To regulate the transportation of passengers and property in interstate and foreign commerce by motor carriers operating on the public highways, and for other purposes.

1 *Be it enacted by the Senate and House of Representa-*  
2 *tives of the United States of America in Congress assembled,*

3 DEFINITIONS

4 SECTION 1. (a) As used in this Act—

5 (1) The term "corporation" means a corporation,  
6 company, association, or joint-stock association.

7 (2) The term "person" means an individual, firm, or  
8 copartnership.

~~PLEASE~~ (3) The term "board" or "State board" means the  
2 commission, board, or official (by whatever name desig-  
3 nated in the laws of a State) which, under the laws of any  
4 State in which any part of the service in interstate or for-  
5 eign commerce regulated by this Act is to be performed,  
6 has or may hereafter have jurisdiction to grant or approve  
7 certificates of public convenience and necessity or other  
8 form of permit to common or private carriers by motor  
9 vehicle, or otherwise to regulate transportation by motor  
10 vehicle, in intrastate commerce over the public highways  
11 of such State.

12 (4) The term "commission" means the Interstate  
13 Commerce Commission.

14 (5) The term "certificate" means a certificate of  
15 public convenience and necessity issued under this Act to  
16 common carriers of passengers by motor vehicle.

17 (6) The term "permit" means a permit issued under  
18 this Act to private carriers of passengers by motor vehicle  
19 and to common and private carriers of property by motor  
20 vehicle.

21 (7) The term "interstate or foreign commerce"  
22 means commerce between any place in a State and any  
23 place outside thereof; or between points within the same  
24 State but through any place outside thereof.

1       (8) The term "public highway" includes the public  
2 roads, highways, streets, and ways in any State.

3       (9) The term "motor vehicle" means any vehicle,  
4 machine, or trailer propelled or drawn by any power other  
5 than muscular power and used upon the public highways  
6 for the transportation of passengers or property, but does  
7 not include any vehicle, locomotive, or car operated on a  
8 rail or rails.

9       (10) The term "State" means any of the several  
10 States and the District of Columbia.

11       (11) The term "common carrier by motor vehicle"  
12 includes any carrier of passengers or property by motor  
13 vehicle for compensation in interstate or foreign commerce  
14 which undertakes or offers to transport passengers or prop-  
15 erty for the general public.

16       (12) The term "private carrier by motor vehicle"  
17 means any carrier by motor vehicle regularly engaged in  
18 the business of transporting passengers or property for  
19 compensation in interstate or foreign commerce under a  
20 contract, agreement, or arrangement, and which does not  
21 undertake or offer to transport passengers or property for  
22 the general public: *Provided*, That this shall not include a  
23 casual or verbal contract for the carrying of ten persons or  
24 less on a single trip.



1           (13) The term "motor carrier" includes both a  
2 common carrier by motor vehicle and a private carrier by  
3 motor vehicle.

4           (b) Nothing in this Act shall be construed to include  
5 (1) motor vehicles employed solely in transporting school  
6 children and teachers; or (2) taxicabs, or other motor  
7 vehicles performing a similar service, having a capacity of  
8 not more than six passengers and not operated on a regular  
9 route or between fixed termini; or (3) motor vehicles  
10 owned or operated by or on behalf of hotels and used  
11 exclusively for the transportation of hotel patrons between  
12 hotels and local railroad or other common carrier stations;  
13 or (4) motor vehicles operated, under authorization, regula-  
14 tion, and control of the Secretary of the Interior, principally  
15 for the purpose of transporting persons in, into, and about  
16 the national parks and national monuments.

17   **GENERAL DUTIES AND POWERS OF THE COMMISSION**

18       **SEC. 2. (a)** It shall be the duty of the commission—

19       (1) To supervise and regulate common carriers of  
20 passengers by motor vehicle as provided in this Act, and to  
21 that end the commission may establish reasonable require-  
22 ments with respect to continuous and adequate service, trans-  
23 portation of baggage, a uniform system of accounts, records,  
24 and reports, preservation of records, comfort of passengers,

1 and pick-up and delivery points whether on regular routes or  
2 within defined localities or districts;

3 (2) To administer all other provisions of this Act rela-  
4 tive to motor carriers, and to prescribe rules and regulations  
5 for such administration; and

6 (3) To inquire into the management of the business  
7 of motor carriers, to keep itself informed as to the manner  
8 and method in which the same is conducted, and to transmit  
9 to Congress, from time to time, such recommendations as to  
10 additional legislation relating to such carriers as the com-  
11 mission may deem necessary.

12 (b) No operator of any motor vehicle used as a com-  
13 mon carrier in interstate or foreign commerce over fixed  
14 routes or between fixed termini shall be required or per-  
15 mitted by any motor carrier, its officers or agents, to be or  
16 remain on duty for a longer period than eight consecutive  
17 hours. Whenever any such operator shall have been con-  
18 tinuously on duty for eight hours, he shall be relieved and  
19 not required or permitted again to go on duty until he has  
20 had at least eight consecutive hours off duty. No such  
21 operator who has been on duty eight hours in the aggregate  
22 in any twenty-four-hour period shall be required or per-  
23 mitted to continue or again go on duty without having had  
24 at least eight consecutive hours off duty. The provisions

1 of this paragraph shall not apply to the operators of wreck-  
2 ing or relief motor vehicles nor in any case of casualty or  
3 unavoidable accident or act of God, nor where the delay was  
4 the result of a cause not known to the motor carrier or its  
5 officer or agent in charge of such operator at the time said  
6 operator left a terminal, and which could not have been  
7 foreseen.

8       Upon complaint in writing to the commission by any  
9 person, corporation, or State board, alleging a failure by any  
10 motor carrier to comply with any provision of this Act, or  
11 with any requirement established pursuant thereto, or  
12 upon its own initiative without complaint, the commission  
13 may, after notice and hearing, investigate any such matter.  
14 If the commission finds upon any such investigation that the  
15 motor carrier has failed to comply with any such provision  
16 or requirement, the commission shall issue an appropriate  
17 order to compel the carrier to comply with such provision or  
18 requirement.

19       (d) After a decision, order, or requirement has been  
20 made by the commission in any proceeding under this Act,  
21 any party thereto may at any time make application to the  
22 commission for rehearing of the same, or of any matter deter-  
23 mined therein, and it shall be lawful for the commission in  
24 its discretion to grant such a rehearing if sufficient reason  
25 therefor be made to appear. Applications for rehearing

1 shall be governed by such general rules as the commission  
2 may establish. No such application shall excuse any motor  
3 carrier from complying with or obeying any decision, order,  
4 or requirement of the commission, or operate in any manner  
5 to stay or postpone the enforcement thereof, without the  
6 special order of the commission. If, after such rehearing and  
7 the consideration of all facts, including those arising since  
8 the former hearing, it shall appear that the original decision,  
9 order, or requirement is in any respect unjust or unwar-  
10 ranted, the commission may reverse, change, or modify the  
11 same accordingly. Any decision, order, or requirement  
12 made after such rehearing shall be subject to the same provi-  
13 sions as an original decision, order, or requirement.

14

#### ADMINISTRATION OF THE ACT

15

SEC. 3. (a) Except in case of a matter which is referred  
16 to a joint board as provided in subdivision (c), any matter  
17 arising under the administration of this Act shall be heard  
18 and decided by the commission, or shall, by order of the  
19 commission, be referred to a member or examiner of the  
20 commission for hearing and the recommendation of an appro-  
21 priate order thereon. With respect to such matter the  
22 member or examiner shall have all the rights, duties, powers,  
23 and jurisdiction conferred by this Act upon the commission,  
24 except the power to make the final order thereon. Any  
25 order recommended by the member or examiner with respect

1 to such matter shall be in writing and be accompanied by  
2 the reasons therefor, and shall be filed with the commission.  
3 Copies of such recommended order shall be served upon the  
4 persons specified in subdivision (g), who may file exceptions  
5 thereto, but if no exceptions are filed within twenty days  
6 after service upon such persons, such recommended order  
7 shall become the order of the commission and become  
8 effective, unless within such period the order is stayed or  
9 postponed by the commission. Where exceptions are filed  
10 as herein provided it shall be the duty of the commission to  
11 consider the same and, if sufficient reason appears therefor,  
12 the commission shall grant such review or make such orders  
13 or hold or authorize such further hearings or proceedings in  
14 the premises as may be necessary or proper to carry out the  
15 purposes of this Act; or the commission may, on its own  
16 motion, review any such matter and take action thereon as  
17 if exceptions thereto had been filed as herein provided.

18 (b) Hearings by any member or examiner of the  
19 commission or by any joint board upon any matter referred  
20 under this Act shall be held at such convenient places  
21 within the United States as the commission may by rule or  
22 order direct.

23 (c) The commission shall, when operations of com-  
24 mon carriers of passengers by motor vehicle conducted or  
25 proposed to be conducted involve not more than three

1 States, and the commission may, in its discretion, when  
2 operations of such carriers conducted or proposed to be  
3 conducted involve more than three States, refer to a joint  
4 board for hearing and recommendations of appropriate order  
5 thereon, any of the following matters arising under the  
6 administration of this Act with respect to such operations:  
7 Applications for the issuance of certificates of public con-  
8 venience and necessity (except in so far as the action upon  
9 such applications is based solely upon answers to question-  
10 naires and information furnished to the commission, as  
11 provided in section 5 (b) ) and the suspension, change, or  
12 revocation of such certificates; applications for the approval  
13 and authorization of consolidations, mergers, purchases,  
14 leases, operating contracts, and acquisitions of control under  
15 section 9; complaints as to violations by such carriers of the  
16 requirements established under section 2 (a) (1) ; complaints  
17 as to rates, fares, and charges of such carriers other than  
18 joint rates of such carriers in conjunction with carriers by  
19 railroad or by water; and the approval of surety bonds or  
20 policies of insurance for the protection of the public required  
21 on the issuance of a certificate application for which is  
22 referred to a joint board.

23 (d) The joint board to which any such matter is  
24 referred shall be a joint board composed solely of one  
25 member from each State within which the motor-carrier

1 operations involved in the matter are or are proposed to  
2 be conducted. The member from any such State shall  
3 be nominated by the board of such State from its own  
4 membership or otherwise; or if there is no board in such  
5 State, or if the board of such State fails to make a nomination  
6 when requested by the commission, then the governor of  
7 such State may nominate such member. The commission  
8 is authorized to appoint as a member upon the joint board  
9 any such nominee approved by it. All decisions and recom-  
10 mendations by joint boards shall be by majority vote. If  
11 the board of each State from which a member of a joint  
12 board is entitled to be appointed shall waive action on any  
13 matter referred to such joint board, or if any joint board  
14 fails or refuses to act or is unable to agree upon any matter  
15 submitted to it, or if both the board and the governor of  
16 any State fail to nominate a joint board member when  
17 requested by the commission, then such matter shall be  
18 heard and decided by the commission in the manner pro-  
19 vided in subdivision (a) of this section. Joint boards when  
20 administering the provisions of this Act shall be agencies  
21 of the Federal Government, and members thereof shall  
22 receive such allowances for travel and subsistence as the com-  
23 mission shall provide. A joint board shall continue in exist-  
24 ence until its existence is terminated by the commission. A  
25 substitution of membership upon a joint board may be made

1 at any time by nomination and appointment in the same  
2 manner as an original nomination and appointment. The  
3 meetings and procedure of joint boards shall be governed by  
4 rules and regulations to be prescribed by the commission.

5 (e) In acting upon matters referred to them under this  
6 section, joint boards shall be vested with the same rights,  
7 duties, powers, and jurisdiction as are vested by this section  
8 in members or examiners of the commission while acting  
9 under its orders in the administration of this Act. Orders  
10 recommended by joint boards shall be filed with the com-  
11 mission, and shall become orders of the commission and be-  
12 come effective in the same manner, and shall be subject to  
13 the same procedure, as provided in the case of orders recom-  
14 mended by members or examiners of the commission under  
15 this section.

16 (f) In so far as may be necessary for the purposes  
17 of this Act, the commission and the members and exam-  
18 iners thereof and joint boards shall have the same power  
19 to administer oaths, and require by subpoena the attendance  
20 and testimony of witnesses and the production of books,  
21 papers, tariffs, contracts, agreements, and documents, and  
22 to take testimony by deposition, relating to any matter under  
23 investigation, as though such matter arose under the Inter-  
24 state Commerce Act, as amended and supplemented; and  
25 any person subpoenaed or testifying in connection with any



1 matter under investigation under this Act shall have the  
2 same rights, privileges, and immunities and be subject to  
3 the same duties, liabilities, and penalties as are provided in  
4 the case of persons subpoenaed or testifying in connection  
5 with any matter under investigation under the Interstate  
6 Commerce Act, as amended and supplemented.

7 (g) In accordance with rules prescribed by the com-  
8 mission, reasonable notice shall be afforded in connection  
9 with any proceeding under this Act to all parties of record  
10 and to the governor and the board of any State in which the  
11 motor-carrier operations involved in the proceeding are or  
12 are proposed to be conducted, and opportunity for hearing  
13 and for intervention in connection with any such proceeding  
14 shall be afforded to all interested parties.

15 (h) The commission is authorized to confer with  
16 and/or to hold joint hearings with any authorities of any  
17 State in connection with any matter arising in any proceed-  
18 ing under this Act. The commission is also authorized  
19 to avail itself of the cooperation, services, records, and facili-  
20 ties of such State authorities in the enforcement of any pro-  
21 vision of this Act.

22 (i) Any final order made under this Act shall be sub-  
23 ject to the same right of relief in court by any party in  
24 interest as is now provided in respect to orders of the com-

1 mission made under the Interstate Commerce Act, as  
2 amended and supplemented.

3 (j) All the provisions of section 17 of the Interstate  
4 Commerce Act, as amended and supplemented, with refer-  
5 ence to divisions of the commission shall apply to all pro-  
6 ceedings under this Act.

7 APPLICATION FOR CERTIFICATE OF PUBLIC CONVENIENCE  
8 AND NECESSITY BY COMMON CARRIERS OF PASSENGERS

9 SEC. 4. (a) No corporation or person shall operate as  
10 a common carrier of passengers by motor vehicle in inter-  
11 state or foreign commerce on any public highway or within  
12 any reservation under the exclusive jurisdiction of the  
13 United States unless there is in force with respect to such  
14 carrier a certificate of public convenience and necessity  
15 authorizing such operation: *Provided*, That any such car-  
16 rier in operation on the date of the enactment of this Act may  
17 continue such operation for a period of ninety days thereafter  
18 without any such certificate, and if application for a certifi-  
19 cate authorizing such operation is made to the commission  
20 within such period the carrier may, under such regulations  
21 as the commission may prescribe, continue such operation  
22 until otherwise ordered by the commission.

23 (b) Applications for certificates of public convenience  
24 and necessity shall be made in writing to the commission,

1 be verified under oath, and be in such form and contain such  
2 information as the commission shall require.

3 ISSUANCE OF CERTIFICATE

4 SEC. 5. (a) A certificate of public convenience and  
5 necessity shall be issued to any qualified applicant therefor,  
6 authorizing the whole or any part of the operations  
7 covered by the application, if it is found that the applicant  
8 is fit, willing, and able properly to perform the service  
9 proposed and to conform to the provisions of this Act and  
10 the requirements, rules, and regulations of the commission  
11 thereunder, and that the public convenience and necessity  
12 will be served by the operations authorized.

13 (b) If the corporation or person making application  
14 for a certificate of public convenience and necessity sets forth  
15 therein that it or any predecessor in interest was operating  
16 as a common carrier of passengers by motor vehicle in inter-  
17 state or foreign commerce on any public highway on ———,  
18 and claims the benefits of this subdivision, the commission,  
19 upon receipt of such application, shall serve such carrier  
20 with a questionnaire with respect to the matters on which  
21 the commission may require information. The applicant  
22 shall answer the questionnaire under oath within forty-five  
23 days from the date of receipt thereof. A copy of all ques-  
24 tionnaires and answers thereto shall be furnished by the  
25 commission to the board of every State in which any part

1 of the operations of the carrier are conducted. If the  
2 commission is satisfied from the answers to the questionnaire  
3 or from information otherwise furnished, (1) that the  
4 carrier or a predecessor in interest was in bona fide operation  
5 on \_\_\_\_\_, as a common carrier of passengers by  
6 motor vehicle in interstate or foreign commerce on any  
7 public highway and (except as to interruption of operations  
8 over which the applicant or its predecessors in interest had  
9 no control) continuously has so operated since that date,  
10 and (2) that such operations were bona fide for the pur-  
11 pose of furnishing reasonably continuous and adequate serv-  
12 ice, and (3) that the applicant is fit, willing, and able  
13 properly to perform the service required, and to conform  
14 to the provisions of this Act and the requirements, rules,  
15 regulations, and orders of the commission thereunder, then a  
16 certificate shall be issued to the applicant by the commission  
17 without further proceedings and without a finding that the  
18 public convenience and necessity will be served by such  
19 operations; otherwise, the question whether or not such  
20 facts exist shall be decided in accordance with the procedure  
21 provided in section 3 (including reference to a joint board  
22 in a proper case), and the certificate under this subdivision  
23 shall be issued or denied accordingly. For the purposes  
24 of this subdivision a common carrier of passengers by motor  
25 vehicle furnishing seasonal service shall be deemed to qualify

1 under clause (1) if such carrier or a predecessor in interest  
2 was in bona fide and continuous operation as a common  
3 carrier of passengers by motor vehicle in interstate or for-  
4 eign commerce in 1931 during the season ordinarily covered  
5 by its operations, and during each such season thereafter,  
6 except as to interruption of operations over which the  
7 applicant or its predecessors in interest had no control.

8 (c) Nothing contained in section 500 of the Trans-  
9 portation Act, 1920, as amended, shall be construed as  
10 expressing a preference by Congress for rail or water trans-  
11 portation over transportation by motor vehicle or to affect  
12 in any manner the issuance of a certificate of public con-  
13 venience and necessity under the provisions of this Act; and  
14 nothing contained in this Act shall be construed as a declara-  
15 tion by Congress of the relative importance to the public of  
16 the several kinds of transportation.

17 (d) No certificate of public convenience and necessity  
18 issued under this Act shall be construed as conferring any  
19 proprietary or exclusive rights in the public highways.

20 (e) In the administration of this Act, the commission  
21 shall, so far as is consistent with the public interest, preserve  
22 competition in service

#### 23 TERMS AND CONDITIONS OF CERTIFICATE

24 SEC. 6. (a) Any certificate of public convenience and  
25 necessity issued under section 5 shall specify the routes  
26 over which, and/or the fixed termini between which, the

1 common carrier of passengers by motor vehicle is author-  
2 ized to operate (except where the operations of such carrier  
3 are not over regular routes or between fixed termini);  
4 and there shall, at the time of issuance and from time to  
5 time thereafter, be attached to the exercise of the privileges  
6 granted by the certificate such reasonable terms and condi-  
7 tions as the public convenience and necessity may require,  
8 including terms and conditions as to the furnishing of addi-  
9 tional service over the specified routes or between the  
10 specified termini, and the extension of the line or lines of  
11 the carrier, and such terms and conditions as are necessary  
12 to carry out, with respect to the operations of the carrier,  
13 the requirements established by the commission under  
14 section 2 (a) (1).

15 (b) A common carrier of passengers by motor vehicle  
16 operating under any such certificate may occasionally  
17 deviate from the route over which and/or the fixed termini  
18 between which it is authorized to operate under the certifi-  
19 cate, for the purpose of providing special service, in  
20 accordance with such rules, regulations, and orders as the  
21 commission may prescribe or make.

22 **PERMITS FOR PRIVATE CARRIERS OF PASSENGERS AND COM-**

23 **MON AND PRIVATE CARRIERS OF PROPERTY**

24 **SEC. 7. (a)** No corporation or person shall operate as  
25 a private carrier of passengers by motor vehicle or as a

1 common or private carrier of property by motor vehicle in  
2 interstate or foreign commerce on any public highway or  
3 within any reservation under the exclusive jurisdiction of  
4 the United States unless there is in force with respect to  
5 such carrier a permit, issued by the commission, authorizing  
6 such operation; except that any such carrier in operation  
7 on the date of the enactment of this Act may continue such  
8 operation for a period of ninety days thereafter without a  
9 permit, and if application for a permit authorizing such  
10 operation is made to the commission within such period the  
11 carrier may, under such regulations as the commission may  
12 prescribe, continue such operations until otherwise ordered  
13 by the commission: *Provided*, That nothing in this section  
14 or Act shall be construed to repeal, amend, or otherwise  
15 modify any Act or Acts relating to national parks and  
16 national monuments under the administrative jurisdiction of  
17 the Secretary of the Interior, or to withdraw such authority  
18 or control as may by law be held by the Secretary of the  
19 Interior with respect to the admission and operation of  
20 motor vehicles in any national park or national monument  
21 of the United States.

22 (b) Applications for such permits shall be made to  
23 the commission in writing, verified under oath, and shall  
24 contain such information as the commission may require.  
25 Upon compliance with the provisions of section 10, a permit

1 shall be issued to the applicant by the commission. The  
2 commission shall specify in the permit the operations covered  
3 thereby, so far as practicable, and shall attach to the permit,  
4 at the time of issuance and from time to time thereafter,  
5 (1) in the case of a private carrier of passengers by motor  
6 vehicle, reasonable limitations with respect to service while  
7 operating over any regular route of a common carrier of  
8 passengers by motor vehicle, and (2) such terms and condi-  
9 tions as are necessary to carry out, with respect to the opera-  
10 tions of any such carrier, the requirements established by  
11 the commission under section 2 (a) (2) and (3).

12 SUSPENSION, CHANGE, REVOCATION, AND TRANSFER OF  
13 CERTIFICATES AND PERMITS

14 SEC. 8. (a) Certificates of public convenience and  
15 necessity, and permits, shall be effective from the date  
16 specified therein, and shall remain in effect until terminated  
17 as herein provided unless otherwise provided by the commis-  
18 sion. Any such certificate or permit may, after hearing,  
19 be suspended, changed, or revoked, in whole or in part, for  
20 failure to comply with any provision of this Act, or with  
21 any lawful order, rule, or regulation of the commission pro-  
22 mulgated thereunder, or with any term or condition of the  
23 certificate or permit.

24 (b) Except as provided in section 9 of this Act, any  
25 such certificate or permit shall be transferable upon approval  
26 of the commission.





1 (1) Whenever a consolidation, merger, purchase, lease,  
2 operating contract, or acquisition of control is proposed under  
3 this subdivision, the carrier or carriers or the corporation  
4 seeking authority therefor shall present an application to the  
5 commission, and thereupon the commission shall notify the  
6 governor of each State in which any part of the properties  
7 of the carriers involved in the proposed transaction is situ-  
8 ated, and also such carriers and the applicant or applicants,  
9 of the time and place for a public hearing. If after such  
10 hearing the commission finds that the public interest will be  
11 promoted by the transaction proposed and that the conditions  
12 of this section have been or will be fulfilled, it may enter an  
13 order approving and authorizing such consolidation, merger,  
14 purchase, lease, operating contract, or acquisition of control,  
15 upon such terms and conditions as it shall find to be just and  
16 reasonable and with such modifications as it may prescribe;  
17 and

18 (2) Whenever such a corporation is authorized, by an  
19 order entered under paragraph (1) of this subdivision, to  
20 acquire control of any carrier by motor vehicle or of two or  
21 more carriers by motor vehicle, such corporation thereafter  
22 shall, to the extent provided by the commission, for the pur-  
23 poses of section 2 (a) (1) (relating to accounts, records, and  
24 reports), and of subdivisions (a) and (b) of section 13

1 (relating to inspection of facilities and records), including  
2 the penalties applicable in the case of violations thereof, be  
3 considered as a common carrier of passengers by motor  
4 vehicle subject to the provisions of this Act.

5 (b) (1) It shall be unlawful for any corporation or  
6 person, except as provided in subdivision (a) of this section,  
7 to accomplish or effectuate, or to participate in accomplishing  
8 or effectuating, the control or management in a common  
9 interest of any two or more common carriers of passengers  
10 by motor vehicle which are not also carriers by railroad,  
11 however such result is attained, whether directly or  
12 indirectly, by use of common directors, officers, or stock-  
13 holders, a holding or investment company or companies, a  
14 voting trust or trusts, or in any other manner whatsoever.  
15 It shall be unlawful to continue to maintain control or  
16 management accomplished or effectuated in violation of this  
17 paragraph. As used in this paragraph the words "control  
18 or management" shall be construed to include the power to  
19 exercise control or management.

20 (2) The commission is hereby authorized, upon com-  
21 plaint or upon its own initiative without complaint, but after  
22 notice and hearing, to investigate and determine whether any  
23 corporation or person is violating the provisions of para-  
24 graph (1) of this subdivision. If the commission finds after  
25 such investigation that such corporation or person is violating

1 the provisions of such paragraph, it shall by order require  
2 such corporation or person to take such action as may be  
3 necessary, in the opinion of the commission, to prevent  
4 further violation of such provisions.

5 (3) For the purposes of this subdivision, wherever  
6 reference is made to control it is immaterial whether such  
7 control is direct or indirect.

8 (c) The district courts of the United States shall have  
9 jurisdiction upon the application of the commission, alleging  
10 a violation of any of the provisions of this section or disobedi-  
11 ence of any order issued by the commission thereunder by any  
12 corporation or person, to issue such writs of injunction or  
13 other proper process, mandatory or otherwise, as may be  
14 necessary to restrain such corporation or person from viola-  
15 tion of such provision or to compel obedience to such order.

16 (d) The commission may from time to time, for good  
17 cause shown, make such orders, supplemental to any order  
18 made under subdivisions (a) or (b) of this section as it may  
19 deem necessary or appropriate.

20 (e) The carriers and any corporation affected by any  
21 order made under the foregoing provisions of this section  
22 shall be, and they are hereby, relieved from the operation of  
23 the "antitrust laws," as designated in section 1 of the Act  
24 entitled "An Act to supplement existing laws against unlaw-  
25 ful restraints and monopolies, and for other purposes,"

1 approved October 15, 1914, and of all other restraints or  
2 prohibitions by or imposed under authority of law, State or  
3 Federal, in so far as may be necessary to enable them to do  
4 anything authorized or required by such order.

5 SECURITY FOR THE PROTECTION OF THE PUBLIC

6 SEC. 10. (a) No certificate or permit shall be issued  
7 to a motor carrier, or remain in force, unless such carrier  
8 complies with such rules and regulations as the commission  
9 shall adopt governing the filing and approval of surety bonds  
10 or policies of insurance for the protection of the public,  
11 in such amounts and with such sureties, and including such  
12 terms and conditions, not in conflict with other provisions  
13 of this Act, as the commission may require.

14 (b) The bond or policy required for the purposes of  
15 this Act—

16 (1) Shall bind the surety or insurer thereunder to  
17 compensate any person (other than the motor carrier or an  
18 officer or employee thereof) for personal injury, death, dam-  
19 age to and loss of property, resulting from the operation,  
20 maintenance or use of motor vehicles under a certificate or  
21 permit, to the extent that the motor carrier is liable therefor  
22 by law: *Provided*, That the provisions of this paragraph  
23 shall not extend to recovery for death of or injury to pas-  
24 sengers, or loss of or damage to property being transported  
25 by a private carrier by motor vehicle.

1 (2) Shall include a provision appointing the motor  
2 carrier as the attorney of the surety or insurer under such  
3 bond or policy, upon whom process may be served in any  
4 suit instituted as provided in subdivision (c), and a pro-  
5 vision whereby the surety or insurer consents that in any  
6 such suit service upon the carrier shall constitute service  
7 upon the surety or insurer.

8 (c) Any person entitled to compensation under a  
9 surety bond or insurance policy required by this Act may  
10 recover thereon in any court of competent jurisdiction in a  
11 suit against the surety or insurer. Such person may join  
12 the carrier as a party defendant in such suit and the carrier  
13 shall have the right to intervene as a party in any such suit.  
14 Recovery upon any such bond or policy shall not be held  
15 to preclude recovery against the carrier for its liability, if  
16 any, in excess of the amount of the recovery upon the bond  
17 or policy.

18 (d) Upon the approval of any such bond or policy,  
19 there shall be issued to the motor carrier a certificate of  
20 approval, and such copies thereof as may be necessary;  
21 and no such carrier shall operate, maintain, or use any  
22 motor vehicle under a certificate of public convenience and  
23 necessity, or a permit, unless there is posted in such motor  
24 vehicle, in accordance with such regulations as the com-  
25 mission may prescribe, a copy of such certificate of approval.



1 (b) No such carrier shall charge or demand, or collect  
2 or receive, a greater or less or different compensation for  
3 the transportation of passengers, or for any service in con-  
4 nection therewith, between the points named in such tariffs,  
5 than the rates, fares, or charges specified in the tariffs in  
6 effect at the time; and no such carrier shall refund or remit  
7 in any manner or by any device any portion of the rates,  
8 fares, or charges so specified, nor extend to any person any  
9 privileges or facilities for the transportation of passengers  
10 in interstate or foreign commerce, except such as are specified  
11 in such tariffs; except that any such carrier may issue or give  
12 free tickets, free passes, and free or reduced transportation  
13 to persons engaged in the service of such carrier.

14 (c) No change shall be made in any rate, fare, or  
15 charge specified in any tariff in effect, except after thirty  
16 days' notice of the proposed change filed and posted in like  
17 manner. Such notice shall plainly state the change pro-  
18 posed to be made and the time when such change will take  
19 effect. The commission may, in its discretion and for good  
20 cause shown, allow changes upon less notice than that herein  
21 specified, or modify the requirements of this section with  
22 respect to the posting and filing of tariffs, either in particular  
23 instances or by general order applicable to special or peculiar  
24 circumstances or conditions.



1 (d) The provisions of this section shall also apply t  
2 joint rates applicable to the transportation of property i  
3 interstate or foreign commerce, and services in connectio  
4 therewith, by common carriers of property by motor vehicl  
5 in conjunction with carriers by railroad or by water and t  
6 rates, fares, and charges applicable to through transportatio  
7 of passengers and property, or services in connection there  
8 with, by carriers operating both rail and motor lines, or bot  
9 water and motor lines, or operating rail, water, and moto  
0 lines.

#### 1 RATES, FARES, AND CHARGES

2 SEC. 12. (a) It shall be the duty of every commo  
3 carrier of passengers by motor vehicle to provide and furnish  
4 upon reasonable request therefor, transportation for passen-  
5 gers in interstate or foreign commerce within the United  
6 States over the routes which it operates, but in the case of  
7 seasonal operation only during the seasons when such routes  
8 are operated. The rates, fares, and charges of such carriers  
9 for such transportation shall be just and reasonable and free  
0 from unjust discrimination, undue preference, or undue  
1 prejudice; and every unjust and unreasonable, unjustly dis-  
2 criminatory, unduly preferential, or unduly prejudicial rate,  
3 fare, or charge for such transportation is prohibited.

4 (b) Common carriers of passengers by motor vehicle  
5 may establish with other such carriers, and common carriers

1 of passengers or property by motor vehicle may establish  
2 with carriers by railroad or by water, reasonable through  
3 routes for the transportation of passengers or property in  
4 interstate or foreign commerce within the United States and  
5 participate in joint rates, fares, and charges applicable  
6 thereto. Carriers by railroad or by water may establish  
7 such through routes with common carriers by motor vehicle  
8 and participate in such joint rates, fares, and charges. All  
9 carriers participating in such joint rates, fares, and charges  
10 shall establish just, reasonable, and equitable divisions thereof  
11 which shall not unduly prefer or prejudice any of such par-  
12 ticipating carriers. Carriers by railroad or by water which  
13 are also motor carriers may establish through routes by rail  
14 and motor vehicle, or by water and motor vehicle, and  
15 establish rates, fares, and charges applicable thereto. All  
16 such rates, fares, and charges shall be just and reasonable  
17 and free from unjust discrimination, undue preference, or  
18 undue prejudice.

19 (c) Whenever, after full hearing, upon complaint or  
20 in an investigation upon its own initiative without complaint,  
21 the commission shall be of opinion (1) that any individual  
22 or joint rate, fare, or charge demanded, charged, or collected  
23 by any common carrier or carriers by motor vehicle for the  
24 transportation of passengers in interstate or foreign com-  
25 merce within the United States, or (2) that any joint rate,

1 fare, or charge demanded, charged, or collected for such  
2 transportation of passengers by any such common carrier or  
3 carriers by motor vehicle or for the transportation of passen-  
4 gers or property by any common carrier, or carriers by  
5 motor vehicle in conjunction with a carrier or carriers by  
6 railroad or by water, or (3) that any rate, fare, or charge  
7 demanded, charged, or collected for such transportation of  
8 passengers or property, or services in connection therewith,  
9 by any carrier operating both rail and motor lines, or both  
10 water and motor lines, or operating rail, water, and motor  
11 lines, is or will be unjust or unreasonable, unjustly dis-  
12 criminatory, unduly preferential, or unduly prejudicial in  
13 violation of this Act, the commission is hereby authorized  
14 and empowered to determine and prescribe what will be the  
15 just and reasonable maximum or minimum, or maximum  
16 and minimum, individual or joint rate, fare, or charge  
17 thereafter to be observed in such case, and to make an  
18 order that the carrier or carriers shall cease and desist  
19 from such violation to the extent to which the commis-  
20 sion finds that the same does or will exist, and shall not  
21 thereafter publish, demand, or collect any rate, fare, or  
22 charge for such transportation in excess of the maximum or  
23 less than the minimum so prescribed: *Provided*, That no rate,  
24 fare, or charge shall be held to be in violation of this Act on  
25 the ground that it is unjust to a competing carrier engaged

1 in a different kind of transportation, and that no minimum  
2 rate, fare, or charge shall be prescribed except when neces-  
3 sary in the opinion of the commission to prevent destructive  
4 competition through the furnishing of service at less than  
5 operating cost: *Provided further*, That nothing in this Act  
6 shall empower the commission to prescribe, or in any  
7 manner regulate, the rate, fare, or charge for intrastate  
8 transportation, or for any service connected therewith.

9 (d) In any proceeding to determine the justness or  
10 reasonableness of any rate, fare, or charge of any such car-  
11 rier, there shall not be taken into consideration or allowed;  
12 as evidence or elements of value of the property of such  
13 carrier, either good will, earning power, going value, or the  
14 certificate under which such carrier is operating; and in  
15 applying for and receiving a certificate under this Act any  
16 such carrier shall be deemed to have agreed to the provisions  
17 of this subdivision, on its own behalf and on behalf of all  
18 transferees of such certificate.

19 (e) Nothing in this section shall be held to extinguish  
20 any remedy or right of action under other law.

## 21 INSPECTION OF FACILITIES AND RECORDS

22 SEC. 13. (a) The commission shall at all times have  
23 access to and shall have authority to inspect and examine  
24 all lands, buildings, equipment, accounts, records, and memo-  
25 randa, including documents, papers, and correspondence now

1 or hereafter existing, and kept or required to be kept by motor  
2 carriers subject to this Act. The commission is also author-  
3 ized to employ special agents or examiners for the purpose of  
4 carrying out the provisions of this subdivision.

5 (b) The commission shall also have authority by  
6 general or special orders to require motor carriers subject  
7 to this Act, or any of them, to file periodical or special, or  
8 both periodical and special, reports concerning any matter  
9 about which the commission is authorized or required by this  
10 or any other law to inquire or keep itself informed or which  
11 it is required to enforce. Such reports shall be under oath  
12 whenever the commission so requires.

13 (c) The copies of schedules and tariffs of rates, fares,  
14 and charges, filed with the commission as herein provided,  
15 and the statistics, tables, and figures contained in the annual  
16 or other reports of carriers made to the commission as  
17 required under the provisions of this Act shall be preserved  
18 as public records in the custody of the secretary of the com-  
19 mission, and shall be received as prima facie evidence of  
20 what they purport to be for the purpose of investigations by  
21 the commission and in all judicial proceedings; and copies  
22 of and extracts from any of said schedules, tariffs, or reports,  
23 made public records as aforesaid, certified by the secretary,  
24 under the commission's seal, shall be received in evidence  
25 with like effect as the originals.

## 1            ORDERS, NOTICES, AND SERVICE OF PROCESS

2            SEC. 14. (a) It shall be the duty of every motor  
3 carrier to file with the board of each State in which it  
4 operates under a certificate or permit issued under this Act,  
5 and with the commission a designation in writing of the  
6 name and post-office address of a person or corporation upon  
7 whom or which service of notices or orders may be made  
8 under this Act. Such designation may from time to time  
9 be changed by like writing similarly filed. Service of  
10 notices or orders in proceedings under this Act may be  
11 made upon a motor carrier by personal service upon it or  
12 upon the person or corporation so designated by it, or by  
13 registered mail addressed to it or to such person or corpora-  
14 tion at the address filed. In default of such designation,  
15 service of any notice or order may be made by posting in  
16 the office of the secretary or clerk of the board of the State  
17 wherein the motor carrier maintains headquarters and in  
18 the office of the commission. Whenever notice is given by  
19 mail as provided herein the date of mailing shall be con-  
20 sidered as the time when notice is served.

21            (b) Every such motor carrier shall also file with the  
22 board of each State in which it operates a designation in  
23 writing of the name and post-office address of a person or  
24 corporation in such State upon whom process issued by or  
25 under the authority of any court having jurisdiction of the

1 subject matter may be served in any proceeding at law or  
2 equity brought against such carrier. Such designation may  
3 from time to time be changed by like writing similarly filed.  
4 In the event such carrier fails to file such designation, service  
5 may be made upon any employee of such motor carrier  
6 within such State.

7 **UNLAWFUL OPERATION**

8 **SEC. 15. (a)** Any corporation or person willfully  
9 violating any provision of this Act, or any rule, regu-  
10 lation, requirement, or order thereunder, or any term or  
11 condition of any certificate of public convenience and neces-  
12 sity or permit, shall upon conviction thereof be fined not  
13 more than \$100 for the first offense, and not more than  
14 \$500 for any subsequent offense. Each day of such viola-  
15 tion shall constitute a separate offense.

16 **(b)** If any motor carrier operates in violation of any  
17 provision of this Act, or of any rule, regulation, requirement,  
18 or order thereunder, or of any term or condition of any cer-  
19 tificate of public convenience and necessity or permit, the  
20 commission or any party injured may apply to the district  
21 court of the United States for any district where such motor  
22 carrier operates, for the enforcement of such provision or of  
23 such rule, regulation, requirement, order, term, or con-  
24 dition; and such court shall have jurisdiction to issue

1 writs of injunction or other process, mandatory or other-  
2 wise, restraining such carrier, its officers, agents, employees,  
3 and representatives from further violation of such provision  
4 or of such rule, regulation, requirement, order, term, or con-  
5 dition, and enjoining upon it or them obedience thereto.

6 POWERS OF STATES

7 SEC. 16. (a) Except as provided in section 2 (b),  
8 nothing in this Act shall be construed to affect the powers  
9 of taxation of the several States, to authorize a motor carrier  
10 to do an intrastate business on the highways of any State,  
11 or to interfere with the exclusive exercise by each State of  
12 the power of regulation of intrastate commerce by motor  
13 carriers on the highways thereof, and notwithstanding the  
14 provisions of this Act, motor carriers operating in intrastate  
15 commerce on the highways of a State shall continue to be  
16 subject to the laws of the State regulating such intrastate  
17 commerce. The laws enacted by any State and the regula-  
18 tions thereunder that relate to the maintenance, protection,  
19 safety, or use of the highways therein, and which are made  
20 equally applicable to intrastate and interstate commerce or  
21 use of such highways, shall not, by reason of any provision  
22 of this Act or of the Federal Highway Act, as amended,  
23 be deemed to be a burden upon or an obstruction or impedi-  
24 ment to interstate commerce.



1                                    **EXPENSES OF ADMINISTRATION**

2                    **SEC. 17.** There are hereby authorized to be appro-  
3                    priated such amounts as may be necessary to carry out the  
4                    provisions of this Act.

5                                    **SEPARABILITY OF PROVISIONS**

6                    **SEC. 18.** If any provision of this Act, or the applica-  
7                    tion thereof to any corporation, person, or circumstance, is  
8                    held invalid, the remainder of the Act, and the application of  
9                    such provision to other corporations, persons, or circum-  
10                  stances, shall not be affected thereby.

11                                  **RESERVATION OF RIGHT TO ALTER, AMEND, OR REPEAL**

12                  **SEC. 19.** The right to alter, amend, or repeal any pro-  
13                  vision of this Act is hereby expressly reserved.

14                                  **SHORT TITLE**

15                  **SEC. 20.** This Act may be cited as the "Federal  
16                  Motor Carrier Act, 1932."

72D CONGRESS }  
1st Session

H. R. 12739

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# A BILL

To regulate the transportation of passengers and property in interstate and foreign commerce by motor carriers operating on the public highways, and for other purposes.

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By Mr. RAYBURN

JUNE 21, 1932

Referred to the Committee on Interstate and Foreign  
Commerce and ordered to be printed

78TH CONGRESS  
1ST SESSION

# H. R. 1648

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IN THE SENATE OF THE UNITED STATES

FEBRUARY 11, 1943

Read twice and referred to the Committee on Appropriations

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## AN ACT

Making appropriations for the Treasury and Post Office Departments for the fiscal year ending June 30, 1944, and for other purposes.

1 *Be it enacted by the Senate and House of Representa-*  
2 *tives of the United States of America in Congress assembled,*

3 **TITLE I—TREASURY DEPARTMENT**

4 That the following sums are appropriated, out of any money  
5 in the Treasury not otherwise appropriated, for the Treasury  
6 Department for the fiscal year ending June 30, 1944,  
7 namely:

8 **OFFICE OF THE SECRETARY**

9 Salaries: Secretary of the Treasury, Under Secretary of  
10 the Treasury, Fiscal Assistant Secretary of the Treasury,

1 two Assistant Secretaries of the Treasury, and other personal  
2 services in the District of Columbia, including the temporary  
3 employment of experts, \$380,000.

4 Reimbursement to District of Columbia, benefit pay-  
5 ments to White House Police and Secret Service forces: To  
6 enable the Secretary of the Treasury to reimburse the District  
7 of Columbia on a monthly basis for benefit payments made  
8 from the revenues of the District of Columbia to members of  
9 the White House Police force and such members of the  
10 United States Secret Service Division as are entitled thereto  
11 under the Act of October 14, 1940 (54 Stat. 1118), to the  
12 extent that such benefit payments are in excess of the salary  
13 deductions of such members credited to said revenues of the  
14 District of Columbia during the fiscal year 1944, pursuant  
15 to section 12 of the Act of September 1, 1916 (39 Stat.  
16 718), as amended, \$35,000.

17 Payments to Federal land banks on account of reductions  
18 in interest rate on mortgages: To enable the Secretary of  
19 the Treasury to pay each Federal land bank such amount  
20 as the Land Bank Commissioner certifies to the Secretary of  
21 the Treasury is equal to the amount by which interest pay-  
22 ments on mortgages and real estate sales contracts held by  
23 such land bank have been reduced during the fiscal year  
24 1944, and prior thereto, in accordance with the provisions

1 of paragraph "Twelfth" of section 12 of the Federal Farm  
2 Loan Act, as amended (12 U. S. C. 771), as further  
3 amended by Act of June 27, 1942 (Public Law 629),  
4 \$21,800,000.

5       Payments to the Federal Farm Mortgage Corporation  
6 on account of reductions in interest rate on mortgages: To  
7 enable the Secretary of the Treasury to pay to the Federal  
8 Farm Mortgage Corporation such amount as the Governor  
9 of the Farm Credit Administration certifies to the Secretary  
10 of the Treasury is equal to the amount by which interest pay-  
11 ments on mortgages and real estate sales contracts held by  
12 such Corporation have been reduced during the fiscal year  
13 1944, and prior thereto, in accordance with the provisions  
14 of section 32 of the Emergency Farm Mortgage Act of 1933,  
15 approved May 12, 1933, as amended (12 U. S. C. 1016),  
16 as further amended by Act of June 27, 1942 (Public Law  
17 629); such payments to be made quarterly, beginning as  
18 soon as practicable after October 1, 1943, \$7,400,000.

19       No part of any money appropriated by this Act shall be  
20 used, directly or indirectly, during the fiscal year 1944,  
21 for the purchase or procurement of silver under the provisions  
22 of the Silver Purchase Acts, namely, the Act of June 19,  
23 1934, and the Act of July 6, 1939, or for the carrying out  
24 of any of the provisions of said Silver Purchase Acts.

## 1 FOREIGN FUNDS CONTROL

2 Foreign-owned property control: For all expenses  
3 necessary in carrying out the functions of the Secretary of  
4 the Treasury under sections 3 and 5 (b) of the Act of Octo-  
5 ber 6, 1917, as amended (50 U. S. C. (App.) 3, and 50  
6 U. S. C. (Suppl. 1941) 5 (b)), and any proclamations,  
7 orders, regulations, or instructions issued thereunder, includ-  
8 ing personal services (without regard to classification laws),  
9 printing, and reimbursement of any other appropriation or  
10 other funds of the United States or any agency, instrumen-  
11 tality, Territory, or possession thereof, including the Philip-  
12 pine Islands, and reimbursement of any Federal Reserve  
13 bank for printing and other expenditures, \$3,100,000.

## 14 DIVISION OF TAX RESEARCH

15 Salaries: For personal services in the District of Colum-  
16 bia, including the employment of experts, \$116,000.

## 17 OFFICE OF TAX LEGISLATIVE COUNSEL

18 Salaries: For personal services in the District of Colum-  
19 bia, including the employment of experts, \$74,700.

## 20 DIVISION OF RESEARCH AND STATISTICS

21 Salaries: For personal services in the District of  
22 Columbia, \$170,000.

## 23 OFFICE OF GENERAL COUNSEL

24 Salaries: For the General Counsel and other personal  
25 services in the District of Columbia, \$145,925.

## 1 DIVISION OF PERSONNEL

2 Salaries: For the Chief of the Division, and other per-  
3 sonal services in the District of Columbia, \$160,000.

## 4 OFFICE OF CHIEF CLERK

5 Salaries: For the Chief Clerk and other personal services  
6 in the District of Columbia, \$290,000.

## 7 MISCELLANEOUS AND CONTINGENT EXPENSES, TREASURY

## 8 DEPARTMENT

9 For miscellaneous and contingent expenses of the Office  
10 of the Secretary and the bureaus and offices of the Depart-  
11 ment, including operating expenses of the Treasury, Treasury  
12 Annex, Auditors', and Liberty Loan Buildings; financial  
13 journals, purchase (including exchange) of books of reference  
14 and lawbooks, technical and scientific books, newspapers, and  
15 periodicals, expenses incurred in completing imperfect series,  
16 library cards, supplies, and all other necessary expenses con-  
17 nected with the library; not exceeding \$8,000 for traveling  
18 expenses, including the payment of actual transportation and  
19 subsistence expenses to any person whom the Secretary of the  
20 Treasury may from time to time invite to the city of Wash-  
21 ington or elsewhere for conference and advisory purposes in  
22 furthering the work of the Department; freight, expressage,  
23 telegraph and telephone service; maintenance and repair  
24 of motortrucks and three passenger automobiles (one for  
25 the Secretary of the Treasury and two for general use of

1 the Department), all to be used for official purposes only;  
2 file holders and cases; fuel, oils, grease, and heating sup-  
3 plies and equipment; gas and electricity for lighting, heat-  
4 ing, and power purposes, including material, fixtures, and  
5 equipment therefor; purchase, exchange, and repair of type-  
6 writers and labor-saving machines and equipment and sup-  
7 plies for same; floor covering and repairs thereto, furniture  
8 and office equipment, including supplies therefor and repairs  
9 thereto; awnings, window shades, and fixtures; cleaning  
10 supplies and equipment; drafting equipment; flags; hand  
11 trucks; ladders; miscellaneous hardware; streetcar fares not  
12 exceeding \$650; thermometers; lavatory equipment and sup-  
13 plies; tools and sharpening same; laundry service; labora-  
14 tory supplies and equipment; removal of rubbish; postage;  
15 including \$34,590 for stationery for the Treasury Depart-  
16 ment and its several bureaus and offices, and field services  
17 thereof, except such bureaus and offices as may be other-  
18 wise specifically provided for, including tags, labels, and  
19 index cards, printed in the course of manufacturing, packing  
20 boxes and other materials necessary for shipping stationery  
21 supplies, and cost of transportation of stationery supplies  
22 purchased free on board point of shipment and of such sup-  
23 plies shipped from Washington to field offices; and other  
24 absolutely necessary articles, supplies, and equipment not  
25 otherwise provided for; \$274,300: *Provided, That the ap-*



1 appropriations for the Bureau of Accounts, Bureau of the Public  
2 Debt, Internal Revenue Service, Procurement Division,  
3 Office of the Treasurer of the United States, and Division of  
4 Disbursement for the fiscal year 1944 are hereby made avail-  
5 able for the payment of items otherwise properly chargeable  
6 to this appropriation, the provisions of section 6, Act of Au-  
7 gust 23, 1912 (31 U. S. C. 669), to the contrary notwith-  
8 standing.

9       Printing and binding: For printing and binding for the  
10 Treasury Department and its several bureaus and offices,  
11 and field services thereof, except such bureaus and offices as  
12 may be otherwise specifically provided for, including mate-  
13 rials for the use of the bookbinder, located in the Treasury  
14 Department, but not including work done at the New York  
15 Customhouse bindery authorized by the Joint Committee on  
16 Printing in accordance with the Act of March 1, 1919 (44  
17 U. S. C. 111), \$26,600.

#### 18                   CUSTODY OF TREASURY BUILDINGS

19       Salaries of operating force: For the Superintendent of  
20 Treasury Buildings and for other personal services in the  
21 District of Columbia, including the operating force of the  
22 Treasury Building, the Treasury Annex, the Liberty Loan  
23 Building, the Belasco Theatre Building, the Auditors' Build-  
24 ing, and the west and south annexes thereof, \$483,400.

## 1 BUREAU OF ACCOUNTS

2 Salaries and expenses: For salaries in the District of  
3 Columbia and all other expenses (except printing and bind-  
4 ing) of the Bureau of Accounts, including contract steno-  
5 graphic reporting services, stationery (not to exceed  
6 \$11,000), supplies and equipment; purchase and exchange  
7 of lawbooks, books of reference, periodicals, and newspapers;  
8 travel expenses, including expenses of attendance at meet-  
9 ings of organizations concerned with the work of the Bureau  
10 of Accounts, \$700,000.

11 Printing and binding: For printing and binding for the  
12 Bureau of Accounts, \$35,000.

13 Division of Disbursement, salaries and expenses: For all  
14 necessary salaries and expenses, except printing and binding,  
15 of the Division of Disbursement, including personal services  
16 in the District of Columbia, stationery, and travel, \$2,-  
17 900,000: *Provided*, That with the approval of the Director  
18 of the Bureau of the Budget there may be transferred to this  
19 appropriation and to the appropriation "Printing and bind-  
20 ing, Division of Disbursement" from funds respectively avail-  
21 able for such purposes for the Agricultural Conservation and  
22 Adjustment Administration, Federal Housing Administra-  
23 tion, Federal Public Housing Authority, Federal Surplus  
24 Commodities Corporation, Federal Prison Industries, Rail-  
25 road Retirement Board, United States Maritime Commission,

1 the Federal Crop Insurance Corporation, the Commodity  
2 Credit Corporation, the Agricultural Marketing Adminis-  
3 tration, the Farm Security Administration, and the National  
4 Youth Administration, such sums as may be necessary to  
5 cover the expense incurred in performing the function of  
6 disbursement therefor.

7       Printing and binding: For printing and binding, Di-  
8 vision of Disbursement, including the cost of transportation  
9 to field offices of printed and bound material and the cost of  
10 necessary packing boxes and packing materials, \$104,796.

11       Contingent expenses, public moneys: For contingent ex-  
12 penses under the requirements of section 3653 of the Revised  
13 Statutes (31 U. S. C. 545), for the collection, safekeeping,  
14 transfer, and disbursement of the public money, transporta-  
15 tion of notes, bonds, and other securities of the United States,  
16 transportation of gold coin and gold certificates trans-  
17 ferred to Federal Reserve banks and branches, United  
18 States mints and assay offices, and the Treasury, after March  
19 9, 1933, actual expenses of examiners detailed to examine the  
20 books, accounts, and money on hand at the several deposi-  
21 tories, including national banks acting as depositories under  
22 the requirements of section 3649 of the Revised Statutes (31  
23 U. S. C. 548), also including examinations of cash accounts  
24 at mints, \$350,000.

1       Recoinage of minor coins: To enable the Secretary of  
2 the Treasury to continue the recoinage of worn and uncur-  
3 rent minor coins of the United States now in the Treasury  
4 or hereafter received, and to reimburse the Treasurer of the  
5 United States for the difference between the nominal or  
6 face value of such coins and the amount the same will pro-  
7 duce in new coins, \$15,000.

8       Recoinage of silver coins: To enable the Secretary of  
9 the Treasury to continue the recoinage of worn and uncurrent  
10 subsidiary silver coins of the United States now in the Treas-  
11 ury or hereafter received, and to reimburse the Treasurer of  
12 the United States for the difference between the nominal or  
13 face value of such coins and the amount the same will produce  
14 in new coins, \$200,000.

15       Relief of the indigent, Alaska: For the payment to the  
16 United States district judges in Alaska but not to exceed 10  
17 per centum of the receipts from licenses collected outside of  
18 incorporated towns in Alaska, to be expended for the relief of  
19 persons in Alaska who are indigent and incapacitated through  
20 nonage, old age, sickness, or accident, \$25,000.

21       Refund of moneys erroneously received and covered:  
22 To enable the Secretary of the Treasury to meet any expendi-  
23 tures of the character formerly chargeable to the appropria-  
24 tion accounts abolished under section 18 of the Permanent  
25 Appropriation Repeal Act of 1934, approved June 26, 1934, .

1 and any other collections erroneously received and covered  
2 which are not properly chargeable to any other appropriation,  
3 \$75,000.

4       Payment of unclaimed moneys: To enable the Secretary  
5 of the Treasury to meet any expenditures of the character  
6 formerly chargeable to the appropriation accounts abolished  
7 under section 17 of the Permanent Appropriation Repeal  
8 Act of 1934, approved June 26, 1934, payable from the  
9 funds held by the United States in the trust fund receipt  
10 account "Unclaimed moneys of individuals whose where-  
11 abouts are unknown", \$15,000.

12                                   BUREAU OF THE PUBLIC DEBT

13       Salaries and expenses: For necessary salaries and ex-  
14 penses connected with the administration of any public-debt  
15 issues and United States paper-currency issues with which  
16 the Secretary of the Treasury is charged, including the pur-  
17 chase of lawbooks, directories, books of reference, periodicals,  
18 newspapers, and stationery (not to exceed \$13,000) and the  
19 maintenance, operation, and repair of a motor-propelled bus  
20 or station wagon for use of the Destruction Committee, and  
21 including personal services in the District of Columbia,  
22 \$3,800,000.

23       Printing and binding: For printing and binding for the  
24 Bureau of the Public Debt, \$15,000.

25       Distinctive paper for United States securities: For dis-

1 distinctive paper for United States currency, including trans-  
2 portation of paper, traveling, mill, and other necessary ex-  
3 penses, and salaries of employees and allowance, in lieu of  
4 expenses, of officer or officers detailed from the Treasury  
5 Department, not exceeding \$50 per month each when actu-  
6 ally on duty; in all, \$1,241,431: *Provided*, That in order to  
7 foster competition in the manufacture of distinctive paper for  
8 United States securities, the Secretary of the Treasury is  
9 authorized, in his discretion, to split the award for such  
10 paper for the fiscal year 1944 between the two bidders whose  
11 prices per pound are the lowest received after advertisement.

12 . Expenses of loans: The indefinite appropriation "Ex-  
13 penses of loans, Act of September 24, 1917, as amended  
14 and extended" (31 U. S. C. 760, 761), shall not be used  
15 during the fiscal year 1944 to supplement the appropriations  
16 otherwise provided for the current work of the Bureau of the  
17 Public Debt, and the amount obligated under such indefinite  
18 appropriation during such fiscal year shall not exceed \$57,-  
19 000,000 to be expended as the Secretary of the Treasury  
20 may direct: *Provided*, That the proviso in the Act of June  
21 16, 1921 (31 U. S. C. 761), limiting the availability of this  
22 appropriation for expenses of operations on account of any  
23 public debt issue to the close of the fiscal year next following  
24 the fiscal year in which such issue was made, shall not apply

1 to savings bond transactions handled by the Federal Reserve  
2 banks for account of the Secretary of the Treasury.

3 OFFICE OF THE TREASURER OF THE UNITED STATES

4 Salaries: For personal services in the District of Colum-  
5 bia, Office of the Treasurer of the United States, \$2,940,000:  
6 *Provided*, That with the approval of the Director of the  
7 Bureau of the Budget, there may be transferred (not exceed-  
8 ing a total of \$410,000) to this appropriation and to the  
9 appropriations "Printing and binding, Office of the Treasurer  
10 of the United States" and "Contingent expenses, Office of  
11 the Treasurer of the United States", from funds respectively  
12 available for such purposes for the Agricultural Conservation  
13 and Adjustment Administration, Home Owners' Loan Cor-  
14 poration, Tennessee Valley Authority, Federal Farm Mort-  
15 gage Corporation, Reconstruction Finance Corporation, Fed-  
16 eral land banks and other banks and corporations under the  
17 supervision of the Farm Credit Administration, Railroad  
18 Retirement Board, Federal Crop Insurance Corporation,  
19 United States Maritime Commission, Agricultural Marketing  
20 Administration, Farm Security Administration, National  
21 Youth Administration, Federal Housing Administration,  
22 Federal Public Housing Authority, Commodity Credit Cor-  
23 poration, and corporations and banks under the Federal  
24 Home Loan Bank Administration, such sums as may be

1 necessary to cover the expenses incurred on account of such  
2 respective activities in clearing of checks, servicing of bonds,  
3 handling of collections, and rendering of accounts therefor.

4 No part of any appropriation or authorization in this Act  
5 shall be used to pay any part of the salary or expenses of any  
6 person whose salary or expenses are prohibited from being  
7 paid from any appropriation or authorization in any other  
8 Act.

9 Contingent expenses, Office of the Treasurer of the  
10 United States: For all necessary expenses, other than per-  
11 sonal services and printing and binding, including travel  
12 expenses and purchase of periodicals and books of reference,  
13 \$160,000.

14 Salaries (reimbursable): For personal services in the  
15 District of Columbia, in redeeming Federal Reserve notes,  
16 \$64,000, to be reimbursed by the Federal Reserve banks.

17 Printing and binding: For printing and binding for  
18 the Office of the Treasurer of the United States, \$35,000.

#### 19 BUREAU OF CUSTOMS

20 Salaries and expenses: For collecting the revenue from  
21 customs, for enforcement, as specified in Executive Order  
22 Numbered 9083, of certain navigation laws, for the detection  
23 and prevention of frauds upon the customs revenue, and not to  
24 exceed \$100,000 for the securing of evidence of violations of  
25 the customs and navigation laws; for expenses of transporta-



1 tion and transfer of customs receipts from points where there  
2 are no Government depositories; not to exceed \$84,500 for  
3 allowances for living quarters, including heat, fuel, and light,  
4 as authorized by the Act approved June 26, 1930 (5 U. S.  
5 C. 118a), but not to exceed \$1,700 for any one person; not  
6 to exceed \$500 for subscriptions to newspapers; not to exceed  
7 \$85,000 for stationery; not to exceed \$12,000 for improving,  
8 repairing, maintaining, or preserving buildings, inspection  
9 stations, office quarters, including living quarters for officers,  
10 sheds, and sites along the Canadian and Mexican borders  
11 acquired under authority of the Act of June 26, 1930 (19  
12 U. S. C. 68); and for the purchase (not to exceed one  
13 hundred and fifty), maintenance, repair, and operation of  
14 motor-propelled passenger-carrying vehicles when necessary  
15 for official use in field work; for the payment of extra compen-  
16 sation earned by customs officers or employees for overtime  
17 services, at the expense of the parties in interest, in accord-  
18 ance with the provisions of section 5 of the Act approved  
19 February 13, 1911, as amended by the Act approved  
20 February 7, 1920, and section 451 of the Tariff Act, 1930,  
21 as amended (19 U. S. C. 261, 267, and 1451), the receipts  
22 from such overtime services to be deposited as a refund  
23 to the appropriation from which such overtime compensa-  
24 tion is paid, in accordance with the provisions of section 524  
25 of the Tariff Act of 1930, as amended; for the cost of seizure,

1 storage, and disposition of any merchandise, vehicle and  
2 team, automobile, boat, air or water craft, or any other con-  
3 veyance seized under the provisions of the customs laws,  
4 for the purchase of arms, ammunition, and accessories; not to  
5 exceed \$665,108 for personal services in the District of Colum-  
6 bia exclusive of ten persons from the field force authorized to  
7 be detailed under section 525 of the Tariff Act of 1930,  
8 \$20,481,585: *Provided*, That the offices of seven comptrollers  
9 of customs, with annual salaries aggregating \$43,950, are  
10 hereby abolished. The duties imposed by law and regulations  
11 upon the comptrollers of customs, their assistants and deputies,  
12 are hereby transferred to, imposed upon, and continued in  
13 positions now established in the Customs Service by or pur-  
14 suant to law, as the Secretary of the Treasury by appropriate  
15 regulations shall specify; and he is further authorized to  
16 designate the title by which such positions shall be officially  
17 known hereafter. The Secretary of the Treasury, in per-  
18 forming the duties imposed upon him by this paragraph,  
19 shall administer the same in such manner that the transfer  
20 of duties provided hereby will not result in the establishment  
21 of any new positions in the Customs Service.

22       **Printing and binding:** For printing and binding, Bureau  
23 of Customs, including the cost of transportation to field offices  
24 of printed and bound material and the cost of necessary  
25 packing boxes and packing materials, \$85,000.

1 Refunds and drawbacks: For the refund or payment of  
2 customs collections or receipts, and for the payment of de-  
3 bentures or drawbacks, bounties, and allowances, as author-  
4 ized by law, \$19,000,000.

5 OFFICE OF THE COMPTROLLER OF THE CURRENCY

6 Salaries: Comptroller of the Currency and other personal  
7 services in the District of Columbia, \$230,000.

8 Printing and binding: For printing and binding for the  
9 Office of the Comptroller of the Currency, \$18,000.

10 BUREAU OF INTERNAL REVENUE

11 Salaries and expenses: For salaries and expenses in con-  
12 nection with the assessment and collection of internal-revenue  
13 taxes and the administration of the internal-revenue laws,  
14 including the administration of such provisions of other laws  
15 as are authorized by or pursuant to law to be administered  
16 by or under the direction of the Commissioner of Internal  
17 Revenue, including one stamp agent (to be reimbursed by  
18 the stamp manufacturers) and the employment of experts;  
19 the securing of evidence of violations of the Acts, the cost of  
20 chemical analyses made by others than employees of the  
21 United States and expenses incident to such chemists testify-  
22 ing when necessary; telegraph and telephone service, post-  
23 age, freight, express, necessary expenses incurred in making  
24 investigations in connection with the enrollment or disbar-

1 ment of practitioners before the Treasury Department in  
2 internal-revenue matters, expenses of seizure and sale, and  
3 other necessary miscellaneous expenses, including steno-  
4 graphic reporting services; for the acquisition of prop-  
5 erty under the provisions of title III of the Liquor Law  
6 Repeal and Enforcement Act, approved August 27, 1935  
7 (49 Stat. 872-881), and the operation, maintenance, and  
8 repair of property acquired under such title III; for the  
9 purchase (not to exceed thirty-four), hire, maintenance,  
10 repair, and operation of motor-propelled or horse-drawn  
11 passenger-carrying vehicles when necessary, for official use  
12 of the Alcohol Tax and Intelligence Units in field work;  
13 printing and binding (not to exceed \$1,606,850); and the  
14 procurement of such supplies, stationery (not to exceed  
15 \$675,800), equipment, furniture, mechanical devices, lab-  
16 oratory supplies, periodicals, and newspapers for the Alco-  
17 hol Tax Unit, ammunition, lawbooks and books of reference,  
18 and such other articles as may be necessary, \$94,821,735,  
19 of which amount not to exceed \$11,111,885 may be  
20 expended for personal services in the District of Columbia:  
21 *Provided*, That not more than \$100,000 of the total amount  
22 appropriated herein may be expended by the Commissioner  
23 of Internal Revenue for detecting and bringing to trial per-  
24 sons guilty of violating the internal-revenue laws or conniving

1 at the same, including payments for information and detection  
2 of such violation.

3 Refunds and payments of processing and related taxes:  
4 For refunds and payments of processing and related taxes  
5 as authorized by titles IV and VII, Revenue Act of 1936, as  
6 amended; for refunds of taxes collected (including penalties  
7 and interest) under the Cotton Act of April 21, 1934, as  
8 amended (48 Stat. 598), the Tobacco Act of June 28, 1934,  
9 as amended (48 Stat. 1275), and the Potato Act of August  
10 24, 1935 (49 Stat. 782), in accordance with the Second  
11 Deficiency Appropriation Act, fiscal year 1938 (52 Stat.  
12 1150), as amended, and as otherwise authorized by law; and  
13 for redemption of tax stamps purchased under the aforesaid  
14 Tobacco and Potato Acts, there is hereby continued avail-  
15 able, during the fiscal year 1944, the unexpended balance  
16 of the funds made available to the Treasury Department for  
17 these purposes for the fiscal year 1943 by the Treasury De-  
18 partment Appropriation Act, 1943.

19 Additional income tax on railroads in Alaska: For the  
20 payment to the Treasurer of Alaska of an amount equal to  
21 the tax of 1 per centum collected on the gross annual income  
22 of all railroad corporations doing business in Alaska, on  
23 business done in Alaska, which tax is in addition to the  
24 normal income tax collected from such corporations on net

1 income, and the amount of such additional tax to be appli-  
2 cable to general Territorial purposes, \$3,000.

3       Refunding internal-revenue collections (indefinite appro-  
4 priation) : For refunding internal-revenue collections, as pro-  
5 vided by law, including the payment of claims for the prior  
6 fiscal years and payment of accounts arising under "Allow-  
7 ance or draw-back (Internal Revenue)", "Redemption of  
8 stamps (Internal Revenue)", "Refunding legacy taxes, Act of  
9 March 30, 1928", and "Repayment of taxes on distilled spirits  
10 destroyed by casualty", there is hereby appropriated such  
11 amounts as may be necessary: *Provided*, That a report shall  
12 be made to Congress by internal-revenue districts and alpha-  
13 betically arranged of all disbursements hereunder in excess  
14 of \$500 as required by section 3 of the Act of May 29, 1928  
15 (sec. 3776, I. R. C.), including the names of all persons and  
16 corporations to whom such payments are made, together with  
17 the amount paid to each.

18                                   BUREAU OF NARCOTICS

19       Salaries and expenses: For expenses to enforce sections  
20 2550-2565; 2567-2571; 2590-2603; 3220-3228; 3230-  
21 3238 of the Internal Revenue Code; the Narcotic Drugs  
22 Import and Export Act, as amended (21 U. S. C. 171-184);  
23 pursuant to the Act of March 3, 1927 (5 U. S. C. 281c),  
24 and the Act of June 14, 1930 (5 U. S. C. 282-282c),  
25 including the employment of executive officers, attorneys.

1 agents, inspectors, chemists, supervisors, clerks, messengers,  
2 and other necessary employees in the field and in the Bureau  
3 of Narcotics in the District of Columbia, to be appointed  
4 as authorized by law; the securing of information and evi-  
5 dence of violations of the Acts; the costs of chemical analyses  
6 made by others than employees of the United States; the  
7 purchase of such supplies, equipment, mechanical devices,  
8 books, stationery (not to exceed \$6,000), and such other ex-  
9 penditures as may be necessary in the several field offices; cost  
10 incurred by officers and employees of the Bureau of Narcotics  
11 in the seizure, storage, and disposition of property under the  
12 internal-revenue laws; hire, maintenance, repair and opera-  
13 tion of motor-propelled or horse-drawn passenger-carrying  
14 vehicles when necessary for official use in field work; pur-  
15 chase of arms and ammunition; in all, \$1,100,000, of which  
16 amount not to exceed \$178,920 may be expended for per-  
17 sonal services in the District of Columbia: *Provided*, That  
18 the Secretary of the Treasury may authorize the use by  
19 narcotic agents of motor vehicles confiscated under the pro-  
20 visions of the Act of August 27, 1935 (27 U. S. C. 157),  
21 and the Act of August 9, 1939 (49 U. S. C., Supp.  
22 V, 781-788), and to pay the cost of acquisition, mainte-  
23 nance, repair, and operation thereof: *Provided further*,  
24 That not exceeding \$10,000 may be expended for  
25 the collection and dissemination of information and appeal

1 for law observance and law enforcement, including cost of  
2 printing, purchase of newspapers, and other necessary ex-  
3 penses in connection therewith and not exceeding \$1,500 for  
4 attendance at meetings concerned with the work of the  
5 Bureau of Narcotics: *Provided further*, That not exceeding  
6 \$10,000 may be expended for services or information looking  
7 toward the apprehension of narcotic law violators who are  
8 fugitives from justice: *Provided further*, That moneys ex-  
9 pended from this appropriation for the purchase of narcotics  
10 including marihuana, and subsequently recovered shall be  
11 reimbursed to the appropriation for enforcement of the nar-  
12 cotic Acts current at the time of the deposit.

13       Printing and binding: For printing and binding for the  
14 Bureau of Narcotics, \$4,000.

15                   BUREAU OF ENGRAVING AND PRINTING

16       For the work of engraving and printing, exclusive of  
17 repay work, during the fiscal year 1944, United States cur-  
18 rency and internal-revenue stamps, including opium orders  
19 and special-tax stamps required under the Act of December  
20 17, 1914 (26 U. S. C. 1040, 1383), checks, drafts, and  
21 miscellaneous work, as follows:

22       Salaries and expenses: For the Director, two Assistant  
23 Directors, and other personal services in the District of  
24 Columbia, including wages of rotary press plate printers at  
25 per diem rates and all other plate printers at piece rates to be



1 fixed by the Secretary of the Treasury, not to exceed the rates  
2 usually paid for such work; and all other necessary expenses,  
3 except printing and binding, including engravers' and print-  
4 ers' materials and other materials, including distinctive and  
5 nondistinctive paper, except distinctive paper for United  
6 States currency and Federal Reserve bank currency; pur-  
7 chase of tabulating machine card checks; equipment of, re-  
8 pairs to, and maintenance of buildings and grounds and minor  
9 alterations to buildings; periodicals, examples of engraving  
10 and printing, including foreign securities and stamps, and  
11 books of reference, not exceeding \$500; traveling expenses  
12 not to exceed \$2,000; not to exceed \$2,200 for articles ap-  
13 proved by the Secretary of the Treasury as being necessary  
14 for the protection of the person of employees; stationery (not  
15 to exceed \$5,000); for transfer to the Bureau of Standards  
16 for scientific investigations in connection with the work of the  
17 Bureau of Engraving and Printing, not to exceed \$15,000;  
18 and for the maintenance and driving of two motor-propelled  
19 passenger-carrying vehicles; \$9,600,000, to be expended un-  
20 der the direction of the Secretary of the Treasury.

21       Printing and binding: For printing and binding for the  
22 Bureau of Engraving and Printing, \$5,500.

23       During the fiscal year 1944 all proceeds derived from  
24 work performed by the Bureau of Engraving and Printing,  
25 by direction of the Secretary of the Treasury, not covered

1 and embraced in the appropriations for such Bureau for such  
2 fiscal year, instead of being covered into the Treasury as mis-  
3 cellaneous receipts, as provided by the Act of August 4,  
4 1886 (31 U. S. C. 176), shall be credited when received to  
5 the appropriations for such Bureau for the fiscal year 1944.

6 **SECRET SERVICE DIVISION**

7 **Salaries:** For the Chief of the Division and other per-  
8 sonal services in the District of Columbia, \$71,873.

9 **Suppressing counterfeiting and other crimes:** For salaries  
10 and other expenses under the authority or with the approval  
11 of the Secretary of the Treasury in detecting, arresting, and  
12 delivering into the custody of the United States marshal or  
13 other officer having jurisdiction, dealers and pretended dealers  
14 in counterfeit money, persons engaged in counterfeiting, forg-  
15 ing, and altering United States notes, bonds, national-bank  
16 notes, Federal Reserve notes, Federal Reserve bank notes,  
17 and other obligations and securities of the United States and  
18 of foreign governments (including endorsements thereon and  
19 assignments thereof), as well as the coins of the United States,  
20 and of foreign governments, and persons committing other  
21 crimes against the laws of the United States relating to the  
22 Treasury Department and the several branches of the public  
23 service under its control; purchase (not to exceed twenty),  
24 hire, maintenance, repair, and operation of motor-propelled  
25 passenger-carrying vehicles when necessary; purchase of

1 arms and ammunition; stationery (not to exceed \$7,500);  
2 traveling expenses; and for no other purpose whatsoever, ex-  
3 cept in the performance of other duties specifically authorized  
4 by law, and in the protection of the person of the President  
5 and the members of his immediate family and of the person  
6 chosen to be President of the United States, \$1,414,850:  
7 *Provided*, That of the amount herein appropriated not to  
8 exceed \$15,000 may be expended in the discretion of the  
9 Secretary of the Treasury for the purpose of securing in-  
10 formation concerning violations of the laws relating to the  
11 Treasury Department, and for services or information look-  
12 ing toward the apprehension of criminals.

13 White House Police: For one captain, one inspector,  
14 four lieutenants, six sergeants, and one hundred and twenty-  
15 eight privates, at rates of pay provided by law; in all,  
16 \$344,000, notwithstanding the provisions of the Act of  
17 April 22, 1940 (3 U. S. C. 62).

18 For uniforming and equipping the White House Police,  
19 including the purchase, issue, and repair of revolvers, and  
20 the purchase and issue of ammunition and miscellaneous sup-  
21 plies, to be procured in such manner as the President in his  
22 discretion may determine, \$10,400.

23 Salaries and expenses, guard force, Treasury buildings:  
24 For salaries and expenses of the guard force for Treasury

1 Department buildings in the District of Columbia, including  
2 the Bureau of Engraving and Printing, including purchase,  
3 repair, and cleaning of uniforms, maintenance, repair, and  
4 operation of motor-propelled passenger-carrying vehicles, and  
5 for the purchase of arms and ammunition and miscellaneous  
6 equipment, \$500,000: *Provided*, That not to exceed \$100,-  
7 000 of the appropriation "Salaries and expenses, Bureau  
8 of Engraving and Printing", may be transferred to this  
9 appropriation to cover service rendered such Bureau in con-  
10 nection with the protection of currency, bonds, stamps, and  
11 other papers of value the cost of producing which is not  
12 covered and embraced in the direct appropriations for such  
13 Bureau: *Provided further*, That the Secretary of the Treasury  
14 may detail two agents of the Secret Service to supervise such  
15 force.

16 Printing and binding: For printing and binding for the  
17 Secret Service Division, \$4,000.

18 BUREAU OF THE MINT

19 Salaries and expenses, Office of the Director: For per-  
20 sonal services in the District of Columbia and for assay labora-  
21 tory chemicals, fuel, materials, balances, weights, stationery  
22 (not to exceed \$700), books, periodicals, specimens of coins,  
23 ores, and travel and other expenses incident to the examina-  
24 tion of mints, visiting mints for the purpose of superintending  
25 the annual settlement, and for the collection of statistics rela-

1 tive to the annual production and consumption of the precious  
2 metals in the United States, \$150,000.

3 Transportation of bullion and coin: For transportation of  
4 bullion and coin, by registered mail or otherwise, between  
5 mints, assay offices, and bullion depositories, \$5,000,  
6 including compensation of temporary employees and other  
7 necessary expenses incident thereto.

8 Salaries and expenses, mints and assay offices: For com-  
9 pensation of officers and employees of the mints at Phila-  
10 delphia, Pennsylvania; San Francisco, California; and Den-  
11 ver, Colorado; the assay offices at New York, New York; and  
12 Seattle, Washington, and the bullion depositories at Fort  
13 Knox, Kentucky; and West Point, New York, including  
14 necessary personal services for carrying out the provisions  
15 of the Gold Reserve Act of 1934 and the Silver Purchase  
16 Act of 1934, and any Executive orders, proclamations, and  
17 regulations issued thereunder, and for incidental and con-  
18 tingent expenses, including traveling expenses, stationery  
19 (not to exceed \$2,900), new machinery and repairs, arms  
20 and ammunition, purchase and maintenance of uniforms and  
21 accessories for guards, protective devices, and their main-  
22 tenance, training of employees in use of firearms and pro-  
23 tective devices, maintenance, repair, and operation of two  
24 motorbusses for use at the Fort Knox Bullion Depository,  
25 cases and enameling for medals manufactured, net wastage

1 in melting and refining and in coining departments, loss on  
2 sale of sweeps arising from the treatment of bullion and the  
3 manufacture of coins, not to exceed \$500 for the expenses  
4 of the annual assay commission, and not exceeding \$1,000  
5 for the acquisition, at the dollar face amount or otherwise, of  
6 specimen and rare coins, including United States and foreign  
7 gold coins and pieces of gold used as, or in lieu of, money, and  
8 ores, for addition to the Government's collection of such coins,  
9 pieces, and ores; \$3,771,370.

10 Printing and binding: For printing and binding for the  
11 Bureau of the Mint, \$8,000.

12 **PROCUREMENT DIVISION**

13 Salaries and expenses: For the Director of Procurement  
14 and other personal services in the District of Columbia and  
15 in the field service, and for miscellaneous expenses, including  
16 office supplies and materials, stationery (not to exceed  
17 \$27,500), purchase and exchange of motortrucks and mainte-  
18 nance thereof, telegrams, telephone service, traveling ex-  
19 penses, office equipment, fuel, light, electric current, and other  
20 expenses for carrying into effect regulations governing the  
21 procurement, warehousing, and distribution by the Procure-  
22 ment Division of the Treasury Department of property, equip-  
23 ment, stores, and supplies in the District of Columbia and  
24 in the field (including not to exceed \$500 to settle claims  
25 for damages caused to private property by motor vehicles

1 used by the Procurement Division), \$815,000: *Provided,*  
2 That the Secretary of the Treasury is authorized and directed  
3 during the fiscal year 1944 to transfer to this appropria-  
4 tion from any appropriations or funds available to the  
5 several departments and establishments of the Government  
6 for the fiscal year 1944 such amounts as may be approved  
7 by the Director of the Bureau of the Budget, not to  
8 exceed the sum of (a) the amount of the annual compen-  
9 sation of employees who may be transferred or detailed to  
10 the Procurement Division, respectively, from any such de-  
11 partment or establishment, where the transfer or detail of  
12 such employees is incident to a transfer of a function or func-  
13 tions to that Division and (b) such amount as the Director  
14 of the Bureau of the Budget may determine to be necessary  
15 for expenses other than personal services incident to the  
16 proper carrying out of functions so transferred: *Provided fur-*  
17 *ther,* That payments during the fiscal year 1944 to the  
18 general supply fund for materials, and supplies (including  
19 fuel), and services, and overhead expenses for all issues shall  
20 be made on the books of the Treasury Department by transfer  
21 and counterwarrants prepared by the Procurement Division  
22 of the Treasury Department and countersigned by the Comp-  
23 troller General, such warrants to be based solely on itemized  
24 invoices prepared by the Procurement Division at issue prices  
25 to be fixed by the Director of Procurement: *Provided fur-*

1 *ther*, That advances received pursuant to law (31 U. S. C.  
2 686) from departments and establishments of the United  
3 States Government and the government of the District of  
4 Columbia during the fiscal year 1944 shall be credited  
5 to the general supply fund: *Provided further*, That not  
6 to exceed \$1,000,000 shall be available from the general  
7 supply fund during the fiscal year 1944 for personal serv-  
8 ices: *Provided further*, That per diem employees engaged  
9 in work in connection with operations of the fuel yards  
10 may be paid rates of pay approved by the Secretary of the  
11 Treasury not exceeding current rates for similar services in  
12 the District of Columbia: *Provided further*, That the term  
13 "fuel" shall be held to include "fuel oil": *Provided further*,  
14 That the requirements of sections 3711 and 3713 of the Re-  
15 vised Statutes (40 U. S. C. 109) relative to the weighing  
16 of coal and wood and the separate certificate as to the weight,  
17 measurement, or quantity of coal and wood purchased shall  
18 not apply to purchases by the Procurement Division at free-  
19 on-board destination outside of the District of Columbia:  
20 *Provided further*, That the reconditioning and repair of sur-  
21 plus property and equipment for disposition or reissue to  
22 Government service, may be made at cost by the Procure-  
23 ment Division, payment therefor to be effected by charging  
24 the proper appropriation and crediting the appropriation



1 "Salaries and expenses, Procurement Division": *Provided*  
2 *further*, That all orders for printing and binding for the Treas-  
3 ury Department, exclusive of work performed in the Bureau  
4 of Engraving and Printing and exclusive of such printing and  
5 binding as may under existing law be procured by field offices  
6 under authorization of the Joint Committee on Printing, shall  
7 be placed by the Director of Procurement in accord with  
8 the provisions of existing law.

9       Repairs to typewriting machines (except bookkeeping  
10 and billing machines) in the Government service in the Dis-  
11 trict of Columbia and areas adjacent thereto may be made at  
12 cost by the Procurement Division, payment therefor to be  
13 effected by charging the proper appropriation and crediting  
14 the appropriation "Salaries and expenses, Procurement  
15 Division".

16       No part of any money appropriated by this or any other  
17 Act shall be used during the fiscal year 1944 for the  
18 purchase, within the continental limits of the United States,  
19 of any standard typewriting machines (except book-  
20 keeping, billing, and electric machines) at a price in excess  
21 of the following for models with carriages which will accom-  
22 modate paper of the following widths to wit: Ten inches  
23 (correspondence models), \$70; twelve inches, \$75; fourteen  
24 inches, \$77.50; sixteen inches, \$82.50; eighteen inches,

1 \$87.50; twenty inches, \$94; twenty-two inches, \$95; twenty-  
 2 four inches, \$97.50; twenty-six inches, \$103.50; twenty-  
 3 eight inches, \$104; thirty inches, \$105; thirty-two inches,  
 4 \$107.50; or, for standard typewriting machines distinctively  
 5 quiet in operation, the maximum prices shall be as follows for  
 6 models with carriages which will accommodate paper of the  
 7 following widths, to wit: Ten inches, \$80; twelve inches,  
 8 \$85; fourteen inches, \$90; eighteen inches, \$95.

9       Printing and binding: For printing and binding for the  
 10 Procurement Division, including printed forms and miscel-  
 11 laneous items for general use of the Treasury Department,  
 12 the cost of transportation to field offices of printed and bound  
 13 material and the cost of necessary packing boxes and pack-  
 14 ing materials, \$150,000, together with not to exceed \$4,000  
 15 to be transferred from the general supply fund, Treasury  
 16 Department.

17       This title may be cited as the "Treasury Department  
 18 Appropriation Act, 1944".

19                   **TITLE II—POST OFFICE DEPARTMENT**

20       The following sums are appropriated in conformity with  
 21 the Act of July 2, 1836 (5 U. S. C. 380, 39 U. S. C. 786),  
 22 for the Post Office Department for the fiscal year ending  
 23 June 30, 1944, namely:

1 POST OFFICE DEPARTMENT, WASHINGTON, DISTRICT OF  
2 COLUMBIA

3 OFFICE OF THE POSTMASTER GENERAL

4 Salaries: For the Postmaster General and other per-  
5 sonal services in the office of the Postmaster General in  
6 the District of Columbia, \$237,000.

7 SALARIES IN BUREAUS AND OFFICES

8 For personal services in the District of Columbia in  
9 bureaus and offices of the Post Office Department in not to  
10 exceed the following amounts, respectively:

11 Office of Budget and Administrative Planning,  
12 \$27,500.

13 Office of the First Assistant Postmaster General,  
14 \$570,000.

15 Office of the Second Assistant Postmaster General,  
16 \$460,000.

17 Office of the Third Assistant Postmaster General,  
18 \$780,000.

19 Office of the Fourth Assistant Postmaster General,  
20 \$483,000.

21 Office of the Solicitor for the Post Office Department,  
22 \$130,000.

23 Office of the chief inspector, \$274,320.

1 Office of the purchasing agent, \$49,950.

2 Bureau of Accounts, \$133,640.

3 CONTINGENT EXPENSES, POST OFFICE DEPARTMENT

4 For contingent and miscellaneous expenses; including  
5 stationery and blank books, index and guide cards, folders and  
6 binding devices, purchase of free penalty envelopes; tele-  
7 graph and telephone service, furniture and filing cabinets and  
8 repairs thereto; purchase of tools and electrical supplies;  
9 maintenance of two motor-driven passenger-carrying vehi-  
10 cles; floor coverings; postage stamps for correspondence  
11 addressed abroad, which is not exempt under article 49  
12 of the Buenos Aires Convention of the Universal Postal  
13 Union; purchase and exchange of lawbooks, and books of  
14 reference; newspapers, not exceeding \$200; expenses, except  
15 membership fees, of attendance at meetings or conventions  
16 concerned with postal affairs, when incurred on the written  
17 authority of the Postmaster General, not exceeding \$2,000;  
18 and expenses of the purchasing agent and of the Solicitor  
19 and attorneys connected with his office while traveling on  
20 business of the Department, not exceeding \$800; and other  
21 expenses not otherwise provided for; \$110,000.

22 For printing and binding for the Post Office Depart-  
23 ment, including all of its bureaus, offices, institutions, and  
24 services located in Washington, District of Columbia, and  
25 elsewhere, \$1,250,000.

1 Appropriations hereinafter made for the field service  
2 of the Post Office Department, except as otherwise pro-  
3 vided, shall not be expended for any of the purposes here-  
4 inbefore provided for on account of the Post Office Depart-  
5 ment in the District of Columbia: *Provided*, That the actual  
6 and necessary expenses of officials and employees of the  
7 Post Office Department and Postal Service, when traveling  
8 on official business, may continue to be paid from the  
9 appropriations for the service in connection with which  
10 the travel is performed, and appropriations for the fiscal  
11 year 1944 of the character heretofore used for such purposes  
12 shall be available therefor: *Provided further*, That appro-  
13 priations hereinafter made, except such as are exclusively for  
14 payment of compensation, shall be immediately available for  
15 expenses in connection with the examination of estimates  
16 for appropriations in the field including per diem allowances  
17 in lieu of actual expenses of subsistence.

18 **FIELD SERVICE, POST OFFICE DEPARTMENT**

19 **OFFICE OF THE POSTMASTER GENERAL**

20 Travel expenses, Postmaster General and Assistant  
21 Postmasters General: For travel and miscellaneous expenses  
22 in the Postal Service, offices of the Postmaster General and  
23 Assistant Postmasters General, \$3,000.

24 Personal or property damage claims: To enable the  
25 Postmaster General to pay claims for damages, occurring

1 during the fiscal year 1944, or in prior fiscal years,  
2 to persons or property in accordance with the provisions  
3 of the Deficiency Appropriation Act, approved June 16,  
4 1921 (5 U. S. C. 392), as amended by the Act approved  
5 June 22, 1934 (48 Stat. 1207), \$70,000.

6 Adjusted losses and contingencies: To enable the Post-  
7 master General to pay to postmasters, Navy mail clerks,  
8 and assistant Navy mail clerks or credit them with the  
9 amount ascertained to have been lost or destroyed during  
10 the fiscal year 1944, or prior fiscal years, through  
11 burglary, fire, or other unavoidable casualty resulting from  
12 no fault or negligence on their part, as authorized by the  
13 Act approved March 17, 1882, as amended, \$55,000.

14 OFFICE OF CHIEF INSPECTOR

15 Salaries of inspectors: For salaries of fifteen inspectors  
16 in charge of divisions and seven hundred and sixty in-  
17 spectors including twenty-five only for the fiscal year 1944,  
18 \$2,840,500.

19 Traveling and miscellaneous expenses: For traveling ex-  
20 penses of inspectors, inspectors in charge, the chief post-office  
21 inspector, and the assistant chief post-office inspector, and  
22 for the traveling expenses of four clerks performing steno-  
23 graphic and clerical assistance to post-office inspectors in the  
24 investigation of important fraud cases; for tests, exhibits,  
25 documents, photographs, office, and other necessary expenses

1 incurred by post-office inspectors in connection with their  
2 official investigations, including necessary miscellaneous ex-  
3 penses of division headquarters, and not to exceed \$500 for  
4 technical and scientific books and other books of reference  
5 needed in the operation of the Post Office Inspection Service,  
6 \$1,001,450: *Provided*, That not exceeding \$12,000 of this  
7 sum shall be available for transfer by the Postmaster General  
8 to other departments and independent establishments for  
9 chemical and other investigations.

10 Clerks, division headquarters: For compensation of three  
11 hundred and thirty-six clerks at division headquarters and  
12 other posts of duty of post-office inspectors, \$815,000.

13 Payment of rewards: For payment of rewards for  
14 the detection, arrest, and conviction of post-office burglars,  
15 robbers, highway mail robbers, and persons mailing or caus-  
16 ing to be mailed any bomb, infernal machine, or mechan-  
17 ical, chemical, or other device or composition which may  
18 ignite, or explode, \$55,000: *Provided*, That rewards may  
19 be paid in the discretion of the Postmaster General, when  
20 an offender of the classes mentioned was killed in the act  
21 of committing the crime or in resisting lawful arrest: *Pro-*  
22 *vided further*, That no part of this sum shall be used to pay  
23 any rewards at rates in excess of those specified in Post  
24 Office Department Order 15142, dated February 19, 1941:  
25 *Provided further*, That of the amount herein appropriated not

1 to exceed \$20,000 may be expended in the discretion of  
2 the Postmaster General, for the purpose of securing infor-  
3 mation concerning violations of the postal laws and for  
4 services and information looking toward the apprehension  
5 of criminals.

6 OFFICE OF THE FIRST ASSISTANT POSTMASTER GENERAL

7 Compensation to postmasters: For compensation to post-  
8 masters, including compensation as postmaster to persons  
9 who, pending the designation of an acting postmaster, assume  
10 and properly perform the duties of postmaster in the event  
11 of a vacancy in the office of postmaster of the third or fourth  
12 class, and for allowances for rent, light, fuel, and equipment  
13 to postmasters of the fourth class, \$53,500,000.

14 Compensation to assistant postmasters: For compensa-  
15 tion to assistant postmasters at first- and second-class post  
16 offices, \$9,675,000.

17 Clerks, first- and second-class post offices: For compen-  
18 sation to clerks and employees at first- and second-class post  
19 offices, including auxiliary clerk hire at summer and winter  
20 post offices, printers, mechanics, skilled laborers, watchmen,  
21 messengers, laborers, and substitutes, \$239,000,000.

22 Contract station service: For contract station service,  
23 \$2,475,000.

24 Separating mails: For separating mails at third- and  
25 fourth-class post offices, \$420,000.



1 Unusual conditions: For unusual conditions at post  
2 offices, \$425,000.

3 Clerks, third-class post offices: For allowances to third-  
4 class post offices to cover the cost of clerical services,  
5 \$8,600,000.

6 Miscellaneous items, first- and second-class post offices:  
7 For miscellaneous items necessary and incidental to the op-  
8 eration and protection of post offices of the first and second  
9 classes, and the business conducted in connection therewith,  
10 not provided for in other appropriations, \$2,300,000.

11 Village delivery service: For village delivery service in  
12 towns and villages having post offices of the second or third  
13 class, and in communities adjacent to cities having city  
14 delivery, \$1,500,000.

15 Detroit River service: For Detroit River postal service,  
16 \$11,960.

17 Carfare and bicycle allowance: For carfare and bicycle  
18 allowance, including special-delivery carfare, cost of trans-  
19 porting carriers by privately owned automobiles to and  
20 from their routes, at rates not exceeding regular streetcar  
21 or bus fare, and purchase, maintenance, and exchange of  
22 bicycles, \$1,600,000.

23 City delivery carriers: For pay of letter carriers, City  
24 Delivery Service, and United States Official Mail and Mes-  
25 senger Service, \$165,000,000.

1 Special-delivery fees: For fees to special-delivery  
2 messengers, \$12,200,000.

3 Rural Delivery Service: For pay of rural carriers,  
4 auxiliary carriers, substitutes for rural carriers on annual and  
5 sick leave, clerks in charge of rural stations, and tolls and  
6 ferriage, Rural Delivery Service, and for the incidental  
7 expenses thereof, \$92,200,000, of which not less than \$200,-  
8 000 shall be available for extensions and new service.

9 OFFICE OF THE SECOND ASSISTANT POSTMASTER GENERAL

10 Star-route service: For inland transportation by star  
11 routes (excepting service in Alaska), including temporary  
12 service to newly established offices, \$14,750,000.

13 Star-route service, Alaska: For inland transportation by  
14 star routes in Alaska, \$500,000.

15 Powerboat service: For inland transportation by steam-  
16 boat or other powerboat routes, including ship, steamboat,  
17 and way letters, \$550,000.

18 Railroad transportation and mail messenger service: For  
19 inland transportation by railroad routes and for mail mes-  
20 senger service, \$118,000,000: *Provided*, That separate ac-  
21 counts be kept of the amount expended for mail messenger  
22 service.

23 Railway Mail Service: For fifteen division superintend-  
24 ents, fifteen assistant division superintendents, two assistant  
25 superintendents at large, one hundred and twenty chief

1 clerks, one hundred and twenty assistant chief clerks, clerks  
2 in charge of sections in the offices of division superintend-  
3 ents, railway postal clerks, substitute railway postal clerks,  
4 joint employees, and laborers in the Railway Mail Service,  
5 \$60,530,175.

6       Railway postal clerks, travel allowance: For travel  
7 allowance to railway postal clerks and substitute railway  
8 postal clerks, \$3,500,000.

9       Railway Mail Service, traveling expenses: For actual  
10 and necessary expenses, general superintendent and assistant  
11 general superintendent, division superintendents, assistant di-  
12 vision superintendents, assistant superintendents, chief clerks,  
13 and assistant chief clerks, Railway Mail Service, and railway  
14 postal clerks, while actually traveling on business of the Post  
15 Office Department and away from their several designated  
16 headquarters, \$67,000.

17       Railway Mail Service, miscellaneous expenses: For rent,  
18 light, heat, fuel, telegraph, miscellaneous and office expenses,  
19 telephone service, badges for railway postal clerks, rental of  
20 space for terminal railway post offices for the distribution of  
21 mails when the furnishing of space for such distribution can-  
22 not, under the Postal Laws and Regulations, properly be  
23 required of railroad companies without additional compensa-  
24 tion, and for equipment and miscellaneous items necessary  
25 to terminal railway post offices, \$380,000.

1 Electric-car service: For electric-car service, \$220,000.

2 Foreign mail transportation: For transportation of for-  
3 eign mails, except by aircraft, \$675,000.

4 Balances due foreign countries: For balances due foreign  
5 countries, fiscal year 1944 and prior years, \$2,250,000.

6 Indemnities, international mail: For payment of limited  
7 indemnity for the injury or loss of international mail in  
8 accordance with convention, treaty, or agreement stipula-  
9 tions, fiscal year 1944 and prior years, \$8,000.

10 Foreign air-mail transportation: For transportation of  
11 foreign mails by aircraft, as authorized by law, including the  
12 transportation of mail by aircraft between Seattle, Washing-  
13 ton, and Juneau, Alaska, via Ketchikan, Alaska,  
14 \$4,500,000.

15 Domestic Air Mail Service: For the inland transpor-  
16 tation of mail by aircraft, as authorized by law, and for  
17 the incidental expenses thereof, including not to exceed  
18 \$55,200 for supervisory officials and clerks at air-mail trans-  
19 fer points, travel expenses, and not to exceed \$76,720 for  
20 personal services in the District of Columbia, \$22,000,000.

21 OFFICE OF THE THIRD ASSISTANT POSTMASTER GENERAL

22 Manufacture and distribution of stamps and stamped  
23 paper: For manufacture of adhesive postage stamps, special-  
24 delivery stamps, books of stamps, stamped envelopes, news-  
25 paper wrappers, postal cards, and for coiling of stamps, and

1 including not to exceed \$22,950 for pay of agent and  
2 assistants to examine and distribute stamped envelopes  
3 and newspaper wrappers, and for expenses of agency,  
4 \$5,000,000.

5 Indemnities, domestic mail: For payment of limited  
6 indemnity for the injury or loss of pieces of domestic regis-  
7 tered matter, insured and collect-on-delivery mail, and for  
8 failure to remit collect-on-delivery charges, \$750,000.

9 Unpaid money orders more than one year old: For  
10 payment of domestic money orders after one year from the  
11 last day of the month of issue of such orders, \$190,000.

12 OFFICE OF THE FOURTH ASSISTANT POSTMASTER GENERAL

13 Post office stationery, equipment, and supplies: For sta-  
14 tionery for the Postal Service, including the money-order  
15 and registry system; and also for the purchase of supplies  
16 for the Postal Savings System, including rubber stamps, can-  
17 celing devices, certificates, envelopes, and stamps for use in  
18 evidencing deposits, and free penalty envelopes; and for the  
19 reimbursement of the Secretary of the Treasury for expenses  
20 incident to the preparation, issue, and registration of the  
21 bonds authorized by the Act of June 25, 1910 (39 U. S. C.  
22 760); for miscellaneous equipment and supplies, including  
23 the purchase and repair of furniture, package boxes, posts,  
24 trucks, baskets, satchels, straps, letter-box paint, baling ma-  
25 chines, perforating machines, stamp vending and postage

1 meter devices, duplicating machines, printing presses, direc-  
2 tories, cleaning supplies, and the manufacture, repair, and  
3 exchange of equipment, the erection and painting of letter-  
4 box equipment, and for the purchase and repair of presses and  
5 dies for use in the manufacture of letter boxes; for postmark-  
6 ing, rating, money-order stamps, and electrotype plates and  
7 repairs to same; metal, rubber, and combination type, datés  
8 and figures, type holders, ink pads for canceling and stamping  
9 purposes, and for the purchase of time recorders, letter bal-  
10 ances, scales (exclusive of dormant or built-in platform scales  
11 in Federal buildings), test weights, and miscellaneous articles  
12 purchased and furnished directly to the Postal Service, in-  
13 cluding complete equipment and furniture for post offices in  
14 leased and rented quarters; for the purchase (including ex-  
15 change), repair, and replacement of arms and miscellaneous  
16 items necessary for the protection of the mails; for miscel-  
17 laneous expenses in the preparation and publication of post-  
18 route maps and rural delivery maps or blueprints, including  
19 tracing for photolithographic reproduction; for other expendi-  
20 tures necessary and incidental to post offices of the first, sec-  
21 ond, and third classes, and offices of the fourth class having  
22 or to have rural delivery service, and for letter boxes; for the  
23 purchase of atlases and geographical and technical works not  
24 to exceed \$1,500; for wrapping twine and tying devices;  
25 for expenses incident to the shipment of supplies, includ-

1 ing hardware, boxing, packing, and not exceeding \$63,-  
2 800 for the pay of employees in connection therewith in  
3 the District of Columbia; for rental, purchase, exchange, and  
4 repair of canceling machines and motors, mechanical mail-  
5 handling apparatus, accident prevention, and other labor-sav-  
6 ing devices, including cost of power in rented buildings and  
7 miscellaneous expenses of installation and operation of same,  
8 including not to exceed \$35,000 for salaries of thirteen travel-  
9 ing mechanics, and for traveling expenses, \$3,500,000:  
10 *Provided*, That the Postmaster General may authorize the  
11 sale to the public of post-route maps and rural delivery maps  
12 or blueprints at the cost of printing and 10 per centum thereof  
13 added.

14 Equipment shops, Washington, District of Columbia:  
15 For the purchase, manufacture, and repair of mail bags  
16 and other mail containers and attachments, mail locks, keys,  
17 chains, tools, machinery, and material necessary for same,  
18 and for incidental expenses pertaining thereto; material,  
19 machinery, and tools necessary for the manufacture and  
20 repair of such other equipment for the Postal Service as  
21 may be deemed expedient; accident prevention; for the ex-  
22 penses of maintenance and repair of the mail bag equip-  
23 ment shops building and equipment, including fuel, light,  
24 power, and miscellaneous supplies and services; mainte-  
25 nance of grounds; for compensation to labor employed in

1 the equipment shops and in the operation, care, mainte-  
2 nance, and protection of the equipment shops building,  
3 grounds, and equipment, \$1,650,000, of which not to exceed  
4 \$626,000 may be expended for personal services in the  
5 District of Columbia: *Provided*, That out of this appropria-  
6 tion the Postmaster General is authorized to use as much  
7 of the sum, not exceeding \$15,000, as may be deemed  
8 necessary for the purchase of material and the manufacture  
9 in the equipment shops of such small quantities of distinc-  
10 tive equipments as may be required by other executive  
11 departments; and for service in Alaska, Puerto Rico,  
12 Philippine Islands, Hawaii, or other island possessions.

13 Rent, light, fuel, and water: For rent, light, fuel, and  
14 water, for first-, second-, and third-class post offices, and the  
15 cost of advertising for lease proposals for such offices,  
16 \$10,350,000.

17 Pneumatic-tube service, New York City: For rental of  
18 not exceeding twenty-eight miles of pneumatic tubes, hire  
19 of labor, communication service, electric power, and other  
20 expenses for transmission of mail in the city of New York  
21 including the Borough of Brooklyn, \$535,000: *Provided*,  
22 That the provisions of the Acts of April 21, 1902, May 27,  
23 1908, and June 19, 1922 (39 U. S. C. 423), relating to  
24 contracts for the transmission of mail by pneumatic tubes  
25 or other similar devices shall not be applicable hereto.



1       Pneumatic-tube service, Boston: For the rental of not  
2 exceeding two miles of pneumatic tubes, not including labor  
3 and power in operating the same, for the transmission of mail  
4 in the city of Boston, Massachusetts, \$24,000: *Provided*,  
5 That the provisions not inconsistent herewith of the Acts of  
6 April 21, 1902 (39 U. S. C. 423), and May 27, 1908 (39  
7 U. S. C. 423), relating to the transmission of mail by pneu-  
8 matic tubes or other similar devices shall be applicable  
9 hereto.

10       Vehicle service: For vehicle service; the hire of  
11 vehicles; the rental of garage facilities; the purchase, main-  
12 tenance, and repair of motor vehicles, including the repair  
13 of vehicles owned by, or under the control of, units of  
14 the National Guard and departments and agencies of the  
15 Federal Government where repairs are made necessary be-  
16 cause of utilization of such vehicles in the Postal Service;  
17 accident prevention; the hire of supervisors, clerical assist-  
18 ance, mechanics, drivers, garagemen, and such other em-  
19 ployees as may be necessary in providing vehicles and  
20 vehicle service for use in the collection, transportation,  
21 delivery, and supervision of the mail, and United States  
22 official mail and messenger service, \$17,200,000: *Pro-*  
23 *vided*, That the Postmaster General may, in his disburse-  
24 ment of this appropriation, apply a part thereof to the  
25 leasing of quarters for the housing of Government-owned

1 motor vehicles at a reasonable annual rental for a term not  
2 exceeding ten years: *Provided further*, That the Postmaster  
3 General, during the fiscal year 1944 may pur-  
4 chase and maintain from the appropriation "Vehicle  
5 Service" such tractors and trailer trucks as may be required  
6 in the operation of the vehicle service: *Provided further*,  
7 That no part of this appropriation shall be expended for  
8 maintenance or repair of motor-propelled passenger-carrying  
9 vehicles for use in connection with the administrative work  
10 of the Post Office Department in the District of Columbia.

11       Transportation of equipment and supplies: For the trans-  
12 portation and delivery of equipment, materials, and supplies  
13 for the Post Office Department and Postal Service by freight,  
14 express, or motor transportation, and other incidental ex-  
15 penses, \$385,000.

16       **PUBLIC BUILDINGS, MAINTENANCE AND OPERATION**

17       Operating force: For personal services in connection  
18 with the operation of public buildings, including the Wash-  
19 ington Post Office and the Customhouse Building in the  
20 District of Columbia, operated by the Post Office Depart-  
21 ment, together with the grounds thereof and the equipment  
22 and furnishings therein, including telephone operators for  
23 the operation of telephone switchboards or equivalent tele-  
24 phone switchboard equipment in such buildings jointly serv-  
25 ing in each case two or more governmental activities,

1 \$27,000,000: *Provided*, That in no case shall the rates of  
2 compensation for the mechanical labor force be in excess  
3 of the rates current at the time and in the place where such  
4 services are employed.

5 Operating supplies, public buildings: For fuel, steam,  
6 gas, and electric current for lighting, heating, and power  
7 purposes, water, ice, lighting supplies, removal of ashes  
8 and rubbish, snow and ice, cutting grass and weeds, washing  
9 towels, telephone service for custodial forces, and for mis-  
10 cellaneous services and supplies, accident prevention, vacuum  
11 cleaners, tools and appliances and repairs thereto, for the  
12 operation of completed and occupied public buildings and  
13 grounds, including mechanical and electrical equipment, but  
14 not the repair thereof, operated by the Post Office Depart-  
15 ment, including the Washington Post Office and the Custom-  
16 house Building in the District of Columbia, and for the  
17 transportation of articles and supplies authorized herein,  
18 \$5,800,000: *Provided*, That the foregoing appropriation  
19 shall not be available for personal services except for work  
20 done by contract, or for temporary job labor under exigency  
21 not exceeding at one time the sum of \$100 at any one build-  
22 ing: *Provided further*, That the Postmaster General is au-  
23 thorized to contract for telephone service in public buildings  
24 under his administration by means of telephone switchboards  
25 or equivalent telephone switching equipment jointly serving

1 in each case two or more governmental activities, where he  
2 determines that joint service is economical and in the interest  
3 of the Government, and to secure reimbursement for the  
4 cost of such joint service from available appropriations for  
5 telephone expenses of the bureaus and offices receiving the  
6 same.

7 Furniture, carpets, and safes, public buildings: For the  
8 procurement, including transportation, of furniture, carpets,  
9 safes, safe and vault protective devices, and repairs of same,  
10 for use in public buildings which are now, or may hereafter  
11 be, operated by the Post Office Department, \$550,000:  
12 *Provided*, That excepting expenditures for labor for or in-  
13 cidental to the moving of equipment from or into public  
14 buildings, the foregoing appropriation shall not be used for  
15 personal services except for work done under contract or  
16 for temporary job labor under exigency and not exceeding  
17 at one time the sum of \$100 at any one building: *Provided*  
18 *further*, That all furniture now owned by the United States  
19 in other public buildings or in buildings rented by the  
20 United States shall be used, so far as practicable, whether  
21 or not it corresponds with the present regulation plan of  
22 furniture.

23 SEC. 202. Scientific investigations: In the disbursement

1 of appropriations contained in this title for the field service of  
2 the Post Office Department the Postmaster General may  
3 transfer to the Bureau of Standards not to exceed \$20,000 for  
4 scientific investigations in connection with the purchase of  
5 materials, equipment, and supplies necessary in the main-  
6 tenance and operation of the Postal Service.

7       **SEC. 203.** Deficiency in postal revenues: If the revenues  
8 of the Post Office Department shall be insufficient to meet the  
9 appropriations made under title II of this Act, a sum equal to  
10 such deficiency in the revenues of such Department is hereby  
11 appropriated, to be paid out of any money in the Treasury  
12 not otherwise appropriated, to supply such deficiency in the  
13 revenues of the Post Office Department for the fiscal year  
14 ending June 30, 1944, and the sum needed may be  
15 advanced to the Post Office Department upon requisition of  
16 the Postmaster General.

17       **SEC. 204.** No part of the money appropriated in this title  
18 shall be expended for the purpose of collecting, sorting,  
19 handling, transporting, or delivering free the mail of any  
20 officer in any executive department or administrative agency  
21 of government.

22       **SEC. 205.** This title may be cited as the "Post Office  
23 Department Appropriation Act, 1944".

## 1            TITLE III—GENERAL PROVISIONS

2            SEC. 301. No part of the money appropriated under  
3 this Act shall be paid to any person for the filling of any  
4 position for which he or she has been nominated after the  
5 Senate upon vote has failed to confirm the nomination of  
6 such person.

7            SEC. 302. No part of any appropriation contained in  
8 this Act shall be used to pay the salary or wages of any  
9 person who advocates, or who is a member of an organiza-  
10 tion that advocates, the overthrow of the Government of the  
11 United States by force or violence: *Provided*, That for the  
12 purposes hereof an affidavit shall be considered prima facie  
13 evidence that the person making the affidavit does not advo-  
14 cate, and is not a member of an organization that advocates,  
15 the overthrow of the Government of the United States by  
16 force or violence: *Provided further*, That any person who  
17 advocates, or who is a member of an organization that advo-  
18 cates, the overthrow of the Government of the United States  
19 by force or violence and accepts employment, the salary or  
20 wages for which are paid from any appropriation contained  
21 in this Act, shall be guilty of a felony and, upon conviction,  
22 shall be fined not more than \$1,000 or imprisoned for not  
23 more than one year, or both: *Provided further*, That the  
24 above penalty clause shall be in addition to, and not in sub-  
25 stitution for, any other provisions of existing law.

- 1 SEC. 303. This Act may be cited as the "Treasury and
- 2 Post Office Departments Appropriation Act, 1944".

Passed the House of Representatives February 9, 1943.

Attest:

SOUTH TRIMBLE,

*Clerk.*

77TH CONGRESS  
2D SESSION

# H. R. 7378

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IN THE SENATE OF THE UNITED STATES

OCTOBER 10 (legislative day, OCTOBER 5), 1942

Ordered to be printed with the amendments of the Senate numbered

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## AN ACT

To provide revenue, and for other purposes.

- 1 *Be it enacted by the Senate and House of Representa-*
- 2 *tives of the United States of America in Congress assembled,*
- 3 That (a) **SHORT TITLE.**—This Act, divided into titles
- 4 and sections according to the following Table of Contents,
- 5 may be cited as the "Revenue Act of 1942".



## TABLE OF CONTENTS

[In the following table, a section number following the title of a section of this Act indicates the provision of the Internal Revenue Code to which such section of this Act makes the principal amendment.]

## TITLE I—INDIVIDUAL AND CORPORATION INCOME TAXES

## PART I—AMENDMENTS TO CHAPTER 1

- Sec. 101. Taxable years to which amendments applicable.
- Sec. 102. Normal tax on individuals (sec. 11).
- Sec. 103. Surtax on individuals (sec. 12 (b)).
- Sec. 104. Optional tax on individuals with gross income from certain sources of \$3,000 or less (sec. 40).
- Sec. 105. Tax on corporations (sec. 15).
- Sec. 106. Tax on nonresident alien individuals (sec. 211).
- Sec. 107. Tax on foreign corporations (sec. 231 (a)).
- Sec. 108. Withholding of tax at source (secs. 143 and 144).
- Sec. 109. Treaty obligations.
- Sec. 110. Annuity trusts, etc. (sec. 22 (b) (3)).
- Sec. 111. Amendments to conform Internal Revenue Code with the Public Debt Act of 1941 (sec. 22 (b) (4)).
- Sec. 112. Extension of period during which income from discharge of indebtedness excluded (sec. 22 (b) (9)).
- Sec. 113. Improvements by lessee (sec. 22 (b)).
- Sec. 114. Recovery of bad debts, prior taxes, and delinquency amounts (sec. 22 (b)).
- Sec. 115. Additional allowance for military and naval personnel (sec. 22 (b)).
- Sec. 116. Report requirement in connection with inventory methods (sec. 22 (d) (2)).
- Sec. 117. Alimony and separate maintenance payments (sec. 22).
- Sec. 118. Non-trade or non-business deductions (sec. 23 (a)).
- Sec. 119. Deduction for bad debts, etc. (sec. 23 (k)).
- Sec. 120. Amortizable bond premium (sec. 23).
- Sec. 121. Deduction denied if proceeds used to pay for insurance (sec. 24 (a)).
- Sec. 122. Taxes and other charges chargeable to capital account not deductible but treated as capital items (sec. 24 (a)).
- Sec. 123. Reduction of personal exemption requirement for return (sec. 25 (b) (1)).
- Sec. 124. Computation of net operating loss credit and dividends paid credit (sec. 26 (c) (1)).
- Sec. 125. Income in respect of decedents (sec. 42 (a)).
- Sec. 126. Returns for a period of less than twelve months (sec. 47).
- Sec. 127. Denial of capital loss carry-over to section 102 companies (sec. 102 (d) (1)).
- Sec. 128. Compensation for services rendered for a period of thirty-six months or more (sec. 107).
- Sec. 129. Fiscal year taxpayers (sec. 108).
- Sec. 130. Basis of gifts (sec. 113 (a)).
- Sec. 131. Percentage depletion for coal, flourspar, and metal mines and sulphur (sec. 114 (b) (4)).

- Sec. 132. Effect on earnings and profits of wash sale losses (sec. 115 (l)).
- Sec. 133. Distributions in liquidation (sec. 115 (c)).
- Sec. 134. Income from purchases without United States in certain cases (sec. 116 (a)).
- Sec. 135. Reciprocal exception of compensation of employees of the Commonwealth of the Philippines (sec. 116 (h)).
- Sec. 136. Capital gains and losses (sec. 117).
- Sec. 137. Real property improvements; involuntary conversions; etc. (sec. 117).
- Sec. 138. Holding period of stock acquired through exercise of rights (sec. 117 (h)).
- Sec. 139. Commodity credit loans (sec. 123).
- Sec. 140. Extension of deduction for amortization of emergency facilities to persons other than corporations (sec. 124).
- Sec. 141. Foreign tax credit on amount of subsidiary of foreign subsidiary (sec. 131 (f)).
- Sec. 142. Extension of consolidated returns privilege to certain corporations (sec. 141).
- Sec. 143. Aliens and foreign corporations treated as nonresidents (secs. 143 and 144).
- Sec. 144. Pension trusts (sec. 165).
- Sec. 145. Life insurance companies (sec. 201).
- Sec. 146. Insurance companies other than life or mutual (sec. 204).
- Sec. 147. Mutual insurance companies other than life (sec. 207).
- Sec. 148. Technical amendment to definition of "dividend" (sec. 115 (a)).
- Sec. 149. Transactions in stocks, securities, and commodities not considered engaging in trade or business in certain cases (sec. 211 (b)).
- Sec. 150. Statute of limitations on refunds and credits (sec. 322).
- Sec. 151. Regulated investment companies (Supplement Q).
- Sec. 152. Amendments to Supplement R (sec. 371).
- Sec. 153. Collection of tax at source.

#### PART II—PERSONAL HOLDING COMPANIES

- Sec. 181. Rates of personal holding company tax (sec. 500).
- Sec. 182. Exemption of certain corporations from personal holding company tax (sec. 501 (b)).
- Sec. 183. Consolidated income (sec. 501 (c)).
- Sec. 184. Deficiency dividends of personal holding companies (sec. 506).
- Sec. 185. Distributions by personal holding companies (sec. 115 (a)).

#### TITLE II—EXCESS PROFITS TAX

- Sec. 201. Taxable years to which amendments applicable.
- Sec. 202. Rate of excess-profits tax (sec. 710 (a)).
- Sec. 203. Specific exemption (sec. 710 (b) (1)).
- Sec. 204. Computation of excess profits and invested capital of insurance companies (sec. 711 (a)).
- Sec. 205. Technical amendments made necessary by change in base for corporation tax (sec. 711 (a)).
- Sec. 206. Capital gains and losses in the computation of excess profits net income (sec. 711 (a)).
- Sec. 207. Application of excess profits tax to certain foreign corporations (sec. 712 (b)).

- Sec. 208. Excess profits net income placed on annual basis (sec. 711 (a) (3)).
- Sec. 209. Interest on certain Federal obligations (sec. 713 (c)).
- Sec. 210. Capital reduction in case of members of controlled group (sec. 713 (g)).
- Sec. 211. Invested capital credit (sec. 714).
- Sec. 212. Basis of property paid in (sec. 718 (a) (2)).
- Sec. 213. Relief provisions (sec. 722).
- Sec. 214. Exemption of regulated investment companies (sec. 727).
- Sec. 215. Consolidated returns (sec. 730).
- Sec. 216. Rules for income credit in connection with certain exchanges (Supplement A).
- Sec. 217. Amendments to Supplement B.
- Sec. 218. Invested capital in connection with certain exchanges and liquidations (Chapter 2E).

### TITLE III—CAPITAL STOCK AND DECLARED VALUE EXCESS PROFITS TAXES

- Sec. 301. Capital stock tax (sec. 1202).
- Sec. 302. Declared value excess profits tax (sec. 600).
- Sec. 303. Declared value excess profits tax for taxable years of less than twelve months (sec. 601).
- Sec. 304. Technical amendments made necessary by change in base for corporation tax (sec. 602).

### TITLE IV—ESTATE AND GIFT TAXES

#### PART I—ESTATE TAX

- Sec. 401. Estates to which amendments applicable.
- Sec. 402. Community interests (sec. 811 (b)).
- Sec. 403. Powers of appointment (sec. 811 (f)).
- Sec. 404. Proceeds of life insurance (sec. 811 (g)).
- Sec. 405. Deductions not allowable in excess of certain property of estate (sec. 812 (b)).
- Sec. 406. Charitable pledges (sec. 812 (b)).
- Sec. 407. Deduction on account of property previously taxed (sec. 812 (c)).
- Sec. 408. Deduction for disclaimed legacies passing to charities (sec. 812 (d)).
- Sec. 409. Denial of deduction on bequest to certain propaganda organizations (sec. 812 (d)).
- Sec. 410. Priority of credit for local death taxes (sec. 813 (a)).
- Sec. 411. Liability of certain transferees (sec. 827 (b)).
- Sec. 412. Exemption of estates of nonresidents not citizens (sec. 861 (a)).
- Sec. 413. Specific exemption (sec. 935 (c)).
- Sec. 414. Overpayment found by Board (sec. 912).

#### PART II—GIFT TAX

- Sec. 451. Gifts to which amendments applicable.
- Sec. 452. Powers of appointment (sec. 1000).
- Sec. 453. Gifts of community property (sec. 1000).
- Sec. 454. Exclusion from net gifts reduced (sec. 1003 (b)).
- Sec. 455. Specific exemption of gifts reduced (sec. 1004).
- Sec. 456. Overpayment found by Board (sec. 1027 (d)).
- Sec. 457. Definition of property in United States (sec. 1030 (b)).

**TITLE V—AMENDMENTS TO PRIOR REVENUE ACTS AND MISCELLANEOUS PROVISIONS**

- Sec. 501. Additional credit for undistributed profits tax.  
 Sec. 502. Stamp tax on certain insurance policies (sec. 1804).  
 Sec. 503. Suit against collector bar to suit against United States (sec. 3772).  
 Sec. 504. Change of name of Board of Tax Appeals.  
 Sec. 505. Requirement of filing notice of lien (sec. 3672).  
 Sec. 506. Suspension of period for computation of interest in case of certain foreign taxpayers.  
 Sec. 507. Stamp tax in connection with transactions under orders of Securities and Exchange Commission (sec. 1808).  
 Sec. 508. Time for performing certain acts postponed by reason of war.

**TITLE VI—EXCISE TAXES**

- Sec. 601. Effective date of this title.  
 Sec. 602. Distilled spirits (sec. 2800).  
 Sec. 603. Fermented malt liquors (sec. 3150).  
 Sec. 604. Wines (sec. 300).  
 Sec. 605. Tobacco, cigar, cigarettes, and cigarette papers and tubes (sec. 2000).  
 Sec. 606. Telephone, telegraph, etc. (sec. 3465).  
 Sec. 607. Photographic apparatus (sec. 3406 (a) (4)).  
 Sec. 608. Lubricating oil (sec. 3418).  
 Sec. 609. Transportation of persons (sec. 3469).  
 Sec. 610. Organs under contract before October 1, 1941.  
 Sec. 611. Termination of certain excise taxes (sec. 3406 (a) (5), (7), (8), and (9)).  
 Sec. 612. Affixing of cigarette stamps in foreign countries (sec. 2112 (c)).  
 Sec. 613. Exemption of insignia, etc., used in connection with uniforms of the armed forces from jewelry tax (sec. 2400).  
 Sec. 614. Exempt leases of water coolers (sec. 3405 (a)).  
 Sec. 615. Exemption of certain cash registers (sec. 3406 (a) (6)).  
 Sec. 616. Exempt transportation of oil by pipe line (sec. 3460).  
 Sec. 617. Coin-operated amusement and gaming devices (sec. 3267).  
 Sec. 618. Tax on pari-mutuel wagering (Chapter 10).  
 Sec. 619. Sale under chattel mortgage (sec. 2405 and sec. 3441).  
 Sec. 620. Repeal of certain provisions relating to mixed flour.  
 Sec. 621. Transportation of property.

- 1       **(b) ACT AMENDATORY OF INTERNAL REVENUE**  
 2   **CODE.—**Except as otherwise expressly provided, wherever  
 3   in this Act an amendment is expressed in terms of an amend-  
 4   ment to a chapter, subchapter, title, supplement, section,  
 5   subsection, subdivision, paragraph, subparagraph, or clause,

1 the reference shall be considered to be made to a provision  
2 of the Internal Revenue Code.

3 (c) MEANING OF TERMS USED—Except as otherwise  
4 expressly provided, terms used in this Act shall have the  
5 same meaning as when used in the Internal Revenue Code.

## 6 TITLE I—INDIVIDUAL AND CORPORATION 7 INCOME TAXES

### 8 Part I—Amendments to Chapter 1

#### 9 SEC. 101. TAXABLE YEARS TO WHICH AMENDMENTS AP- 10 PPLICABLE.

11 Except as otherwise expressly provided, the amendments  
12 made by this title shall be applicable only with respect to  
13 taxable years beginning after December 31, 1941.

#### 14 SEC. 102. NORMAL TAX ON INDIVIDUALS.

15 Section 11 is amended to read as follows:

#### 16 "SEC. 11. NORMAL TAX ON INDIVIDUALS.

17 "There shall be levied, collected, and paid for each tax-  
18 able year upon the net income of every individual a normal  
19 tax of 6 per centum of the amount of the net income in  
20 excess of the credits against net income provided in section  
21 25. (For alternative tax, if gross income from certain sources  
22 is \$3,000 or less, see section 400)."

## 1 SEC. 103. SURTAX ON INDIVIDUALS.

2 Section 12 (l) is amended to read as follows:

3 " (b) RATES OF SURTAX.—There shall be levied, col-  
 4 lected, and paid, at each taxable year upon the surtax net  
 5 income of every individual the surtax shown in the following  
 6 table:

"If the surtax net income is:	The surtax shall be:
Not over \$2,000-----	13% of the surtax net income.
Over \$2,000 but not over \$4,000---	\$260, plus 16% of excess over \$2,000.
Over \$4,000 but not over \$6,000---	\$580, plus 20% of excess over \$4,000.
Over \$6,000 but not over \$8,000---	\$980, plus 24% of excess over \$6,000.
Over \$8,000 but not over \$10,000---	\$1,460, plus 28% of excess over \$8,000.
Over \$10,000 but not over \$12,000.	\$2,020, plus 32% of excess over \$10,000.
Over \$12,000 but not over \$14,000.	\$2,660, plus 36% of excess over \$12,000.
Over \$14,000 but not over \$16,000.	\$3,380, plus 40% of excess over \$14,000.
Over \$16,000 but not over \$18,000.	\$4,180, plus 43% of excess over \$16,000.
Over \$18,000 but not over \$20,000.	\$5,040, plus 46% of excess over \$18,000.
Over \$20,000 but not over \$22,000.	\$5,960, plus 49% of excess over \$20,000.
Over \$22,000 but not over \$26,000.	\$6,940, plus 52% of excess over \$22,000.
Over \$26,000 but not over \$32,000.	\$9,020, plus 55% of excess over \$26,000.
Over \$32,000 but not over \$38,000.	\$12,320, plus 58% of excess over \$32,000.
Over \$38,000 but not over \$44,000.	\$15,800, plus 61% of excess over \$38,000.
Over \$44,000 but not over \$50,000.	\$19,460, plus 63% of excess over \$44,000.
Over \$50,000 but not over \$60,000.	\$23,240, plus 66% of excess over \$50,000.
Over \$60,000 but not over \$70,000.	\$29,840, plus 69% of excess over \$60,000.
Over \$70,000 but not over \$80,000.	\$36,740, plus 72% of excess over \$70,000.
Over \$80,000 but not over \$90,000.	\$43,940, plus 75% of excess over \$80,000.
Over \$90,000 but not over \$100,000.	\$51,440, plus 77% of excess over \$90,000.
Over \$100,000 but not over \$150,000.	\$59,140, plus 79% of excess over \$100,000.
Over \$150,000 but not over \$200,000.	\$98,640, plus 81% of excess over \$150,000.
Over \$200,000-----	\$139,140, plus 82% of excess over \$200,000."

1 SEC. 104. OPTIONAL TAX ON INDIVIDUALS WITH GROSS  
 2 INCOME FROM CERTAIN SOURCES OF \$3,000 OR  
 3 LESS.

4 (a) OPTIONAL TAX RATES.—Section 400 (relating to  
 5 optional tax) is amended to read as follows:

6 "SEC. 400. IMPOSITION OF TAX.

7 "In lieu of the tax imposed under sections 11 and 12,  
 8 an individual who makes his return on the cash basis may  
 9 elect, for each taxable year, to pay the tax shown in the  
 10 following table if his gross income for such taxable year is  
 11 \$3,000 or less and consists wholly of one or more of the  
 12 following: Salary, wages, compensation for personal services,  
 13 dividends, interest, (1) rent, annuities, or royalties or  
 14 annuities:

If the gross income is over—	But not over—	The tax shall be—		
		Single person (not head of a family)	Married person making separate return	(2)(1) Married person whose spouse does not make separate return or (1) Married person whose spouse has no gross income or (2) Married person making joint return or (3) Head of family
\$0	\$525	\$0	\$0	\$0
\$525	550		0	0
\$550	575		0	0
\$575	600		0	0
\$600	625	1	0	0
\$625	650	1	0	0
\$650	675	2	3	0
\$675	700	2	6	0
\$700	725	2	9	0
\$725	750	3	14	0

If the gross income is over—	Butt over—	The tax shall be—		
		Single person (not head of a family)	Married person making separate re- turn	(3) (1) Married person whose spouse does not make sep- arate return or (1) Married person whose spouse has no gross income or (2) Married person mak- ing joint re- turn or (3) Head of family
\$750.....	\$775	\$37	\$18	\$0
\$775.....	800	41	22	0
\$800.....	825	46	27	0
\$825.....	850	50	31	0
\$850.....	875	54	35	0
\$875.....	900	59	40	0
\$900.....	925	63	44	0
\$925.....	950	67	48	0
\$950.....	975	71	52	0
\$975.....	1,000	76	57	0
\$1,000.....	1,025	80	61	0
\$1,025.....	1,050	84	65	0
\$1,050.....	1,075	89	70	0
\$1,075.....	1,100	93	74	0
\$1,100.....	1,125	97	78	0
\$1,125.....	1,150	102	83	0
\$1,150.....	1,175	106	87	0
\$1,175.....	1,200	110	91	0
\$1,200.....	1,225	115	96	0
\$1,225.....	1,250	119	100	0
\$1,250.....	1,275	123	104	0
\$1,275.....	1,300	128	109	1
\$1,300.....	1,325	132	113	4
\$1,325.....	1,350	136	117	7
\$1,350.....	1,375	141	122	10
\$1,375.....	1,400	145	126	14
\$1,400.....	1,425	149	130	17
\$1,425.....	1,450	154	135	21
\$1,450.....	1,475	158	139	25
\$1,475.....	1,500	162	143	29
\$1,500.....	1,525	167	148	34
\$1,525.....	1,550	171	152	38
\$1,550.....	1,575	175	156	42
\$1,575.....	1,600	180	161	47
\$1,600.....	1,625	184	165	51
\$1,625.....	1,650	188	169	(4)56 55
\$1,650.....	1,675	193	174	60
\$1,675.....	1,700	197	178	64



"If the gross income is over—	But not over—	Tax shall be—		
		Single person (not head of a family)	Married person making separate re- turn	(5) (4) Married person whose spouse does not make sep- arate return or (1) Married person whose spouse has no gross income or (2) Married person mak- ing joint re- turn or (3) Head of family
\$1,700.....	\$1,725	\$201	\$182	\$68
\$1,725.....	1,750	206	187	73
\$1,750.....	1,775	210	191	77
\$1,775.....	1,800	214	195	81
\$1,800.....	1,825	218	199	85
\$1,825.....	1,850	223	204	90
\$1,850.....	1,875	227	208	94
\$1,875.....	1,900	231	212	98
\$1,900.....	1,925	236	217	103
\$1,925.....	1,950	240	221	107
\$1,950.....	1,975	244	225	111
\$1,975.....	2,000	249	230	116
\$2,000.....	2,025	253	234	120
\$2,025.....	2,050	257	238	124
\$2,050.....	2,075	262	243	129
\$2,075.....	2,100	266	247	133
\$2,100.....	2,125	270	251	137
\$2,125.....	2,150	275	256	142
\$2,150.....	2,175	279	260	146
\$2,175.....	2,200	283	264	150
\$2,200.....	2,225	288	269	155
\$2,225.....	2,250	292	273	159
\$2,250.....	2,275	296	277	163
\$2,275.....	2,300	301	282	168
\$2,300.....	2,325	305	286	172
\$2,325.....	2,350	309	290	176
\$2,350.....	2,375	314	295	181
\$2,375.....	2,400	318	299	185
\$2,400.....	2,425	322	303	189
\$2,425.....	2,450	327	308	194
\$2,450.....	2,475	331	312	198
\$2,475.....	2,500	335	316	202
\$2,500.....	2,525	340	321	207
\$2,525.....	2,550	344	325	211
\$2,550.....	2,575	348	329	215
\$2,575.....	2,600	353	334	220
\$2,600.....	2,625	357	338	224
\$2,625.....	2,650	361	342	228

" If the gross income is over—	But over—	The tax shall be—		
		Single person (not head of a family)	Married person making separate return	(5) (1) Married person whose spouse does not make separate return or (1) Married person whose spouse has no gross income or (2) Married person making joint return or (3) Head of family
\$2,650 -----	\$2, 675	\$366	\$347	\$233
\$2,675 -----	2, 700	371	351	237
\$2,700 -----	2, 725	376	355	241
\$2,725 -----	2, 750	381	359	245
\$2,750 -----	2, 775	386	364	250
\$2,775 -----	2, 800	391	369	254
\$2,800 -----	2, 825	396	374	258
\$2,825 -----	2, 850	401	379	263
\$2,850 -----	2, 875	406	384	267
\$2,875 -----	2, 900	411	389	271
\$2,900 -----	2, 925	416	394	276
\$2,925 -----	2, 950	421	399	280
\$2,950 -----	2, 975	426	404	284
\$2,975 -----	3, 000	431	409	289

1 In applying the above schedule to determine the tax of  
2 a taxpayer with one or more dependents there shall be  
3 subtracted from his gross income (6) ~~\$440~~ \$330 for each such  
4 dependent."

5 (b) RULES OR APPLICATION OF SECTION 400.—

6 Section 401 is amended to read as follows:

7 "SEC. 401. RULES OR APPLICATION OF SECTION 400.

8 "For the purposes of this supplement—

9 "(a) DEFINITIONS.—

10 "(1) 'Married person' means a married person

1 living with husband or wife on July 1 of the taxable  
2 year.

3 “(2) ‘Dependent’ means a person (other than  
4 husband or wife) dependent upon and receiving his  
5 chief support from the taxpayer on July 1 of the tax-  
6 able year if on such date such dependent person is  
7 under eighteen years of age, or incapable of self-  
8 support because mentally or physically defective, ex-  
9 cluding as a dependent, in the case of a head of a  
10 family, one who would be excluded under section 25  
11 (b) (2) (B). (7) *A payment to a wife which is in-  
12 cludible under section 22 (k) or section 171 in the gross  
13 income of such wife shall not be considered a payment by  
14 her husband for the support of a dependent.*

15 “(b) MARRIED AND NOT LIVING WITH HUSBAND  
16 OR WIFE.—An individual not a head of a family and not  
17 living with husband or wife on July 1 of the taxable year  
18 shall be treated as a single person.”

19 (c) TAXPAYERS INELIGIBLE.—Section 404 is amended  
20 to read as follows:

21 “SEC. 404. CERTAIN TAXPAYERS INELIGIBLE.

22 “This supplement shall not apply to a nonresident alien  
23 individual, to an estate or trust, to an individual filing a  
24 return for a period of less than twelve months or for any  
25 taxable year other than a calendar year, or to a married

1 individual married and living with husband or wife at any  
 2 time during the taxable year whose spouse files (8) his return  
 3 and computes (his tax without regard to this supplement."

4 **SEC. 105. TAX (CORPORATIONS.**

5 (a) **NORM. TAX.—**

6 (1) **DEFINITION OF NORMAL-TAX NET INCOME.—**

7 Section 13(a) (2) (relating to the definition of cor-  
 8 poration normal-tax net income) is amended to read as  
 9 follows:

10 " (2) **NORMAL-TAX NET INCOME.—**The term 'nor-  
 11 mal-tax net income' means the adjusted net income minus  
 12 the credit for income subject to the tax imposed by Sub-  
 13 chapter E of Chapter 2 provided in section 26 (e) and  
 14 minus the credit for dividends received provided in  
 15 section 26 (d)."

16 (2) **ALTERNATIVE RATE.—**Section 13 (b) (2)  
 17 (relating to alternative normal-tax rate) is amended to  
 18 read as follows:

19 " (2) **ALTERNATIVE TAX (CORPORATIONS WITH**  
 20 **NORMAL-TAX NET INCOME OVER \$25,000, BUT NOT**  
 21 **OVER \$50,000).—**A tax of \$4,250, plus 31 per centum  
 22 of the amount of the normal-tax net income in excess  
 23 of \$25,000."

24 (b) **SURTAX ON CORPORATIONS.—**Section 15 (relating  
 25 to surtax on corporations) is amended to read as follows:

## 1 "SEC. 15. SURTAX ON CORPORATIONS."

2 " (a) CORPORATION SURTAX NET INCOME.—For the  
 3 purposes of this chapter, the term 'corporation surtax net in-  
 4 come' means the net income minus the credit for income  
 5 subject to the tax imposed by Subchapter E of Chapter 2  
 6 provided in section 26 (e) and minus the credit for dividends  
 7 received provided in section 26 (b) (computed by limiting  
 8 such credit to 85 per centum of the net income reduced by  
 9 the credit for income subject to the tax imposed by Sub-  
 10 chapter E of Chapter 2 in lieu of 8 per centum of the  
 11 adjusted net income so reduced) (10), and minus, in the case  
 12 of a public utility, the credit for dividends paid on its pre-  
 13 ferred stock provided in section 26 (h). For the purposes of  
 14 this subsection dividends received on the preferred stock of a  
 15 public utility shall be disregarded in computing the credit for  
 16 dividends received provided in section 26 (b).

17 " (b) IMPOSITION OF TAX.—The tax shall be levied, col-  
 18 lected, and paid for each taxable year upon the corporation  
 19 surtax net income of every corporation (11) except a West-  
 20 ern Hemisphere Trade Corporation as defined in section 109,  
 21 and except a corporation subject to the tax imposed by sec-  
 22 tion 231 (a), Supplement G, or Supplement Q), a surtax as  
 23 follows:

24 " (1) SURTAX NET INCOMES NOT OVER \$25,000.—

1 Upon corporation surtax net incomes not over \$25,000,  
2 10 per centum of the amount thereof.

3 "(2) SURTAX NET INCOMES OVER \$25,000 BUT  
4 NOT OVER \$50,000.—Upon corporation surtax net in-  
5 comes over \$25,000, but not over \$50,000, \$2,500, plus  
6 (12)~~32~~ 22 per centum of the amount of the corporation  
7 surtax net income over \$25,000.

8 "(3) SURTAX NET INCOMES OVER \$50,000.—  
9 Upon corporation surtax net incomes over \$50,000,  
10 (13)~~21~~ 16 per centum of the corporation surtax net  
11 income."

12 (c) NONDEDUCTIBILITY OF EXCESS-PROFITS TAX.—

13 (1) Section 23 (c) (1) (B) (relating to taxes  
14 not deductible in computing net income) is amended  
15 to read as follows:

16 "(B) war-profits and excess-profits taxes im-  
17 posed by Title II of the Revenue Act of 1917, Title  
18 III of the Revenue Act of 1918, Title III of the  
19 Revenue Act of 1921, section 216 of the National  
20 Industrial Recovery Act, section 702 of the Revenue  
21 Act of 1934, or Subchapter E of Chapter 2, or by  
22 any such provisions as amended or supplemented;"

23 (2) Section 23 (c) (2) (relating to special rules  
24 for deduction of excess-profits tax) is repealed.

25 (d) CREDIT FOR ADJUSTED EXCESS-PROFITS NET

1 INCOME.—Section 26 (e) and (f) (cross-references) are  
2 amended to read as follows:

3 “(e) INCOME SUBJECT TO EXCESS-PROFITS TAX.—  
4 In the case of any corporation subject to the tax imposed by  
5 Subchapter E of Chapter 2, an amount equal to its adjusted  
6 excess-profits net income (as defined in section 710 (b)).  
7 (14) ~~In the case of any corporation computing such tax under~~  
8 ~~section 721 (relating to abnormalities in income in the taxable~~  
9 ~~period), section 722 (relating to constructive average base~~  
10 ~~period net income), or section 726 (relating to corporations~~  
11 ~~completing contracts under the Merchant Marine Act of~~  
12 ~~1936), the credit shall be the amount of which the tax im-~~  
13 ~~posed by such subchapter is 90 per centum. In the case of~~  
14 ~~any corporation computing such tax under section 721 (relat-~~  
15 ~~ing to abnormalities in income in the taxable period), section~~  
16 ~~726 (relating to corporations completing contracts under the~~  
17 ~~Merchant Marine Act of 1936), section 731 (relating to~~  
18 ~~corporations engaged in mining strategic minerals), or section~~  
19 ~~736 (b), the credit shall be the amount of which the tax im-~~  
20 ~~posed by such subchapter is 90 per centum. For the purpose~~  
21 ~~of the preceding sentence the term ‘tax imposed by Subchapter~~  
22 ~~E of Chapter 2’ means the tax computed without regard~~  
23 ~~to the limitation provided in section 710 (a) (1) (B) (the 80~~  
24 ~~per centum limitation), without regard to the credit provided~~

1 *in section 729 (c) and (d) for foreign taxes paid, and with-*  
 2 *out regard to the adjustments provided in section 734. This*  
 3 *subsection shall not apply to any corporation exempt from*  
 4 *such tax under section 725 or section 727.*

5       “(f) **DIVIDENDS PAID CREDIT.**—For corporation divi-  
 6 dends paid credit, see section 27.

7       “(g) **CONSENT DIVIDENDS CREDIT.**—For corporation  
 8 consent dividends credit, see section 28.”

9       **(e) TECHNICAL AMENDMENTS MADE NECESSARY BY**  
 10 **CHANGE IN BASE FOR CORPORATE TAX.—**

11       **(1) CREDIT FOR DIVIDENDS RECEIVED.**—The first  
 12 sentence of section 26 (b) is amended to read as follows:  
 13 “85 per centum of the amount received as dividends  
 14 from a domestic corporation which is subject to taxa-  
 15 tion under this chapter, but not in excess of 85 per  
 16 centum of the adjusted net income reduced by the credit  
 17 for income subject to the tax imposed by Subchapter E  
 18 of Chapter 2 provided in subsection (e).”

19       **(2) COMPUTATION OF SECTION 102 NET IN-**  
 20 **COME.**—Section 102 (d) (1) (relating to the definition  
 21 of section 102 net income) is amended by inserting at  
 22 the end thereof the following new subparagraph:

23       **“(D) Income Subject to Excess-Profits Tax.—**

24       The credit for income subject to the tax imposed by



1 Subchapter E of Chapter 2 provided in section  
2 26 (e).”

3 (3) COMPUTATION OF NET OPERATING LOSS DE-  
4 Duction.—Section 122 (relating to net operating loss)  
5 is amended as follows:

6 (A) Subsection (a) is amended to read as  
7 follows:

8 “(a) DEFINITION OF NET OPERATING LOSS.—As used  
9 in this section, the term ‘net operating loss’ means the excess  
10 of the deductions allowed by this chapter over the gross in-  
11 come, with the exceptions, additions, and limitations provided  
12 in subsection (d).”

13 (15)(B) Subsection (b) (2) is amended to read as  
14 follows:

15 “(2) The amount of the net operating loss, if any,  
16 for the second preceding taxable year reduced by the  
17 excess, if any, of the net income (computed with the  
18 exceptions, additions, and limitations provided in sub-  
19 section (d) (1), (2), (3), (4), and (6)) for the first  
20 preceding taxable year over the net operating loss for the  
21 third preceding taxable year.”

22 (16)(C) (B) Subsection (c) is amended by strik-  
23 ing out the parenthesis at the end thereof and insert-  
24 ing in lieu thereof the following: “and without the  
25 credit provided in section 26 (e) ”.

1           **(17)(D) (C)** Subsection (d) is amended by striking  
 2           out "exceptions and limitations" and inserting in lieu  
 3           thereof "exceptions, additions, and limitations" and  
 4           by inserting at the end thereof the following new  
 5           paragraph:

6           “(6) There shall be allowed as a deduction the  
 7           amount of tax imposed by Subchapter E of Chapter 2  
 8           paid or accrued within the taxable year, subject to the  
 9           following rules—

10           “(A) No reduction in such tax shall be made  
 11           by reason of the credit for income, war-profits, or  
 12           excess-profits taxes paid to any foreign country or  
 13           possession of the United States;

14           “(B) Such tax shall be computed without re-  
 15           gard to the adjustments provided in section 734; and

16           “(C) Such tax, in the case of a consolidated  
 17           return for excess-profits tax purposes, shall be allo-  
 18           cated to the members of the affiliated group under  
 19           regulations prescribed by the Commissioner, with  
 20           the approval of the Secretary.”

21 **SEC. 106. TAX ON NONRESIDENT ALIEN INDIVIDUALS.**

22           **(a) TAX IN GENERAL.**—Section 211 (a) (1) (A)  
 23           (relating to tax on nonresident alien individuals not engaged  
 24           in trade or business within the United States) is amended  
 25           by striking out “27½ per centum” and inserting in lieu

1 thereof "~~(18)~~<sup>37</sup> 30 per centum". The amendments made by  
 2 this subsection shall apply with respect to amounts received  
 3 after the ninth day after the date of the enactment of this Act  
 4 regardless of whether the taxable year of the recipient begins  
 5 before January 1, 1942, or after December 31, 1941.

6 (b) AGGREGATE RECEIPTS MORE THAN ~~(19)~~<sup>\$22,900</sup>  
 7 \$15,400.—Section 211 (a) (2) is amended to read as  
 8 follows:

9 " (2) AGGREGATE MORE THAN ~~(20)~~<sup>\$22,900</sup>  
 10 \$15,400.—The tax imposed by paragraph (1) shall not  
 11 apply to any individual if the aggregate amount received  
 12 during the taxable year from the sources therein specified  
 13 is more than ~~(21)~~<sup>\$22,900</sup> \$15,400."

14 (c) TAX WHERE GROSS INCOME OF MORE THAN  
 15 ~~(22)~~<sup>\$22,900</sup> \$15,400.—Section 211 (c) (relating to tax on  
 16 certain nonresident alien individuals) is amended by striking  
 17 out "\$23,000" wherever occurring therein and inserting in  
 18 lieu thereof "~~(23)~~<sup>\$22,900</sup> \$15,400"; and by striking out  
 19 "27½ per centum" and inserting in lieu thereof "~~(24)~~<sup>37</sup> 30  
 20 per centum". In the application of the amendments made by  
 21 this subsection, the rate shall be 27½ per centum with re-  
 22 spect to the period ending with the ninth day after the date  
 23 of the enactment of this Act and shall be ~~(25)~~<sup>37</sup> 30 per  
 24 centum with respect to the period after such day.

1 **SEC. 107. TAX ON FOREIGN CORPORATIONS.**

2 Section 231 (a) (relating to tax on nonresident foreign  
3 corporations) is amended by striking out "27½ per centum"  
4 and inserting in lieu thereof "~~(26)~~<sup>37</sup> 30 per centum". The  
5 amendments made by this section shall apply with respect to  
6 amounts received after the ninth day after the date of the  
7 enactment of this Act regardless of whether the taxable year  
8 of the recipient begins before January 1, 1942, or after  
9 December 31, 1941.

10 **SEC. 108. WITHHOLDING OF TAX AT SOURCE.**

11 (a) Sections 143 (a) and (b) and 144 are amended  
12 by striking out "27½ per centum" wherever occurring therein  
13 and inserting in lieu thereof "~~(27)~~<sup>37</sup> 30 per centum".

14 ~~(28)~~<sup>(b)</sup> **LIMITATION ON RATE OF WITHHOLDING IN CERTAIN CASES.**—Section 143 (b) is amended by inserting  
15 before the period at the end of the first sentence the following:  
16 "Provided further, That the deduction and withholding  
17 in the case of interest on bonds, mortgages, or deeds of trust  
18 or other similar obligations of a corporation, within the pro-  
19 visions of subsection (a) (1) of this section were it not for  
20 the fact that the maturity date of such obligations has been  
21 extended on or after January 1, 1934, and the liability  
22 assumed by the debtor exceeds 27½ per centum of the interest,  
23 shall not exceed the rate of 27½ per centum per annum".  
24

1 ~~(29)~~(b) (c) Subsection (a) shall apply only with respect to  
 2 the period beginning with the tenth day after the date of  
 3 the enactment of this Act.

4 **SEC. 109. TREATY OBLIGATIONS.**

5 No amendment made by this title shall apply in any  
 6 case where its application would be contrary to any treaty  
 7 obligation of the United States.

8 ~~(30)~~**SEC. 110. TRANSFERS OF LIFE INSURANCE CONTRACTS,**  
 9 **ETC.**

10 (a) *PROCEEDS EXEMPT TO TRANSFEREE.*—Section 22

11 (b) (2) (relating to annuities, etc.) is amended by inserting  
 12 a period and the following new sentence before the semicolon  
 13 at the end thereof: “The preceding sentence shall not apply  
 14 in the case of such a transfer if such contract or interest  
 15 therein has a basis for determining gain or loss in the hands  
 16 of a transferee determined in whole or in part by reference  
 17 to such basis of such contract or interest therein in the hands  
 18 of the transferor”.

19 (b) *TAXABLE YEARS TO WHICH AMENDMENT AP-*  
 20 *PLICABLE.*—The amendment made by this section shall be  
 21 applicable with respect to taxable years beginning after  
 22 December 31, 1940.

1 **(31) SEC. 110. ANNUITY TRUSTS.**

2 **SEC. 111. INCOME RECEIVED FROM ESTATES, ETC., UNDER**  
 3 **GIFTS, BEQUESTS, ETC.**

4 **(a) GIFT OF INCOME FROM PROPERTY NOT EXCLUDED**  
 5 **FROM GROSS INCOME.**—Section 22 (b) (3) (relating to  
 6 exclusion of gifts, etc., from gross income) is amended to  
 7 read as follows:

8 **“(3) GIFTS, BEQUESTS, DEVISES, AND INHERIT-**  
 9 **ANCES.**—The value of property acquired by gift, be-  
 10 quest, devise, or inheritance. There shall not be ex-  
 11 cluded from gross income under this paragraph, the  
 12 income from such property, or, in case the gift, bequest,  
 13 devise, or inheritance is of income from property, the  
 14 amount of such income. For the purposes of this para-  
 15 graph, if, under the terms of the gift, bequest, devise, or  
 16 inheritance, payment, crediting, or distribution **(32)** of the  
 17 amount thereof is to be made at intervals, to the extent  
 18 that such amount thereof is to be made at intervals, to  
 19 the extent that it is paid or credited or to be distributed  
 20 out of income from property, it shall be considered  
 21 a gift, bequest, devise, or inheritance of income from  
 22 property;”

23 **(33)(b) INCOME OF ESTATE OR TRUST.**—Section 163

1 ~~(relating to net income of estates or trusts)~~ is amended by  
2 inserting at the end thereof the following new subsection:

3       ~~“(d)~~ For the purposes of subsections ~~(b)~~ and ~~(c)~~, in  
4 cases where the amount paid or credited or to be distributed  
5 can be paid, credited, or distributed out of other than income  
6 or out of income other than income of the estate or trust for  
7 its taxable year, to the extent that the amount paid or  
8 credited or to be distributed to a legatee or beneficiary does  
9 not exceed the income allocable to such legatee or beneficiary  
10 it shall be considered as income of the estate or trust which  
11 is paid or credited or to be distributed.”

12       ~~(e)~~ **PAYMENTS OR CREDITS TO WHICH AMENDMENTS**  
13 **APPLICABLE.**—The amendments made by this section shall  
14 be applicable only to income paid or accrued or to be dis-  
15 tributed or amounts paid or credited or to be distributed  
16 after December 31, 1941.

17       **(b) DEDUCTION OF INCOME TO BE DISTRIBUTED**  
18 **CURRENTLY.**—Section 162 (b) (relating to deduction of  
19 income to be distributed currently) is amended to read as  
20 follows:

21       “(b) There shall be allowed as an additional deduc-  
22 tion in computing the net income of the estate or trust the  
23 amount of the income of the estate or trust for its taxable year  
24 which is to be distributed currently by the fiduciary to the  
25 legatees, heirs, or beneficiaries, but the amount so allowed

1 as a deduction shall be included in computing the net in-  
 2 come of the legatees, heirs, or beneficiaries whether distrib-  
 3 uted to them or not. As used in this subsection, 'income  
 4 which is to be distributed currently' includes income for the  
 5 taxable year of the estate or trust which, within the taxable  
 6 year, becomes payable to the legatee, heir, or beneficiary.  
 7 Any amount allowed as a deduction under this paragraph  
 8 shall not be allowed as a deduction under subsection (c) of  
 9 this section in the same or any succeeding taxable year;"

10 (c) **TRUST INCOME INCLUDED IN INCOME OF BENE-**  
 11 **FICIARY, ETC.**—Section 162 (relating to net income of  
 12 estates or trusts) is amended by striking out the period at  
 13 the end of subsection (c) and inserting in lieu thereof a semi-  
 14 colon and the following new subsection:

15 "(d) **RULES FOR APPLICATION OF SUBSECTIONS**  
 16 **(b) AND (c).**—For the purposes of subsections (b) and  
 17 (c)—

18 "(1) **AMOUNTS DISTRIBUTABLE OUT OF INCOME**  
 19 **OR CORPUS.**—In cases where the amount paid, credited,  
 20 or to be distributed can be paid, credited, or distributed  
 21 out of other than income, the amount paid, credited, or  
 22 to be distributed (except under a gift, bequest, devise, or  
 23 inheritance not to be paid, credited, or distributed at  
 24 intervals) during the taxable year of the estate or trust  
 25 shall be considered as income of the estate or trust which



1 is paid, credited, or to be distributed if the aggregate  
2 of such amounts so paid, credited, or to be distributed  
3 does not exceed the distributable income of the estate  
4 or trust for its taxable year. If the aggregate of  
5 such amounts so paid, credited, or to be distributed dur-  
6 ing the taxable year of the estate or trust in such cases  
7 exceeds the distributable income of the estate or trust for  
8 its taxable year, the amount so paid, credited, or to be  
9 distributed to any legatee, heir, or beneficiary shall be  
10 considered income of the estate or trust for its taxable  
11 year which is paid, credited, or to be distributed in an  
12 amount which bears the same ratio to the amount of such  
13 distributable income as the amount so paid, credited, or  
14 to be distributed to the legatee, heir, or beneficiary bears to  
15 the aggregate of such amounts so paid, credited, or to be  
16 distributed to legatees, heirs, and beneficiaries for the  
17 taxable year of the estate or trust. For the purposes of  
18 this paragraph 'distributable income' means either (A)  
19 the net income of the estate or trust computed with the  
20 deductions allowed under subsections (b) and (c) in  
21 cases to which this paragraph does not apply, or (B)  
22 the income of the estate or trust minus the deductions  
23 provided in subsections (b) and (c) in cases to which  
24 this paragraph does not apply, whichever is the greater.  
25 In computing such distributable income the deductions

1 under subsections (b) and (c) shall be determined with-  
2 out the application of paragraph (2).

3       “(2) **AMOUNTS DISTRIBUTABLE OUT OF INCOME**  
4 **OF PRIOR PERIOD.**—In cases, other than cases described  
5 in paragraph (1), if on a date more than 65 days  
6 after the beginning of the taxable year of the estate or  
7 trust, income of the estate or trust for any period becomes  
8 payable, the amount of such income shall be considered  
9 income of the estate or trust for its taxable year which  
10 is paid, credited, or to be distributed to the extent of  
11 the income of the estate or trust for such period, or if  
12 such period is a period of more than 12 months, the last  
13 12 months thereof.

14       “(3) **DISTRIBUTIONS IN FIRST 65 DAYS OF TAX-**  
15 **ABLE YEAR.**—

16       “(A) **General Rule.**—If within the first 65  
17 days of any taxable year of the estate or trust, income  
18 of the estate or trust, for a period beginning before the  
19 beginning of the taxable year, becomes payable, such  
20 income, to the extent of the income of the estate or  
21 trust for the part of such period not falling within the  
22 taxable year or, if such part is longer than 12 months,  
23 the last 12 months thereof, shall be considered, paid,  
24 credited, or to be distributed on the last day of the  
25 preceding taxable year. This subparagraph shall

1 not apply with respect to any amount with respect  
2 to which subparagraph (A) applies.

3 “(B) Payable Out of Income or Corpus.—If  
4 within the first 65 days of any taxable year of the  
5 estate or trust, an amount which can be paid at inter-  
6 vals out of other than income becomes payable, there  
7 shall be considered as paid, credited, or to be dis-  
8 tributed on the last day of the preceding taxable year  
9 the part of such amount which bears the same ratio  
10 to such amount as the part of the interval not falling  
11 within the taxable year bears to the period of the  
12 interval. If the part of the interval not falling  
13 within the taxable year is a period of more than  
14 12 months, the interval shall be considered to begin  
15 on the date 12 months before the end of the taxable  
16 year.

17 (d) TECHNICAL AMENDMENT.—Section 164 (relating  
18 to different taxable years of estate or trust and beneficiary)  
19 is amended by striking out “beneficiary” and inserting in  
20 lieu thereof “legatee, heir, or beneficiary”.

21 (e) TAXABLE YEARS TO WHICH AMENDMENTS AP-  
22 PPLICABLE.—The amendments made by this section shall be  
23 applicable only with respect to taxable years beginning after  
24 December 31, 1941; except that in the case of income paid,  
25 credited or to be distributed or amounts paid, credited or to

1 *be distributed by an estate or trust the amendments made by*  
 2 *this section shall be applicable only with respect to such income*  
 3 *and such amounts paid, credited or to be distributed on or*  
 4 *after the beginning of the first taxable year of the estate or*  
 5 *trust, as the case may be, beginning after December 31, 1941.*

6 **(34) SEC. 111. AMENDMENTS TO CONFORM INTERNAL REV-**  
 7 **ENUE CODE WITH THE PUBLIC DEBT ACT OF**  
 8 **1941.**

9 **(a) POSTAL SAVINGS CERTIFICATES.—**Section 22 **(b)**  
 10 **(4)** ~~(relating to the exclusion of tax free interest from gross~~  
 11 ~~income)~~ is amended by inserting after the words “other  
 12 than postal savings certificates of deposits” the following:  
 13 “to the extent they represent deposits made before March 1,  
 14 1941”.

15 **(b) UNITED STATES OBLIGATIONS.—**Section 25 **(a)**  
 16 **(1)** is amended to read as follows:

17 **“(1) INTEREST ON UNITED STATES OBLIGA-**  
 18 **TIONS.—**The amount received as interest upon obliga-  
 19 tions of the United States, if such interest is included  
 20 in gross income under section 22, and if, under the Act  
 21 authorizing the issue of such obligations, as amended  
 22 and supplemented, such interest is exempt from normal  
 23 tax.”

24 **(c)** The amendments made by this section shall be  
 25 effective as of March 1, 1941.

1 **SEC. 112. EXEMPTION OF INTEREST ON PUBLIC OBLIGATIONS.**

2 (a) Section 22 (b) (4) (relating to exclusion from gross  
3 income of tax-free interest) is amended to read as follows:

4 “(4) **TAX-FREE INTEREST.**—To the extent provided  
5 in section 116 (b), interest upon obligations issued by  
6 (A) the United States, or any agency or instrumentality  
7 thereof; or (B) a State, Territory, or possession of the  
8 United States, or any political subdivision thereof, or  
9 the District of Columbia, or any agency or instru-  
10 mentality of any one or more of the foregoing. Every  
11 person owning any of the obligations enumerated in  
12 clause (A) or (B) shall, in the return required by this  
13 chapter, submit a statement showing the number and  
14 amount of such obligations owned by him and the income  
15 received therefrom, in such form and with such informa-  
16 tion as the Commissioner may require.”

17 (b) (1) Sections 25 (a) (1) and (2) (relating to  
18 credits of individual for normal tax) are amended to read as  
19 follows:

20 “(1) **INTEREST ON UNITED STATES OBLIGA-**  
21 **TIONS.**—The amount received as interest upon an obli-  
22 gation of the United States, if such interest is included  
23 in gross income under section 22 and if, under the Act  
24 authorizing the issue of such obligation, as amended and  
25 supplemented, such interest is exempt from normal tax.

1           “(2) **INTEREST ON OBLIGATIONS OF AGENCIES OR**  
2           **INSTRUMENTALITIES OF THE UNITED STATES.**—The  
3           amount received as interest upon an obligation of an  
4           agency or instrumentality of the United States, if such  
5           interest is included in gross income under section 22  
6           and if, under the Act authorizing the issue of such  
7           obligation, as amended and supplemented, such interest  
8           is exempt from normal tax.”

9           (2) Section 26 (a) (relating to credit of corporations for  
10          interest on obligations of the United States and its instru-  
11          mentalities) is amended to read as follows:

12          “(a) **INTEREST ON OBLIGATIONS OF THE UNITED**  
13          **STATES.**—The amount received as interest upon obligations  
14          of the United States, or of any agency or instrumentality  
15          thereof, which is allowed to an individual as a credit for  
16          purposes of normal tax by section 25 (a) (1) or (2).”

17          (3) The amendments made by this subsection shall be  
18          effective as of March 1, 1941.

19          (c) Section 116 (relating to exclusions from gross in-  
20          come) is amended by inserting after subsection (a) a new  
21          subsection to read as follows:

22          “(b) **TAX-FREE INTEREST.**—

23          “(1) Interest upon obligations issued (A) before  
24          March 1, 1941, by the United States, or any agency or  
25          instrumentality thereof, to the extent it is wholly exempt

1 from the taxes imposed by this chapter under the Acts  
2 authorizing the issuance of such obligations, as amended  
3 and supplemented, including interest upon postal  
4 savings certificates of deposit made prior to March 1,  
5 1941; or (B), by a State, Territory, or possession of  
6 the United States or any political subdivision thereof,  
7 or the District of Columbia, or any agency or instru-  
8 mentality of any one or more of the foregoing: Provided,  
9 however, That this subsection shall not be considered to  
10 exempt from taxation interest includible in gross income  
11 for any taxable year beginning before January 1, 1942,  
12 under the Internal Revenue Code, or any prior revenue  
13 act.

14 "(2) For the purposes of this subsection:

15 "(A) An obligation shall be considered to have  
16 been issued after a particular date, if any part of  
17 the payment therefor is received by the obligor after  
18 such date, or if delivery thereof is made by the  
19 obligor after such date.

20 "(B) Obligations which merely replace lost,  
21 mutilated, defaced, or destroyed obligations, or obli-  
22 gations of larger or smaller denominations, and  
23 obligations in registered form or with coupons which  
24 merely replace obligations with coupons or in regis-

(1) *in registered form, shall be treated as if they were the obli-*  
 (2) *gations replaced.*

(3) **(35) SEC. 113. EXCLUSION OF PENSIONS, ANNUITIES, ETC., FOR**  
 (4) **DISABILITY RESULTING FROM MILITARY SERVICE.**

(5) *Section 22 (b) (5) (relating to exclusions from gross*  
 (6) *income of compensation for injuries or sickness) is amended*  
 (7) *by inserting before the semicolon at the end thereof the follow-*  
 (8) *ing: "and amounts received as a pension, annuity, or similar*  
 (9) *allowance for personal injuries or sickness resulting from*  
 (10) *active service in the armed forces of any country"*

(11) **(36) SEC. 112. EXTENSION OF PERIOD DURING WHICH IN-**  
 (12) **COME FROM DISCHARGE OF INDEBTEDNESS**  
 (13) **EXCLUDED**

(14) *Section 22 (b) (9) (relating to exclusion from gross*  
 (15) *income of corporate income derived from discharge of in-*  
 (16) *debtedness) is amended by striking out "beginning after*  
 (17) *December 31, 1942" and inserting in lieu thereof "beginning*  
 (18) *after December 31, 1945"*

(19) **SEC. 114. EXCLUSION OF INCOME FROM DISCHARGE OF IN-**  
 (20) **DEBTEDNESS.**

(21) **(a) GENERAL RULE.**—*Section 22 (b) (9) (relating*  
 (22) *to exclusion from gross income of corporate income derived*  
 (23) *from discharge of indebtedness) is amended to read as follows:*  
 (24) **"(9) INCOME FROM DISCHARGE OF INDEBTED-**



1        *NESS.—In the case of a corporation, the amount of any*  
2        *income of the taxpayer attributable to the discharge,*  
3        *within the taxable year, of any indebtedness of the tax-*  
4        *payer or for which the taxpayer is liable evidenced by a*  
5        *security (as hereinafter in this paragraph defined) if*  
6        *the taxpayer makes and files at the time of filing the*  
7        *return, in such manner as the Commissioner, with the*  
8        *approval of the Secretary, by regulations prescribes, its*  
9        *consent to the regulations prescribed under section 113*  
10       *(b) (3) then in effect. In such case the amount of any*  
11       *income of the taxpayer attributable to any unamortized*  
12       *premium (computed as of the first day of the taxable year*  
13       *in which such discharge occurred) with respect to such*  
14       *indebtedness shall not be included in gross income and*  
15       *the amount of the deduction attributable to any unamor-*  
16       *tized discount (computed as of the first day of the taxable*  
17       *year in which such discharge occurred) with respect*  
18       *to such indebtedness shall not be allowed as a deduction.*  
19       *As used in this paragraph the term 'security' means any*  
20       *bond, debenture, note, or certificate, or other evidence of*  
21       *indebtedness, issued by any corporation. This para-*  
22       *graph shall not apply to any discharge occurring before*  
23       *the date of enactment of the Revenue Act of 1939, or*  
24       *in a taxable year beginning after December 31, 1945."*  
25       *(b) RAILROAD CORPORATIONS—DISCHARGE OF IN-*

1 *DEBTEDNESS IN CERTAIN JUDICIAL PROCEEDINGS.—*  
2 *Section 22 (b) (relating to exclusions from gross income)*  
3 *is amended by inserting at the end thereof the following new*  
4 *paragraph:*

5       “(10) *INCOME FROM DISCHARGE OF INDEBTED-*  
6 *NESS OF A RAILROAD CORPORATION.—The amount of*  
7 *any income attributable to the discharge, within the tax-*  
8 *able year, of any indebtedness of a railroad corporation,*  
9 *as defined in section 77m of the National Bankruptcy*  
10 *Act, as amended, to the extent that such income is*  
11 *deemed to have been realized by reason of a modifica-*  
12 *tion in or cancellation in whole or in part of such*  
13 *indebtedness pursuant to an order of a court in a re-*  
14 *ceivership proceeding or in a proceeding under section*  
15 *77 of the National Bankruptcy Act, as amended. In*  
16 *such case the amount of any income of the taxpayer*  
17 *attributable to any unamortized premium (computed as*  
18 *of the first day of the taxable year in which such dis-*  
19 *charge occurred) with respect to such indebtedness shall*  
20 *not be included in gross income and the amount of the*  
21 *deduction attributable to any unamortized discount*  
22 *(computed as of the first day of the taxable year in which*  
23 *such discharge occurred) with respect to such indebted-*  
24 *ness shall not be allowed as a deduction. Paragraph*  
25 *(9) shall not apply with respect to any discharge of*

1 *indebtedness to which this paragraph applies. This*  
 2 *paragraph shall not apply to any discharge occurring*  
 3 *in a taxable year beginning after December 31, 1945."*

4 **(c) TAXABLE YEARS TO WHICH AMENDMENT**  
 5 **APPLICABLE.**—*The amendment made by subsection (b)*  
 6 *shall be applicable to taxable years beginning after December*  
 7 *31, 1939.*

8 **SEC. (37)~~113~~ 115. IMPROVEMENTS BY LESSEE.**

9 **(a) EXCLUSION OF INCOME FROM LESSEE'S IMPROVE-**  
 10 **MENTS.**—Section 22 (b) (relating to exclusions from gross  
 11 income) is amended by adding at the end thereof the fol-  
 12 lowing new paragraph:

13 **"(38)~~(10)~~ (11) IMPROVEMENTS BY LESSEE ON**  
 14 **LESSOR'S PROPERTY.**—Income, other than rent, de-  
 15 rived by a lessor of real property upon the termination  
 16 of a lease, representing the value of such property at-  
 17 tributable to buildings erected or other improvements  
 18 made by the lessee."

19 **(b) BASIS OF REAL PROPERTY UPON WHICH IM-**  
 20 **PROVEMENTS HAVE BEEN MADE BY LESSEE.**—Section 113  
 21 (relating to basis for determining gain or loss) is amended  
 22 by adding at the end thereof the following new subsection:

23 **"(c) PROPERTY ON WHICH LESSEE HAS MADE IM-**  
 24 **PROVEMENTS.**—Neither the basis nor the adjusted basis of  
 25 any portion of real property shall, in the case of the lessor

1 of such property, be increased or diminished on account of  
 2 income derived by the lessor in respect of such property and  
 3 excludible from gross income under section 22 (b) ~~(39)-(10)-~~  
 4 ~~(11)~~. If an amount representing any part of the value of  
 5 real property attributable to buildings erected or other im-  
 6 provements made by a lessee in respect of such property  
 7 was included in gross income of the lessor for any taxable  
 8 year beginning before January 1, 1942, the basis of each por-  
 9 tion of such property shall be properly adjusted for the  
 10 amount so included in gross income."

11 SEC. ~~(40)~~ ~~116~~ RECOVERY OF BAD DEBTS, PRIOR TAXES,  
 12 AND DELINQUENCY AMOUNTS.

13 (a) EXCLUSION FROM INCOME.—Section 22 (b) (re-  
 14 lating to exclusions from gross income) is amended by adding  
 15 at the end thereof the following new paragraph:

16 "~~(41)-(11)~~ (12) RECOVERY OF BAD DEBTS, PRIOR  
 17 TAXES, AND DELINQUENCY AMOUNTS.—Income at-  
 18 tributable to the recovery during the taxable year of a  
 19 bad debt, prior tax, or delinquency amount, to the ex-  
 20 tent of the amount of the recovery exclusion with  
 21 respect to such debt, tax, or amount. For the pur-  
 22 poses of this paragraph:

23 "(A) Definition of Bad Debt.—The term 'bad  
 24 debt' means a debt on account of worthlessness or

1 partial worthlessness of which a deduction was al-  
2 lowed for a prior taxable year.

3 “(B) Definition of Prior Tax.—The term ‘prior  
4 tax’ means a tax on account of which a deduction or  
5 credit was allowed for a prior taxable year.

6 “(C) Definition of Delinquency Amount.—The  
7 term ‘delinquency amount’ means an amount paid or  
8 accrued on account of which a deduction or credit  
9 was allowed for a prior taxable year and which is  
10 attributable to failure to file return with respect to  
11 a tax, or pay a tax, within the time required by the  
12 law under which the tax is imposed, or to failure to  
13 file return with respect to a tax or pay a tax.

14 “(D) Definition of Recovery Exclusion.—The  
15 term ‘recovery exclusion’, with respect to a bad debt,  
16 prior tax, or delinquency amount, means the amount,  
17 determined in accordance with regulations prescribed  
18 by the Commissioner with the approval of the Sec-  
19 retary, of the deductions or credits allowed, on ac-  
20 count of such bad debt, prior tax, or delinquency  
21 amount, which did not result in a reduction of  
22 the taxpayer’s tax under this chapter (not including  
23 the tax under section 102) or corresponding provi-  
24 sions of prior revenue laws, reduced by the amount

1           excludible in previous taxable years with respect to  
2           such debt, tax, or amount under this paragraph.

3           “(E) Special Rules in Case of Section 102 Tax  
4           and Personal Holding Company Tax.—In the ap-  
5           plication of subparagraphs (A), (B), (C), and  
6           (D) in determining the tax under section 102  
7           or Subchapter A of Chapter 2, a recovery exclusion  
8           allowed for the purposes of Chapter 1 shall be al-  
9           lowed for the purpose of such section or subchapter  
10          whether or not the bad debt, prior tax, or delin-  
11          quency amount resulted in a reduction of the section  
12          102 tax or Subchapter A tax for the prior taxable  
13          year, and in the case of a bad debt, prior tax, or  
14          delinquency amount not allowable as a deduction  
15          or credit for the prior taxable year under Chapter 1  
16          (except section 102) but allowable for the same  
17          taxable year under such section or subchapter a  
18          recovery exclusion shall be allowable for the pur-  
19          poses of such section or subchapter if such bad debt,  
20          prior tax, or delinquency amount did not result  
21          in a reduction of the tax under such section 102 or  
22          such Subchapter A. As used in this subparagraph  
23          references to Chapter 1, section 102, and Subchap-  
24          ter A in the case of taxable years not subject to the

of the Internal Revenue Code, shall be held to be made to  
 2 corresponding provisions of prior revenue Acts."

3 **SECTION 201 (b) EFFECTIVE DATE OF AMENDMENTS UNDER THE**  
 4 **INTERNAL REVENUE CODE.**—The amendments made by this  
 5 section, shall be applicable with respect to taxable years  
 6 beginning after December 31, 1938.

7 **SECTION 202 (c) UNDER PRIOR REVENUE ACTS.**—For the purposes  
 8 of the Revenue Act of 1938 or any prior revenue Act, the  
 9 amendments made to the Internal Revenue Code by subsec-  
 10 tion (a) of this section shall be effective as if they were a  
 11 part of each such revenue Act on the date of its enactment.

12 **SECTION (42) 417. ADDITIONAL ALLOWANCE FOR MILITARY**  
 13 **AND NAVAL PERSONNEL.**

14 Section 22 (b) (relating to exclusions from gross in-  
 15 come) is amended by adding at the end thereof the following  
 16 new paragraph:

17 **(43)“(12) ADDITIONAL ALLOWANCE FOR MILITARY**  
 18 **AND NAVAL PERSONNEL.**—So much of the amount re-  
 19 ceived during the present war by an individual in the  
 20 military or naval forces of the United States as salary  
 21 or compensation in any form from the United States for  
 22 active service in such forces, as does not exceed \$250  
 23 in the case of a single person and \$300 in the case of a  
 24 married person.”

25 **“(13) ADDITIONAL ALLOWANCE FOR MILITARY**

1     **AND NAVAL PERSONNEL.**—So much of the amount re-  
 2     ceived, before the termination of the present war as  
 3     proclaimed by the President, by personnel below the  
 4     grade of commissioned officer in the military or naval  
 5     forces of the United States as salary or compensation  
 6     in any form from the United States for active service  
 7     in such forces during such war, as does not exceed \$250  
 8     in the case of a single person and \$300 in the case of a  
 9     married person or head of a family. The determination,  
 10    for the purposes of this paragraph, of the taxpayer's  
 11    status in the armed forces and his family status shall be  
 12    made as of the end of the taxable year."     87

13   **SEC. (44)118. REPORT REQUIREMENT IN CONNECTION**  
 14                                   **WITH INVENTORY METHODS.**

15    (a) Section 22 (d) (2) (B) (relating to report require-  
 16    ment in connection with using certain inventory methods) is  
 17    amended to read as follows:

18                   “(B) Only if the taxpayer establishes to the  
 19                   satisfaction of the Commissioner that the taxpayer  
 20                   has used no procedure other than that specified in  
 21                   subparagraphs (B) and (C) of paragraph (1) in  
 22                   inventorying such goods to ascertain the income,  
 23                   profit, or loss of the first taxable year for which the  
 24                   method described in paragraph (1) is to be used, for  
 25                   the purpose of a report or statement covering such



1 taxable year (i) to shareholders, partners, or other  
2 proprietors, or to beneficiaries, or (ii) for credit  
3 purposes.”

4 (b) Section 22 (d) (5) (B) (relating to requirement  
5 to continue reports in connection with certain inventory  
6 methods) is amended to read as follows:

7 “(B) The Commissioner determines that the  
8 taxpayer has used for any such subsequent taxable  
9 year some procedure other than that specified in  
10 subparagraph (B) of paragraph (1) in inventorying  
11 the goods specified in the application to ascertain the  
12 income, profit, or loss of such subsequent taxable  
13 year for the purpose of a report or statement cover-  
14 ing such taxable year (i) to shareholders, part-  
15 ners, or other proprietors, or beneficiaries, or (ii)  
16 for credit purposes; and requires a change to a  
17 method different from that prescribed in paragraph  
18 (1) beginning with such subsequent taxable year or  
19 any taxable year thereafter.”

20 (c) **TAXABLE YEARS TO WHICH AMENDMENTS AP-**  
21 **PLICABLE.**—Amendments made by this section shall be  
22 applicable to taxable years beginning after December  
23 31, (45)1940 1938.

24 (46)SEC. 119. **LAST-IN FIRST-OUT INVENTORY.**

25 Section 22 (d) (relating to the use of the elective

1 *inventory method) is amended by adding at the end thereof*  
2 *the following new paragraph:*

3           “(6) *INVOLUNTARY LIQUIDATION AND REPLACE-*  
4 *MENT OF INVENTORY.—*

5           “(A) *Adjustment of Net Income and Resulting*  
6 *Tax.—If, for any taxable year beginning after*  
7 *December 31, 1941, and prior to the termination of*  
8 *the present war as proclaimed by the President, the*  
9 *closing inventory of a taxpayer inventorying goods*  
10 *under the method provided in this subsection reflects*  
11 *a decrease from the opening inventory of such goods*  
12 *for such year, and if, at the time of the filing of the*  
13 *taxpayer's income tax return for such year, the tax-*  
14 *payer elects to have the provisions of this paragraph*  
15 *apply and so notifies the Commissioner, and if, at*  
16 *the time of such election, it is established to the*  
17 *satisfaction of the Commissioner, in accordance with*  
18 *such regulations as the Commissioner may prescribe*  
19 *with the approval of the Secretary, that such decrease*  
20 *is attributable to the involuntary liquidation of such*  
21 *inventory as defined in subparagraph (B), and if*  
22 *the closing inventory of a subsequent taxable year,*  
23 *ending not more than three years after the termina-*  
24 *tion of the present war as proclaimed by the Presi-*  
25 *dent, reflects a replacement, in whole or in part, of*

1 the goods so previously liquidated, the net income  
 2 of the taxpayer otherwise determined for the year of  
 3 such involuntary liquidation shall be adjusted as  
 4 follows:

5 "(i) Increased by an amount equal to the  
 6 excess, if any, of the aggregate cost of such goods  
 7 reflected in the opening inventory of the year of  
 8 involuntary liquidation over the aggregate re-  
 9 placement cost; or

10 "(ii) Decreased by an amount equal to the  
 11 excess, if any, of the aggregate replacement cost  
 12 of such goods over the aggregate cost thereof re-  
 13 flected in the opening inventory of the year of  
 14 the involuntary liquidation.

15 The taxes imposed by this chapter and by subchapter  
 16 of chapter 2 for the year of such liquidation and  
 17 for all taxable years intervening between such year  
 18 and the year of replacement shall be redetermined,  
 19 giving effect to such adjustments. Any increase in  
 20 such taxes resulting from such adjustments shall be  
 21 assessed and collected as a deficiency, and any over-  
 22 payment so resulting shall be credited or refunded  
 23 to the taxpayer without interest.

24 "(B) Definition of Involuntary Liquidation.—

25 The term 'involuntary liquidation', as used in this

1 paragraph, means the sale or other disposition of  
 2 goods inventoried under the method described in this  
 3 subsection, either voluntary or involuntary, coupled  
 4 with a failure on the part of the taxpayer to pur-  
 5 chase, manufacture, or otherwise produce and have  
 6 on hand at the close of the taxable year in which such  
 7 sale or other disposition occurred such goods as  
 8 would, if on hand at the close of such taxable year,  
 9 be subject to the application of the provisions of this  
 10 subsection, if such failure on the part of the taxpayer  
 11 is due, directly and exclusively, (i) to enemy capture  
 12 or control of sources of limited foreign supply; (ii)  
 13 to shipping or other transportation shortages; (iii) to  
 14 material shortages resulting from priorities or alloca-  
 15 tions; (iv) to labor shortages; or (v) to other pre-  
 16 vailing war conditions beyond the control of the  
 17 taxpayer. 71

18 "(C) Replacements.—If, in the case of any tax-  
 19 payer subject to the provisions of subparagraph  
 20 (A), the closing inventory of the taxpayer for a  
 21 taxable year, subsequent to the year of involuntary  
 22 liquidation but prior to the complete replacement of  
 23 the goods so liquidated, reflects an increase over the  
 24 opening inventory of such goods for the taxable year,  
 25 the goods reflecting such increase shall be considered,

1            *in the order of their acquisition, as having been ac-*  
2            *quired in replacement of the goods most recently*  
3            *liquidated (whether or not in a year of involuntary*  
4            *liquidation) and not previously replaced, and if the*  
5            *liquidation was an involuntary liquidation shall be*  
6            *included in the inventory of the taxpayer for the*  
7            *year of replacement at the inventory cost basis of*  
8            *the goods replaced.*

9            *“(D) Election Irrevocable.—An election by the*  
10           *taxpayer to have the provisions of this paragraph*  
11           *apply, once made, shall be irrevocable and shall be*  
12           *binding for the year of the involuntary liquidation*  
13           *and for all determinations for subsequent taxable*  
14           *years insofar as they are related to the year of*  
15           *liquidation.*

16           *“(E) Adjustment in Certain Cases.—If the ad-*  
17           *justments specified in subparagraph (A) are, with*  
18           *respect to any taxable year, prevented, on the date*  
19           *of the filing of the income tax return of the taxpayer*  
20           *for the year of the replacement, or within three*  
21           *years from such date, by any provision or rule of*  
22           *law (other than this subparagraph and other than*  
23           *section 3761, relating to compromises), such adjust-*  
24           *ments shall nevertheless be made if, in respect of the*  
25           *taxable year for which the adjustment is sought,*

1 a notice of deficiency is mailed or a claim for refund  
2 is filed, as the case may be, within three years after  
3 the date of the filing of the income tax return for the  
4 year of replacement. If, at the time of the mailing  
5 of such notice of deficiency or the filing of such claim  
6 for refund, the adjustment is so prevented, then the  
7 amount of the adjustment authorized by this para-  
8 graph shall be limited to the increase or decrease of  
9 the tax imposed by this chapter and subchapter E of  
10 chapter 2 previously determined for such taxable year  
11 which results solely from the effect of subparagraph  
12 (A), and such amount shall be assessed and collected,  
13 or credited or refunded, in the same manner as if it  
14 were a deficiency or an overpayment, as the case may  
15 be, for such taxable year and as if, on the date of the  
16 filing of the income tax return for the year of the re-  
17 placement, three years remain before the expiration  
18 of the periods of limitation upon assessment or the fil-  
19 ing of claim for refund for the taxable year. The  
20 tax previously determined shall be ascertained in ac-  
21 cordance with section 734 (d). The amount to be  
22 assessed and collected under this paragraph in the  
23 same manner as if it were a deficiency or to be  
24 credited or refunded in the same manner as if it were  
25 an overpayment shall not be diminished by any credit



1 includible in the gross income of such husband. This sub-  
2 section shall not apply to that part of any such periodic  
3 payment which the terms of the decree or written instrument  
4 fix, in terms of an amount of money or a portion of the  
5 payment, as a sum which is payable for the support of minor  
6 children of such husband. In case any such periodic pay-  
7 ment is less than the amount specified in the decree or  
8 written instrument, for the purpose of applying the preceding  
9 sentence, such payment, to the extent of such sum payable  
10 for such support, shall be considered a payment for such  
11 support. (48) *Installment payments discharging a part of an*  
12 *obligation the principal sum of which is, in terms of money*  
13 *or property, specified in the decree or instrument, shall not*  
14 *be considered periodic payments for the purposes of this sub-*  
15 *section; an installment payment shall be considered a periodic*  
16 *payment for the purposes of this subsection if the amount*  
17 *thereof is 10 per centum or more of such principal sum or if*  
18 *such principal sum is required, by the terms of the decree*  
19 *or instrument, to be paid within a period ending not more*  
20 *than 10 years from the date of such decree or instrument.*  
21 *Installment payments discharging a part of an obligation*  
22 *the principal sum of which is, in terms of money or property.*  
23 *specified in the decree or instrument shall not be considered*  
24 *periodic payments for the purposes of this subsection; except*



1 *that an installment payment shall be considered a periodic*  
2 *payment for the purposes of this subsection if such principal*  
3 *sum, by the terms of the decree or instrument, may be or is to*  
4 *be paid within a period ending more than 10 years from the*  
5 *date of such decree or instrument, but only to the extent*  
6 *that such installment payment for the taxable year of the wife*  
7 *(or if more than one such installment payment for such taxable*  
8 *year is received during such taxable year, the aggregate of*  
9 *such installment payments) does not exceed 10 per centum of*  
10 *such principal sum. For the purposes of the preceding sen-*  
11 *tence, the portion of a payment of the principal sum which*  
12 *is allocable to a period after the taxable year of the wife in*  
13 *which it is received shall be considered an installment payment*  
14 *for the taxable year in which it is received. (In cases where*  
15 *such periodic payments are attributable to property of an*  
16 *estate or property held in trust, see section 171 (b).)*”

17 **(b) DEDUCTION FOR AMOUNTS PAID.—Section 23**  
18 **(relating to deductions from gross income) is amended by**  
19 **inserting at the end thereof the following new subsection:**

20 **“(11) ALIMONY, ETC., PAYMENTS.—In the case of a**  
21 **husband described in section 22 (k), amounts includible un-**  
22 **der section 22 (k) in the gross income of his wife, payment**  
23 **of which is made within the husband’s taxable year. If the**  
24 **amount of any such payment is, under section 22 (k) or sec-**  
25 **tion 171, stated to be not includible in such husband’s gross**

1 income, no deduction shall be allowed with respect to such  
2 payment under this subsection."

3 (c) INCOME FROM TRUSTS.—Supplement E of Chap-  
4 ter 1 is amended by inserting at the end thereof the following  
5 new section:

6 "SEC. 171. INCOME OF AN ESTATE OR TRUST IN CASE OF  
7 DIVORCE, ETC.

8 "(a) INCLUSION IN GROSS INCOME.—There shall be in-  
9 cluded in the gross income of a wife who is divorced or legally  
10 separated under a decree of divorce or of separate main-  
11 tenance the amount of the income of any trust which such  
12 wife is entitled to receive and which, except for the provisions  
13 of this section, would be includible in the gross income of  
14 her husband, and such amount shall not, despite section 166,  
15 section 167, or any other provision of this chapter, be in-  
16 cludible in the gross income of such husband. This subsec-  
17 tion shall not apply to that part of any such income of the  
18 trust which the terms of the decree or trust instrument fix,  
19 in terms of an amount of money or a portion of such income,  
20 as a sum which is payable for the support of minor children  
21 of such husband. In case such income is less than the  
22 amount specified in the decree or instrument, for the purpose  
23 of applying the preceding sentence, such income, to the  
24 extent of such sum payable for such support, shall be con-  
25 sidered a payment for such support.

1       “(b) WIFE CONSIDERED A BENEFICIARY.—For the  
 2 purposes of computing the net income of the estate or trust  
 3 and the net income of the wife described in section 22 (k)  
 4 or subsection (a) of this section, such wife shall be consid-  
 5 ered as the beneficiary specified in this supplement. A  
 6 periodic payment under section 22 (k) to any part of which  
 7 the provisions of this supplement are applicable shall be  
 8 included in the gross income of the beneficiary in the tax-  
 9 able year in which under this supplement such part is  
 10 required to be included.”

11       “(d) ANNUITIES, ETC.—Section 22 (b) (2) (relating  
 12 to payments under annuity, etc., contracts) is amended by  
 13 (49) inserting before the semicolon at the end thereof a period  
 14 and the following: “This paragraph *striking out the heading*  
 15 *and inserting in lieu thereof*

16               “(2) ANNUITIES, ETC.—

17               “(A) In General.—”

18 *and by inserting before the semicolon at the end of such*  
 19 *subparagraph (A) a period and the following: “This sub-*  
 20 *paragraph and paragraph (1) shall not apply with respect*  
 21 *to so much of a payment under a life insurance, endowment,*  
 22 *or annuity contract, or any interest therein, as, under section*  
 23 *22 (k), is includible in gross income”.*

24       “(e) CREDIT FOR DEPENDENTS.—

25               (1) CREDIT FOR NORMAL TAX AND SURTAX.—

1 Section 25 (b) (2) (A) (relating to credit for depend-  
 2 ents) is amended by inserting at the end thereof the  
 3 following: "A payment to a wife which is includible  
 4 under section 22 (k) or section 171 in the gross income  
 5 of such wife shall not be considered a payment by her  
 6 husband for the support of any dependent."

7 (2) CREDIT FOR OPTIONAL TAX UNDER SUPPLE-  
 8 MENT T.—~~(50)Section 401 (a) (2)~~ (relating to the  
 9 definition of "dependent" for the purposes of Supplement  
 10 T) is amended by inserting at the end thereof the follow-  
 11 ing: "A payment to a wife which is includible under  
 12 section 22 (k) or section 171 in the gross income of  
 13 such wife shall not be considered a payment by her hus-  
 14 band for the support of any dependent." *For credit for*  
 15 *dependents in case of optional tax, see amendment made*  
 16 *by section 104 of this Act.*

17 (f) DEFINITIONS.—Section 3797 (a) (relating to defi-  
 18 nitions) is amended by inserting at the end thereof the  
 19 following new paragraph:

20 "(17) HUSBAND AND WIFE.—As used in sections  
 21 22 (k), 23 (u), 25 (b) (2) (A), ~~(51)171~~, and *and*  
 22 *171, and the last sentence of section 401 (a) (2),*  
 23 *if the husband and wife therein referred to are*  
 24 *divorced, wherever appropriate to the meaning of such*  
 25 *sections, the term 'wife' shall be read 'former wife' and*

1 the term 'husband' shall be read 'former husband'; and,  
 2 if the payments described in such sections are made by  
 3 or on behalf of the wife or former wife to the husband  
 4 or former husband instead of vice versa, wherever appro-  
 5 priate to the meaning of such sections, the term 'hus-  
 6 band' shall be read 'wife' and the term 'wife' shall  
 7 be read 'husband'."

8 (g) TAXABLE YEARS TO WHICH AMENDMENTS AP-  
 9 PPLICABLE.—The amendments made by this section shall be  
 10 applicable only with respect to taxable years beginning after  
 11 December 31, 1941; except that if the first taxable year  
 12 beginning after December 31, 1941, of the husband does not  
 13 begin on the same day as the first taxable year beginning  
 14 after December 31, 1941, of the wife, such amendments shall  
 15 first become applicable in the case of the husband on the first  
 16 day of the wife's first taxable year beginning after December  
 17 31, 1941, regardless of the taxable year of the husband in  
 18 which such day falls.

19 SEC. (52) 118 121. NON-TRADE OR NON-BUSINESS DEDUC-  
 20 TIONS.

21 (a) DEDUCTION FOR EXPENSES.—Section 23 (a) (re-  
 22 lating to deduction for expenses) is amended to read as  
 23 follows:

24 " (a) EXPENSES.—

25 " (1) TRADE OR BUSINESS EXPENSES.—

1           “(A) In General.—All the ordinary and neces-  
2 sary expenses paid or incurred during the taxable  
3 year in carrying on any trade or business, including  
4 a reasonable allowance for salaries or other com-  
5 pensation for personal services actually rendered;  
6 traveling expenses (including the entire amount ex-  
7 pended for meals and lodging) while away from  
8 home in the pursuit of a trade or business; and  
9 rentals or other payments required to be made as a  
10 condition to the continued use or possession, for pur-  
11 poses of the trade or business, of property to which  
12 the taxpayer has not taken or is not taking title or  
13 in which he has no equity.

14           “(B) Corporate Charitable Contributions.—No  
15 deduction shall be allowable under subparagraph  
16 (A) to a corporation for any contribution or gift  
17 which would be allowable as a deduction under sub-  
18 section (q) were it not for the 5 per centum limita-  
19 tion therein contained and for the requirement therein  
20 that payment must be made within the taxable year.

21           “(C) Expenditures for Advertising and Good-  
22 Will.—If a corporation has, for the purpose of com-  
23 puting its excess profits credit under Chapter 2E,  
24 claimed the benefits of the election provided in sec-  
25 tion 733, no deduction shall be allowable under sub-

1 paragraph (A) to such corporation for expenditures  
 2 for advertising or the promotion of good will which,  
 3 under the rules and regulations prescribed under sec-  
 4 tion 733 (a), may be regarded as capital invest-  
 5 ments.

6 **“(2) NON-TRADE OR NON-BUSINESS EXPENSES.—**

7 In the case of an individual, all the ordinary and neces-  
 8 sary expenses paid or incurred during the taxable year  
 9 for the production or collection of income, or for the  
 10 management, conservation, or maintenance of property  
 11 held for the production of income.”

12 **(b) ALLOCABLE TO EXEMPT INCOME.—Section 24 (a)**

13 **(53)** ~~(relating to items not deductible)~~ is amended by insert-  
 14 ing before the period at the end thereof *(5) (relating to*  
 15 *items not deductible)* is amended by inserting after “this  
 16 chapter” the following: “, or any amount otherwise allow-  
 17 able under section 23 (a) (2) which is allocable to interest  
 18 (whether or not any amount of such interest is received or  
 19 accrued) wholly exempt from the taxes imposed by this  
 20 chapter”.

21 **(54)(e) FEES AND ADMINISTRATION EXPENSES.—Section**

22 **162** ~~(relating to net income of estates and trusts)~~ is amended  
 23 by inserting at the end thereof the following new subsection:  
 24 **“(e)** Amounts allowable under section 812 (b) as  
 25 a deduction in computing the net estate of a decedent shall

1 not be allowed as a deduction under section 23 ~~(a) (2)~~ in  
 2 computing the net income of the estate unless there is filed,  
 3 within the time and in the manner and form prescribed by  
 4 the Commissioner, a statement that the items have not been  
 5 claimed or allowed as deductions under section 812 ~~(b)~~ and  
 6 a waiver of the right to have such items allowed at any time  
 7 as deductions under section 812 ~~(b)~~."

8 **(55)(d) (c) DEPRECIATION DEDUCTION.**—The first sen-  
 9 tence of section 23 (1) (relating to deduction for depreci-  
 10 ation) is amended to read as follows: "A reasonable  
 11 allowance for the exhaustion, wear and tear (including a  
 12 reasonable allowance for obsolescence) —

13 " (1) of property used in the trade or business, or

14 " (2) of property held for the production of income."

15 **(56)(e) (d) TAXABLE YEARS TO WHICH AMENDMENTS**  
 16 **APPLICABLE.**—The amendments made by this section shall  
 17 be applicable to taxable years beginning after December  
 18 31, 1988.

19 **(57)(f) (e) RETROACTIVE AMENDMENT TO PRIOR REVENUE**  
 20 **ACTS.**—For the purposes of the Revenue Act of 1938  
 21 or any prior revenue Act the amendments made to the  
 22 Internal Revenue Code by this section shall be effective as if  
 23 they were a part of such revenue Act on the date of its  
 24 enactment.



1 **(58)SEC. 122. DEDUCTION ALLOWABLE TO PURCHASERS FOR**  
2 **STATE AND LOCAL RETAIL SALES TAXES.**

3 *Section 23 (c) (relating to deduction for taxes) is*  
4 *amended by inserting at the end thereof the following new*  
5 *paragraph:*

6 *“(3) RETAIL SALES TAX.—In the case of a tax*  
7 *imposed by any State, Territory, District, or possession*  
8 *of the United States, or any political subdivision thereof,*  
9 *upon persons engaged in selling tangible personal prop-*  
10 *erty at retail, which is measured by the gross sales price*  
11 *or the gross receipts from the sale or which is a stated*  
12 *sum per unit of such property sold, or upon persons*  
13 *engaged in furnishing services at retail, which is measured*  
14 *by the gross receipts for furnishing such services, if the*  
15 *amount of such tax is separately stated, then to the extent*  
16 *that the amount so stated is paid by the purchaser (other-*  
17 *wise than in connection with the purchaser's trade or*  
18 *business) to such person such amount shall be allowed*  
19 *as a deduction in computing the net income of such pur-*  
20 *chaser as if such amount constituted a tax imposed upon*  
21 *and paid by such purchaser.”*

22 **(59)SEC. 123. DEDUCTION FOR STOCK AND BOND LOSSES ON**  
23 **SECURITIES IN AFFILIATED CORPORATIONS.**

24 **(a) STOCK LOSSES.—**

25 **(1) IN GENERAL.—Section 23 (g) (relating to capi-**

1 *tal losses) is amended by inserting at the end thereof the*  
 2 *following:*

3 *“(4) STOCK IN AFFILIATED CORPORATION.—For*  
 4 *the purposes of paragraph (2) stock in a corporation*  
 5 *affiliated with the taxpayer shall not be deemed a capital*  
 6 *asset. For the purposes of this paragraph a corporation*  
 7 *shall be deemed to be affiliated with the taxpayer only if:*

8 *“(A) at least 95 per centum of each class of*  
 9 *its stock is owned directly by the taxpayer; and*

10 *“(B) more than 90 per centum of the aggregate*  
 11 *of its gross incomes for all taxable years has been*  
 12 *from sources other than royalties, rents, dividends,*  
 13 *interest, annuities, or gains from sales or exchanges*  
 14 *of stocks and securities; and*

15 *“(C) the taxpayer is a domestic corporation.”*

16 *(2) TECHNICAL AMENDMENT.—Section 23 (g) (3)*  
 17 *is amended by inserting before “subsection” the following*  
 18 *“paragraph (2) of”.*

19 *(b) BOND, ETC., LOSSES.—For losses on bonds, etc.,*  
 20 *of affiliated corporations, see amendment made to section 23*  
 21 *(k) by section 124 of this Act.*

22 **SEC. (60)119 124. DEDUCTION FOR BAD DEBTS, ETC.**

23 *(a) GENERAL RULE.—Section 23 (k) (relating to bad*  
 24 *debts and securities becoming worthless) is amended to read*  
 25 *as follows:*

## 1. " (k) BAD DEBTS.—

2 " (1) GENERAL RULE.—Debts which become worth-  
3 less within the taxable year; or (in the discretion of the  
4 Commissioner, a reasonable addition to a reserve for bad  
5 debts) ; and when satisfied that a debt is recoverable only  
6 in part, the Commissioner may allow such debt, in an  
7 amount not in excess of the part which becomes worth-  
8 less within the taxable year, as a deduction. This para-  
9 graph shall not apply in the case of a taxpayer, other  
10 than a bank, as defined in section 104, with respect to  
11 a debt evidenced by a security as defined in paragraph  
12 (3) of this subsection. This paragraph shall not apply  
13 in the case of a taxpayer, other than a corporation, with  
14 respect to a non-business debt, as defined in paragraph  
15 (4) of this subsection.

16 " (2) SECURITIES BECOMING WORTHLESS.—If any  
17 securities (as defined in paragraph (3) of this subsec-  
18 tion) become worthless within the taxable year and are  
19 capital assets, the loss resulting therefrom shall, in the  
20 case of a taxpayer other than a bank, as defined in sec-  
21 tion 104, for the purposes of this chapter, be considered  
22 as a loss from the sale or exchange, on the last day of  
23 such taxable year, of capital assets.

24 " (3) DEFINITION OF SECURITIES.—As used in  
25 (61) paragraphs (1), (2), and (4) of this subsection

1 the term 'securities' means bonds, debentures, notes, or  
 2 certificates, or other evidences of indebtedness, issued  
 3 by any corporation (including those issued by a govern-  
 4 ment or political subdivision thereof), with interest  
 5 coupons or in registered form.

6 " (4) NON-BUSINESS DEBTS.—In the case of a tax-  
 7 payer, other than a corporation, if a non-business debt  
 8 becomes worthless within the taxable year, the loss  
 9 resulting therefrom shall be considered a loss from the  
 10 sale or exchange, during the taxable year, of a capital  
 11 asset held for not more than (62) 6 months. The  
 12 term 'non-business debt' means a debt other than a debt  
 13 evidenced by a security as defined in paragraph (3)  
 14 and other than a debt the loss from the worthlessness  
 15 of which is incurred in the taxpayer's trade or (63) busi-  
 16 ness." *business.*

17 (64) " (5) SECURITIES OF AFFILIATED CORPORA-  
 18 TIONS.—*Bonds, debentures, notes or certificates, or other*  
 19 *evidences of indebtedness issued with interest coupons or*  
 20 *in registered form by any corporation affiliated with the*  
 21 *taxpayer shall not be deemed capital assets for the pur-*  
 22 *poses of paragraph (2) and paragraph (1) shall apply*  
 23 *with respect to such debt except that no such deduction*  
 24 *shall be allowed under such paragraph with respect to*  
 25 *any such debt which is recoverable only in part. For*

1        *the purposes of this paragraph a corporation shall be*  
 2        *deemed to be affiliated with the taxpayer only if:*

3                *“(A) at least 95 per centum of each class of its*  
 4                *stock is owned directly by the taxpayer; and*

5                *“(B) more than 90 per centum of the aggregate*  
 6                *of its gross incomes for all taxable years has been*  
 7                *from sources other than royalties, rents, dividends,*  
 8                *interest or annuities or gains from sales or exchanges*  
 9                *of stock and securities; and*

10               *“(C) the taxpayer is a domestic corporation.”*

11        **(b) INSURANCE COMPANIES.**—Section 204 (c) (6)  
 12 (relating to deductions allowed insurance companies other  
 13 than life or mutual) is amended to read as follows:

14               **“(6) Debts in the nature of agency balances and**  
 15               **bills receivable which become worthless within the tax-**  
 16               **able year;”.**

17        **(c) INTEREST DISALLOWED.**—Section 3771 (relating  
 18 to interest allowable on claims for refund or credit) is  
 19 amended by adding at the end thereof the following:

20               **“(d) CLAIMS BASED ON DEDUCTION FOR BAD DEBTS**  
 21 **OR WORTHLESS SECURITIES.**—If credit **(65)** or refund of any  
 22 part of an overpayment would be barred under section  
 23 322 (b), except for paragraph (5) thereof, or under section  
 24 322 (d), except for **(66)** paragraph clause (2) thereof, no  
 25 interest shall be allowed or paid with respect to such part

1 of the overpayment for any period beginning after the ex-  
 2 piration of the period of limitation provided in section  
 3 322 (b) (1) for filing claim for credit or refund of such part  
 4 of the overpayment and ending ~~(67)~~ before the end of the  
 5 ~~sixth month after~~ *at the expiration of six months after the date*  
 6 *on which the claim was filed or, in case no claim was filed and*  
 7 *the overpayment was found by the Board, ending at the time*  
 8 *the petition was filed with the Board."*

9 (d) **EFFECTIVE DATE OF AMENDMENTS.**—The amend-  
 10 ments made by this section adding the last sentence of sec-  
 11 tion 23 (k) (1) and adding section 23 (k) (4) shall be  
 12 effective only with respect to taxable years beginning after  
 13 December 31, ~~(68)~~1941 1942; ~~(69)~~*the amendment inserting*  
 14 *section 23 (k) (5) and amendments related thereto shall be*  
 15 *applicable only with respect to taxable years beginning after*  
 16 *December 31, 1941; and the other amendments made by*  
 17 *this section shall be effective with respect to taxable years*  
 18 *beginning after December 31, 1938.*

19 (e) **CROSS REFERENCE.**—For extended period of limi-  
 20 tation by reason of debts becoming worthless, see section  
 21 ~~(70)~~159 171.

22 ~~(71)~~**SEC. 125. CORPORATE CONTRIBUTIONS TO UNITED STATES,**  
 23 **ETC., OR FOR CHARITABLE USE OUTSIDE UNITED**  
 24 **STATES DEDUCTIBLE.**

25 *The first sentence of section 23 (q) (relating to allow-*

1 *ance of corporate charitable contributions) is amended to*  
2 *read as follows: "In the case of a corporation, contributions*  
3 *or gifts payment of which is made within the taxable year to*  
4 *or for the use of:*

5 *"(1) The United States, any State, Territory, or*  
6 *any political subdivision thereof or the District of*  
7 *Columbia, or any possession of the United States, for*  
8 *exclusively public purposes; or*

9 *"(2) A corporation, trust, or community chest,*  
10 *fund, or foundation, created or organized in the United*  
11 *States or in any possession thereof or under the law of*  
12 *the United States, or of any State or Territory, or of*  
13 *the District of Columbia, or of any possession of the*  
14 *United States, organized and operated exclusively for*  
15 *religious, charitable, scientific, literary, or educational*  
16 *purposes or for the prevention of cruelty to children, no*  
17 *part of the net earnings of which inures to the benefit*  
18 *of any private shareholder or individual, and no sub-*  
19 *stantial part of the activities of which is carrying on*  
20 *propaganda, or otherwise attempting, to influence legis-*  
21 *lation;*

22 *to an amount which does not exceed 5 per centum of the*  
23 *taxpayer's net income as computed without the benefits of*  
24 *this subsection."*

1 SEC. (72) 120 126. AMORTIZABLE BOND PREMIUM.

2 (a) DEDUCTION FOR AMORTIZABLE BOND PRE-  
3 MIUM.—Section 23 (relating to deductions from gross in-  
4 come) is amended by inserting at the end thereof the fol-  
5 lowing:

6 “(v) BOND PREMIUM DEDUCTION.—In the case of a  
7 bondholder, the deduction for amortizable bond premium  
8 provided in section 125.”

9 (b) GENERAL RULE, ELECTION, AND DEFINITIONS.—  
10 The Internal Revenue Code is amended by inserting after  
11 section 124 the following new section:

12 “SEC. 125. AMORTIZABLE BOND PREMIUM.

13 “(a) GENERAL RULE.—In the case of any bond, as  
14 defined in subsection (d), the following rules shall apply to  
15 the amortizable bond premium (determined under subsection  
16 (b)) on the bond for any taxable year beginning after  
17 December 31, 1941:

18 “(1) INTEREST WHOLLY OR PARTIALLY TAX-  
19 ABLE.—In the case of a bond (other than a bond the  
20 interest on which is excludible from gross income), the  
21 amount of the amortizable bond premium for the taxable  
22 year shall be allowed as a deduction.

23 “(2) INTEREST WHOLLY TAX-EXEMPT.—In the  
24 case of any bond the interest on which is excludible from



1 gross income, no deduction shall be allowed for the  
2 amortizable bond premium for the taxable year.

3 " (3) ADJUSTMENT OF CREDIT IN CASE OF IN-  
4 TEREST PARTIALLY TAX-EXEMPT.—In the case of any  
5 bond the interest on which is allowable as a credit  
6 against net income, the credit provided in section 25  
7 (a) (1) or (2), or section 26 (a), as the case may be,  
8 shall be reduced by the amount of the amortizable bond  
9 premium for the taxable year.

10 " (For adjustment to basis on account of amortizable bond  
11 premium, see section 113 (b) (1) (H)).

12 " (b) AMORTIZABLE BOND PREMIUM.—

13 " (1) AMOUNT OF BOND PREMIUM.—For the pur-  
14 poses of paragraph (2), the amount of bond premium,  
15 in the case of the holder of any bond, shall be determined  
16 with reference to the amount of the basis (for deter-  
17 mining loss on sale or exchange) of such bond, and  
18 with reference to the amount payable on maturity or  
19 on earlier call date, with adjustments proper to reflect  
20 unamortized bond premium with respect to the bond,  
21 for the period prior to the date as of which subsection  
22 (a) becomes applicable with respect to the taxpayer  
23 with respect to such bond.

24 " (2) AMOUNT AMORTIZABLE.—The amortizable

1 bond premium of the taxable year shall be the amount  
2 of the bond premium attributable to such year.

3 **(3) METHOD OF DETERMINATION.**—The deter-  
4 minations required under paragraphs (1) and (2) shall  
5 be made—

6 **(A)** in accordance with the method of amor-  
7 tizing bond premium regularly employed by the  
8 holder of the bond, if such method is reasonable;

9 **(B)** in all other cases, in accordance with  
10 regulations prescribing reasonable methods of amor-  
11 tizing bond premium, prescribed by the Commis-  
12 sioner with the approval of the Secretary.

13 **(c) ELECTION ON TAXABLE AND PARTIALLY TAX-**  
14 **ABLE BONDS.**—

15 **(1) ELIGIBILITY TO ELECT AND BONDS WITH RE-**  
16 **SPECT TO WHICH ELECTION PERMITTED.**—This section  
17 shall apply with respect to the following classes of tax-  
18 payers with respect to the following classes of bonds  
19 only if the taxpayer has elected to have this section  
20 apply:

21 **(A) Partially Tax-Exempt.**—In the case of a  
22 taxpayer other than a corporation, bonds with re-  
23 spect to the interest on which the credit provided  
24 in section 25 (a) (1) or (2) is allowable; and

1. (B) Wholly Taxable.—In the case of any tax-  
 2. payer, bonds the interest on which is not excludible  
 3. from gross income but with respect to which the  
 4. credit provided in section 25 (a) (1) or (2), or  
 5. section 26 (a), as the case may be, is not allowable.  
 6. (2) MANNER AND EFFECT OF ELECTION.—The  
 7. election authorized under this subsection shall be made  
 8. in accordance with such regulations as the Commissioner  
 9. with the approval of the Secretary shall prescribe. If  
 10. such election is made with respect to any bond (de-  
 11. scribed in paragraph (1)) of the taxpayer, it shall also  
 12. apply to all such bonds held by the taxpayer at the begin-  
 13. ning of the first taxable year to which the election ap-  
 14. plies and to all such bonds thereafter acquired by him  
 15. and shall be binding for all subsequent taxable years  
 16. with respect to all such bonds of the taxpayer, unless,  
 17. upon application by the taxpayer, the Commissioner  
 18. permits him, subject to such conditions as the Commis-  
 19. sioner deems necessary, to revoke such election. The  
 20. election authorized under this subsection in the case of  
 21. a member of a partnership shall be exercisable with  
 22. respect to bonds of the partnership only by the partner-  
 23. ship. In the case of bonds held by a common trust  
 24. fund, as defined in section 169, or by a foreign personal  
 25. holding company, as defined in section 331, the elec-

1 tion authorized under this subsection shall be exercis-  
 2 able with respect to such bonds only by the common  
 3 trust fund or foreign personal holding company.

4 “(d) DEFINITION OF BOND.—As used in this section,  
 5 the term ‘bond’ means any bond, debenture, note, or cer-  
 6 tificate or other evidence of indebtedness, issued by any cor-  
 7 poration and bearing interest (including any like obligation  
 8 issued by a government or political subdivision thereof), with  
 9 interest coupons or in registered form, but does not include  
 10 *(73) any such obligation which constitute stock in trade of*  
 11 *the taxpayer or any such obligation of a kind which would*  
 12 *properly be included in the inventory of the taxpayer if on*  
 13 *hand at the close of the taxable year, or any such obligation*  
 14 *held by the taxpayer primarily for sale to customers in the*  
 15 *ordinary course of his trade or business.”*

16 (c) ADJUSTMENT TO BASIS.—Section 113 (b) (1)  
 17 (relating to adjustments to basis) is amended by inserting at  
 18 the end thereof the following new subparagraph:

19 “(H) in the case of any bond (as defined in  
 20 section 125) the interest on which is wholly exempt  
 21 from the tax imposed by this chapter, to the extent  
 22 of the amortizable bond premium disallowable as  
 23 a deduction pursuant to section 125 (a) (2), and  
 24 in the case of any other bond (as defined in such  
 25 section) to the extent of the deductions allowable

1. . . . pursuant to section 125 (a) (1) with respect  
 2. thereto."

3. (d) CREDITS OF ESTATE OR TRUST AND BENEFI-  
 4. CIARY.—Section 163 (relating to credits of estate or trust  
 5. and beneficiary) is amended by inserting at the end thereof  
 6. the following new subsection:

7. " (c) CREDITS OF ESTATE OR TRUST AND BENEFI-  
 8. CIARY IN CASE OF BOND PREMIUM.—If the estate or trust  
 9. elects under section 125 to treat the premium on bonds, the  
 10. interest on which is allowable as a credit under section 25  
 11. (a) (1) or (2), as amortizable;

12. (1) For the purposes of subsection (a) (2), the  
 13. credits allowed by section 25 (a) shall be reduced as  
 14. provided in section 125 (a) (3);

15. (2) For the purposes of subsection (b), the pro-  
 16. portionate share of the legatee, heir, or beneficiary of  
 17. such interest shall be his proportionate share of such  
 18. interest (determined without regard to this paragraph)  
 19. reduced by so much of the deduction under section 23  
 20. (v) as is attributable to such share. The remainder of  
 21. such deduction, for the purposes of the last sentence of  
 22. subsection (b), shall be applied in reduction of such  
 23. credits of the estate or trust."

24. (e) CREDIT OF PARTICIPANT IN COMMON TRUST  
 25. FUND FOR PARTIALLY TAX-EXEMPT INTEREST.—Section

1 169 (c) (74)(2) (relating to credits of participants) is  
 2 amended by inserting at the end thereof the following new  
 3 sentence: "If the common trust fund elects under section  
 4 125 to treat the premium on bonds, the interest on which is  
 5 allowable as a credit under section 25 (a) (1) or (2), as  
 6 amortizable, for the purposes of the preceding sentence the  
 7 proportionate share of the participant of such interest re-  
 8 ceived by the common trust fund shall be his proportionate  
 9 share of such interest (determined without regard to this  
 10 sentence) reduced by so much of the deduction under sec-  
 11 tion 23 (v) as is attributable to such share."

12 (f) CREDIT OF PARTNER FOR PARTIALLY TAX-  
 13 EXEMPT INTEREST.—Section 184 (relating to credits of  
 14 partners) is amended by inserting at the end thereof the  
 15 following new sentence: "If the partnership elects under  
 16 section 125 to treat the premium on bonds, the interest on  
 17 which is allowable as a credit under section 25 (a) (1)  
 18 or (2), as amortizable, for the purposes of the preceding  
 19 sentence the partner's proportionate share of the interest  
 20 received by the partnership shall be his proportionate share  
 21 of such interest (determined without regard to this sentence)  
 22 reduced by so much of the deduction under section 23 (v) as  
 23 is attributable to such share."

24 (g) CREDIT OF UNITED STATES SHAREHOLDER FOR  
 25 PARTIALLY TAX-EXEMPT INTEREST.—Section 337 (c)

1 (relating to credits of United States shareholders) is amended  
 2 by inserting at the end thereof the following new sentence:  
 3 "If the foreign personal holding company elects under sec-  
 4 tion 125 to treat the premium on bonds, the interest on which  
 5 is allowable as a credit under section 25 (a) (1) or (2), as  
 6 amortizable, for the purposes of the preceding sentence each  
 7 United States shareholder's proportionate share of such in-  
 8 terest received by the foreign personal holding company shall  
 9 be his proportionate share of such interest (determined with-  
 10 out regard to this sentence) reduced by so much of the deduc-  
 11 tion under section 23 (v) as is attributable to such share."

12 (h) CREDIT OF SHAREHOLDER OF PERSONAL SERVICE  
 13 CORPORATION FOR PARTIALLY TAX-EXEMPT INTEREST.—

14 Section 394 (c) (relating to the credits of shareholders of  
 15 a personal service corporation) is amended by inserting at  
 16 the end thereof the following new sentence: "For any tax-  
 17 able year of the corporation beginning after December 31,  
 18 1941, each such shareholder's proportionate share of such  
 19 interest received by the corporation shall be his proportionate  
 20 share of such interest (determined without regard to this  
 21 sentence) reduced by so much of the deduction under section  
 22 23 (v) as is attributable to such share."

23 (i) CROSS REFERENCES.—

24 (1) Section 25 (a) (2) (relating to credits for  
 25 normal tax) is amended by inserting at the end thereof

1 the following: " (For reduction of credit under paragraph  
2 (1) or (2) on account of amortizable bond premium,  
3 see section 125)."

4 (2) Section 26 (a) (relating to credits of corpora-  
5 tions) is amended by inserting at the end thereof the  
6 following: " (For reduction of credit under this subsec-  
7 tion on account of amortizable bond premium, see section  
8 125)."

9 **(75) SEC. 127. DEDUCTION FOR MEDICAL, DENTAL, ETC., EX-**  
10 **PENSES.**

11 *(a) ALLOWANCE OF DEDUCTION.—Section 23 (relat-*  
12 *ing to deductions from gross income) is amended by inserting*  
13 *at the end thereof the following new subsection:*

14 *"(x) MEDICAL, DENTAL, ETC., EXPENSES:—Except*  
15 *as limited under paragraph (1) or (2), expenses paid dur-*  
16 *ing the taxable year, not compensated for by insurance or*  
17 *otherwise, for medical care of the taxpayer, his spouse, or a*  
18 *dependent specified in section 25 (b) (2) (A) of the tax-*  
19 *payer. The term 'medical care,' as used in this subsection,*  
20 *shall include amounts paid for the diagnosis, cure, mitiga-*  
21 *tion, treatment, or prevention of disease, or for the purpose*  
22 *of affecting any structure or function of the body (including*  
23 *amounts paid for accident or health insurance).*

24 *"(1) A husband and wife who file a joint return*  
25 *may deduct only such expenses as exceed 5 per centum*



1 of the aggregate net income of such husband and wife,  
 2 computed without the benefit of this subsection, and the  
 3 maximum deduction for the taxable year shall be not in  
 4 excess of \$2,500 in the case of such husband and wife.

5 "(2) An individual who files a separate return may  
 6 deduct only such expenses as exceed 5 per centum of  
 7 the net income of the taxpayer, computed without the  
 8 benefit of this subsection, and the maximum deduction  
 9 for the taxable year shall be not in excess of \$2,500 in  
 10 the case of the head of a family, and not in excess of  
 11 \$1,250 in the case of all other such individuals."

12 (b) **ITEMS NOT DEDUCTIBLE.**—Section 24 (a) (re-  
 13 lating to items not deductible) is amended by striking para-  
 14 graph 1 and inserting in lieu thereof the following:

15 "(1) Personal, living, or family expenses, except ex-  
 16 traordinary medical expenses deductible under section 23  
 17 (x);"

18 (c) **CHARITABLE DEDUCTIONS.**—Section 23 (o) (re-  
 19 lating to deduction for charitable and other contributions) is  
 20 amended by striking the period at the end of the next to the last  
 21 sentence and by inserting in lieu thereof the following: "or of  
 22 subsection (x)."

23 (d) **COMPENSATION FROM INSURANCE.**—Section 22  
 24 (b) (5) (relating to exclusion from gross income of compen-  
 25 sation for injuries or sickness) is amended by striking out

1 "Amounts received" and inserting in lieu thereof "Except  
 2 in the case of amounts attributable to (and not in excess of)  
 3 deductions allowed under section 23 (x) in any prior taxable  
 4 year, amounts received"

5 (76)SEC. 128. LOSSES OF MINING CORPORATIONS FOR 1938

6 AND 1939.

7 (a) DEDUCTION FOR MINING LOSSES.—Section 23

8 (relating to deductions) is amended by inserting at the end

9 thereof the following new subsection:

10 "(y) MINING LOSSES IN 1938 AND 1939.—For the

11 first taxable year beginning in 1940, in the case of a cor-

12 poration which derives substantially all its income from the

13 production of minerals, as defined in section 735, the ex-

14 haustion of which gives rise to an allowance for depletion

15 under section 23 (m), the sum of—

16 "(1) the excess of the deductions for a taxable year

17 beginning in 1938, allowed by the Revenue Act of 1938,

18 over the gross income for such year, and

19 "(2) the excess of the deductions for a taxable year

20 beginning in 1939, allowed by this chapter as originally

21 enacted, over the gross income for such year.

22 In either case, the computations shall be made with the excep-

23 tions and limitations provided in section 122 (d) without

24 regard to its amendment by the Revenue Act of 1942."

25 (b) TECHNICAL AMENDMENT.—Section 122 (e) (re-

1 *lating to net operating loss) is amended by inserting before*  
 2 *the period at the end thereof a comma and the following:*  
 3 *“and, in the case of corporations described in section 23 (y),*  
 4 *such terms do not include any taxable year beginning before*  
 5 *January 1, 1940”.*

6 (c) *TAXABLE YEARS TO WHICH AMENDMENTS AP-*  
 7 *PLICABLE.—The amendments made by this section shall be*  
 8 *effective with respect to taxable years beginning after Decem-*  
 9 *ber 31, 1939.*

10 **(77) SEC. 129. DEDUCTION OF CERTAIN AMOUNTS PAID TO**  
 11 **COOPERATIVE APARTMENT CORPORATION.**

12 *Section 23 (relating to deductions from gross income)*  
 13 *is amended by inserting at the end thereof the following new*  
 14 *subsection:*

15 **“(z) AMOUNTS REPRESENTING TAXES AND INTER-**  
 16 **EST PAID TO COOPERATIVE APARTMENT CORPORATION.—**

17 **“(1) IN GENERAL.—***In the case of a tenant-*  
 18 *stockholder (as defined in paragraph (2)), amounts,*  
 19 *not otherwise deductible, paid or accrued to a coopera-*  
 20 *tive apartment corporation within the taxable year, if*  
 21 *such amounts represent that proportion of the real estate*  
 22 *taxes on the apartment building and the land on which*  
 23 *it is situated, allowable as deductions under subsection*  
 24 *(c), paid or incurred by the corporation, or of the inter-*  
 25 *est paid or incurred by the corporation on its indebted-*

1      *ness contracted in the acquisition, construction, altera-*  
 2      *tion, rehabilitation, or maintenance of such apartment*  
 3      *building or in the acquisition of the land on which the*  
 4      *building is located, which the stock of the corporation*  
 5      *owned by the tenant-stockholder is of the total outstand-*  
 6      *ing stock of the corporation, including that held by the*  
 7      *corporation.*

8      “(2) *DEFINITIONS.—For the purposes of this sub-*  
 9      *section—*

10      “(A) *Cooperative Apartment Corporation.—*

11      *The term ‘cooperative apartment corporation’ means*  
 12      *a corporation—*

13      “(i) *having one and only one class of stock*  
 14      *outstanding,*

15      “(ii) *all of the stockholders of which are*  
 16      *entitled, solely by reason of their ownership of*  
 17      *stock in the corporation, to occupy for dwelling*  
 18      *purposes apartments in a building owned or*  
 19      *leased by such corporation, and who are not*  
 20      *entitled, either conditionally or unconditionally,*  
 21      *except upon a complete or partial liquidation of*  
 22      *the corporation, to receive any distribution not*  
 23      *out of earnings and profits of the corporation,*  
 24      *and*

25      “(iii) *80 per centum or more of the gross*

1 income of which for the taxable year in which  
 2 the taxes and interest described in paragraph  
 3 (1) are paid or incurred is derived from tenant-  
 4 stockholders.

5 **(B) Tenant-stockholder.**—The term ‘tenant-  
 6 stockholder’ means an individual who is a stockholder  
 7 in a cooperative apartment corporation, and whose  
 8 stock is fully paid-up in an amount not less than an  
 9 amount shown to the satisfaction of the Commis-  
 10 sioner as bearing a reasonable relationship to the  
 11 portion of the value of the corporation’s equity in  
 12 the building and the land on which it is situated  
 13 which is attributable to the apartment which such  
 14 individual is entitled to occupy.”

15 **SEC. (78)<sup>121 130</sup>. DEDUCTION DENIED IF PROCEEDS USED**  
 16 **TO PAY FOR INSURANCE.**

17 Section 24 (a) (relating to items not deductible) is  
 18 amended by striking out “or” at the end of paragraph (4),  
 19 and striking out the period and inserting a semicolon (79) and  
 20 the word “or” at the end of paragraph (5), and at the end  
 21 of the subsection adding the following new paragraph:

22 **(80)“(6) Any amount paid or accrued on indebtedness**  
 23 **incurred or continued to purchase or carry a single pre-**  
 24 **mium or fully paid up life insurance or endowment**  
 25 **contract; or”**

1                   “(6) Any amount paid or accrued on indebtedness  
 2                   incurred or continued to purchase a single premium life  
 3                   insurance or endowment contract. For the purposes of  
 4                   this paragraph, if substantially all the premiums on a  
 5                   life insurance or endowment contract are paid within a  
 6                   period of four years from the date on which such con-  
 7                   tract is purchased, such contract shall be considered a  
 8                   single premium life insurance or endowment contract;  
 9                   or”.

10   **SEC. (81) 122 131. TAXES AND OTHER CHARGES CHARGE-**  
 11                                           **ABLE TO CAPITAL ACCOUNT NOT DE-**  
 12                                           **DUCTIBLE BUT TREATED AS CAPITAL**  
 13                                           **ITEMS.**

14           (a) **DEDUCTIONS NOT ALLOWABLE.**—Section 24 (a)  
 15           (relating to items not deductible) is amended by inserting at  
 16           the end thereof the following new paragraph:

17           “(7) Amounts paid or accrued for such taxes and  
 18           (82) other carrying charges as, under regulations pre-  
 19           scribed by the Commissioner with the approval of the  
 20           Secretary, are chargeable to capital account with re-  
 21           spect to property, if the taxpayer elects, in accordance  
 22           with such regulations, to treat such taxes or charges  
 23           as so chargeable.”

24           (b) **TECHNICAL AMENDMENT.**—Section 113 (b) (1)  
 25           (A) (relating to adjustment of basis) is amended by striking

1 out “, including taxes and other carrying charges on unim-  
2 proved and unproductive real property”.

3 SEC. (83)~~123~~ 132. REDUCTION OF PERSONAL EXEMPTION

4 (84) AND CREDIT FOR DEPENDENTS—

5 REQUIREMENT FOR RETURN.

6 (a) PERSONAL EXEMPTION.—

7 (1) GENERAL RULE.—Section 25 (b) (1) (re-  
8 lating to personal exemption) is amended to read as  
9 follows:

10 “(1) PERSONAL EXEMPTION.—In the case of a  
11 single person or a married person not living with hus-  
12 band or wife, a personal exemption of \$500; or in the  
13 case of the head of a family or a married person living  
14 with husband or wife, a personal exemption of \$1,200.  
15 A husband and wife living together shall receive but one  
16 personal exemption. The amount of such personal  
17 exemption shall be \$1,200. If such husband and wife  
18 make separate returns, the personal exemption may be  
19 taken by either or divided between them.”

20 (2) NONRESIDENT ALIENS.—Section 214 (relat-  
21 ing to personal exemption of nonresident alien individ-  
22 uals) is amended (85) by striking out “\$750” and  
23 inserting in lieu thereof “\$500” to read as follows:

24 “SEC. 214. CREDITS AGAINST NET INCOME.

25 “In the case of a nonresident alien individual the per-

1 sonal exemption allowed by section 25 (b) (1) of this chapter  
 2 shall, except as hereinafter provided in the case of a resident  
 3 of a contiguous country, be only \$500. In the case of a non-  
 4 resident alien individual residing in a contiguous country  
 5 who is married and living with husband or wife or who is  
 6 the head of a family, the personal exemption shall be that  
 7 specified in section 25 (b) if such contiguous country allows  
 8 to citizens of the United States not residing in such country  
 9 who are married and living with husband or wife and to  
 10 citizens of the United States not residing in such country who  
 11 are heads of families the same personal exemption as that  
 12 allowed citizens of such country who are married and living  
 13 with husband or wife or who are heads of families, as the  
 14 case may be. The credit for dependents allowed by section  
 15 25 (b) (2) shall not be allowed in the case of a nonresident  
 16 alien individual unless he is a resident of a contiguous  
 17 country."

18 (3) CITIZENS OF POSSESSIONS, ETC.—Section 251

19 (f) (relating to personal exemption of citizens entitled  
 20 to benefits of section 251) is amended by striking out  
 21 "\$750" and inserting in lieu thereof "\$500".

22 (86)(b) CREDIT FOR DEPENDENTS.—Section 25 (b)  
 23 (2) (A) (relating to credit for dependents) is amended by  
 24 striking out "\$400" and inserting in lieu thereof "\$300".



1 **(87)(b) (c) RETURN REQUIREMENT.—**

2 (1) **GENERAL RULE.**—Section 51 (a) (relating to  
3 general requirement of return) is amended by striking  
4 out “\$1,500” wherever occurring therein and inserting  
5 in lieu thereof “\$1,200” and by striking out “\$750” and  
6 inserting in lieu thereof “\$500”.

7 (2) **FIDUCIARY RETURNS.**—Section 142 (a) (re-  
8 quiring returns of fiduciaries) is amended by striking  
9 out “\$1,500” wherever occurring therein and inserting  
10 in lieu thereof “\$1,200”, and by striking out “\$750”  
11 wherever occurring therein and inserting in lieu thereof  
12 “\$500”.

13 (3) **INFORMATION RETURNS.**—Section 147 (a)  
14 (relating to information at the source) is amended by  
15 striking out “\$750” wherever occurring therein and in-  
16 serting in lieu thereof “\$500”.

17 **SEC. (88)~~124~~ 133. COMPUTATION OF NET OPERATING LOSS**

18 **CREDIT AND DIVIDENDS PAID CREDIT.**

19 **(a) NET OPERATING LOSS CREDIT.—**

20 (1) **LIMITATIONS.**—Section 26 (c) (1) (relating  
21 to amount of net operating loss credit) is amended to  
22 read as follows:

23 “(1) **AMOUNT OF CREDIT.**—The amount of net  
24 operating loss (as defined in paragraph (2)) of the  
25 corporation for the preceding taxable year (if beginning

1 after December 31, 1937) but not in excess of (A) the  
2 section 102 net income for the taxable year, in the case  
3 of the tax imposed by section 102; (B) the Supplement  
4 P net income for the taxable year, in the case of the  
5 computations required under Supplement P; or (C) the  
6 Subchapter A net income for the taxable year, in the case  
7 of the tax imposed under Subchapter A.”

8 (2) NET OPERATING LOSS DEDUCTION.—Section  
9 26 (c) (2) is amended by inserting (89) at the end  
10 thereof *after subparagraph (B)* the following new  
11 subparagraph:

12 “(C) For the purposes of this paragraph, the  
13 net operating loss deduction provided in section 122  
14 shall not be allowed.”

15 (3) CLERICAL AMENDMENT.—Section 26 (c) (2)  
16 is amended by striking out “section” where it appears  
17 the second and (90) ~~third~~ *fourth* times and inserting in  
18 lieu thereof “chapter”.

19 (b) BASIC SURTAX CREDIT.—The last sentence of sec-  
20 tion 27 (b) (relating to definition of basic surtax credit) is  
21 amended to read as follows: “The aggregate of the amounts  
22 under paragraphs (2) and (3) shall not exceed (A) the  
23 section 102 net income for the taxable year, in the case of  
24 the tax imposed by section 102; (B) the Supplement P net  
25 income for the taxable year, in the case of the computations

1 required under Supplement P; or (C) the Subchapter A  
2 net income for the taxable year, in the case of the tax  
3 imposed under Subchapter A.”

4 (c) DIVIDEND CARRY-OVER.—Section 27 (c) (relating  
5 to dividend carry-over) is amended to read as follows:

6 “(c) DIVIDEND CARRY-OVER.—There shall be com-  
7 puted with respect to each taxable year of a corporation  
8 a dividend carry-over to such year from the two preceding  
9 taxable years, which shall consist of the sum of—

10 “(1) The amount of the basic surtax credit for the  
11 second preceding taxable year, reduced by the Subchap-  
12 ter A net income for such year, and further reduced by  
13 the amount, if any, by which the Subchapter A net in-  
14 come for the first preceding taxable year exceeds the  
15 sum of—

16 “(A) The basic surtax credit for such year;  
17 and

18 “(B) The excess, if any, of the basic surtax  
19 credit for the third preceding taxable year over the  
20 Subchapter A net income for such year; and

21 “(2) The amount, if any, by which the basic surtax  
22 credit for the first preceding taxable year exceeds the  
23 Subchapter A net income for such year. In the case of  
24 a preceding taxable year referred to in this subsection,  
25 the Subchapter A net income shall be determined as if the

1 corporation was, under the law applicable to such tax-  
2 able year, a personal holding company."

3 (d) TECHNICAL AMENDMENT.—Section 504 (a) (re-  
4 lating to definition of undistributed Subchapter A net income)  
5 is amended by striking out “, and, in the computation of the  
6 dividend carry-over for the purposes of this subchapter, the  
7 term ‘adjusted net income’ as used in section 27 (c) means  
8 the adjusted net income minus the deduction allowed for  
9 Federal taxes under section 505 (a) (1)”.

10 (e) YEARS TO WHICH AMENDMENTS APPLICABLE.—  
11 The amendments made by this section shall be applicable  
12 only with respect to taxable years beginning after December  
13 31, ~~(91)1941~~ 1939, but shall be applicable in the computa-  
14 tions with respect to previous taxable years for the purpose of  
15 ascertaining the amount of any dividend carry-over from such  
16 previous taxable years.

17 **(92)SEC. 134. CREDIT FOR DIVIDENDS PAID ON CERTAIN PRE-**  
18 **PREFERRED STOCK.**

19 *Section 26 is amended by inserting at the end thereof*  
20 *the following new subsection:*

21 **“(h) CREDIT FOR DIVIDENDS PAID ON CERTAIN**  
22 **PREFERRED STOCK.—**

23 **“(1) AMOUNT OF CREDIT.—***In the case of a public*  
24 *utility, the amount of dividends paid during the taxable*  
25 *year on its preferred stock. The credit provided in this*

1 subsection shall be subtracted from the basic surtax credit  
2 provided in section 27.

3 “(2) DEFINITIONS.—As used in this subsection and  
4 section 15 (a)—

5 “(A) Public Utility.—The term ‘public utility’  
6 means a corporation engaged in the furnishing of  
7 telephone service or in the sale of electric energy, gas,  
8 or water, if the rates for such furnishing or sale, as  
9 the case may be, have been established or approved  
10 by an agency or instrumentality of the United States  
11 or by a public utility or public service commission or  
12 other similar body of the District of Columbia or of  
13 any State or political subdivision thereof.

14 “(B) Preferred Stock.—The term ‘preferred  
15 stock’ means stock issued prior to September 1, 1942,  
16 which on October 1, 1942, and during the whole of  
17 the taxable year was stock the dividends in respect  
18 of which were cumulative, limited to the same amount,  
19 and payable in preference to the payment of divi-  
20 dends on other stock.”

21 SEC. (93)~~125~~ 135. INCOME IN RESPECT OF DECEDENTS.

22 (a) GENERAL RULE.—The last sentence of section 42  
23 (a) (relating to inclusion in gross income of amounts ac-  
24 crued up to death of taxpayer) is amended to read as fol-  
25 lows: “In the case of the death of a taxpayer whose net

1 income is computed upon the basis of the accrual method of  
2 accounting, amounts (except amounts includible in comput-  
3 ing a partner's net income under section 182) accrued only  
4 by reason of the death of the taxpayer shall not be included  
5 in computing net income for the period in which falls the  
6 date of the taxpayer's death."

7 (b) DEDUCTIONS AND CREDITS.—The last sentence of  
8 section 43 (relating to deductions and credits accrued up to  
9 death of taxpayer) is amended to read as follows: "In the  
10 case of the death of a taxpayer whose net income is computed  
11 upon the basis of the accrual method of accounting, amounts  
12 (except amounts includible in computing a partner's net in-  
13 come under section 182) accrued as deductions and credits  
14 only by reason of the death of the taxpayer shall not be  
15 allowed in computing net income for the period in which  
16 falls the date of the taxpayer's death."

17 (c) CROSS REFERENCE.—Section 22 (relating to defi-  
18 nition of gross income) is amended by inserting at the end  
19 thereof the following:

20 " (1) INCOME OF DECEDENTS.—For inclusion in gross  
21 income of certain amounts which constituted gross income  
22 in respect of a decedent, see section 126."

23 (d) DEDUCTIONS OF ESTATE.—Section 23 (relating  
24 to deductions) is amended by inserting at the end thereof  
25 the following:

1       “(w) DEDUCTIONS OF ESTATE, ETC., ON ACCOUNT OF  
2 DECEDENT’S DEDUCTIONS.—

3       “(1) In the case of a person described in section  
4 126 (b), the amount of the deductions in respect of a  
5 decedent to the extent allowed by such subsection.

6       “(2) In the case of a person described in section  
7 126 (a), the amount of the deductions in respect of a  
8 decedent to the extent allowed by section 126 (c).”

9       (e) The Internal Revenue Code is amended by insert-  
10 ing after section 125 the following new section:

11 “SEC. 126. INCOME IN RESPECT OF DECEDENTS.

12       “(a) INCLUSION IN GROSS INCOME.—

13       “(1) GENERAL RULE.—The amount of all items of  
14 gross income in respect of a decedent which are not  
15 properly includible in respect of the taxable period in  
16 which falls the date of his death or a prior period shall  
17 be included in the gross income, for the taxable year  
18 when received, of:

19               “(A) the estate of the decedent, if the right to  
20 receive the amount is acquired by the decedent’s  
21 estate from the decedent;

22               “(B) the person who, by reason of the death  
23 of the decedent, acquires the right to receive the  
24 amount, if the right to receive the amount is not

1       acquired by the decedent's estate from the decedent;  
2       or

3               “(C) the person who acquires from the  
4       decedent the right to receive the amount by bequest,  
5       devise, or inheritance, if the amount is received  
6       after a distribution by the decedent's estate of such  
7       right.

8               “(2) INCOME IN CASE OF SALE, ETC.—If a right,  
9       described in paragraph (1), to receive an amount is  
10      transferred by the estate of the decedent or a person  
11      who receives such right by reason of the death of the  
12      decedent or by bequest, devise, or inheritance from  
13      the decedent, there shall be included in the gross  
14      income of the estate or such person, as the case may  
15      be, for the taxable period in which the transfer occurs,  
16      the fair market value of such right at the time of such  
17      transfer plus the amount by which any consideration for  
18      the transfer exceeds such fair market value. For the  
19      purposes of this paragraph, the term ‘transfer’ includes  
20      sale, exchange, or other disposition, but does not  
21      include a transfer to a person pursuant to the right of  
22      such person to receive such amount by reason of the  
23      death of the decedent or by bequest, devise, or inher-  
24      itance from the decedent.



1           “(3) CHARACTER OF INCOME DETERMINED BY  
2 REFERENCE TO DECEDENT.—The right, described in  
3 paragraph (1), to receive an amount shall be treated,  
4 in the hands of the estate of the decedent or any person  
5 who acquired such right by reason of the death of the  
6 decedent, or by bequest, devise, or inheritance from the  
7 decedent, as if it had been acquired by the estate or  
8 such person in the transaction by which the decedent  
9 acquired such right; and the amount includible in gross  
10 income under paragraph (1) or (2) shall be considered  
11 in the hands of the estate or such person to have the  
12 character which it would have had in the hands of the  
13 decedent if the decedent had lived and received such  
14 amount.

15           “(b) ALLOWANCE OF DEDUCTIONS AND CREDIT.—  
16 The amount of any deduction specified in section 23 (a),  
17 (b), (c), or (m) (relating to deductions for expenses,  
18 interest, taxes, and depletion) or credit specified in section  
19 31 (foreign tax credit), in respect of a decedent which is  
20 not properly allowable to the decedent in respect of the tax-  
21 able period in which falls the date of his death, or a prior  
22 period, shall be allowed:

23           “(1) EXPENSES, INTEREST, AND TAXES.—In the  
24 case of a deduction specified in section 23 (a), (b), or

1 (c) and a credit specified in section 31, in the taxable  
2 year when paid,—

3 “(A) to the estate of the decedent; except that

4 “(B) if the estate of the decedent is not liable  
5 to discharge the obligation to which the deduction  
6 or credit relates, to the person who, by reason of the  
7 death of the decedent or by bequest, devise, or in-  
8 heritance acquires, subject to such obligation, from  
9 the decedent an interest in property of the decedent.

10 “(2) DEPLETION.—In the case of the deduction  
11 specified in section 23 (m), to the person described in  
12 subsection (a) (1) (A), (B), or (C) who, in the  
13 manner described therein, receives the income to which  
14 the deduction relates, in the taxable year when such  
15 income is received.

16 “(c) DEDUCTION FOR ESTATE TAX.—

17 “(1) ALLOWANCE OF DEDUCTION.—A person who  
18 includes an amount in gross income under subsection  
19 (a) shall be allowed, for the same taxable year, as a  
20 deduction an amount which bears the same ratio to the  
21 estate tax attributable to the net value for estate tax  
22 purposes of all the items described in subsection (a) (1)  
23 as the value for estate tax purposes of the items of gross  
24 income or portions thereof in respect of which such

1 person included the amount in gross income (or the  
2 amount included in gross income, whichever is lower)  
3 bears to the value for estate tax purposes of all the items  
4 described in subsection (a) (1).

5 “(2) METHOD OF COMPUTING DEDUCTION.—For  
6 the purposes of paragraph (1) :

7 “(A) The term ‘estate tax’ means the tax im-  
8 posed upon the estate of the decedent under section  
9 810 or 860, reduced by the credits against such tax,  
10 plus the tax imposed upon the estate of the dece-  
11 dent under section 935, reduced by the credits  
12 against such tax.

13 “(B) The net value for estate tax purposes of  
14 all the items described in subsection (a) (1) shall  
15 be the excess of the value for estate tax purposes of  
16 all the items described in subsection (a) (1) over  
17 the deductions from the gross estate in respect of  
18 claims which represent the deductions and credit  
19 described in subsection (b).

20 “(C) The estate tax attributable to such net  
21 value shall be an amount (94) which bears the same  
22 ratio to such net value as the estate tax bears to  
23 the amount of the net estate determined under sec-  
24 tion 812 (without deduction of the specific exemp-  
25 tion provided in subsection (a) thereof) or section

1        861 (without deduction of the specific exemption  
2        provided in subsection (a) (4) thereof), which  
3        ever is applicable. For the purposes of this sub-  
4        paragraph, such net value shall in no case be  
5        considered greater than the amount of the net estate  
6        so determined *equal to the excess of the estate tax*  
7        *over the estate tax computed without including in the*  
8        *gross estate such net value."*

9        (f) **EFFECTIVE DATE OF AMENDMENTS.**—The  
10       amendments made by subsections (a) and (b) of this sec-  
11       tion shall be applicable with respect to taxable years begin-  
12       ning after December 31, 1942, and the amendments made  
13       by subsections (c), (d), and (e) of this section shall be  
14       applicable with respect to taxable years ending after Decem-  
15       ber 31, 1942.

16       (g) **TAXABLE YEARS BEFORE 1943.**—In case the tax-  
17       able period in which falls the date of the death of the decedent  
18       began after December 31, 1933, and before January 1, 1943,  
19       the tax for such taxable period shall be computed as if pro-  
20       visions corresponding to the provisions of sections 42 (a)  
21       and 43 of the Internal Revenue Code, as amended by sub-  
22       sections (a) and (b) of this section, were a part of the  
23       Revenue Act of 1934, the Revenue Act of 1936, the Revenue  
24       Act of 1938, or the Internal Revenue Code, whichever is  
25       applicable to such taxable period. In the case of the estate

1 of such a decedent and of each person who acquires by reason  
2 of the death of such decedent or by bequest, devise, or inherit-  
3 ance from such decedent the right to receive the amount of  
4 items of gross income of the decedent which upon the applica-  
5 tion of the preceding sentence are not properly includible in  
6 respect of the taxable period in which falls the date of the  
7 decedent's death or a prior period, the tax for each taxable  
8 period ending on or after the date on which the decedent died  
9 shall be computed by including in gross income the amounts  
10 with respect to such decedent which would be includible, and  
11 by allowing as deductions and credits the amounts with respect  
12 to such decedent which would be allowable, if provisions  
13 corresponding to the provisions of the section inserted in the  
14 Internal Revenue Code by subsection (e) of this section  
15 were a part of the law applicable to such taxable period.  
16 The provisions of this subsection shall not be applicable unless  
17 there are filed with the Commissioner (in accordance with  
18 regulations prescribed by the Commissioner with the approval  
19 of the Secretary, and at the time prescribed by such regula-  
20 tions) signed consents made under oath by the fiduciary  
21 representing the estate and by each such person (or if any  
22 such person is no longer in existence or is under disability,  
23 by his legal representative) that with respect to such  
24 amounts the tax of the estate, or the tax of such person, as  
25 the case may be, shall be computed under the provisions of

1 this subsection for each taxable period ending on or after the  
2 date of the death of the decedent (95) *and the tax of the de-*  
3 *cedent shall be computed under such provisions for the taxable*  
4 *period of the decedent in which falls the date of his death. If*  
5 *such consent is filed after the time for the filing of the return*  
6 *with respect to any such taxable period, the deficiency result-*  
7 *ing from the failure to compute the tax for such taxable period*  
8 *in accordance with such consent shall be paid on the date of*  
9 *the filing of the consent with the Commissioner, or on the*  
10 *date prescribed for the payment of the tax for the taxable*  
11 *period, whichever is later, and the period of limitations pro-*  
12 *vided in sections 275 and 276 of the Internal Revenue Code*  
13 *(96) or a corresponding provision of a prior revenue law on*  
14 *the making of assessments and the beginning of distraint or a*  
15 *proceeding in court for collection shall with respect to such*  
16 *deficiency include one year immediately after the date the*  
17 *consent was filed (97), and such assessment and collection may*  
18 *be made notwithstanding any provision of the internal reve-*  
19 *nue laws or any rule of law which would otherwise prevent*  
20 *such assessment and collection. The period within which*  
21 *claim for credit or refund may be filed, or credit or refund*  
22 *allowed or made if no claim is filed, with respect to any*  
23 *overpayment resulting from the failure to compute the tax*  
24 *for any such taxable period (98) (except the taxable period of*  
25 *the decedent in which falls the date of his death) in accord-*

1   ance with such consent shall include one year immediately  
2   after the date of the filing of the consent, (99)and credit or  
3   refund may be allowed or made notwithstanding any provi-  
4   sion of the internal revenue laws or any rule of law which  
5   would otherwise prevent such credit or refund, but no in-  
6   terest shall be allowed or paid with respect to any such over-  
7   payment. The provisions of section 322 (b) (2) and (3) of  
8   the Internal Revenue Code (100)or a corresponding pro-  
9   vision of a prior revenue law shall not apply to the refund of  
10  any such overpayment. (101)If the application of this sub-  
11  section to the taxable period of the decedent in which falls the  
12  date of his death results in a deficiency for such taxable period,  
13  and if the income tax of the decedent for such period was de-  
14  ducted in computing the net estate of the decedent under  
15  Chapter 3 of the Internal Revenue Code or under a corre-  
16  sponding title of a prior revenue law, and if at the time  
17  such deficiency is assessed credit or refund of any result-  
18  ing overpayment in respect of the taxes imposed by such  
19  Chapter 3 or corresponding title upon such net estate is  
20  prevented by ~~any~~ provision of the internal revenue laws or  
21  by any rule of law, then the amount of such deficiency  
22  which is assessed and collected shall be reduced by the  
23  amount of such resulting overpayment under such Chapter  
24  3 or corresponding title which would be credited or refunded

1 *if credit or refund thereof were not so prevented.* This sub-  
2 section shall not be deemed to change any provision of law  
3 limiting the allowance of refund or credit with respect to  
4 overpayments for the taxable period of the decedent in which  
5 falls the date of his death, and no interest shall be allowed or  
6 paid with respect to any overpayment resulting from the  
7 application of this subsection to such taxable period. If the  
8 application of this subsection to the taxable period of the  
9 decedent in which falls the date of his death results in an  
10 overpayment for such taxable period, and if such overpay-  
11 ment was included as part of the income tax of the decedent  
12 which was deducted in computing the net estate of the de-  
13 cedent under Chapter 3 of the Internal Revenue Code or  
14 under a corresponding title of a prior revenue law, and if, at  
15 the time such overpayment is credited or refunded the assess-  
16 ment and collection of deficiencies in respect of the (102)tax  
17 taxes imposed by such Chapter 3 or corresponding title upon  
18 such net estate is prevented by any provision of the internal  
19 revenue laws or by any rule of law, then the amount of such  
20 overpayment which is credited or refunded shall be reduced  
21 by the amount of the resulting deficiencies under such  
22 Chapter 3 or corresponding title which would be assessable  
23 if the assessment and collection thereof were not so prevented.



1 SEC. (103)<sup>126</sup> 136. RETURNS FOR A PERIOD OF LESS THAN  
2 TWELVE MONTHS.

3 (a) INCOME PLACED ON AN ANNUAL BASIS.—Sec-  
4 tion 47 (c) is amended to read as follows:

5 “(c) INCOME PLACED ON ANNUAL BASIS.—

6 “(1) GENERAL RULE.—If a separate return is  
7 made under subsection (a) on account of a change in the  
8 accounting period, the net income, computed on the basis  
9 of the period for which separate return is made (referred  
10 to in this subsection as ‘the short period’), shall be  
11 placed on an annual basis by multiplying the amount  
12 thereof by twelve, and dividing by the number of months  
13 in the short period. The tax shall be such part of the  
14 tax computed on such annual basis as the number of  
15 months in the short period is of twelve months.

16 “(2) EXCEPTION.—If the taxpayer establishes the  
17 amount of his net income for the period of twelve months,  
18 beginning with the first day of the short period, com-  
19 puted as if such twelve-month period were a taxable  
20 year, under the law applicable to such year, then the tax  
21 for the short period shall be reduced to an amount which  
22 is such part of the tax computed on the net income for such  
23 twelve-month period as the net income computed on the  
24 basis of the short period is of the net income for the  
25 twelve-month period. The taxpayer (other than a tax-

1 payer to which the next sentence applies) shall compute  
2 the tax and file his return without the application  
3 of this paragraph. If the taxpayer (other than a cor-  
4 poration) was not in existence at the end of the twelve-  
5 month period, or if the taxpayer is a corporation  
6 and has disposed of substantially all its assets prior to  
7 the end of such twelve-month period, then in lieu of the  
8 net income for such twelve-month period there shall be  
9 used for the purposes of this paragraph the net income  
10 for the twelve-month period ending with the last day of  
11 the short period. The tax computed under this para-  
12 graph shall in no case be less than the tax computed on  
13 the net income for the short period without placing such  
14 net income on an annual basis. The benefits of this  
15 paragraph shall not be allowed unless the taxpayer, at  
16 such time as regulations prescribed hereunder require  
17 (but not after the time prescribed for the filing of the  
18 return for the first taxable year which ends on or after  
19 12 months after the beginning of the short period),  
20 makes application therefor in accordance with such regu-  
21 lations. Such application, in case the return was filed  
22 without regard to this paragraph, shall be considered a  
23 claim for credit or refund with respect to the amount  
24 by which the tax is reduced under this paragraph. The  
25 Commissioner, with the approval of the Secretary, shall

1        prescribe such regulations as he may deem necessary for  
2        the application of this paragraph.”

3        (b) INCOME FOR CERTAIN TAXES NOT PLACED ON  
4 ANNUAL BASIS.—

5            (1) SURTAX ON CORPORATIONS IMPROPERLY AC-  
6 CUMULATING SURPLUS.—Section 102 is amended by  
7 inserting at the end thereof the following new subsec-  
8 tion:

9        “(f) INCOME NOT PLACED ON ANNUAL BASIS.—Sec-  
10 tion 47 (c) shall not apply in the computation of the tax  
11 imposed by this section.”

12            (2) FOREIGN PERSONAL HOLDING COMPANIES.—  
13 Section 336 is amended by inserting at the end thereof  
14 the following new subsection:

15        “(d) INCOME NOT PLACED ON ANNUAL BASIS.—The  
16 net income shall be computed without regard to section  
17 47 (c).”

18            (3) PERSONAL SERVICE CORPORATIONS.—Section  
19 393 is amended by inserting at the end thereof the fol-  
20 lowing new sentence: “For the purposes of this section,  
21 the net income shall be computed without regard to  
22 section 47 (c).”

23            (4) PERSONAL HOLDING COMPANIES.—Section  
24 505 is amended by inserting at the end thereof the fol-  
25 lowing new subsection: 11



1 ual returns) as reads as follows: "The following individ-  
 2 uals shall each make under oath a return stating" is  
 3 amended to read as follows: "The following individuals  
 4 shall each make a return, which shall contain or be verified  
 5 by a written declaration that it is made under the penalties  
 6 of perjury, stating".

7 (b) *PENALTY*.—Section 145 (relating to penalties) is  
 8 amended by inserting after subsection (b) the following new  
 9 subsection:

10 "(c) Any individual who willfully makes and sub-  
 11 scribes a return which he does not believe to be true and cor-  
 12 rect as to every material matter, shall be guilty of a felony,  
 13 and, upon conviction thereof, shall be subject to the penalties  
 14 prescribed for perjury in section 125 of the Criminal Code."

15 (c) *CLERICAL AMENDMENTS*.—Section 145 (c) is  
 16 amended by striking out "(c)" and inserting in lieu thereof  
 17 "(d)" and section 145 (d) is amended by striking out "(d)"  
 18 and inserting in lieu thereof "(e)".

19 **(105) SEC. 138. EXEMPT CORPORATIONS.**

20 (a) *EXEMPTION VOLUNTARY EMPLOYEES BENEFIC-  
 21 ARY ASSOCIATION*.—Section 101 (16) of the Internal  
 22 Revenue Code, and of the Revenue Acts of 1938, 1936, and  
 23 1934, and section 103<sup>1</sup>(16) of the Revenue Acts of 1932 and  
 24 1928, are amended to read as follows:

25 "(16) Voluntary employees' beneficiary associations

1 providing for the payment of life, sick, accident, or other  
2 benefits to the members of such association or their depend-  
3 ents, if (A) no part of their net earnings inures (other  
4 than through such payments) to the benefit of any private  
5 shareholder or individual, and (B) 85 per centum or  
6 more of the income consists of amounts collected from  
7 members and amounts contributed to the association by  
8 the employer of the members for the sole purpose of  
9 making such payments and meeting expenses;”.

10 (b) **RETROACTIVE EFFECT.**—For the purposes of the  
11 Internal Revenue Code and the Revenue Acts of 1928, 1932,  
12 1934, 1936, and 1938, the amendments made to the Internal  
13 Revenue Code and those Acts by subsection (a) of this section  
14 shall be effective as if they were a part of the Internal Reve-  
15 nue Code and such revenue Acts on the respective dates of  
16 their enactment.

17 “(c) **EXEMPTION OF CERTAIN NONPROFIT PUBLIC**  
18 **UTILITY CORPORATIONS.**—Section 101 (relating to exemp-  
19 tions from tax on corporations) is amended by adding at the  
20 end thereof the following new subsection:

21 ““(20) Corporations organized exclusively to fur-  
22 nish service as a public utility, if the Commissioner deter-  
23 mines that the following limitations upon the organization,  
24 powers, and management of such corporation have been  
25 satisfied:

1           “(A) Such corporation shall be organized in  
2 response to a petition signed by at least 10 per  
3 centum of the total number of qualified voters of  
4 the area served by the properties to be acquired by  
5 such corporation (but in no event shall more than  
6 10,000 signatures be required).

7           “(B) The members of the board of directors  
8 in control of the acquisition of the properties of the  
9 corporation, its management, and policies shall be  
10 qualified voters residing in the area served by such  
11 corporation, and a majority of such members shall be  
12 elected officials of political subdivisions served by  
13 such corporation, or officials of Federal or State  
14 agencies or instrumentalities furnishing the same type  
15 of utility service.

16           “(C) The properties of the corporation shall  
17 be owned and operated exclusively in the public in-  
18 terest for the benefit of consumers of its utility  
19 services.

20           “(D) No part of the net income of the corpo-  
21 ration shall inure to the benefit of any shareholder.

22           “(E) All compensation payments shall be rea-  
23 sonable and for services actually rendered.

24           “(F) All net income of the corporation ascer-  
25 tained by the Commissioner to be available for pay-

1           *ment of principal on indebtedness of the corporation*  
2           *shall be so applied or set aside each year for that*  
3           *purpose, and upon the retirement of such indebted-*  
4           *ness or the creation of a sinking fund sufficient for*  
5           *such retirement, all the properties of the corporation,*  
6           *both real and personal, shall without cost be trans-*  
7           *ferred to and become the property of one or more*  
8           *of the following: the United States, or any State,*  
9           *or any political subdivision, agency, or instrumen-*  
10           *tality of the United States or of any State, which*  
11           *may be authorized by law to accept and operate*  
12           *such properties for the benefit of the public, and*  
13           *pending such transfer the corporation shall con-*  
14           *tinue to operate such properties and to furnish*  
15           *service to consumers at cost.*

16           *“(G) Upon failure of such corporation to*  
17           *transfer such properties in accordance with the pro-*  
18           *visions of subparagraph (F) within a reasonable*  
19           *time after the retirement of the indebtedness of the*  
20           *corporation or the creation of a sinking fund suffi-*  
21           *cient for such retirement, or if, at any time, the*  
22           *properties of such corporation are transferred to any*  
23           *person other than a transferee described in the pre-*  
24           *ceding subparagraph (except by a transfer in com-*  
25           *pliance with an order of any Federal or State court*



1        *having jurisdiction for the protection of the rights*  
 2        *of the owners of indebtedness of such corporation),*  
 3        *all tax liabilities (including interest, penalties, addi-*  
 4        *tional amounts, or additions to the tax) for all prior*  
 5        *years which would have been incurred by the cor-*  
 6        *poration except for this paragraph, shall immedi-*  
 7        *ately be due and payable, all periods of limitation*  
 8        *and provisions of law to the contrary notwith-*  
 9        *standing.*

10        “(H) *The corporation may require other ex-*  
 11        *isting utility properties serving an adjoining area*  
 12        *as an extension of its system, provided it is peti-*  
 13        *tioned to do so by at least 10 per centum of the*  
 14        *qualified voters of the area served by such properties*  
 15        *(but in no event shall more than 10,000 signatures*  
 16        *be required).*

17        “(I) *The corporation shall file with the Com-*  
 18        *missioner its consent to such regulations as may be*  
 19        *prescribed by the Commissioner, with the approval*  
 20        *of the Secretary, to insure that the management of*  
 21        *such corporation, and the operation of its properties,*  
 22        *shall be in the public interest.’”*

23        **(d) AMENDMENTS INAPPLICABLE TO EMPLOYMENT**  
 24        **TAXES.**—*The amendments made by this section shall not*  
 25        *apply to the employment taxes imposed by Subchapters A*

1 *and C of Chapter 9 of the Internal Revenue Code, or the*  
 2 *corresponding provisions of a prior law.*

3 **SEC. (106)~~127~~ 139. DENIAL OF CAPITAL LOSS CARRY-OVER**  
 4 **TO SECTION 102 COMPANIES.**

5 That part of section 102 (d) (1) (relating to defini-  
 6 tion of section 102 net income) which precedes subparagraph  
 7 (A) is amended to read as follows:

8 “(1) SECTION 102 NET INCOME.—The term ‘sec-  
 9 tion 102 net income’ means the net income, computed  
 10 without the benefit of the capital loss carry-over pro-  
 11 vided in section 117 (e) from a taxable year which  
 12 begins after December 31, 1940, and computed with-  
 13 out the net operating loss deduction provided in section  
 14 23 (s), minus the sum of—”.

15 **SEC. (107)~~128~~ 140. COMPENSATION FOR SERVICES REN-**  
 16 **DERED FOR A PERIOD OF THIRTY-SIX**  
 17 **MONTHS OR MORE.**

18 (a) Section 107 is amended to read as follows:

19 **“SEC. 107. COMPENSATION FOR SERVICES RENDERED FOR**  
 20 **A PERIOD OF THIRTY-SIX MONTHS OR MORE.**

21 **(108)“(a) PERSONAL SERVICES.—In the case of compensa-**  
 22 **tion received for personal services rendered by an individual**  
 23 **in his individual capacity, or as a member of a partnership,**  
 24 **covering a period of thirty-six calendar months or more from**  
 25 **the beginning to the completion of such services, and not**

1 less than 80 per centum of which is (a) paid only on or  
2 after completion of such services and (b) required to be  
3 included in gross income of such individual for any one  
4 taxable year, the tax attributable to such compensation shall  
5 not be greater than the aggregate of the taxes attributable  
6 to such compensation had it been received in equal portions  
7 in each of the months included in such period.

8       “(a) *PERSONAL SERVICES.*—If at least 80 per centum  
9 of the total compensation for personal services covering a  
10 period of thirty-six calendar months or more (from the be-  
11 ginning to the completion of such services) is received or ac-  
12 crued in one taxable year by an individual or a partnership,  
13 the tax attributable to any part thereof which is included in  
14 the gross income of any individual shall not be greater than  
15 the aggregate of the taxes attributable to such part had it  
16 been included in the gross income of such individual ratably  
17 over that part of the period which precedes the date of such  
18 receipt or accrual.

19       “(b) *PATENT, COPYRIGHT, ETC.*—For the purposes of  
20 this subsection, the term ‘artistic work or invention’, in the  
21 case of an individual, means a literary, musical, or artistic  
22 composition of such individual or a patent or copyright cov-  
23 ering an invention of or a literary, musical, or artistic com-  
24 position of such individual, the work on which by such

1 individual covered a period of thirty-six calendar months or  
2 more from the beginning to the completion of such composi-  
3 tion or invention. If, in the taxable year, the gross income  
4 of any individual from a particular artistic work or inven-  
5 tion by him is not less than 80 per centum of the gross  
6 income in respect of such artistic work or invention in the  
7 taxable year plus the gross income therefrom in previous  
8 taxable years and the twelve months immediately succeeding  
9 the close of the taxable year, the tax attributable to (109) such  
10 part of the gross income of the taxable year as is not taxable  
11 as a gain from the sale or exchange of a capital asset held  
12 for more than 15 6 months shall not be greater than the  
13 aggregate of the taxes attributable to such part had it been  
14 received ratably over the period of thirty-six calendar months  
15 ending with the close of the taxable year *the part of such*  
16 *gross income of the taxable year which is not taxable as a*  
17 *gain from the sale or exchange of a capital asset held for*  
18 *more than 6 months shall not be greater than the aggregate*  
19 *of the taxes attributable to such part had it been received*  
20 *ratably over that part of the period preceding the close of*  
21 *the taxable year but not more than thirty-six calendar months.*

22       “(c) FRACTIONAL PARTS OF A MONTH.—For the pur-  
23 poses of this section a fractional part of a month shall be

1 disregarded unless it amounts to more than half a month in  
2 which case it shall be considered as a month."

3 (b) The amendment made by subsection (a) shall be  
4 applicable to taxable years beginning after December 31,  
5 1940, but with respect to a taxable year beginning after  
6 December 31, 1940, and not beginning after December 31,  
7 1941, the period specified in such subsection shall be sixty  
8 months in lieu of thirty-six months, and the percentage  
9 specified in such subsection shall be 75 per centum in lieu of  
10 80 per centum.

11 **(110) SEC. 129. FISCAL YEAR TAXPAYERS.**

12 ~~(a) TAXABLE PERIOD EMBRACING YEARS WITH DIFF-~~  
13 ~~FERENT LAWS.~~—The Internal Revenue Code is amended  
14 by inserting after section 15 the following new section:

15 **"SEC. 16. TAXABLE YEARS EMBRACING CALENDAR YEARS**  
16 **WITH DIFFERENT LAWS.**

17 "If a taxable year embraces portions of two calendar  
18 years, the tax shall be computed as provided in section 108.  
19 This section shall not apply to an insurance company sub-  
20 ject to Supplement G, a foreign personal holding company  
21 subject to Supplement P, or a regulated investment company  
22 subject to Supplement Q."

23 ~~(b) METHOD OF COMPUTING THE TAX.~~—The Internal  
24 Revenue Code is amended by inserting after section 107 the  
25 following new section:

1 "SEC. 108. TAXABLE PERIOD EMBRACING YEARS WITH  
2 DIFFERENT LAWS.

3 "(a) GENERAL RULE.—If it is necessary to compute  
4 the tax for a period beginning in one calendar year (here-  
5 inafter in this section called 'first calendar year') and ending  
6 in the following calendar year (hereinafter in this section  
7 called 'second calendar year') and the law applicable to  
8 a taxable year beginning in the first calendar year (herein-  
9 after in this section called 'first taxable year') is different  
10 from the law applicable (without regard to this section) to  
11 a taxable year beginning in the second calendar year (here-  
12 inafter in this section called 'second taxable year'), the tax  
13 under this chapter for such period shall be the sum of:

14 "(1) That portion of the tax for the entire period,  
15 determined under the law applicable to the first taxable  
16 year, which the portion of such period falling within such  
17 first calendar year is of the entire period; and

18 "(2) That portion of the tax for the entire period,  
19 determined under the law applicable to the second tax-  
20 able year (except as provided in subsection (b)), which  
21 the portion of such period falling within the second  
22 calendar year is of the entire period.

23 "(b) EXCEPTIONS.—

24 "(1) For the purpose of the computations required  
25 under subsection (a) (2) for a period beginning in the

1       calendar year 1941 and ending in the calendar year  
2       1942, the amendments made to the Internal Revenue  
3       Code by sections 110, 113, 117, and so much of section  
4       119 as adds the last sentence to section 23 (k) (1) of  
5       this chapter and as adds paragraph (4) to section 23 (k)  
6       of this chapter; sections 120 and 122, and section 124  
7       unless applicable to the first taxable year in accordance  
8       with the terms of such amendment; sections 126, 127,  
9       130, 131, 133, 136, 137, 138, 141, 143, 144, and 149  
10       of the Revenue Act of 1942 shall not be deemed to be  
11       applicable.

12               “(2) For the purpose of the computations required  
13       under subsection (a) (1) and (2), the amendments  
14       made by section 139 of the Revenue Act of 1942 shall  
15       be deemed applicable to taxable years beginning in 1941  
16       and ending in 1942.

17               “~~(c) NET OPERATING LOSS CARRY-OVER AND UNUSED~~  
18       EXCESS PROFITS CREDIT.—The net operating loss under  
19       section 122, and the unused excess profits credit under section  
20       710 (e) (1), shall, for the purposes of subsection (a), be  
21       the sum of: (1) The same proportion of a net operating  
22       loss and an unused excess profits credit for the entire period;  
23       determined under the law applicable to the first calendar  
24       year, which the portion of such period falling within such  
25       calendar year is of the entire period; and (2) the same pro-

1 portion of a net operating loss and an unused excess profits  
 2 credit for the entire period, determined under the law appli-  
 3 cable to the second calendar year, which the portion of such  
 4 period falling within such calendar year is of the entire  
 5 period."

6 ~~(c) TAXES TO WHICH THIS SECTION NOT APPLI-~~  
 7 ~~CABLE.—~~

8 ~~(1) Section 102 is amended by inserting at the end~~  
 9 ~~thereof the following new subsection:~~

10 ~~"(g) SECTION 16 NOT APPLICABLE.—Section 16 shall~~  
 11 ~~not apply in the computation of the tax imposed by this~~  
 12 ~~section."~~

13 ~~(2) Section 505 is amended by inserting at the end~~  
 14 ~~thereof the following new subsection:~~

15 ~~"(f) SECTION 16 NOT APPLICABLE.—Section 16 shall~~  
 16 ~~not apply in the computation of the tax imposed by this~~  
 17 ~~subchapter."~~

18 ~~(d) EXCESS PROFITS TAX.—Section 720 (a) (relating~~  
 19 ~~to laws made applicable) is amended by inserting at the end~~  
 20 ~~thereof the following new sentence: "In the application of~~  
 21 ~~section 108 to the computation of the tax imposed by this~~  
 22 ~~subchapter, in addition to the amendments made inappli-~~  
 23 ~~cable for the purposes of the computations under subsection~~  
 24 ~~(a) (2) of such section, the amendment made by section~~



1 206 of the Revenue Act of 1942 shall not be deemed to be  
2 applicable."

3 **SEC. 141. CERTAIN FISCAL YEAR TAXPAYERS.**

4 (a) **COMPUTATION OF TAX FOR YEAR ENDING IN**  
5 **1942.**—*The Internal Revenue Code is amended by inserting*  
6 *after section 107 the following new section:*

7 **"SEC. 108. TAXABLE YEARS BEGINNING IN 1941 AND ENDING**  
8 **AFTER JUNE 30, 1942.**

9 **"(a) GENERAL RULE.**—*In the case of a taxable year*  
10 *beginning in 1941 and ending after June 30, 1942, the tax*  
11 *imposed by sections 11, 12, 13, 14, and 15 shall be—*

12 **"(1) CORPORATIONS.**—*In the case of a corpora-*  
13 *tion an amount equal to the sum of—*

14 **"(A)** *that portion of a tentative tax, computed*  
15 *without regard to section 141 of the Revenue Act of*  
16 *1942, which the number of days in such taxable year*  
17 *before July 1, 1942, bears to the total number of days*  
18 *in such taxable year, plus*

19 **"(B)** *that portion of a tentative tax, computed*  
20 *as if the amendments made by sections 105 (a),*  
21 *(b), (c), (d), and (e) (1) of the Revenue Act of*  
22 *1942 were applicable to such taxable year, which*  
23 *the number of days in such taxable year after June*  
24 *30, 1942, bears to the total number of days in such*  
25 *taxable year.*

1       “(2) **TAXPAYERS OTHER THAN CORPORATIONS.**—

2       *In the case of a taxpayer other than a corporation, an*  
 3       *amount equal to the sum of—*

4               “(A) *that portion of a tentative tax, computed*  
 5       *without regard to section 141 of the Revenue Act of*  
 6       *1942, which the number of days in such taxable year*  
 7       *before July 1, 1942, bears to the total number of*  
 8       *days in such taxable year, plus*

9               “(B) *that portion of a tentative tax, computed*  
 10       *as if the amendments made by sections 102 and 103*  
 11       *of the Revenue Act of 1942 were applicable to such*  
 12       *taxable year, which the number of days in such tax-*  
 13       *able year after June 30, 1942, bears to the total*  
 14       *number of days in such taxable year.*

15       “(b) **SPECIAL CLASSES OF TAXPAYERS.**—*This section*  
 16       *shall not apply to an insurance company subject to Supple-*  
 17       *ment G, an investment company subject to Supplement Q,*  
 18       *or a Western Hemisphere Trade Corporation, as defined in*  
 19       *section 109.”*

20       “(b) **TAXABLE YEARS TO WHICH AMENDMENT AP-**  
 21       **PLICABLE.**—*The amendment made by this section shall be*  
 22       *applicable to taxable years beginning in 1941 and ending*  
 23       *after June 30, 1942.*

1 **(111)SEC. 142. WESTERN HEMISPHERE TRADE CORPORATIONS.**

2     *The Internal Revenue Code is amended by inserting*  
 3 *after section 108 the following new section:*

4 **"SEC. 109. WESTERN HEMISPHERE TRADE CORPORATIONS.**

5     *"For the purposes of this Chapter, the term 'western*  
 6 *hemisphere trade corporation' means a domestic corporation*  
 7 *all of whose business is done in any country or countries*  
 8 *in North, Central, or South America, or in the West Indies,*  
 9 *or in Newfoundland and which satisfies the following condi-*  
 10 *tions:*

11     *"(a) If 95 per centum or more of the gross income of*  
 12 *such domestic corporation for the three-year period immedi-*  
 13 *ately preceding the close of the taxable year (or for such part*  
 14 *of such period during which the corporation was in existence)*  
 15 *was derived from sources other than sources within the*  
 16 *United States; and*

17     *"(b) If 90 per centum or more of its gross income for*  
 18 *such period or such part thereof was derived from the active*  
 19 *conduct of a trade or business."*

20 **(112)SEC. 143. NONRECOGNITION OF LOSS AND DETERMINA-**  
 21 **TION OF BASIS IN CASE OF CERTAIN RAIL-**  
 22 **ROAD REORGANIZATIONS.**

23     **(a) NONRECOGNITION OF LOSS IN RAILROAD REOR-**  
 24 **GANIZATIONS.**—*Section 112 (b) (relating to the recognition*  
 25 *of gain or loss upon the sale or exchange of property) is*

1 amended by inserting at the end thereof the following new  
2 paragraph:

3           “(9) **LOSS NOT RECOGNIZED ON CERTAIN RAIL-**  
4           **ROAD REORGANIZATIONS.**—No loss shall be recognized  
5 if property of a railroad corporation, as defined in sec-  
6 tion 77m of the National Bankruptcy Act, as amended,  
7 is transferred, after December 31, 1939, in pursuance of  
8 an order of the court having jurisdiction of such  
9 corporation—

10           “(A) in a receivership proceeding, or

11           “(B) in a proceeding under section 77 of the  
12           National Bankruptcy Act, as amended,

13 to a railroad corporation, as defined in section 77m  
14 of the National Bankruptcy Act, as amended, organized  
15 or made use of to effectuate a plan of reorganization  
16 approved by the court in such proceeding. The term  
17 ‘reorganization’, as used in this paragraph, shall not be  
18 limited by the definition of such term in subsection (g).”

19           **(b) BASIS OF PROPERTY ACQUIRED BY CERTAIN**  
20 **RAILROAD CORPORATIONS.**—Section 113 (a) (relating to  
21 the basis of the property) is amended by inserting at the  
22 end thereof the following new paragraph:

23           “(20) **PROPERTY ACQUIRED BY RAILROAD COR-**  
24 **PORATION.**—If the property of a railroad corporation,  
25 as defined in section 77m of the National Bankruptcy

1 Act, as amended, was acquired after December 31, 1939,  
 2 in pursuance of an order of the court having jurisdic-  
 3 tion of such corporation—  
 4 “(A) in a receivership proceeding, or  
 5 “(B) in a proceeding under section 77 of the  
 6 National Bankruptcy Act, as amended,  
 7 and the acquiring corporation is a railroad corporation,  
 8 as defined in section 77m of the National Bankruptcy  
 9 Act, as amended, organized or made use of to effectuate  
 10 a plan of reorganization approved by the court in such  
 11 proceeding, the basis shall be the same as it would be in  
 12 the hands of the railroad corporation whose property  
 13 was so acquired. The term ‘reorganization’, as used in  
 14 this paragraph, shall not be limited by the definition of  
 15 such term in section 112 (g).”

16 **(113)(c) BASIS OF PROPERTY ACQUIRED PURSUANT TO**  
 17 **RAILROAD REORGANIZATION UNDER SECTION 77B OF**  
 18 **THE NATIONAL BANKRUPTCY ACT, AS AMENDED.—Sec-**  
 19 **tion 113 (a) (relating to the basis of the property) is**  
 20 **amended by inserting at the end thereof the following new**  
 21 **paragraph:**

22 “(21) **PROPERTY ACQUIRED BY STREET, SUBUR-**  
 23 **BAN, OR INTERURBAN ELECTRIC RAILWAY CORPORA-**  
 24 **TION.—If the property of any street, suburban, or inter-**  
 25 **urban electric railway corporation engaged as a com-**

1 *mon carrier in the transportation of persons or property*  
2 *in interstate commerce was acquired after December 31,*  
3 *1934, in pursuance of an order of the court having*  
4 *jurisdiction of such corporation in a proceeding under*  
5 *section 77B of the National Bankruptcy Act, as*  
6 *amended, and the acquiring corporation is a street, sub-*  
7 *urban, or interurban electric railway engaged as a*  
8 *common carrier in the transportation of persons or*  
9 *property in interstate commerce, organized or made use*  
10 *of to effectuate a plan of reorganization approved by the*  
11 *court in such proceeding, then, notwithstanding the pro-*  
12 *visions of section 270 of Chapter X of the National*  
13 *Bankruptcy Act, as amended, the basis, for any taxable*  
14 *year beginning after December 31, 1939, shall be the*  
15 *same as it would be in the hands of the corporation whose*  
16 *property was so acquired. The term 'reorganization', as*  
17 *used in this paragraph, shall not be limited by the defi-*  
18 *inition of such term in section 112 (g)."*

19 **(d) TAXABLE YEARS TO WHICH APPLICABLE.—The**  
20 **amendments made by this section shall be applicable to tax-**  
21 **able years beginning after December 31, 1939.**

22 **(114) SEC. 144. LIQUIDATION OF PERSONAL HOLDING COM-**  
23 **PANIES IN DECEMBER 1943.**

24 **(a) ELECTION AS TO RECOGNITION OF GAIN ON**  
25 **LIQUIDATION.—Section 112 (b) (relating to nonrecogni-**

1 tion of gain or loss) is amended by inserting at the end  
2 thereof the following new paragraph:

3           “(10) *ELECTION AS TO RECOGNITION OF GAIN IN*  
4           *CERTAIN CORPORATE LIQUIDATIONS.—*

5           “(A) *General Rule.—In the case of prop-*  
6           *erty distributed in complete liquidation of a domes-*  
7           *tic corporation which is a personal holding company,*  
8           *as defined in section 501, if—*

9                   “(i) *the liquidation is made in pursuance*  
10                   *of a plan of liquidation adopted after the date*  
11                   *of the enactment of this Act, whether the tax-*  
12                   *able year of the corporation began on, before,*  
13                   *or after January 1, 1942; and*

14                   “(ii) *the distribution is in complete cancel-*  
15                   *lation or redemption of all the stock, and the*  
16                   *transfer of all the property under the liquida-*  
17                   *tion occurs within the month of December,*  
18                   *1943—*

19                   *then in the case of each qualified electing share-*  
20                   *holder (as defined in subparagraph (C)) gain*  
21                   *upon the shares owned by him at the time of the*  
22                   *adoption of the plan of liquidation shall be recog-*  
23                   *nized only to the extent provided in subparagraphs*  
24                   *(E) and (F). .*

25                   “(B) *Excluded Corporation.—The term ‘ex-*

1        *cluded corporation' means a corporation which*  
2        *at any time between September 1, 1943, and the*  
3        *date of the adoption of the plan of liquidation, both*  
4        *dates inclusive, was the owner of stock possessing*  
5        *50 per centum or more of the total combined voting*  
6        *power of all classes of stock entitled to vote on the*  
7        *adoption of such plan.*

8                *“(C) Qualified Electing Shareholders.—The*  
9        *term ‘qualified electing shareholder’ means a share-*  
10        *holder (other than an excluded corporation) of any*  
11        *class of stock (whether or not entitled to vote on the*  
12        *adoption of the plan of liquidation) who is a share-*  
13        *holder at the time of the adoption of such plan, and*  
14        *whose written election to have the benefits of sub-*  
15        *paragraph (A) has been made and filed in accord-*  
16        *ance with subparagraph (D), but—*

17                *“(i) in the case of a shareholder other*  
18        *than a corporation, only if written elections*  
19        *have been so filed by shareholders (other than*  
20        *corporations) who at the time of the adoption*  
21        *of the plan of liquidation are owners of stock*  
22        *possessing at least 80 per centum of the total*  
23        *combined voting power (exclusive of voting*  
24        *power possessed by stock owned by corpora-*



1            tions) of all classes of stock entitled to vote on  
2            the adoption of such plan of liquidation; or

3            “(ii) in the case of a shareholder which  
4            is a corporation, only if written elections have  
5            been so filed by corporate shareholders (other  
6            than an excluded corporation) which at the  
7            time of the adoption of such plan of liquida-  
8            tion are owners of stock possessing at least 80  
9            per centum of the total combined voting power  
10           (exclusive of voting power possessed by stock  
11           owned by an excluded corporation and by  
12           shareholders who are not corporations) of all  
13           classes of stock entitled to vote on the adoption  
14           of such plan of liquidation.

15           “(D) Making and Filing of Elections.—The  
16           written elections referred to in subparagraph  
17           (C) must be made and filed in such manner as to  
18           be not in contravention of regulations prescribed  
19           by the Commissioner with the approval of the Sec-  
20           retary. The filing must be within thirty days after  
21           the adoption of the plan of liquidation, and may be  
22           by the liquidating corporation or by the shareholder.

23           “(E) Noncorporate Shareholders.—In the case  
24           of a qualified electing shareholder other than a cor-  
25           poration—

1           “(i) There shall be recognized, and taxed  
2           as a dividend, so much of the gain as is not  
3           in excess of his ratable share of the earnings  
4           and profits of the corporation accumulated  
5           after February 28, 1913, such earnings and  
6           profits to be determined as of December 31,  
7           1943, but without diminution by reason of dis-  
8           tributions made during the month of December,  
9           1943; and

10           “(ii) There shall be recognized, and taxed  
11           as short-term or long-term capital gain, as the  
12           case may be, so much of the remainder of the  
13           gain as is not in excess of the amount by which  
14           the value of that portion of the assets received  
15           by him which consists of money, or of stock or  
16           securities acquired by the corporation after Sep-  
17           tember 1, 1943, exceeds his ratable share of such  
18           earnings and profits.

19           “(F) Corporate Shareholders.—In the case of  
20           a qualified electing shareholder which is a corporation  
21           the gain shall be recognized only to the extent of the  
22           greater of the two following—

23           “(i) The portion of the assets received by  
24           it which consists of money, or of stock or secu-

1            *rities acquired by the liquidating corporation*  
2            *after September 1, 1943; or*

3            *“(ii) Its ratable share of the earnings and*  
4            *profits of the liquidating corporation accumu-*  
5            *lated after February 28, 1913, such earnings*  
6            *and profits to be determined as of December 31,*  
7            *1943, but without diminution by reason of dis-*  
8            *tributions made during the month of December,*  
9            *1943.”*

10            *(b) BASIS OF PROPERTY ACQUIRED.—Section 113*

11            *(a) (relating to basis) is amended by inserting at the end*  
12            *thereof the following new paragraph:*

13            *(22) PROPERTY RECEIVED IN CERTAIN CORPOR-*  
14            *RATE LIQUIDATIONS.—If the property was acquired by a*  
15            *shareholder in the liquidation of a corporation in cancel-*  
16            *lation or redemption of stock with respect to which gain*  
17            *was realized, but with respect to which, as the result of an*  
18            *election made by him under paragraph (10) of section*  
19            *112 (b), the extent to which gain was recognized was*  
20            *determined under such paragraph, then the basis shall be*  
21            *the same as the basis of such stock cancelled or redeemed*  
22            *in the liquidation, decreased in the amount of any money*  
23            *received by him, and increased in the amount of gain*  
24            *recognized to him.”*

25            *(c) TECHNICAL AMENDMENT.—Section 113 (a) (6)*

1 *(relating to basis in case of tax free exchanges) is amended*  
2 *by striking out "or 18" and inserting in lieu thereof "18,*  
3 *or 22".*

4 **SEC. (115)~~139~~ 145. BASIS OF GIFTS.**

5       **(a) GIFTS AFTER DECEMBER 31, 1920.**—The first  
6 sentence of section 113 (a) (2) is amended to read as  
7 follows: "If the property was acquired by gift after Decem-  
8 ber 31, 1920, the basis shall be the same as it would be in  
9 the hands of the donor or the last preceding owner by whom  
10 it was not acquired by gift, except that if such basis (ad-  
11 justed for the period prior to the date of the gift as provided  
12 in subsection (b) ) is greater than the fair market value of  
13 the property at the time of the gift, then for the purpose of  
14 determining loss the basis shall be such fair market value."

15       **(b) TRANSFERS IN TRUST AFTER DECEMBER 31,**  
16 **1920.**—Section 113 (a) (3) is amended to read as follows:

17       **"(3) TRANSFER IN TRUST AFTER DECEMBER 31,**  
18 **1920.**—If the property was acquired after December 31,  
19 1920, by a transfer in trust (other than by a transfer  
20 in trust by a gift, bequest, or devise) the basis shall be  
21 the same as it would be in the hands of the grantor,  
22 increased in the amount of gain or decreased in the  
23 amount of loss recognized to the grantor upon such  
24 transfer under the law applicable to the year in which  
25 the transfer was made."

1 **(116)SEC. 146. BASIS OF PROPERTY IN CASE OF OPTIONAL**  
 2 **VALUE FOR ESTATE TAX PURPOSES.**

3 *(a) BASIS OF PROPERTY.—Section 113 (a) (5) (re-*  
 4 *lating to basis of property transmitted at death) is amended*  
 5 *by adding at the end thereof the following new sentence:*  
 6 *“In the case of an election made by the executor under*  
 7 *section 811 (j), the time of acquisition of the property shall,*  
 8 *for the purpose of this paragraph, be the applicable valua-*  
 9 *tion date of the property prescribed by such section in de-*  
 10 *termining the value of the gross estate.”*

11 *(b) PROPERTY TO WHICH AMENDMENT APPLICA-*  
 12 *BLE.—The amendment made by this section shall be ap-*  
 13 *plicable only with respect to property includible in the*  
 14 *gross estate of a decedent dying after the date of the enact-*  
 15 *ment of this Act.*

16 **SEC. (117)~~131~~ 147. PERCENTAGE DEPLETION FOR COAL,**  
 17 **FLUORSPAR, (118)BALL AND SAGGER**  
 18 **CLAY, ROCK ASPHALT, AND METAL**  
 19 **MINES AND SULPHUR.**

20 *(a) PERCENTAGE DEPLETION.—Section 114 (b) (4)*  
 21 *is amended to read as follows:*

22 *“(4) PERCENTAGE DEPLETION FOR COAL, FLUOR-*  
 23 *SPAR, (119)BALL AND SAGGER CLAY, ROCK ASPHALT,*  
 24 *AND METAL MINES AND SULPHUR.—The allowance for*  
 25 *depletion under section 23 (m) shall be, in the case of*

1 coal mines, 5 per centum, in the case of metal  
 2 **(120)** ~~mines and mines~~, fluorspar **(121)**, *ball and sagger*  
 3 *clay or rock asphalt* mines, 15 per centum, and, in the  
 4 case of sulphur mines or deposits, 23 per centum, of the  
 5 gross income from the property during the taxable year,  
 6 excluding from such gross income an amount equal to any  
 7 rents or royalties paid or incurred by the taxpayer in  
 8 respect of the property. Such allowance shall not exceed  
 9 50 per centum of the net income of the taxpayer (com-  
 10 puted without allowance for depletion) from the prop-  
 11 erty, except that in no case shall the depletion allowance  
 12 under section 23 (m) be less than it would be if  
 13 computed without reference to this paragraph."

14 (b) **DISCOVERY DEPLETION NOT APPLICABLE TO**  
 15 **FLUORSPAR (122), BALL AND SAGGER CLAY OR ROCK**  
 16 **ASPHALT MINES.**—Section 114 (b) (2) is amended by  
 17 striking out "metal, coal, or sulphur mines" and inserting in  
 18 lieu thereof "metal, coal, fluorspar, **(123)***ball and sagger*  
 19 *clay, rock asphalt, or sulphur mines*".

20 **SEC. (124)<sup>132</sup> 143. EFFECT ON EARNINGS AND PROFITS OF**  
 21 **WASH SALE LOSSES.**

22 (a) **WASH SALE LOSSES NOT RECOGNIZED.**—Section  
 23 115 (l) (relating to earnings and profits of corporations) is  
 24 amended by inserting after the third sentence thereof the  
 25 following new sentence: "For the purposes of this subsection,

1 a loss with respect to which a deduction is disallowed under  
2 section 118, or a corresponding provision of a prior income-  
3 tax law, shall not be deemed to be recognized.”

4 (b) EFFECTIVE DATE OF AMENDMENT.—The amend-  
5 ment made by this section shall be effective as if it were made  
6 by section 501 of the Second Revenue Act of 1940.

7 SEC. (125)<sup>133</sup> 149. DISTRIBUTIONS IN LIQUIDATION.

8 Section 115 (c) is amended to read as follows:

9 “(c) DISTRIBUTIONS IN LIQUIDATION.—Amounts dis-  
10 tributed in complete liquidation of a corporation shall be  
11 treated as in full payment in exchange for the stock, and  
12 amounts distributed in partial liquidation of a corporation  
13 shall be treated as in part or full payment in exchange for the  
14 stock. The gain or loss to the distributee resulting from  
15 such exchange shall be determined under section 111, but  
16 shall be recognized only to the extent provided in section  
17 112. In the case of amounts distributed (whether before  
18 January 1, 1939, or on or after such date) in partial liqui-  
19 dation (other than a distribution to which the provisions of  
20 subsection (h) of this section are applicable) the part of  
21 such distribution which is properly chargeable to capital  
22 account shall not be considered a distribution of earnings  
23 or profits. If any distribution in partial liquidation or in  
24 complete liquidation (including any one of a series of dis-  
25 tributions made by the corporation in complete cancellation

1 or redemption of all its stock) is made by a foreign cor-  
 2 poration which with respect to any taxable year beginning  
 3 on or before, and ending after, August 26, 1937, was a for-  
 4 eign personal holding company, and with respect to which a  
 5 United States group (as defined in section 331 (a) (2))  
 6 existed after August 26, 1937, and before January 1, 1938,  
 7 then, despite the foregoing provisions of this subsection, the  
 8 gain recognized resulting from such distribution shall be con-  
 9 sidered as a gain from the sale or exchange of a capital asset  
 10 held for not more than (126)15 6 months."

11 **SEC. (127)124 150. INCOME FROM SOURCES WITHOUT**  
 12 **UNITED STATES IN CERTAIN CASES.**

13 **(128)(a) TERMINATION OF EXCLUSION FROM GROSS IN-**  
 14 **COME OF EARNED INCOME FROM SOURCES WITHOUT**  
 15 **UNITED STATES.**—Section 116 (relating to exclusions from  
 16 gross income) is amended by striking out subsection (a)  
 17 (relating to earned income from sources without the United  
 18 States).

19 **(a) EXCLUSION OF EARNED INCOME FROM FOREIGN**  
 20 **SOURCES.**—Section 116 (a) (relating to earned income from  
 21 sources without the United States) is amended to read as  
 22 follows:

23 **"(a) EARNED INCOME FROM SOURCES WITHOUT THE**  
 24 **UNITED STATES.**—



1           “(1) *FOREIGN RESIDENT FOR ENTIRE TAXABLE*  
2           *YEAR.—In the case of an individual citizen of the United*  
3           *States, who establishes to the satisfaction of the Commis-*  
4           *sioner that he is a bona fide resident of a foreign country*  
5           *or countries during the entire taxable year, amounts re-*  
6           *ceived from sources without the United States (except*  
7           *amounts paid by the United States or any agency thereof)*  
8           *if such amounts would constitute earned income as defined*  
9           *in section 25 (a) if received from sources within the*  
10           *United States; but such individual shall not be allowed*  
11           *as a deduction from his gross income any deductions*  
12           *properly allocable to or chargeable against amounts ex-*  
13           *cluded from gross income under this subsection.*

14           “(2) *TAXABLE YEAR OF CHANGE OF RESIDENCE*  
15           *TO UNITED STATES.—In the case of an individual*  
16           *citizen of the United States, who has been a bona fide*  
17           *resident of a foreign country or countries for a period*  
18           *of at least two years before the date on which he changes*  
19           *his residence from such country to the United States,*  
20           *amounts received from sources without the United States*  
21           *(except amounts paid by the United States or any agency*  
22           *thereof), which are attributable to that part of such*  
23           *period of foreign residence before such date, if such*  
24           *amounts would constitute earned income as defined in*  
25           *section 25 (a) if received from sources within the United*

1     *States; but such individual shall not be allowed as a*  
 2     *deduction from his gross income any deductions properly*  
 3     *allocable to or chargeable against amounts excluded from*  
 4     *gross income under this subsection."*

5     **(b) TAXABLE YEARS TO WHICH AMENDMENT AP-**  
 6     **PLICABLE.**—*The amendment made by subsection (a) shall*  
 7     *be applicable with respect to taxable years beginning after*  
 8     *December 31, 1942, and so much of the amendment made*  
 9     *by subsection (a) as inserts paragraph (2) in section 116 (a)*  
 10    *shall also be applicable to taxable years beginning in 1942.*

11   **(129)(b) INCOME RECEIVED FROM UNITED STATES.**

12   Section 251 (b) (relating to income from sources within pos-  
 13   sessions of United States) is amended to read as follows:

14    **"(b) AMOUNTS RECEIVED IN UNITED STATES OR**  
 15    **FROM GOVERNMENT OF UNITED STATES.**—Notwithstand-  
 16    ing the provisions of subsection (a) there shall be included in  
 17    gross income (1) all amounts received by such citizens or  
 18    corporations within the United States, whether derived from  
 19    sources within or without the United States, and (2) all  
 20    amounts paid by the United States or by any agency thereof  
 21    as compensation for labor or personal services, or under any  
 22    contract with the United States or any agency thereof, except  
 23    that any corporation receiving such amounts may elect,  
 24    under rules and regulations prescribed by the Commissioner  
 25    with the approval of the Secretary, not to be taxed under

1 this section and to be treated as an includible corporation  
2 under section 141 (c) (4)."

3 (c) DEFINITION OF POSSESSION.—Section 251 (d)  
4 (relating to definition of possession) is amended to read as  
5 follows:

6 "(d) DEFINITION.—As used in this section the term  
7 'possession of the United States' includes only the Common-  
8 wealth of the Philippines and Puerto Rico."

9 SEC. (130)<sup>135</sup> 151. RECIPROCAL EXEMPTION OF COMPEN-  
10 SATION OF EMPLOYEES OF THE COM-  
11 MONWEALTH OF THE PHILIPPINES.

12 (a) Section 116 (h) (relating to reciprocal exemp-  
13 tion of official compensation) is amended to read as follows:

14 "(h) COMPENSATION OF EMPLOYEES OF FOREIGN  
15 GOVERNMENTS OR OF THE COMMONWEALTH OF THE  
16 PHILIPPINES.—

17 "(1) RULE FOR EXCLUSION.—Wages, fees, or sal-  
18 ary of an employee of a foreign government or of the  
19 Commonwealth of the Philippines (including a consular  
20 or other officer, or a nondiplomatic representative) re-  
21 ceived as compensation for official services to such gov-  
22 ernment or such Commonwealth—

23 "(A) If such employee is not a citizen of the  
24 United States, or is a citizen of the Commonwealth

1 of the Philippines (whether or not a citizen of the  
2 United States) ; and

3 " (B) If the services are of a character similar  
4 to those performed by employees of the Government  
5 of the United States in foreign countries or in the  
6 Commonwealth of the Philippines, as the case may  
7 be; and

8 " (C) If the foreign government, or the Com-  
9 monwealth of the Philippines, whose employee is  
10 claiming exemption grants an equivalent exemp-  
11 tion to employees of the Government of the United  
12 States performing similar services in such foreign  
13 country or such Commonwealth, as the case may be.

14 " (2) CERTIFICATE BY SECRETARY OF STATE.++

15 The Secretary of State shall certify to the Secretary of  
16 the Treasury the names of the foreign countries which  
17 grant an equivalent exemption to the employees of the  
18 Government of the United States performing services  
19 in such foreign countries, and the character of the  
20 services performed by employees of the Government  
21 of the United States in foreign countries. If the Com-  
22 monwealth of the Philippines grants an equivalent ex-  
23 emption to the employees of the United States perform-  
24 ing services in such Commonwealth the Secretary of

1 State shall certify such fact to the Secretary of the  
 2 Treasury and the character of the services performed by  
 3 employees of the Government of the United States in  
 4 such Commonwealth.”

5 (b) The amendment made by this section shall be  
 6 applicable only to taxable years beginning after December  
 7 31, 1939.

8 **SEC. (131)~~136~~ 152. CAPITAL GAINS AND LOSSES.**

9 (a) **DEFINITIONS.—**

10 (1) **HOLDING PERIOD, SHORT- AND LONG-TERM**  
 11 **GAINS AND LOSSES.**—Section 117 (a) is amended by  
 12 striking out “18 months” wherever occurring therein  
 13 and inserting in lieu thereof “~~(132)~~ 6 months”.

14 (2) **NET SHORT-TERM GAIN.**—Section 117 (a)  
 15 (6) is amended to read as follows:

16 “(6) **NET SHORT-TERM CAPITAL GAIN.**—The term  
 17 ‘net short-term capital gain’ means the excess of short-  
 18 term capital gains for the taxable year over the short-  
 19 term capital losses for such year;”.

20 (b) **DEFINITIONS OF “NET CAPITAL GAIN” AND “NET**  
 21 **CAPITAL LOSS.”**—Section 117 (a) is amended by inserting  
 22 at the end thereof the following new paragraphs:

23 “(10) **NET CAPITAL GAIN.**—

24 “(A) **Corporations.**—In the case of a corpo-  
 25 ration, the term ‘net capital gain’ means the excess

1 of the gains from sales or exchanges of capital assets  
2 over the losses from such sales or exchanges; and:

3 “(B) Other Taxpayers.—In the case of a tax-  
4 payer other than a corporation, the term ‘net capital  
5 gain’ means the excess of (i) the sum of the gains  
6 from sales or exchanges of capital assets, plus net  
7 income of the taxpayer or \$1,000, whichever is  
8 smaller, over (ii) the losses from such sales or ex-  
9 changes. For purposes of this subparagraph, net  
10 income shall be computed without regard to gains or  
11 losses from sales or exchanges of capital assets.

12 “(11) NET CAPITAL LOSS.—The term ‘net capital  
13 loss’ means the excess of the losses from sales or ex-  
14 changes of capital assets over the sum allowed under  
15 subsection (d). For the purpose of determining losses  
16 under this paragraph, amounts which are short-term capi-  
17 tal losses under subsection (e) (1) shall be excluded.”

18 (c) RULE ON TAXABILITY, LIMITATION ON LOSSES,  
19 AND CARRY-OVER.—Section 117 (b), (c), (d), and (e)  
20 are amended to read as follows:

21 “(b) PERCENTAGE TAKEN INTO ACCOUNT.—In the  
22 case of a taxpayer, other than a corporation, only the follow-  
23 ing percentages of the gain or loss recognized upon the sale  
24 or exchange of a capital asset shall be taken into account in  
25 computing net capital gain, net capital loss, and net income:

1           “100 per centum if the capital asset has been held  
2 for not more than ~~(133)~~ 6 months;

3           “50 per centum if the capital asset has been held  
4 for more than ~~(134)~~ 6 months.

5           “(c) ALTERNATIVE TAXES.—

6           “(1) CORPORATIONS.—If for any taxable year the  
7 net long-term capital gain of any corporation exceeds the  
8 net short-term capital loss, there shall be levied, collected,  
9 and paid, in lieu of the tax imposed by sections 13, 14,  
10 15, 201, 204, 207, ~~(135)~~ 362, 363, and 500, a tax  
11 determined as follows, if and only if such tax is less than  
12 the tax imposed by such sections:

13           “A partial tax shall first be computed upon the net  
14 income reduced by the amount of such excess, at the rates  
15 and in the manner as if this subsection had not been en-  
16 acted, and the total tax shall be the partial tax plus 25  
17 per centum of such excess.

18           “(2) OTHER TAXPAYERS.—If for any taxable year  
19 the net long-term capital gain of any taxpayer (other  
20 than a corporation) exceeds the net short-term capital  
21 loss, there shall be levied, collected, and paid, in lieu of  
22 the tax imposed by sections 11 and 12, a tax determined  
23 as follows, if and only if such tax is less than the tax im-  
24 posed by such sections:

25           “A partial tax shall first be computed upon the net

1 income reduced by the amount of such excess, at the rates  
2 and in the manner as if this subsection had not been en-  
3 acted, and the total tax shall be the partial tax plus 50  
4 per centum of such excess.

5 **“(d) LIMITATION ON CAPITAL LOSSES.—**

6 **“(1) CORPORATIONS.—**In the case of a corporation,  
7 losses from sales or exchanges of capital assets shall be  
8 allowed only to the extent of gains from such sales or  
9 exchanges.

10 **“(2) OTHER TAXPAYERS.—**In the case of a tax-  
11 payer, other than a corporation, losses from sales or  
12 exchanges of capital assets shall be allowed only to the  
13 extent of the gains from such sales or exchanges, plus the  
14 net income of the taxpayer or \$1,000, whichever is  
15 smaller. For purposes of this paragraph, net income  
16 shall be computed without regard to gains or losses from  
17 sales or exchanges of capital assets.

18 **“(e) CAPITAL LOSS CARRY-OVER.—**

19 **“(1) METHOD OF COMPUTATION.—**If for any tax-  
20 able year beginning after December 31, 1941, the tax-  
21 payer has a net capital loss, the amount thereof shall be a  
22 short-term capital loss in each of the five succeeding tax-  
23 able years to the extent that such amount exceeds the  
24 total of any net capital gains of any taxable years inter-  
25 vening between the taxable year in which the net capital



1 loss arose and such succeeding taxable year. For pur-  
 2 poses of this paragraph a net capital gain shall be com-  
 3 puted without regard to such net capital loss or to any  
 4 net capital losses arising in any such intervening taxable  
 5 years.

6 “(2) RULE FOR APPLICATION OF CAPITAL LOSS  
 7 CARRY-OVER FROM 1941.—The amount of the net short-  
 8 term capital loss of the last taxable year beginning in  
 9 1941 (computed without regard to amounts treated as  
 10 short-term capital losses from the preceding taxable  
 11 year), which is not in excess of the net income for such  
 12 taxable year, shall, to the extent of the net short-term  
 13 capital gain for the succeeding taxable year (computed  
 14 without regard to this paragraph), be a short-term  
 15 capital loss of such succeeding taxable year.”

16 (d) BOND, ETC., LOSSES OF BANKS (136) ~~AND INSUR-~~  
 17 ~~ANCE COMPANIES.~~—Section 117 is amended by inserting at  
 18 the end thereof the following new subsection:

19 “(i) BOND, ETC., LOSSES OF BANKS (137) ~~AND INSUR-~~  
 20 ~~ANCE COMPANIES.~~—For the purpose of this chapter, in the  
 21 cases of (1) a life insurance company, as defined in section 201  
 22 (a), and (2) For the purposes of this chapter, in the case  
 23 of a bank, as defined in section 104, if the losses of the  
 24 taxable year from sales or exchanges of bonds, debentures,  
 25 notes, or certificates, or other evidence of indebtedness

1 issued by any corporation (including one issued by a govern-  
2 ment, or political subdivision thereof) with interest coupons  
3 or in registered form, exceed the gains of the taxable year  
4 from such sales or exchanges, no such sale or exchange shall  
5 be considered a sale or exchange of a capital asset."

6 (e) NET OPERATING LOSS DEDUCTION.—Section 122

7 (d) (4) is amended to read as follows:

8 " (4) Gains and losses from sales or exchanges of  
9 capital assets shall be taken into account without regard  
10 to the provisions of section 117 (b). As so computed  
11 the amount deductible on account of such losses shall not  
12 exceed the amount includible on account of such gains."

13 (f) CAPITAL GAINS AND LOSSES OF COMMON TRUST  
14 FUNDS.—

15 (1) INCOME OF PARTICIPANTS IN FUND.—

16 (A) Section 169 (c) (1) (A) is amended to  
17 read as follows:

18 " (A) As part of its gains and losses from sales  
19 or exchanges of capital assets held for not more than  
20 (138)45 6 months, its proportionate share of the  
21 gains and losses of the common trust fund from sales  
22 or exchanges of capital assets held for not more than  
23 (139)45 6 months."

24 (B) Section 169 (c) (1) (B) is amended to  
25 read as follows:

1           “(B) As part of its gains and losses from sale  
2           or exchanges of capital assets held for more than  
3           (140) ~~15~~ 6 months, its proportionate share of the  
4           gains and losses of the common trust fund from sale  
5           or exchanges of capital assets held for more than  
6           (141) ~~15~~ 6 months.”

7           (2) COMPUTATION OF COMMON TRUST FUND IN  
8           COME.—Section 169 (d) (1) and (2) are amended to  
9           read as follows:

10          “(d) COMPUTATION OF COMMON TRUST FUND IN  
11          COME.—The net income of the common trust fund shall be  
12          computed in the same manner and on the same basis as in the  
13          case of an individual, except that—

14               “(1) There shall be segregated the gains and losses  
15               from sales or exchanges of capital assets;

16               “(2) After excluding all items of gain and loss from  
17               sales or exchanges of capital assets, there shall be com-  
18               puted—

19                       “(A) An ordinary net income which shall con-  
20                       sist of the excess of the gross income over deductions;

21                       or

22                       “(B) An ordinary net loss which shall consist of  
23                       the excess of the deductions over the gross income;”

24          (g) CAPITAL GAINS AND LOSSES OF PARTNERS.—

25               (1) TAX OF PARTNERS.—

1 (A) Section 182 (a) is amended to read as  
2 follows:

3 “(a) As part of his gains and losses from sales or ex-  
4 changes of capital assets held for not more than (142)15 6  
5 months, his distributive share of the gains and losses of the  
6 partnership from sales or exchanges of capital assets held for  
7 not more than (143)15 6 months.”

8 (B) Section 182 (b) is amended to read as  
9 follows:

10 “(b) As part of his gains and losses from sales or  
11 exchanges of capital assets held for more than (144)15 6  
12 months, his distributive share of the gains and losses of the  
13 partnership from sales or exchanges of capital assets held for  
14 more than (145)15 6 months.”

15 (2) COMPUTATION OF PARTNERSHIP INCOME.—

16 (A) Section 183 (b) (1) and (2) are  
17 amended to read as follows:

18 “(b) SEGREGATION OF ITEMS.—

19 “(1) CAPITAL GAINS AND LOSSES.—There shall be  
20 segregated the gains and losses from sales or exchanges  
21 of capital assets.

22 “(2) ORDINARY NET INCOME OR LOSS.—After ex-  
23 cluding all items of gain and loss from sales or exchanges  
24 of capital assets, there shall be computed—

25 “(A) An ordinary net income which shall con-



1 definition of "capital assets"), is amended by striking out "or  
 2 property, used in the trade or business, of a character which  
 3 is subject to the allowance for depreciation provided in sec-  
 4 tion 23 (1)," and inserting in lieu thereof "or property  
 5 (other than buildings and similar real property improve-  
 6 ments), used in the trade or business, of a character which  
 7 is subject to the allowance for depreciation provided in  
 8 section 23 (1)."

9 (b) **GAINS AND LOSSES FROM INVOLUNTARY CON-**  
 10 **VERSION AND FROM THE SALE OR EXCHANGE OF CERTAIN**  
 11 **DEPRECIABLE PROPERTY.**—Section 117 (relating to capital  
 12 gains and losses) is amended by inserting at the end thereof  
 13 the following new subsection:

14 "(j) **GAINS AND LOSSES FROM INVOLUNTARY CON-**  
 15 **VERSION AND FROM THE SALE OR EXCHANGE OF CERTAIN**  
 16 **DEPRECIABLE PROPERTY.**—

17 "(1) **DEFINITION OF DEPRECIABLE PROPERTY.**—

18 For the purposes of this subsection, the term 'depreciable  
 19 property' means property (other than buildings and simi-  
 20 lar real property improvements), used in the trade or  
 21 business, of a character which is subject to the allow-  
 22 ance for depreciation provided in section 23 (1), held  
 23 for more than fifteen months.

24 (a) **REAL PROPERTY NOT TREATED AS CAPITAL**  
 25 **ASSET.**—Section 117 (a) (1) (relating to the definition of

1 "capital assets") is amended by inserting immediately before  
 2 the semicolon at the end thereof a comma and the following:  
 3 "or real property used in the trade or business of the tax-  
 4 payer".

5 (b) **GAINS AND LOSSES FROM INVOLUNTARY CON-**  
 6 **VERSION AND FROM THE SALE OR EXCHANGE OF CER-**  
 7 **TAIN PROPERTY USED IN THE TRADE OR BUSINESS.—**

8 Section 117 (relating to capital gains and losses) is amended  
 9 by inserting at the end thereof the following new subsection:

10 "(j) **GAINS AND LOSSES FROM INVOLUNTARY CON-**  
 11 **VERSION AND FROM THE SALE OR EXCHANGE OF CER-**  
 12 **TAIN PROPERTY USED IN THE TRADE OR BUSINESS.—**

13 "(1) **DEFINITION OF PROPERTY USED IN THE**

14 **TRADE OR BUSINESS.—**For the purposes of this sub-

15 section, the term 'property used in the trade or business'

16 means property used in the trade or business, of a char-

17 acter which is subject to the allowance for depreciation

18 provided in section 23 (l), held for more than 6 months,

19 and real property used in the trade or business, held

20 for more than 6 months, which is not (A) property of

21 a kind which would properly be includible in the inven-

22 tory of the taxpayer if on hand at the close of the taxable

23 year, or (B) property held by the taxpayer primarily for

24 sale to customers in the ordinary course of his trade or

25 business.

1                   “(2) GENERAL RULE.—If, during the taxable year,  
 2                   the recognized gains upon sales or exchanges of (150) de-  
 3                   preciable property *property used in the trade or business*,  
 4                   plus the recognized gains from the compulsory or involun-  
 5                   tary conversion (as a result of destruction in whole or  
 6                   in part, theft or seizure, or an exercise of the power of  
 7                   requisition or condemnation or the threat or ~~contingence~~  
 8                   thereof) of (151) depreciable property *property used in*  
 9                   *the trade or business* and capital assets held for more than  
 10                  (152) fifteen 6 months into other property) or money,  
 11                  exceed the recognized losses from such sales, exchanges,  
 12                  and conversions, such gains and losses shall be considered  
 13                  as gains and losses from sales or exchange of capital  
 14                  assets held for more than (153) fifteen 6 months. If  
 15                  such gains do not exceed such losses, such gains and  
 16                  losses shall not be considered as gains and losses from  
 17                  sales or exchanges of capital assets. For the purposes  
 18                  of this paragraph:

19                   “(A) In determining under this paragraph  
 20                   whether gains exceed losses, the gains and losses  
 21                   described therein shall be included only if and to the  
 22                   extent taken into account in computing net income,  
 23                   except that subsections (b) and (d) shall not apply.

24                   “(B) Losses upon the destruction, in whole or



1           in part, theft or seizure, or requisition or condemna-  
 2           tion of (154)depreciable property property used in  
 3           the trade or business or capital assets held for more  
 4           than (155)fifteen 6 months shall be considered  
 5           losses from a compulsory or involuntary conver-  
 6           sion.”

7           (156)(c) *HOLDING PERIOD OF PROPERTY ACQUIRED*  
 8           *IN EXCHANGE FOR PROPERTY INVOLUNTARILY CON-*  
 9           *VERTED.*

10           (1) *IN GENERAL.*—Section 117 (h) (1) is amended  
 11           by inserting after the period at the end thereof the follow-  
 12           ing new sentence: “For the purposes of this paragraph,  
 13           an involuntary conversion described in section 112 (f)  
 14           shall be considered an exchange of the property con-  
 15           verted for the property acquired.”

16           (2) *TAXABLE YEARS TO WHICH APPLICABLE.*—  
 17           The amendment made by paragraph (1) shall be appli-  
 18           cable with respect to taxable years beginning after Decem-  
 19           ber 31, 1938.

20           (157)(e) (d) *RECOGNITION OF LOSS ON INVOLUNTARY*  
 21           *CONVERSIONS.*—Section 112 (f) (relating to the nonrecog-  
 22           nition of gain and loss on involuntary conversions) is  
 23           amended by striking out “no gain or loss shall be recognized”  
 24           and inserting in lieu thereof “no gain shall be recognized,  
 25           but loss shall be recognized”.

1 **(158)(e) PARTIAL FAILURE TO REPLACE PROPERTY.—**

2 *The last sentence of section 112 (f) is amended to read as fol-*  
 3 *lows: "If any part of the money is not so expended, the gain,*  
 4 *if any, shall be recognized to the extent of the money which is*  
 5 *not so expended (regardless of whether such money is received*  
 6 *in one or more taxable years and regardless of whether or*  
 7 *not the money which is not so expended constitutes gain)."*

8 **SEC. (159) 138 154. HOLDING PERIOD OF STOCK ACQUIRED**

9 **THROUGH EXERCISE OF RIGHTS. 0**

10 Section 117 (h) (relating to the holding period of  
 11 capital assets) is amended by inserting at the end thereof  
 12 the following new paragraph:

13 " (6) In determining the period for which the tax-  
 14 payer has held stock or securities acquired from a cor-  
 15 poration by the exercise of rights to acquire such stock  
 16 or securities, there shall be included only the period  
 17 beginning with the date upon which the right to acquire  
 18 was exercised."

19 **(160) SEC. 155. TWO-YEAR CARRY-BACK OF NET OPERATING**

20 **LOSSES. 02**

21 **(a) DETERMINATION OF CARRY-BACK.—Section 122**

22 **(b) (relating to the amount of the net operating loss carry-**  
 23 **over), is amended to read as follows:**

24 **"(b) AMOUNT OF CARRY-BACK AND CARRY-OVER.—**

25 **"(1) NET OPERATING LOSS CARRY-BACK.—If for**

1 any taxable year beginning after December 31, 1941, the  
2 taxpayer has a net operating loss, such net operating loss  
3 shall be a net operating loss carry-back for each of the two  
4 preceding taxable years, except that the carry-back in the  
5 case of the first preceding taxable year shall be the excess,  
6 if any, of the amount of such net operating loss over the  
7 net income for the second preceding taxable year com-  
8 puted (A) with the exceptions, additions, and limitations  
9 provided in subsection (d) (1), (2), (4), and (6), and  
10 (B) by determining the net operating loss deduction for  
11 such second preceding taxable year without regard to  
12 such net operating loss.

13 "(2) NET OPERATING LOSS CARRY-OVER.—If for  
14 any taxable year the taxpayer has a net operating loss,  
15 such net operating loss shall be a net operating loss carry-  
16 over for each of the two succeeding taxable years, except  
17 that the carry-over in the case of the second succeeding  
18 taxable year shall be the excess, if any, of the amount of  
19 such net operating loss over the net income for the inter-  
20 vening taxable year computed (A) with the exceptions,  
21 additions, and limitations provided in subsection (d) (1),  
22 (2), (4), and (6), and (B) by determining the net  
23 operating loss deduction for such intervening taxable year  
24 without regard to such net operating loss and without  
25 regard to any net operating loss carry-back. For the

1. purposes of the preceding sentence, the net operating loss  
 2. for any taxable year beginning after December 31, 1941  
 3. shall be reduced by the sum of the net income for each  
 4. of the two preceding taxable years (computed for each  
 5. such preceding taxable year with the exceptions, additions,  
 6. and limitations provided in subsection (d) (1), (2),  
 7. (4), and (6), and computed by determining the net  
 8. operating loss deduction without regard to such net operat-  
 9. ing loss or to the net operating loss for the succeeding  
 10. taxable year)."

11. **(b) AMOUNT OF NET OPERATING LOSS DEDUCTION.—**

12. Section 122 (c), relating to the amount of the net operating  
 13. loss deduction, is amended by inserting in lieu of "amount of  
 14. the net operating loss carry-over" the following: "aggregate  
 15. of the net operating loss carry-overs and of the net operating  
 16. loss carry-backs to the taxable year".

17. (c) Section 122 (e) is amended to read as follows:

18. **"(e) NO CARRY-BACK TO YEAR PRIOR TO 1941.—**As  
 19. used in this section, the term 'preceding taxable year' and the  
 20. term 'preceding taxable years' do not include any taxable  
 21. year beginning prior to January 1, 1941."

22. **(d) LIMITATION ON INTEREST ON OVERPAYMENT**

23. **CAUSED BY A CARRY-BACK OF LOSS OR CREDIT.—**Sec-

24. tion 3771 (relating to interest on overpayments) is amended

25. by inserting at the end thereof the following:

1       “(e) **CLAIMS BASED ON CARRY-BACK OF LOSS OR**  
 2       **CREDIT.**—If the Commissioner determines that any part of  
 3       an overpayment is attributable to the inclusion in computing  
 4       the net operating loss deduction for the taxable year of any  
 5       part of the net operating loss for a succeeding taxable year  
 6       or to the inclusion in computing the unused excess profits  
 7       credit adjustment for the taxable year of any part of the  
 8       unused excess profits credit for a succeeding taxable year, no  
 9       interest shall be allowed or paid with respect to such part of  
 10      the overpayment for any period before the filing of a claim  
 11      for credit or refund of such part of the overpayment or the  
 12      filing of a petition with the Board, whichever is earlier.”

13      “(e) **EFFECTIVE DATE.**—The amendments made by this  
 14      section shall be applicable only to taxable years beginning  
 15      after December 31, 1940.

16      **SEC. (161)139 156. COMMODITY CREDIT LOANS.**

17      “(a) **TAXABLE YEARS SUBJECT TO CODE.**—Section 123  
 18      is amended by inserting at the end thereof the following:

19      “(c) The election provided for in subsection (a) with  
 20      respect to taxable years beginning after December 31, 1938,  
 21      and before January 1, 1942, may be exercised by the tax-  
 22      payer at, or at any time prior to, the time prescribed for the  
 23      filing of the taxpayer's return for the taxable year of the  
 24      taxpayer beginning in 1942, or if there is more than one  
 25      taxable year of the taxpayer beginning in 1942, for the last

1 taxable year so beginning (162), provided the records of the  
 2 taxpayer are sufficient to permit an accurate computation of  
 3 income for such years, and taxpayer consents in writing  
 4 to the assessment, within such period as may be agreed upon,  
 5 of any deficiency for such years, even though the statutory  
 6 period for the assessment of any such deficiency had expired  
 7 prior to the filing of such consent."

8 (b) TAXABLE YEARS SUBJECT TO PRIOR LAWS.  
 9 Section 223 (d) of the Revenue Act of 1939 is amended  
 10 by striking out "within one year from the date of the enact-  
 11 ment of this Act" and inserting in lieu thereof "at or prior  
 12 to the time prescribed for the filing of the taxpayer's return  
 13 for the taxable year of the taxpayer beginning in 1942, or  
 14 if there is more than one taxable year of the taxpayer begin-  
 15 ning in 1942, for the last taxable year so beginning".

16 SEC. (163) 149 157. EXTENSION OF DEDUCTION FOR AMOR-  
 17 TIZATION OF EMERGENCY FACILI-  
 18 TIES (164) TO PERSONS OTHER THAN  
 19 CORPORATIONS.

20 (a) GENERAL RULE.—The first sentence of section 124  
 21 (a) is amended to read as follows: "Every person, at his  
 22 election, shall be entitled to a deduction with respect to the  
 23 amortization of the adjusted basis (for determining gain) of  
 24 any emergency facility (as defined in subsection (e))  
 25 based on a period of sixty months."

1 (b) ELECTION OF AMORTIZATION.—Section 124 (b)  
 2 is amended by adding at the end thereof the following new  
 3 sentence: “In the case of an emergency facility completed  
 4 or acquired (1) after December 31, 1939, and before June  
 5 11, 1940, by a corporation, or (2) after December 31, 1939,  
 6 and before January 1, 1942, by a person other than a cor-  
 7 poration, the taxpayer’s election to take the amortization  
 8 deduction and to begin such period with either the month  
 9 following the month in which the facility was completed  
 10 or acquired or with the succeeding taxable year shall be  
 11 made only by a statement in writing to that effect to the  
 12 Commissioner and shall be made before the expiration of  
 13 (165) three six months after the date of enactment of the  
 14 Revenue Act of 1942.”

15 (c) TERMINATION OF AMORTIZATION PERIOD.—

16 (166) (1) Section 124 (d) (3) is amended to read as  
 17 follows:  
 18 (3) In the case of a taxpayer which has not  
 19 elected, in the manner prescribed in subsection (b), to  
 20 take an amortization deduction with respect to an emer-  
 21 gency facility, if the date of the proclamation or the  
 22 date specified in the certificate, referred to in paragraph  
 23 (1) of this subsection, whichever is earlier, is before the  
 24 expiration of sixty months from the last day of the month  
 25 in which such emergency facility was completed or ac-

11 required, then the taxpayer may elect (in accordance with  
 21 paragraph (4) of this subsection) the amortization  
 3 deduction provided in subsection (a), using an amorti-  
 4 zation period beginning with the month following the  
 5 month in which the emergency facility was completed or  
 6 acquired and ending as of the end of the month within  
 7 which such proclamation was issued or within which  
 8 occurred the date specified in such certificate, whichever  
 9 is the earlier."

10 (167)(2) Section 124 (d) is amended by inserting at the  
 11 end thereof the following new paragraph:

12 " (6) In the case of a taxpayer which has not elected,  
 13 in the manner prescribed in subsection (b), to take an  
 14 amortization deduction with respect to an emergency  
 15 facility, if the date of the proclamation referred to in  
 16 paragraph (1) of this subsection or the date specified in  
 17 the certificate referred to in paragraph (1) of this sub-  
 18 section is before the completion of such emergency facility,  
 19 then the taxpayer may elect (in accordance with para-  
 20 graph (4) of this subsection) the amortization deduction  
 21 provided in subsection (a), using an amortization period  
 22 beginning with the month in which the construction, re-  
 23 construction, erection, or installation of the emergency  
 24 facility was begun and ending as of the end of the month  
 25 within which such proclamation was issued or within



1 which occurred the date specified in the certificate referred  
 2 to in paragraph (1) of this subsection, whichever is the  
 3 earlier." (1)

4 (d) DEFINITIONS.—Section 124 (e) is amended to read  
 5 as follows:

6 (e) DEFINITIONS.—

7 (1) EMERGENCY FACILITY.—As used in this sec-  
 8 tion, the term 'emergency facility' means any facility,  
 9 land, building, machinery, or equipment, or part thereof,  
 10 the construction, reconstruction, erection, installation, or  
 11 acquisition of which was completed after December 31,  
 12 1939, and with respect to which a certificate under sub-  
 13 section (f) has been made. (168) For the purposes of  
 14 this section, the part of any facility which was constructed,  
 15 reconstructed, erected, or installed by any person after  
 16 December 31, 1939, and not earlier than six months  
 17 prior to the filing of an application for a certificate under  
 18 subsection (f), and with respect to which part a certifi-  
 19 cate under subsection (f) has been made, shall be  
 20 deemed to be an emergency facility, notwithstanding that  
 21 the other part of such facility was constructed, recon-  
 22 structed, erected, or installed earlier than six months  
 23 prior to the filing of such application. For the purposes  
 24 of this section, the part of any (169) emergency facility  
 25 which was constructed, reconstructed, erected, or in-

1 stalled by a corporation after December 31, 1939, and  
 2 before June 11, 1940, and with respect to which part  
 3 of a certificate under subsection (f) has been made, shall  
 4 be deemed to be an emergency facility and to have been  
 5 completed on June 10, 1940, notwithstanding that the  
 6 entire facility was not completed until after June 10,  
 7 1940.

8 **(2) EMERGENCY PERIOD.**—As used in this section,  
 9 the term ‘emergency period’ means the period beginning  
 10 January 1, 1940, and ending on the date on which the  
 11 President proclaims that the utilization of a substantial  
 12 portion of the emergency facilities with respect to which  
 13 certifications under subsection (f) have been made is no  
 14 longer required in the interest of national defense.”

15 **(e) DETERMINATION OF ADJUSTED BASIS OF EMER-**  
 16 **GENCY FACILITY.**—

17 **(1)** Section 124 (f) (1) is amended to read as  
 18 follows:

19 **“(1)** There shall be included only so much of the  
 20 amount otherwise constituting such adjusted basis as is  
 21 properly attributable to such construction, reconstruction,  
 22 erection, installation, or acquisition after December 31,  
 23 1939, as either the Secretary of War or the Secretary  
 24 of the Navy has certified as necessary in the interest  
 25 of national defense during the emergency period, which

1 certification shall be under such regulations as may be  
2 prescribed from time to time by the Secretary of War  
3 and the Secretary of the Navy, with the approval of  
4 the President."

5 (2) Section 124 (f) (3) is amended to read as  
6 follows:

7 " (3) The certificate provided for in paragraph (1)  
8 shall have no effect unless an application therefor is filed  
9 before the expiration of six months after the beginning of  
10 such construction, reconstruction, erection, or installation  
11 or the date of such acquisition, or before December 1,  
12 1941, whichever is later, except that—

13 " (A) in the case of an emergency facility com-  
14 pleted or acquired by a corporation after December  
15 31, 1939, and before June 11, 1940, such certificate  
16 shall have no effect unless an application therefor is  
17 filed before the expiration of (170)three *six* months  
18 after the date of the enactment of the Revenue Act  
19 of 1942, and

20 " (B) in the case of an emergency facility com-  
21 pleted or acquired after December 31, 1939, by a  
22 person other than a corporation, such certificate shall  
23 have no effect unless an application therefor is filed  
24 before the expiration of six months after the begin-  
25 ning of such construction, reconstruction, erection, or

11011 the installation or the date of such acquisition, or before  
 12012 the expiration of (171) ~~three~~ *six* months after the  
 13013 (i) the date of the enactment of the Revenue Act of 1942,  
 14014 whichever is later.

15015 In no event and notwithstanding any of the other pro-  
 16016 visions of this section, no amortization deduction shall  
 17017 be allowed in respect of any emergency facility for any  
 18018 taxable year—

19019 (C) unless a certificate in respect thereof un-  
 20020 der paragraph (1) shall have been made (i) prior  
 21021 to the filing of the taxpayer's return for such  
 22022 taxable year, or prior to the making of an election  
 23023 pursuant to subsection (d) (3) (172) or subsection  
 24024 (d) (6) of this section to take the amortization  
 25025 deduction; or (ii) before December 1, 1941, which-  
 26026 ever is later; or

27027 (D) in the case of an emergency facility  
 28028 completed or acquired by a corporation after De-  
 29029 cember 31, 1939, and before June 11, 1940, unless  
 30030 a certificate in respect thereof under paragraph (1)  
 31031 shall have been made prior to the expiration of  
 32032 (173) *nine twelve* months after the date of enactment  
 33033 of the Revenue Act of 1942; or

34034 (E) in the case of an emergency facility  
 35035 completed or acquired after December 31, 1939, and

1 before January 1, 1943, by a person other than a  
 2 corporation, unless a certificate in respect thereof  
 3 under paragraph (1) shall have been made (i) prior  
 4 to the expiration of (174)~~six~~ *nine* months after the  
 5 last date upon which an application for such certifi-  
 6 cate may be filed, or (ii) prior to the expiration of  
 7 (175)~~nine~~ *twelve* months after the date of enactment  
 8 of the Revenue Act of 1942, whichever is later."

9 (f) LIFE TENANT AND REMAINDERMAN.—Section 124  
 10 is amended by inserting at the end thereof the following new  
 11 subsection:

12 " (i) LIFE TENANT AND REMAINDERMAN.—In the  
 13 case of property held by one person for life with remainder  
 14 to another person, the deduction shall be computed as if the  
 15 life tenant were the absolute owner of the property and shall  
 16 be allowable to the life tenant."

17 (g) ALLOWANCE TO ESTATE OR TRUST.—Supplement  
 18 E (relating to estates and trusts) of Chapter 1 is amended  
 19 by inserting at the end thereof the following new section:

20 "SEC. 172. ALLOWANCE OF AMORTIZATION DEDUCTION.

21 "The benefit of the deduction for amortization of emer-  
 22 gency facilities allowed by section 23 (t) shall be allowed  
 23 to estates and trusts in the same manner and to the same  
 24 extent as in the case of an individual. The allowable deduc-  
 25 tion shall be apportioned between the income beneficiaries

1 and the fiduciary under regulations prescribed by the Com-  
2 missioner with the approval of the Secretary."

3 (h) PARTNERSHIPS.—Supplement F (relating to part-  
4 nerships), of Chapter 1 is amended by inserting at the end  
5 thereof the following new section:

6 "SEC. 190. ALLOWANCE OF AMORTIZATION DEDUCTION.

7 "In the case of emergency facilities of a partnership, the  
8 benefit of the deduction for amortization allowed by section  
9 23 (t) shall not be allowed to the members of a partnership  
10 but shall be allowed to the partnership in the same manner  
11 and to the same extent as in the case of an individual."

12 (i) RETROACTIVE APPLICATION OF EXTENSION  
13 (176) TO PERSONS OTHER THAN CORPORATIONS.—The  
14 amendments made by this section shall be effective as of  
15 October 8, 1940.

16 (j) OVERPAYMENTS.—Where a tax paid under Chap-  
17 ter 1 (177), Chapter 2B, or Chapter 2E of the Internal Rev-  
18 enue Code is in excess of the tax which would have been paid  
19 had section 124 of the Internal Revenue Code, as previously  
20 amended, been enacted on October 8, 1940, to read as  
21 amended by this section, then credit or refund of such excess  
22 may be made without interest, in accordance with the provi-  
23 sions of law applicable in the case of erroneous or illegal  
24 assessment or collection or overpayment of the tax.

## 1 (178) SEC. 158. WAR LOSSES.

2 (a) LOSSES FROM WAR, TAXATION OF PROPERTY  
3 RECOVERED, AND BASIS OF PROPERTY.—The Internal  
4 Revenue Code is amended by inserting after section 126 the  
5 following new section:

## 6 "SEC. 127. WAR LOSSES.

7 "(a) CASES IN WHICH LOSS DEEMED SUSTAINED,  
8 AND TIME DEEMED SUSTAINED.—For the purposes of this  
9 chapter—

## 10 "(1) PROPERTY NOT IN ENEMY COUNTRIES.—

11 Property destroyed or seized on or after December 7,  
12 1941, in the course of military or naval operations by  
13 the United States or any other country engaged in the  
14 present war shall be deemed to have been destroyed or  
15 seized on a date chosen by the taxpayer in the manner  
16 provided in paragraph (4), which falls between—

17 "(A) the latest date, as established to the satis-  
18 faction of the Commissioner, on which such property  
19 may be considered as not destroyed or seized, and

20 "(B) the earliest date, as established to the  
21 satisfaction of the Commissioner, on which such  
22 property may be considered as having already been  
23 destroyed or seized.

24 For the purposes of this paragraph property within an  
25 area which comes under the control of a country at war

1 with the United States after the date war with such  
2 country is declared by the United States shall be deemed  
3 to have been destroyed or seized in the course of military  
4 or naval operations by such country, and the date  
5 specified in subparagraph (A) shall not be later than  
6 the latest date determined by the Commissioner as the  
7 date on which such area was under the control of the  
8 United States or a country not at war with the United  
9 States, and the date specified in subparagraph (B) shall  
10 not be later than the earliest date determined by the Com-  
11 missioner as the date on which such area may be consid-  
12 ered under the control of the country which is at war with  
13 the United States.

14       “(2) *PROPERTY IN ENEMY COUNTRIES.*—Prop-  
15 erty within any country at war with the United States,  
16 or within an area under the control of any such coun-  
17 try on the date war with such country was declared  
18 by the United States, shall be deemed to have been de-  
19 stroyed or seized on the date war with such country  
20 was declared by the United States.

21       “(3) *INVESTMENTS REFERABLE TO DESTROYED*  
22 *OR SEIZED PROPERTY.*—Any interest in, or with re-  
23 spect to, property described in paragraph (1) or (2)  
24 (including any interest represented by a security as



1. defined in section 23 (g) (3) or section 23 (k) (3))  
2. which becomes worthless shall be considered to have been  
3. destroyed or seized (and the loss therefrom shall be con-  
4. sidered a loss from the destruction or seizure) on the date  
5. chosen by the taxpayer which falls between the dates  
6. specified in paragraph (1), or on the date prescribed  
7. in paragraph (2), as the case may be, when the last  
8. property (described in the applicable paragraph) to  
9. which the interest relates would be deemed destroyed  
10. or seized under the applicable paragraph. This para-  
11. graph shall apply only if the interest would have be-  
12. come worthless if the property had been destroyed. For  
13. the purposes of this paragraph, an interest shall be deemed  
14. to have become worthless notwithstanding the fact that  
15. such interest has a value if such value is attributable  
16. solely to the possibility of recovery of the property, com-  
17. pensation (other than insurance or similar indemnity)  
18. on account of its destruction or seizure, or both. Section  
19. 23 (g) (2) and (k) (2) shall not apply to any interest  
20. which under this paragraph is considered to have been  
21. destroyed or seized.

22.       “(4) CHOICE OF DATE.—The taxpayer’s choice of  
23. a date under paragraph (1) or (3) shall be effective only  
24. if made within such time and in such manner as may be

1     *prescribed by regulations prescribed by the Commissioner*  
2     *with the approval of the Secretary.*

3     “(b) *AMOUNT OF LOSS ON DESTROYED OR SEIZED*  
4     *PROPERTY.—In the case of any property or interest in or*  
5     *with respect to property deemed to be destroyed or seized under*  
6     *subsection (a)—*

7     “(1) *The amount of the loss on account of such*  
8     *property or interest shall be determined with regard to*  
9     *any recoveries with respect thereto in the taxable year*  
10    *but without regard to any possibility of recovering such*  
11    *property or interest, or of receiving any compensation*  
12    *(other than insurance or similar indemnity) on account*  
13    *of such property or interest in the taxable year or in*  
14    *any future taxable year.*

15    “(2) *The taxpayer may choose to decrease the*  
16    *amount of the loss by all obligations or liabilities of the*  
17    *taxpayer with respect to such property or interest dis-*  
18    *charged or satisfied out of the property or interest upon*  
19    *its destruction or seizure, if the Commissioner is satisfied*  
20    *that such obligations or liabilities are so discharged or*  
21    *satisfied in a subsequent taxable year, or that the tax-*  
22    *payer is unable to determine whether or not such obliga-*  
23    *tions or liabilities are in fact discharged or satisfied.*  
24    *No loss shall be deemed to have been sustained upon the*

1. destruction or seizure of such property or interest to the  
2 extent that it is compensated for by the discharge or satisfac-  
3 tion of obligations and liabilities of the taxpayer out of such  
4 property or interest in the taxable year in which such destruc-  
5 tion or seizure is deemed to have occurred. The taxpayer's  
6 choice under this subsection shall be effective only if made  
7 within such time and in such manner as may be prescribed  
8 by regulations prescribed by the Commissioner with the  
9 approval of the Secretary.

10 **“(c) RECOVERIES INCLUDED IN GROSS INCOME.—**

11 **“(1) GENERAL RULE.—**Upon the recovery in the  
12 taxable year of any money or property in respect of  
13 property considered under subsection (a) as destroyed  
14 or seized in any prior taxable year, the amount of  
15 such recovery shall be included in gross income to the  
16 extent provided in paragraph (2).

17 **“(2) AMOUNT OF GAIN INCLUDIBLE.—**The amount  
18 of the recovery of any money or property in respect of  
19 property considered under subsection (a) as destroyed  
20 or seized shall be an amount equal to the aggregate of  
21 such money and the fair market value of such property,  
22 determined as of the date of the recovery. To the extent  
23 that such amount plus the aggregate of the amounts of  
24 previous such recoveries do not exceed that part of the  
25 aggregate of the allowable deductions in prior taxable

1        years on account of the destruction or seizure of property  
2        described in subsection (a) which did not result in a re-  
3        duction of any tax of the taxpayer under this chapter,  
4        such amount shall not be includible in gross income and  
5        shall not be deemed gain upon the involuntary conversion  
6        of property as a result of its destruction or seizure. To  
7        the extent that such amount plus the aggregate of the  
8        amounts of previous such recoveries exceed that part of  
9        the aggregate of such deductions which did not result in  
10       a reduction of any tax of the taxpayer under this chapter  
11       and do not exceed that part of the aggregate of such  
12       deductions which did result in a reduction of any tax of  
13       the taxpayer under this chapter, such amount shall be  
14       included in gross income but shall not be deemed a gain  
15       upon the involuntary conversion of property as a result  
16       of its destruction or seizure. To the extent that such  
17       amount plus the aggregate of the amounts of previous  
18       such recoveries exceed the aggregate of the allowable de-  
19       ductions in prior taxable years on account of the destruc-  
20       tion or seizure of property described in subsection (a),  
21       such amount shall be considered a gain upon the in-  
22       voluntary conversion of property as a result of its  
23       destruction or seizure and shall be recognized or not  
24       recognized as provided in section 112 (f). If for any  
25       previous taxable year the taxpayer chooses under sub-

1        *section (b) to treat any obligations and liabilities as*  
2        *discharged or satisfied out of the property or interest*  
3        *described in subsection (a), and if such obligations and*  
4        *liabilities were not so discharged or satisfied, the amount*  
5        *of such obligations and liabilities treated as discharged*  
6        *or satisfied under subsection (b) shall be considered for*  
7        *the purposes of this section as a deduction by reason of*  
8        *this section which did not result in a reduction of any*  
9        *tax of the taxpayer under this chapter. For the pur-*  
10       *poses of this paragraph an allowable deduction for any*  
11       *taxable year on account of the destruction or seizure of*  
12       *property described in subsection (a) shall, to the extent*  
13       *not allowed in computing the tax of the taxpayer for*  
14       *restoration in whole or in part of the value of any*  
15       *such taxable year, be considered an allowable deduction*  
16       *which did not result in a reduction of any tax of the*  
17       *taxpayer under this chapter.*

18            **“(3) RESTORATION OF VALUE OF INVESTMENTS**  
19        **FERABLE TO DESTROYED OR SEIZED PROPERTY.—**

20        *For the purposes of paragraphs (1) and (2), the*  
21        *interest described in subsection (a) (3) by reason of*  
22        *any recovery of money or property in respect of prop-*  
23        *erty to which such interest related and which was con-*  
24        *sidered under subsection (a) (1) or (2) as destroyed*  
25        *or seized shall be deemed a recovery of property in respect*

1 of property considered under subsection (a) as destroyed  
2 or seized.

3 **"(d) BASIS OF RECOVERED PROPERTY.**—The unad-  
4 justed basis of property recovered in respect of property con-  
5 sidered destroyed or seized under subsection (a) shall be  
6 determined under this subsection. Such basis shall be an  
7 amount equal to the fair market value of such property,  
8 determined as of the date of the recovery, reduced by an  
9 amount equal to the excess of the aggregate of such fair  
10 market value and the amounts of previous recoveries of money  
11 or property in respect of property considered under subsection  
12 (a) as destroyed or seized over the aggregate of the allowable  
13 deductions in prior taxable years on account of the de-  
14 struction or seizure of property described in subsection (a),  
15 and increased by that portion of the amount of the recovery  
16 which under subsection (c) is treated as a recognized gain  
17 from the involuntary conversion of property. Upon appli-  
18 cation of the taxpayer, the aggregate of the bases (determined  
19 under the preceding sentence) of any properties recovered in  
20 respect of properties considered under subsection (a) as  
21 destroyed or seized may be allocated among the properties  
22 so recovered in such manner as the Commissioner may deter-  
23 mine under regulations prescribed by him with the approval  
24 of the Secretary, and the amounts so allocated to any such  
25 property so recovered shall be the unadjusted basis of such

1 *property in lieu of the unadjusted basis of such property*  
2 *determined under the preceding sentence.*

3       “(e) *PARTIAL WORTHLESSNESS OF CERTAIN IN-*  
4 *VESTMENTS IN DESTROYED OR SEIZED PROPERTY.—*

5               “(1) *DESTRUCTION OR SEIZURE OF INVEST-*  
6 *MENT.—If a taxpayer owns 50 per centum of each class*  
7 *of stock of a corporation, if such corporation has prop-*  
8 *erty described in subsection (a) (1) or (2) deemed to be*  
9 *destroyed or seized, the adjusted basis for determining*  
10 *loss of which is at least 75 per centum of the adjusted*  
11 *basis for determining loss of all such corporation's prop-*  
12 *erty, and if such corporation completely liquidates within*  
13 *one year after such property is deemed to be destroyed or*  
14 *seized, or within six months after the date of the enact-*  
15 *ment of the Revenue Act of 1942, whichever is the*  
16 *later, then that part of the loss by the taxpayer on such*  
17 *liquidation which would be attributable to the destruction*  
18 *or seizure of such property, as established to the satisfac-*  
19 *tion of the Commissioner, shall be treated for the purposes*  
20 *of this chapter as a loss by the taxpayer upon the destruc-*  
21 *tion or seizure of the part of the stock of the taxpayer to*  
22 *which such loss is allocable. Such part of the stock of*  
23 *the taxpayer shall be treated for the purposes of subsec-*  
24 *tions (b), (c), and (d) as property described in sub-*  
25 *section (a) (3).*

1           “(2) **APPLICATION OF PARAGRAPH (1).**—For the  
2 purposes of paragraph (1):

3           “(A) In determining the adjusted basis of all  
4 the property of the corporation, there shall be ex-  
5 cluded money in the United States, bank deposits,  
6 the right to receive money from any person not  
7 situated in a country at war with the United States  
8 or in a territory under the control of such a country,  
9 and obligations issued or guaranteed as to principal  
10 or interest by the United States, except that there  
11 shall not be excluded any such property which is  
12 destroyed or seized as described in subsection (a)  
13 within or before the taxable period.

14           “(B) The adjusted basis of property of such  
15 corporation shall be determined as of the date  
16 immediately preceding the first date on which any  
17 property was destroyed or seized, as described in  
18 subsection (a), or as of any later date falling  
19 within or before the taxable period on the basis of  
20 which such determination will produce a greater  
21 amount.

22           “(f) **DETERMINATION OF TAX BENEFITS.**—The deter-  
23 mination as to whether and to what extent an allowable deduc-  
24 tion on account of the destruction or seizure of property  
25 described in subsection (a) did or did not result in a reduc-





1 to treat any tax (including interest with respect thereto)  
 2 under Chapter 2D or the corresponding provisions of a  
 3 prior revenue law paid or incurred in respect of the  
 4 recovery of such unconstitutional tax as having been paid  
 5 or incurred in such prior taxable year, and

6 “(b) The taxpayer consents in writing to the as-  
 7 sessment, within such period as may be agreed upon, of  
 8 any deficiencies resulting from such treatment, even  
 9 though the statutory period for the assessment of any such  
 10 deficiency had expired prior to the filing of such consent.”

11 (b) TAXABLE YEARS TO WHICH APPLICABLE.—The  
 12 amendment made by subsection (a) shall be applicable with  
 13 respect to taxable years beginning after December 31, 1940.

14 **(180)SEC. 141. FOREIGN TAX CREDIT ON AMOUNT OF SUB-**  
 15 **SIDIARY OF FOREIGN SUBSIDIARY.**

16 **(181)SEC. 160. FOREIGN TAX CREDIT.**

17 (a) CHOICE OF CREDIT.—Section 131 (a) (relating  
 18 to allowance of credit for taxes of foreign countries and  
 19 possessions of the United States) is amended to read as  
 20 follows:

21 “(a) ALLOWANCE OF CREDIT.—If the taxpayer chooses  
 22 to have the benefits of this section, the tax imposed by this  
 23 chapter, except the tax imposed under section 102 or section  
 24 450, shall be credited with:

25 “(1) CITIZENS AND DOMESTIC CORPORATIONS.—

1     *In the case of a citizen of the United States and of a*  
2     *domestic corporation, the amount of any income, war-*  
3     *profits, and excess-profits taxes paid or accrued during*  
4     *the taxable year to any foreign country or to any pos-*  
5     *session of the United States; and*

6             “(2) *RESIDENT OF UNITED STATES.—In the case*  
7     *of a resident of the United States, the amount of any*  
8     *such taxes paid or accrued during the taxable year to*  
9     *any possession of the United States; and*

10            “(3) *ALIEN RESIDENT OF UNITED STATES.—In*  
11     *the case of an alien resident of the United States, the*  
12     *amount of any such taxes paid or accrued during the*  
13     *taxable year to any foreign country, if the foreign coun-*  
14     *try of which such alien resident is a citizen or subject,*  
15     *in imposing such taxes, allows a similar credit to citizens*  
16     *of the United States residing in such country; and*

17            “(4) *PARTNERSHIPS AND ESTATES.—In the case*  
18     *of any such individual who is a member of a partnership*  
19     *or a beneficiary of an estate or trust, his proportionate*  
20     *share of such taxes of the partnership or the estate or*  
21     *trust paid or accrued during the taxable year to a for-*  
22     *foreign country or to any possession of the United States,*  
23     *as the case may be.*

24     *“Such choice may be made or changed at any time prior*

1 to the expiration of the period prescribed for making a claim  
2 for credit or refund of the tax imposed by this chapter."

3 (b) DEDUCTION DENIED IF CREDIT CHOSEN.—Sec-  
4 tion 23 (c) (1) (C) (relating to deduction from gross in-  
5 come for taxes) is amended to read as follows:

6 " (C) income, war-profits, and excess-profits  
7 taxes imposed by the authority of any foreign country  
8 or possession of the United States, if the taxpayer  
9 chooses to take to any extent the benefits of section  
10 131."

11 (c) The amendments made by subsections (a) and (b)  
12 shall be applicable with respect to taxable years beginning after  
13 December 31, 1940.

14 (182)(d) LIMIT ON CREDIT IN CASE OF CORPORA-  
15 TIONS.—Section 131 (b) is amended to read as follows:

16 "(b) LIMIT ON CREDIT.—The amount of the credit taken  
17 under this section shall be subject to each of the following lim-  
18 itations:

19 "(1) The amount of the credit in respect of the tax  
20 paid or accrued to any country shall not exceed the same  
21 proportion of the tax against which such credit is taken,  
22 which the taxpayer's net income from sources within such  
23 country bears to his entire net income, in the case of a  
24 taxpayer other than a corporation, or to the sum of the

1        *normal-tax net income and the amount of the credit for*  
2        *adjusted excess profits net income provided in section*  
3        *26 (e), in the case of a corporation, for the same tax-*  
4        *able year; and*

5                *“(2) The total amount of the credit shall not exceed*  
6        *the same proportion of the tax against which such credit*  
7        *is taken, which the taxpayer’s net income from sources*  
8        *without the United States bears to his entire net income,*  
9        *in the case of a taxpayer other than a corporation, or to*  
10        *the sum of the normal-tax net income and the amount of*  
11        *the credit for adjusted excess profits net income provided*  
12        *in section 26 (e), in the case of a corporation, for the*  
13        *same taxable year.”*

14    **(183)(e) CREDIT ON ACCOUNT OF SUBSIDIARY OF FOR-**  
15    **EIGN SUBSIDIARY.—**Section 131 (f) (relating to credit for  
16    taxes of a foreign subsidiary) is amended to read as follows:

17        **“(f) TAXES OF FOREIGN SUBSIDIARY.—**

18                **“(1) FOREIGN SUBSIDIARY OF DOMESTIC CORPO-**  
19        **RATION.—**For the purposes of this section, a domestic  
20        corporation which owns a majority of the voting stock  
21        of a foreign corporation from which it receives dividends  
22        in any taxable year shall be deemed to have paid the  
23        same proportion of any income, war-profits, or excess-  
24        profits taxes paid or deemed to be paid by such foreign  
25        corporation to any foreign country or to any possession

1 of the United States, upon or with respect to the accumu-  
2 lated profits of such foreign corporation from which  
3 such dividends were paid, which the amount of such  
4 dividends bears to the amount of such accumulated  
5 profits: *Provided*, That the amount of tax deemed to  
6 have been paid by such domestic corporation under this  
7 subsection shall in no case exceed the same proportion  
8 of the tax against which credit is taken which the amount  
9 of such dividends bears to the amount of the normal-tax  
10 net income of the domestic corporation in which such  
11 dividends are included. The term 'accumulated profits'  
12 when used in this subsection in reference to a foreign  
13 corporation, means the amount of its gains, profits, or  
14 income in excess of the income, war-profits, and excess-  
15 profits taxes imposed upon or with respect to such profits  
16 or income; and the Commissioner with the approval  
17 of the Secretary shall have full power to determine from  
18 the accumulated profits of what year or years such divi-  
19 dends were paid; treating dividends paid in the first  
20 sixty days of any year as having been paid from the  
21 accumulated profits of the preceding year or years (un-  
22 less to his satisfaction shown otherwise), and in other  
23 respects treating dividends as having been paid from  
24 the most recently accumulated gains, profits, or earnings.  
25 In the case of a foreign corporation, the income, war-

1 profits, and excess-profits taxes of which are determined  
 2 on the basis of an accounting period of less than one  
 3 year, the word 'year' as used in this subsection shall be  
 4 construed to mean such accounting period.

5       “(2) FOREIGN SUBSIDIARY OF FOREIGN CORPORA-  
 6 TION.—If such foreign corporation owns all the voting  
 7 stock (except qualifying shares) of another foreign cor-  
 8 poration from which it receives dividends in any taxable  
 9 year it shall be deemed to have paid the same propor-  
 10 tion of any income, war-profits, or excess-profits taxes  
 11 paid by such other foreign corporation to any foreign  
 12 country or to any possession of the United States, upon  
 13 or with respect to the accumulated profits of the corpo-  
 14 ration from which such dividends were paid, which the  
 15 amount of such dividends bears to the amount of such ac-  
 16 cumulated profits.”

17 **(184)(f) CREDIT FOR TAXES IN LIEU OF INCOME, ETC.,**  
 18 **TAXES.**—Section 131 (relating to credit for taxes of foreign  
 19 countries and possessions of the United States) is amended  
 20 by inserting at the end thereof the following new subsection:

21       “(h) **CREDIT FOR TAXES IN LIEU OF INCOME, ETC.,**  
 22 **TAXES.**—For the purposes of this section and section 23  
 23 (c) (1), the term ‘income, war-profits, and excess-profits  
 24 taxes’ shall include a tax paid in lieu of a tax upon income,  
 25 war-profits, or excess-profits otherwise generally imposed by

1 *any foreign country or by any possession of the United*  
 2 *States."*

3 **SEC. (185)<sup>142</sup> 161. EXTENSION OF CONSOLIDATED RE-**  
 4 **TURNS PRIVILEGE TO CERTAIN COR-**  
 5 **PORATIONS.**

6 (a) **GENERAL RULE.**—Section 141 (relating to con-  
 7 solidated returns of railroad corporations) is amended to read  
 8 as follows:

9 **"SEC. 141. CONSOLIDATED RETURNS.**

10 (a) **PRIVILEGE TO FILE CONSOLIDATED INCOME AND**  
 11 **EXCESS-PROFITS-TAX RETURNS.**—An affiliated group of  
 12 corporations shall, subject to the provisions of this section,  
 13 have the privilege of making consolidated income and excess-  
 14 profits-tax returns for the taxable year in lieu of separate  
 15 returns. The making of consolidated returns shall be upon  
 16 the condition that the affiliated group (186) ~~(which, for con-~~  
 17 ~~solidated income-tax return purposes, shall include corpora-~~  
 18 ~~tions subject to the tax imposed by this chapter whether or~~  
 19 ~~not such corporations are includible for consolidated excess-~~  
 20 ~~profits-tax return purposes)~~ shall make both a consolidated  
 21 income-tax return and a consolidated excess-profits-tax return  
 22 for the taxable year, and that all corporations which (187) *at*  
 23 *any time* during the taxable year have been members of the  
 24 affiliated group making a consolidated income-tax return con-



1 consent to all the consolidated income- and excess-profits-tax reg-  
2 ulations prescribed under subsection (b) prior to the last day  
3 prescribed by law for the filing of such return. The making  
4 of a consolidated income-tax return shall be considered as such  
5 consent. In the case of a corporation which is a member  
6 of the affiliated group for a fractional part of the year, the  
7 consolidated returns shall include the income of such corpo-  
8 ration for such part of the year as it is a member of the  
9 affiliated group. (188) *In the case of a corporation which is*  
10 *not a member of the affiliated group after March 31, 1942, of*  
11 *the last taxable year of such group which begins before April*  
12 *1, 1942, such corporation shall not be considered a member*  
13 *of the affiliated group for consolidated income-tax-return*  
14 *purposes for such year but shall be considered a member*  
15 *of such group for consolidated excess-profits-tax-return pur-*  
16 *poses for such year, and the consent required in the case of*  
17 *such corporation shall relate only to the consolidated excess-*  
18 *profits-tax regulations.*

19 “(b) REGULATIONS.—The Commissioner, with the ap-  
20 proval of the Secretary, shall prescribe such regulations as  
21 he may deem necessary in order that the tax liability of any  
22 affiliated group of corporations making consolidated income-  
23 and excess-profits-tax returns and of each corporation in the  
24 group, both during and after the period of affiliation, may be  
25 returned, determined, computed, assessed, collected, and ad-

1 justed, in such manner as clearly to reflect the income- and  
 2 excess-profits-tax liability and the various factors necessary  
 3 for the determination of such liability, and in order to pre-  
 4 vent avoidance of such tax liability. (189) *Such regulations*  
 5 *shall prescribe the amount of the net operating loss deduction*  
 6 *of each member of the group which is attributable to a deduc-*  
 7 *tion allowed for a taxable year beginning in 1941 on account*  
 8 *of property considered as destroyed or seized under sec-*  
 9 *tion 127 (relating to war losses), and the allowance of*  
 10 *the amount so prescribed as a deduction in computing the*  
 11 *net income of the group shall not be limited by the amount*  
 12 *of the net income of such member.*

13       “(c) COMPUTATION AND PAYMENT OF TAX.—In any  
 14 case in which consolidated income-tax and excess-profits-tax  
 15 returns are made or are required to be made, the taxes shall  
 16 be determined, computed, assessed, collected, and adjusted  
 17 in accordance with the regulations under subsection (b)  
 18 prescribed prior to the last day prescribed by law for the  
 19 filing of such returns; except that the tax imposed under  
 20 section 15 or section 204 shall be increased by 2 per centum  
 21 of the consolidated corporation surtax net income of the  
 22 affiliated group of includible corporations. Only one specific  
 23 exemption of (190) ~~\$10,000~~ \$5,000 provided in section 710  
 24 (b) (1) shall be allowed for the entire affiliated group of cor-

1 corporations for the purposes of the tax imposed by Subchapter  
2 E of Chapter 2.

3 “(d) DEFINITION OF ‘AFFILIATED GROUP’.—As used  
4 in this section, an ‘affiliated group’ means one or more chains  
5 of includible corporations connected through stock ownership  
6 with a common parent corporation which is an includible  
7 corporation if—

8 “(1) Stock possessing at least 95 per centum of  
9 the voting power of all classes of stock and at least 95  
10 per centum of each class of the nonvoting stock of  
11 each of the includible corporations (except the common  
12 parent corporation) is owned directly by one or more  
13 of the other includible corporations; and

14 “(2) The common parent corporation owns directly  
15 stock possessing at least 95 per centum of the voting  
16 power of all classes of stock and at least 95 per centum  
17 of each class of the nonvoting stock of at least one of  
18 the other includible corporations.

19 As used in this subsection, the term ‘stock’ does not include  
20 nonvoting stock which is limited and preferred as to  
21 dividends.

22 “(e) DEFINITION OF ‘INCLUDIBLE CORPORATION’.—  
23 As used in this section, the term ‘includible corporation’  
24 means any corporation except—

1           “(1) Corporations exempt under section 101 from  
2           the tax imposed by this chapter.

3           “(2) Insurance companies subject to taxation, un-  
4           der section 201 or 207.

5           “(3) Foreign corporations.

6           “(4) Corporations entitled to the benefits of section  
7           251, by reason of receiving a large percentage of their  
8           income from sources within possessions of the United  
9           States (191),—except corporations electing under section  
10          251 (b) not to be taxed under such section.

11          “(5) Corporations organized under the China Trade  
12          Act, 1922.

13          “(6) Regulated investment companies subject to  
14          tax under Supplement Q.

15          (192)“(7) Personal service corporations.

16          “(8) Personal holding companies as defined in  
17          section 501.

18          “(9) For consolidated excess profits tax return pur-  
19          poses, corporations exempt under section 727 from the  
20          tax imposed by Subchapter E of Chapter 2.

21          “(f) INCLUDIBLE INSURANCE COMPANIES.—Despite  
22          the provisions of paragraph (2) of subsection (e), two or  
23          more domestic insurance companies each of which is sub-  
24          ject to taxation under the same section of this chapter.

1 shall be considered as includible corporations for the pur-  
2 pose of the application of subsection (d) to such insurance  
3 companies alone.

4 (193)~~(g)~~ INCLUDIBLE PERSONAL HOLDING COM-  
5 PANIES.—If the common parent corporation of a group of  
6 corporations which would be an affiliated group were it not  
7 for the provisions of paragraph ~~(8)~~ of subsection ~~(e)~~ satis-  
8 fies the stock ownership requirement provided in section 501  
9 ~~(a)~~ ~~(2)~~; and the gross income of such group, determined  
10 under regulations prescribed under subsection ~~(b)~~, satisfies  
11 the gross income requirement provided in section 501 ~~(a)~~  
12 ~~(1)~~, the several corporations of such group shall, despite the  
13 provisions of paragraph ~~(8)~~ of subsection ~~(e)~~, be considered  
14 as includible corporations for consolidated income-tax-return  
15 purposes.

16 ~~(194)~~~~(h)~~ ~~(g)~~ SUBSIDIARY FORMED TO COMPLY WITH  
17 FOREIGN LAW. In the case of a domestic corporation own-  
18 ing or controlling, directly or indirectly, 100 per centum of  
19 the capital stock (exclusive of directors' qualifying shares) of  
20 a corporation organized under the laws of a contiguous for-  
21 eign country and maintained solely for the purpose of com-  
22 plying with the laws of such country as to title and operation  
23 of property, such foreign corporation may, at the option of  
24 the domestic corporation, be treated for the purpose of this

1 chapter and of Subchapter E of Chapter 2 as a domestic  
2 corporation.

3 **“(195)(j) (h) SUSPENSION OF RUNNING OF STATUTE**  
4 **OF LIMITATIONS.**—If a notice under section 272 (a) in  
5 respect of a deficiency for any taxable year is mailed to a  
6 corporation, the suspension of the running of the statute of  
7 limitations, provided in section 277, shall apply in the case of  
8 corporations with which such corporation made a consolidated  
9 return for such taxable year.

10 **“(196)(j) (i) ALLOCATION OF INCOME AND DEDUC-**  
11 **TIONS.**—For allocation of income and deductions of related  
12 trades or businesses, see section 45.”

13 **(b) PAN-AMERICAN TRADE CORPORATIONS.**—Section  
14 152 (relating to consolidated income-tax returns of Pan-  
15 American trade corporations) shall not apply with respect to  
16 any taxable year beginning after December 31, 1941.

17 **(c) FOREIGN CORPORATIONS.**—Section 238 (relating  
18 to denial of affiliation of foreign corporations) is repealed.

19 **(d) SECTION 251 CORPORATIONS.**—Section 251 (i)  
20 (relating to denial of affiliation of section 251 corporations)  
21 is repealed.

22 **(e) CHINA TRADE ACT CORPORATIONS.**—Section 264  
23 (relating to denial of affiliation of China Trade Act corpora-  
24 tions) is repealed.

1 (f) CROSS REFERENCE.—Section 52 (b) is amended  
2 to read as follows:

3 “(b) CROSS REFERENCE.—For provisions relating to  
4 consolidated returns, see section 141.”

5 SEC. (197) 143 162 ALIENS AND FOREIGN CORPORATIONS

6 TREATED AS NONRESIDENTS.

7 (a) (1) Section 143 (a) (1) (relating to withholding  
8 of tax on interest from tax-free covenant bonds) is amended  
9 by striking out “and not having any office or place of busi-  
10 ness therein” wherever occurring therein.

11 (2) Section 143 (b) (relating to withholding of the  
12 tax at the source on nonresident aliens) is amended by  
13 striking out “and not having any office or place of business  
14 therein”, by striking out “and not having an office or place  
15 of business therein”, and by striking out “or has an office or  
16 place of business therein”.

17 (3) Section 144 (relating to payment of corporation  
18 income tax at source) is amended by striking out “and not  
19 having any office or place of business therein”.

20 (4) The amendments made by this subsection shall  
21 apply only with respect to the period beginning with the  
22 tenth day after the date of the enactment of this Act.

23 (198)(b) Section 14 (c) (relating to tax on foreign corpora-  
24 tions) is amended—

1. ~~Section 119 (1)~~ by striking out in paragraph (1) thereof "or  
2. *having an office or place of business therein*"; and  
3. ~~Section 204 (2)~~ by striking out in paragraph (2) thereof "and  
4. *not having an office or place of business therein*".

5. ~~(199)(b) (c)~~ Section 119 (a) (1) (relating to interest from  
6. sources in the United States) is amended by striking out  
7. "and not having an office or place of business therein".

8. ~~(200)(e) (d)~~ Section 204 (d) (relating to deductions of  
9. foreign corporations), section 211 (b) (relating to nonresi-  
10. dent alien individuals), section 231 (b) (relating to resident  
11. foreign corporations), and section 251 (e) (relating to  
12. deductions in the case of citizens and domestic corporations  
13. entitled to the benefits of section 251) are amended by  
14. striking out "or having an office or place of business therein"  
15. wherever occurring therein.

16. ~~(201)(d) (e)~~ Section 211 (a) (1) and section 211 (c)  
17. (relating to the imposition of tax on nonresident aliens) and  
18. section 231 (a) (relating to the imposition of tax on nonresi-  
19. dent foreign corporations) are amended by striking out "and  
20. not having an office or place of business therein" wherever  
21. occurring therein.

22. ~~(202)(e) (f)~~ Section 219 (relating to nonresident alien  
23. members of partnerships) is amended by striking out "and as  
24. having an office or place of business within the United States



1 if the partnership of which he is a member has such an  
2 office or place of business”.

3 **(203) SEC. 163. DEDUCTIONS FOR ESTATE TAX AND INCOME**  
4 **TAX OF ESTATE.**

5 *(a) DOUBLE DEDUCTIONS DENIED.—Section 162 (re-*  
6 *lating to net income of estates and trusts) is amended by*  
7 *inserting at the end thereof the following new subsection:*

8 *“(e) Amounts allowable under section 812 (b) as a*  
9 *deduction in computing the net estate of a decedent shall not*  
10 *be allowed as a deduction under section 23, except subsection*  
11 *(w), in computing the net income of the estate unless there*  
12 *is filed, within the time and in the manner and form pre-*  
13 *scribed by the Commissioner, a statement that the items*  
14 *have not been claimed or allowed as deductions under section*  
15 *812 (b) and a waiver of the right to have such items allowed*  
16 *at any time as deductions under section 812 (b).”*

17 *(b) TAXABLE YEARS TO WHICH AMENDMENT AP-*  
18 *PLICABLE.—The amendment made by subsection (a) insofar*  
19 *as it relates to section 23 (a) (2) shall be applicable with*  
20 *respect to the same taxable years and the same revenue laws*  
21 *as the amendments made by section 121 (relating to non-*  
22 *trade or non-business deductions) of this Act; and the other*  
23 *provisions shall be applicable to taxable years beginning*  
24 *after December 31, 1941.*

## 1 (204) SEC. 144. PENSION TRUSTS.

2 (a) EXEMPTION OF TRUSTS.—Section 165 (relating  
3 to employees' trusts) is amended to read as follows:

## 4 "SEC. 165. EMPLOYEES' TRUSTS.

5 "(a) EXEMPTION FROM TAX.—A trust forming part  
6 of a stock bonus, pension, or profit-sharing plan of an em-  
7 ployer for the exclusive benefit of his employees shall not be  
8 taxable under this supplement and no other provision of this  
9 supplement shall apply with respect to such trust or to its  
10 beneficiary—

11 "(1) if contributions are made to the trust by such  
12 employer, or employees, or both, for the purpose of dis-  
13 tributing to such employees the earnings and principal  
14 of the fund accumulated by the trust in accordance with  
15 such plan;

16 "(2) if under the trust instrument it is impossible  
17 for any part of the corpus or income to be (within the  
18 taxable year or thereafter) used for, or diverted to,  
19 purposes other than for the exclusive benefit of his  
20 employees;

21 "(3) in the case of a pension plan, if the trust or  
22 two or more trusts designated by the employer as con-  
23 stituting parts of such a plan, or in the case of a stock  
24 bonus plan if the trust or two or more trusts designated

1 by the employer as constituting parts of such a plan; or  
2 in the case of a profit-sharing plan if the trust or two or  
3 more trusts designated by the employer as constituting  
4 parts of such a plan, benefit either—

5 “(A) 70 per centum or more of all of the em-  
6 ployees, excluding employees who have been em-  
7 ployed not more than a minimum period prescribed  
8 by the terms of the trust instrument, not exceeding  
9 five years; employees whose customary employment  
10 is for not more than three hours in any one day,  
11 and employees whose customary employment is for  
12 not more than three months in any calendar year; or

13 “(B) such employees as qualify under a classi-  
14 fication set up by the employer and found by the  
15 Commissioner not to be discriminatory in favor of  
16 employees who are officers, shareholders, persons  
17 whose principal duties consist in supervising the  
18 work of other employees, or highly compensated  
19 employees;

20 and

21 “(4) if the contributions or benefits provided under  
22 the trust or all of the trusts constituting parts of a stock  
23 bonus, pension, or profit-sharing plan of an employer do  
24 not have the effect of discriminating in favor of any

1 employee whose compensation is greater than that of  
2 other employees.

3 ~~“(b) TAXABILITY OF BENEFICIARY.~~ The amount ac-  
4 tually distributed or made available to any distributee by any  
5 such trust shall be taxable to him, in the year in which so  
6 distributed or made available, under section 22 (b) (2) as  
7 if it were an annuity the consideration for which is the  
8 amount contributed by the employee.

9 ~~“(c) TREATMENT OF BENEFICIARY OF TRUST NOT~~  
10 ~~EXEMPT UNDER SUBSECTION (A).~~ If an employees' trust  
11 does not satisfy the requirements of subsection (a) during the  
12 whole of its taxable year, contributions made by the employer  
13 shall be included in the gross income of an employee whose  
14 beneficial interest in such contribution is nonforfeitable for the  
15 taxable year of the beneficiary in which the contribution is  
16 made to the trust, or in case the interest of the beneficiary in  
17 the employer's contributions changes from a forfeitable in-  
18 terest to a nonforfeitable interest, in the taxable year of the  
19 beneficiary in which such change occurs.”

20 ~~(b) DEDUCTION ALLOWED EMPLOYER.~~ Section  
21 23 (p) (relating to deduction for amounts paid to pension  
22 trusts) is amended to read as follows:

23 ~~“(p) COMPENSATION PAID FOR PERSONAL SERVICES~~  
24 ~~UNDER A TRUST, ANNUITY, OR DEFERRED PAYMENT~~  
25 ~~PLAN.~~

1           “(1) GENERAL RULE.—If compensation for per-  
2           sonal services rendered is paid or accrued on account of  
3           any employee under a stock bonus, pension, profit shar-  
4           ing, or annuity plan, or similar plan deferring the  
5           receipt of such compensation, then such compensation  
6           shall not be deductible under subsection (a) but shall be  
7           deductible, if deductible under subsection (a) without  
8           regard to this subsection, under this subsection but only  
9           to the following extent:

10           “(A) In the taxable year when paid, if the  
11           compensation is paid into a trust which is exempt  
12           under section 165 (a), in an amount not in excess  
13           of 5 per centum of the compensation otherwise paid  
14           or accrued during the taxable year to the persons  
15           who are made the beneficiaries of the contributions  
16           paid into the trust. The excess over 5 per centum  
17           of the amount so paid shall be deductible in equal  
18           parts over a period of sixty consecutive months  
19           beginning with the beginning of the first month of  
20           the year in which the payment is made to the trust.

21           “(B) In the taxable year when paid if the  
22           compensation is paid into a trust in a taxable year  
23           of the trust for which the trust is not exempt under  
24           section 165 (a) if the employee's rights to such  
25           compensation are nonforfeitable.

1           ~~“(C) If any such compensation is paid through~~  
2           ~~the purchase of an annuity contract for the benefit~~  
3           ~~of an employee:~~

4           ~~“(i) Subparagraph (A) shall apply to the~~  
5           ~~deductibility of such compensation if the plan~~  
6           ~~of deferred payment would be exempt under~~  
7           ~~section 165 (a) if it constituted a trust instead~~  
8           ~~of a plan for the purchase of annuity contracts;~~

9           ~~“(ii) Subparagraph (B) shall apply to the~~  
10           ~~deductibility of such compensation if the plan~~  
11           ~~of deferred payment would not be exempt under~~  
12           ~~section 165 (a) if it constituted a trust instead~~  
13           ~~of a plan for the purchase of annuity contracts;~~  
14           ~~provided the interest of the employee in such~~  
15           ~~contract is nonforfeitable.~~

16           ~~“(D) In the taxable year when paid, in cases~~  
17           ~~not included in subparagraph (A), (B), or (C),~~  
18           ~~if the employee's rights to such compensation are~~  
19           ~~nonforfeitable.~~

20           ~~“(E) If amounts are deductible under para-~~  
21           ~~graph (A) or (C) (i) in connection with two or~~  
22           ~~more trusts or one or more trusts and an annuity~~  
23           ~~plan, the total amount deductible in a taxable year~~  
24           ~~under such plans shall not exceed 5 per centum of~~  
25           ~~the compensation otherwise paid or accrued during~~

1 the taxable year to the persons who are made the  
2 beneficiaries of the compensation paid into such  
3 trusts and for such annuity contracts. The excess  
4 over 5 per centum of the amount so paid shall be  
5 deductible in equal parts over a period of sixty  
6 consecutive months beginning with the beginning  
7 of the first month of the year in which the pay-  
8 ment is made to any of the trusts or for any annuity  
9 contract.

10 If there is no plan but the method of compensating for  
11 personal services has the effect of a stock bonus, pension,  
12 profit sharing, or annuity plan, or similar plan deferring  
13 the receipt of compensation, this paragraph shall apply  
14 as if there were such a plan.

15 ~~“(2) DEDUCTIONS UNDER PRIOR INCOME TAX~~  
16 ~~ACTS.—Any deduction allowable under section 23 (q)~~  
17 ~~of the Revenue Act of 1928, 45 Stat. 802, or the Rev-~~  
18 ~~enue Act of 1932, 47 Stat. 182, or the Revenue Act of~~  
19 ~~1934, 48 Stat. 691, under section 23 (p) of the Revenue~~  
20 ~~Act of 1936, 49 Stat. 1661, or the Revenue Act of 1938,~~  
21 ~~52 Stat. 464, or the Internal Revenue Code for a tax-~~  
22 ~~able year beginning before January 1, 1942, which~~  
23 ~~under such section was apportioned to any taxable year~~  
24 ~~beginning after December 31, 1941, shall be allowed as~~  
25 ~~a deduction in the years to which so apportioned to the~~

1 extent allowable under such section if it had remained  
2 in force with respect to such year.

3       “(2) EXEMPTION OF TRUSTS UNDER SECTION  
4 165.—The provisions of paragraph (1) (A) and para-  
5 graph (2) of this subsection shall be subject to the quali-  
6 fication that the deduction under either such subpara-  
7 graph or paragraph (2) shall be allowable only with  
8 respect to a taxable year (whether the year of payment  
9 or a subsequent year) of the employer ending within  
10 or with a taxable year of the trust with respect to which  
11 the trust is exempt from tax under section 165 (a). The  
12 provisions of paragraph (1) (C) of this subsection shall  
13 be subject to the qualification that the deduction under  
14 such subparagraph shall be allowable only with respect  
15 to a taxable year (whether the year of payment or a  
16 subsequent year) of the employer during the whole of  
17 which the annuity plan, if it had been a trust having the  
18 same taxable year as the employer, would have been a  
19 trust exempt from tax under section 165 (a).”

20       (c) EMPLOYEES' ANNUITIES.—Section 22 (b) (2)  
21 (relating to taxation of annuities) is amended as follows:

22       (1) By striking out the heading and inserting in  
23 lieu thereof the following:

24       “(2) ANNUITIES, ETC.—



1           ~~“(A) In General.”~~

2           (2) By inserting at the end thereof the following  
3 new subparagraph:

4           ~~“(B) Employees’ Annuities.—If an annuity~~  
5 contract is purchased by an employer for an em-  
6 ployee under a plan which would meet the require-  
7 ments of section 165, (a) with respect to pension  
8 trusts if the trust device had been used instead of the  
9 employer purchasing the annuity contract, the em-  
10 ployee shall include in his income the amounts re-  
11 ceived under such contract in the year received ex-  
12 cept that if the employee paid any of the considera-  
13 tion for the annuity, the annuity shall be included  
14 in his income as provided in subparagraph (A) of  
15 this paragraph. In all other cases, if the employee’s  
16 rights under the contract are nonforfeitable except  
17 for failure to pay future premiums, the amount paid  
18 by the employer for such annuity contract shall be  
19 included in the income of the employee in the year  
20 in which the amount is paid, which amount together  
21 with any amounts paid by the employee shall con-  
22 stitute the consideration paid for the annuity con-  
23 tract in determining the amount of the annuity re-  
24 quired to be included in the income of the employee  
25 under subparagraph (A) of this paragraph. If the

1 right of the employee changes from a forfeitable to a  
2 nonforfeitable right, in lieu of including, under the  
3 preceding sentence, the amount paid by the em-  
4 ployer in the income of the employee in the year in  
5 which the amount is paid, such amount shall be in-  
6 cluded in the income of the employee in the year in  
7 which the change occurs."

8 (d) ~~TAXABLE YEARS TO WHICH AMENDMENTS AP-~~  
9 ~~PLICABLE.~~—The amendments made by this section shall be  
10 applicable only with respect to taxable years beginning after  
11 December 31, 1941, except that a plan and the trust or  
12 trusts, or annuity contract or contracts, forming a part of a  
13 plan in existence on the date of enactment of this Act shall  
14 be considered as satisfying the requirements of section 165  
15 (a) of the Internal Revenue Code for the first taxable  
16 year to which that subsection, as amended by this Act, is  
17 applicable if the plan and the trust or trusts, or annuity con-  
18 tract or contracts, forming a part of the plan by the last day  
19 of such first taxable year satisfy such requirements.

20 **SEC. 164. PENSION TRUSTS.**

21 (a) *EXEMPTION OF TRUSTS.*—Section 165 (relating  
22 to employees' trusts) is amended to read as follows:

23 **"SEC. 165. EMPLOYEES' TRUSTS.**

24 "(a) *EXEMPTION FROM TAX.*—A trust forming part  
25 of a stock bonus, pension, or profit-sharing plan of an

1 *employer for the exclusive benefit of his employees or their*  
2 *beneficiaries shall not be taxable under this supplement and*  
3 *no other provision of this supplement shall apply with respect*  
4 *to such trust or to its beneficiary—*

5       “(1) *if contributions are made to the trust by such*  
6 *employer, or employees, or both, for the purpose of dis-*  
7 *tributing to such employees or their beneficiaries the*  
8 *corpus and income of the fund accumulated by the trust*  
9 *in accordance with such plan;*

10       “(2) *if under the trust instrument it is impossible,*  
11 *at any time prior to the satisfaction of all liabilities*  
12 *with respect to employees and their beneficiaries under*  
13 *the trust, for any part of the corpus or income to be*  
14 *(within the taxable year or thereafter) used for, or*  
15 *diverted to, purposes other than for the exclusive benefit*  
16 *of his employees or their beneficiaries;*

17       “(3) *if the trust, or two or more trusts, or the trust,*  
18 *or trusts and annuity plan or plans are designated by the*  
19 *employer as constituting parts of a plan intended to*  
20 *qualify under this subsection which benefits either—*

21       “(A) *70 per centum or more of all the em-*  
22 *ployees, or 80 per centum or more of all the em-*  
23 *ployees who are eligible to benefit under the plan if*  
24 *70 per centum or more of all the employees are*  
25 *eligible to benefit under the plan, excluding in each*

1           *case employees who have been employed not more*  
2           *than a minimum period prescribed by the plan, not*  
3           *exceeding five years, employees whose customary em-*  
4           *ployment is for not more than twenty hours in any*  
5           *one week, and employees whose customary employ-*  
6           *ment is for not more than five months in any calen-*  
7           *dar year, or*

8           *“(B) such employees as qualify under a classi-*  
9           *fication set up by the employer and found by the*  
10          *Commissioner not to be discriminatory in favor of*  
11          *employees who are officers, shareholders, persons*  
12          *whose principal duties consist in supervising the*  
13          *work of other employees, or highly compensated*  
14          *employees;*

15          *and*

16          *“(4) if the contributions or benefits provided under*  
17          *the plan do not discriminate in favor of employees who*  
18          *are officers, shareholders, persons whose principal duties*  
19          *consist in supervising the work of other employees, or*  
20          *highly compensated employees.*

21          *“(5) A classification shall not be considered dis-*  
22          *criminatory within the meaning of paragraphs (3) (B)*  
23          *or (4) of this subsection merely because it excludes*  
24          *employees the whole of whose remuneration constitutes*  
25          *‘wages’ under section 1426 (a) (1) (relating to the*

1     *Federal Insurance Contributions Act) or merely be-*  
2     *cause it is limited to salaried or clerical employees.*  
3     *Neither shall a plan be considered discriminatory within*  
4     *the meaning of such provisions merely because the con-*  
5     *tributions or benefits of or on behalf of the employees*  
6     *under the plan bear a uniform relationship to the total*  
7     *compensation, or the basic or regular rate of compensa-*  
8     *tion, of such employees, or merely because the contribu-*  
9     *tions or benefits based on that part of an employee's*  
10    *remuneration which is excluded from 'wages' by section*  
11    *1426 (a) (1) differ from the contributions or benefits*  
12    *based on employee's remuneration not so excluded, or*  
13    *differ because of any retirement benefits created under*  
14    *State or Federal law.*

15            *"(6) A plan shall be considered as meeting the re-*  
16    *quirements of paragraph (3) of this subsection during*  
17    *the whole of any taxable year of the plan if on one*  
18    *day in each quarter it satisfied such requirements.*

19            *"(b) TAXABILITY OF BENEFICIARY.—The amount*  
20    *actually distributed or made available to any distributee by*  
21    *any such trust shall be taxable to him, in the year in which*  
22    *so distributed or made available, under section 22 (b) (2)*  
23    *as if it were an annuity the consideration for which is*  
24    *the amount contributed by the employee, except that if the*  
25    *total distributions payable with respect to any employee are*

1 paid to the distributee within one taxable year of the dis-  
 2 tributee on account of the employee's separation from the  
 3 service, the amount of such distribution to the extent exceed-  
 4 ing the amounts contributed by the employee, shall be  
 5 considered a gain from the sale or exchange of a capital  
 6 asset held for more than 6 months.

7       “(c) TREATMENT OF BENEFICIARY OF TRUST NOT  
 8 EXEMPT UNDER SUBSECTION (a).—Contributions to a trust  
 9 made by an employer during a taxable year of the employer  
 10 which ends within or with a taxable year of the trust for  
 11 which the trust is not exempt under section 165 (a) shall  
 12 be included in the gross income of an employee for the tax-  
 13 able year in which the contribution is made to the trust in  
 14 the case of an employee whose beneficial interest in such con-  
 15 tribution is nonforfeitable at the time the contribution is  
 16 made.”

17       (b) DEDUCTION ALLOWED EMPLOYER.—Section 23  
 18 (p) (relating to deduction for amounts paid to pension  
 19 trusts) is amended to read as follows:

20       “(p) CONTRIBUTIONS OF AN EMPLOYER TO AN EM-  
 21 PLOYEES' TRUST OR ANNUITY PLAN AND COMPENSATION  
 22 UNDER A DEFERRED-PAYMENT PLAN.—

23       “(1) GENERAL RULE.—If contributions are paid  
 24 by an employer to or under a stock bonus, pension,  
 25 profit-sharing, or annuity plan, or if compensation is

1       *paid or accrued on account of any employee under a*  
2       *plan deferring the receipt of such compensation, such*  
3       *contributions or compensation shall not be deductible*  
4       *under subsection (a) but shall be deductible, if deductible*  
5       *under subsection (a) without regard to this subsection,*  
6       *under this subsection but only to the following extent:*

7               *“(A) In the taxable year when paid, if the con-*  
8               *tributions are paid into a pension trust, and if such*  
9               *taxable year ends within or with a taxable year of*  
10              *the trust for which the trust is exempt under section*  
11              *165 (a), in an amount determined as follows:*

12                      *“(i) an amount not in excess of 5 per*  
13                      *centum of the compensation otherwise paid or*  
14                      *accrued during the taxable year to all the em-*  
15                      *ployees under the trust, but such amount may be*  
16                      *reduced for future years if found by the Com-*  
17                      *missioner upon periodical examinations at not*  
18                      *less than five-year intervals to be more than the*  
19                      *amount reasonably necessary to provide the re-*  
20                      *maining unfunded cost of both the past and cur-*  
21                      *rent service credits of all employees under the*  
22                      *plan, plus*

23                      *“(ii) any excess over the amount allowable*  
24                      *under clause (i) necessary to provide with re-*  
25                      *spect to all of the employees under the trust the*

1 remaining unfunded cost of both their past and  
2 current service credits distributed as a level  
3 amount, or a level percentage of compensation,  
4 over the remaining future service of each such  
5 employee, as determined under regulations pre-  
6 scribed by the Commissioner with the approval  
7 of the Secretary, but if such remaining unfunded  
8 cost with respect to any three individuals is more  
9 than 50 per centum of such remaining un-  
10 funded cost, the amount of such unfunded cost  
11 attributable to such individuals shall be dis-  
12 tributed over a period of at least 5 taxable years,  
13 or

14 "(iii) in lieu of the amounts allowable under  
15 (i) and (ii) above, an amount equal to the nor-  
16 mal cost of the plan, as determined under regu-  
17 lations prescribed by the Commissioner with the  
18 approval of the Secretary, plus, if past service  
19 or other supplementary pension or annuity  
20 credits are provided by the plan, an amount not  
21 in excess of 10 per centum of the cost which  
22 would be required to completely fund or pur-  
23 chase such pension or annuity credits as of the  
24 date when they are included in the plan, as de-  
25 termined under regulations prescribed by the



1            *Commissioner with the approval of the Secre-*  
2            *tary, except that in no case shall a deduction be*  
3            *allowed for any amount (other than the normal*  
4            *cost) paid in after such pension or annuity*  
5            *credits are completely funded or purchased.*

6            *“(iv) Any amount paid in a taxable year in*  
7            *excess of the amount deductible in such year*  
8            *under the foregoing limitations shall be de-*  
9            *ductible in the succeeding taxable years in order*  
10           *of time to the extent of the difference between*  
11           *the amount paid and deductible in each such*  
12           *succeeding year and the maximum amount de-*  
13           *ductible for such year in accordance with the*  
14           *foregoing limitations.*

15           *“(B) In the taxable year when paid, in an*  
16           *amount determined in accordance with subpara-*  
17           *graph (A) of this paragraph, if the contributions*  
18           *are paid toward the purchase of retirement annuities*  
19           *and such purchase is a part of a plan which meets*  
20           *the requirements of section 165 (a), (3), (4),*  
21           *(5), and (6), and if refunds of premiums, if any,*  
22           *are applied within the current taxable year or next*  
23           *succeeding taxable year towards the purchase of*  
24           *such retirement annuities.*

25           *“(C) In the taxable year when paid, if the*

1        contributions are paid into a stock bonus or profit-  
2        sharing trust, and if such taxable year ends within  
3        or with a taxable year of the trust with respect to  
4        which the trust is exempt under section 165 (a), in  
5        an amount not in excess of 15 per centum of the  
6        compensation otherwise paid or accrued during the  
7        taxable year to the persons who are made the bene-  
8        ficiaries of the contributions paid by the employer  
9        under the stock bonus or profit-sharing plan. If in  
10       any taxable year beginning after December 31,  
11       1941, there is paid into the trust, or a similar trust  
12       then in effect, amounts less than the amounts deduct-  
13       ible under the preceding sentence, the excess, or if no  
14       amount is paid, the amounts deductible, shall be car-  
15       ried forward and be deductible when paid in the suc-  
16       ceeding taxable years in order of time, but the amount  
17       so deductible under this sentence in any such succeed-  
18       ing taxable year shall not exceed 15 per centum of the  
19       compensation otherwise paid or accrued during such  
20       succeeding taxable year to the beneficiaries under the  
21       plan. In addition, any amount paid into the trust  
22       in a taxable year beginning after December 31,  
23       1941, in excess of the amount allowable with respect  
24       to such year under the preceding provisions of this  
25       subparagraph shall be deductible in the succeeding

1 taxable years in order of time, but the amount so  
2 deductible under this sentence in any one such suc-  
3 ceeding taxable year together with the amount allow-  
4 able under the first sentence of this subparagraph  
5 shall not exceed 15 per centum of the compensation  
6 otherwise paid or accrued during such taxable year  
7 to the beneficiaries under the plan. The term 'stock  
8 bonus or profit-sharing trust', as used in this sub-  
9 paragraph, shall not include any trust designed to  
10 provide benefits upon retirement and covering a  
11 period of years, if under the plan the amounts to be  
12 contributed by the employer can be determined actu-  
13 arily as provided in subparagraph (A). If the  
14 contributions are made to two or more stock bonus  
15 or profit-sharing trusts, such trusts shall be consid-  
16 ered a single trust for the purposes of applying the  
17 limitations in this subparagraph.

18 "(D) In the taxable year when paid, if the  
19 plan is not one included in paragraphs (A), (B), or  
20 (C), if the employees' rights to or derived from such  
21 employer's contribution or such compensation are  
22 nonforfeitable at the time the contribution or com-  
23 pensation is paid.

24 "(E) For the purposes of subparagraphs (A),  
25 (B), and (C), a taxpayer on the accrual basis shall

1       *be deemed to have made a payment on the last day*  
2       *of the year of accrual if the payment is on account*  
3       *of such taxable year and is made within sixty days*  
4       *after the close of the taxable year of accrual.*

5               *“(F) If amounts are deductible under subpara-*  
6       *graphs (A) and (C), or (B) and (C), or (A),*  
7       *(B), and (C), in connection with two or more*  
8       *trusts, or one or more trusts and an annuity plan,*  
9       *the total amount deductible in a taxable year under*  
10       *such trusts and plans shall not exceed 25 per centum*  
11       *of the compensation otherwise paid or accrued dur-*  
12       *ing the taxable year to the persons who are the bene-*  
13       *ficiaries of the trusts or plans. In addition, any*  
14       *amount paid into such trust or under such annuity*  
15       *plans in a taxable year beginning after December*  
16       *31, 1941, in excess of the amount allowable with*  
17       *respect to such year under the preceding provisions*  
18       *of this subparagraph shall be deductible in the suc-*  
19       *ceeding taxable years in order of time, but the*  
20       *amount so deductible under this sentence in any one*  
21       *such succeeding taxable year together with the*  
22       *amount allowable under the first sentence of this*  
23       *subparagraph shall not exceed 30 per centum of the*  
24       *compensation otherwise paid or accrued during such*  
25       *taxable years to the beneficiaries under the trusts or*

1           plans. This subparagraph shall not have the effect  
2           of reducing the amount otherwise deductible under  
3           subparagraphs (A), (B), and (C), if no employee  
4           is a beneficiary under more than one trust, or a trust  
5           and an annuity plan.

6           If there is no plan but a method of employer contribu-  
7           tions or compensation has the effect of a stock bonus, pen-  
8           sion, profit-sharing, or annuity plan, or similar plan  
9           deferring the receipt of compensation, this paragraph  
10          shall apply as if there were such a plan.

11          “(2) DEDUCTIONS UNDER PRIOR INCOME TAX  
12          ACTS.—Any deduction allowable under section 23 (q) of  
13          the Revenue Act of 1928 (45 Stat. 802), or the Revenue  
14          Act of 1932 (47 Stat. 182), or the Revenue Act of 1934  
15          (48 Stat. 691), under section 23 (p) of the Revenue  
16          Act of 1936 (49 Stat. 1661), or the Revenue Act of  
17          1938 (52 Stat. 464), or the Internal Revenue Code for  
18          a taxable year beginning before January 1, 1943, which  
19          under such section was apportioned to any taxable year  
20          beginning after December 31, 1942, shall be allowed as  
21          a deduction for the years to which so apportioned to the  
22          extent allowable under such section if it had remained  
23          in force with respect to such year.”.

24          (c) EMPLOYEES' ANNUITIES.—Section 22 (b) (2)

1 *(relating to taxation of annuities) is amended by inserting at*  
2 *the end thereof the following new subparagraph:*

3           “(B) *Employees’ Annuities.*—If an annuity  
4 contract is purchased by an employer for an  
5 employee under a plan with respect to which the  
6 employer’s contribution is deductible under section  
7 23 (p) (1) (B), or if an annuity contract is pur-  
8 chased for an employee by an employer exempt  
9 under section 101 (6), the employee shall include  
10 in his income the amounts received under such con-  
11 tract for the year received except that if the employee  
12 paid any of the consideration for the annuity, the  
13 annuity shall be included in his income as provided  
14 in subparagraph (a) of this paragraph, the con-  
15 sideration for such annuity being considered the  
16 amount contributed by the employee. In all other  
17 cases, if the employee’s rights under the contract are  
18 nonforfeitable except for failure to pay future pre-  
19 miums, the amount contributed by the employer for  
20 such annuity contract on or after such rights become  
21 nonforfeitable shall be included in the income of the  
22 employee in the year in which the amount is con-  
23 tributed, which amount together with any amounts  
24 contributed by the employee shall constitute the con-

1            *sideration paid for the annuity contract in determin-*  
2            *ing the amount of the annuity required to be*  
3            *included in the income of the employee under sub-*  
4            *paragraph (A) of this paragraph."*

5            (d) *TAXABLE YEARS TO WHICH AMENDMENTS*  
6            *APPLICABLE.—The amendments made by this section shall*  
7            *be applicable as to both the employer and employees only*  
8            *with respect to taxable years of the employer beginning after*  
9            *December 31, 1941, except that—*

10            (1) *In the case of a stock bonus, pension, profit-sharing,*  
11            *or annuity plan in effect on or before September 1, 1942,*

12            (A) *such a plan shall not become subject to the re-*  
13            *quirements of section 165 (a) (3), (4), (5), and (6)*  
14            *until the beginning of the first taxable year beginning*  
15            *after December 31, 1942,*

16            (B) *such a plan shall be considered as satisfying*  
17            *the requirements of section 165 (a) (3), (4), (5), and*  
18            *(6) for the period beginning with the beginning of the*  
19            *first taxable year following December 31, 1942, and*  
20            *ending December 31, 1943, if the plan satisfies such*  
21            *requirements by December 31, 1943,*

22            (C) *if the contribution of an employer to such a*  
23            *plan in the employer's taxable year beginning in 1942*  
24            *exceeds the maximum amount deductible for such year*  
25            *under section 23 (p) (1), as amended by this section,*

1        *the amount deductible in such year shall be not less than*  
 2        *the sum of—*

3                *(i) the amount paid in such taxable year prior*  
 4                *to September 1, 1942, and deductible under section*  
 5                *23 (a) or 23 (p) prior to amendment by this sec-*  
 6                *tion, and*

7                *(ii) with respect to the amount paid in such*  
 8                *taxable year on or after September 1, 1942, that*  
 9                *proportion of the amount deductible for the taxable*  
 10               *year under section 23 (p) (1), as amended by this*  
 11               *section, which the number of months after August*  
 12               *31, 1942, in the taxable year bears to twelve.*

13        *(2) In the case of a stock bonus, pension, profit sharing*  
 14        *or annuity plan put into effect after September 1, 1942, such*  
 15        *a plan shall be considered as satisfying the requirements of*  
 16        *section 165 (a) (3), (4), (5) and (6) for the period begin-*  
 17        *ning with the date such plan is put into effect and ending*  
 18        *December 31, 1943, if the plan satisfies such requirements*  
 19        *by December 31, 1943.*

20        *It is further provided, that any plan and the trust or*  
 21        *trusts, or annuity contract or contracts, forming a part of a*  
 22        *plan in existence on or before December 31, 1939, shall be*  
 23        *considered as satisfying the requirements of section 165 (a)*  
 24        *(3), (4), (5), and (6) of the Internal Revenue Code, as*



1 amended by this Act, if (1) it satisfied the requirements of  
2 the corresponding sections of the Internal Revenue Code  
3 before their amendment by this Act, and (2) in the reason-  
4 able judgment of the Commissioner, the plan was created  
5 and is presently operated solely for the benefit of the em-  
6 ployees of the person creating such plan and has no purpose  
7 or intent of tax evasion and is not discriminatory in favor of  
8 executive or highly compensated employees; and (3) all  
9 the beneficiaries of the plan are employees or retired em-  
10 ployees of the corporation which created the plan and are a  
11 majority of the employees of such corporation; and (4) in  
12 excess of 80 per centum in number of such beneficiaries are  
13 not elective officers of a corporation which has created such  
14 plan; and (5) no directors of a corporation, except employee  
15 directors, can be beneficiaries under such plan; and (6) the  
16 aggregate stockholdings of the beneficiaries as a group do not  
17 exceed 5 per centum of the outstanding stock of a corporation  
18 which has created such plan; and (7) the employer's total  
19 annual contribution to such plan does not exceed 1 per  
20 centum of such employer's total gross income in the year of  
21 contribution.

22 (e) **TECHNICAL AMENDMENT TO INVESTMENT COM-**  
23 **PANY ACT OF 1940.**—Section 3 (13) of the Investment Com-  
24 pany Act of 1940 is amended to read as follows:

25 “(13) Any employees' stock-bonus, pension, or

1 *profit-sharing trust which meets the conditions of sec-*  
 2 *tion 165 of the Internal Revenue Code, as amended?"*

3 **SEC. (205)~~145~~ 165. LIFE INSURANCE COMPANIES.**

4 (a) Sections 201, 202, and 203 (relating to life insur-  
 5 ance companies) are amended to read as follows:

6 **(206)"SEC. 201. LIFE INSURANCE COMPANIES.**

7 **"(a) IMPOSITION OF TAX.—**

8 **"(1) IN GENERAL.—**There shall be levied, collected,  
 9 and paid for each taxable year upon the adjusted normal-  
 10 tax net income (as defined in section 202) and upon  
 11 the adjusted corporation surtax net income (as defined  
 12 in section 203) of every life insurance company taxes  
 13 at the rates provided in section 13 or section 14 (b)  
 14 and in section 15 (b).

15 **"(2) NORMAL TAX AND CORPORATION SURTAX**  
 16 **NET INCOME OF FOREIGN LIFE INSURANCE COM-**  
 17 **PANIES.—**In the case of a foreign life insurance com-  
 18 pany, the normal-tax net income shall be the net income  
 19 from sources within the United States minus the credit  
 20 provided in section 26 (a), the credit provided in sec-  
 21 tion 26 (b), and the credit for income subject to the  
 22 tax imposed by Subchapter E of Chapter 2 provided in  
 23 section 26 (c), and the corporation surtax net income  
 24 shall be the net income from sources within the United  
 25 States minus the credit provided in section 26 (b)

1        ~~(computed by limiting such credit to 85 per centum of~~  
2        ~~the net income reduced by the credit for income subject~~  
3        ~~to the tax imposed by Subchapter E of Chapter 2 in~~  
4        ~~lieu of 85 per centum of the adjusted net income so~~  
5        ~~reduced) and minus the credit for income subject to~~  
6        ~~the tax imposed by Subchapter E of Chapter 2 provided~~  
7        ~~in section 26 (c).~~

8                ~~“(3) NO UNITED STATES INSURANCE BUSINESS.—~~

9        ~~Foreign life insurance companies not carrying on an~~  
10       ~~insurance business within the United States shall not~~  
11       ~~be taxable under this section but shall be taxable as~~  
12       ~~other foreign corporations.~~

13               ~~“(b)” DEFINITION OF A LIFE INSURANCE COMPANY.—~~

14       ~~When used in this chapter the term ‘life insurance company’~~  
15       ~~means an insurance company (other than a burial or funeral~~  
16       ~~benefit company) engaged in the business of issuing life~~  
17       ~~insurance and annuity contracts (including contracts of com-~~  
18       ~~bined life, health, and accident insurance, and noncancellable~~  
19       ~~contracts of health and accident insurance), for which the~~  
20       ~~life insurance reserves (as defined in subsection (c) (2)~~  
21       ~~plus the pro rata unearned premiums and the total unpaid~~  
22       ~~losses on noncancellable health and accident policies comprise~~  
23       ~~more than 50 per centum of its total reserves. For the pur-~~  
24       ~~pose of this subsection total reserves means life insurance~~

1 reserves, unearned premiums, unpaid losses, and all other  
2 insurance reserves required by law.

3       “(c) OTHER DEFINITIONS.—In the case of a life insur-  
4 ance company, when used in this section, section 202, and  
5 section 203—

6       “(1) GROSS INCOME.—The term ‘gross income’  
7 means the gross amount of income received during the  
8 taxable year from interest, dividends, rents, and gains  
9 from sales or exchanges of capital assets, acquired sub-  
10 sequent to December 31, 1941, to the extent provided  
11 in section 117.

12       “(2) LIFE INSURANCE RESERVES.—The term ‘life  
13 insurance reserves’ means amounts computed or esti-  
14 mated on the basis of recognized experience tables with  
15 interest assumed as a factor which, with accretions from  
16 interest, are set aside to mature or liquidate, either by  
17 payment or reinsurance, future unaccrued and contin-  
18 gent claims arising from life insurance contracts and non-  
19 cancellable health and accident contracts. Such life  
20 insurance reserves, except in the case of policies covering  
21 life, health, and accident insurance combined in one pol-  
22 icy issued on the weekly premium payment plan, contin-  
23 uing for life and not subject to cancellation, must also be  
24 required by law.

1           “(3) ADJUSTED RESERVES.—The term ‘adjusted  
2 reserves’ means life insurance reserves computed by  
3 adding thereto an amount equal to 7 per centum of that  
4 portion of such reserves as are computed on a preliminary  
5 term basis.

6           “(4) RESERVE EARNINGS RATE.—The term ‘re-  
7 serve earnings rate’ means a rate computed by adding  
8 2.1125 per centum (65 per centum of  $3\frac{1}{4}$  per centum)  
9 to 35 per centum of the average rate of interest assumed  
10 in computing life insurance reserves. Such average rate  
11 shall be calculated by applying each assumed rate of  
12 interest to the mean of the amounts of the adjusted  
13 reserves computed at that rate at the beginning and end  
14 of the taxable year and dividing the sum of the products  
15 by the mean of the total adjusted reserves at the begin-  
16 ning and end of the taxable year.

17           “(5) RESERVE FOR DEFERRED DIVIDENDS.—The  
18 term ‘reserve for deferred dividends’ means sums held  
19 at the end of the taxable year as a reserve for dividends  
20 (other than dividends payable during the year following  
21 the taxable year) the payment of which is deferred for  
22 a period of not less than five years from the date of  
23 the policy contract.

24           “(6) INTEREST PAID.—The term ‘interest paid’  
25 means—

1           “(A) All interest paid within the taxable year  
2           on its indebtedness, except on indebtedness incurred  
3           or continued to purchase or carry obligations (other  
4           than obligations of the United States issued after  
5           September 24, 1917, and originally subscribed for  
6           by the taxpayer) the interest upon which is wholly  
7           exempt from taxation under this chapter, and

8           “(B) All amounts in the nature of interest,  
9           whether or not guaranteed, paid within the taxable  
10          year on insurance contracts (or contracts arising  
11          out of insurance contracts) which do not involve,  
12          at the time of payment, life, health, or accident con-  
13          tingencies.

14          “(7) NET INCOME.—The term ‘net income’ means  
15          the gross income less—

16               “(A) Tax-Free Interest.—The amount of  
17               interest received during the taxable year which under  
18               section 22 (b) (4) is excluded from gross income;

19               “(B) Investment Expenses.—Investment ex-  
20               penses paid during the taxable year. If any general  
21               expenses are in part assigned to or included in the  
22               investment expenses, the total deduction under this  
23               subparagraph shall not exceed one-fourth of 1 per  
24               centum of the mean of the book value of the in-  
25               vested assets held at the beginning and end of the

11 taxable year plus one-fourth of the amount by  
12 which net income computed without any deduction  
13 for investment expenses allowed by this subpara-  
14 graph, exceeds  $3\frac{1}{2}$  per centum of the book value of  
15 the mean of the invested assets held at the begin-  
16 ning and end of the taxable year;

7 **“(C) Real Estate Expenses.**—Taxes and other  
8 expenses paid during the taxable year exclusively  
9 upon or with respect to the real estate owned by  
10 the company, not including taxes assessed against  
11 local benefits of a kind tending to increase the value  
12 of the property assessed, and not including any  
13 amount paid out for new buildings, or for permanent  
14 improvements or betterments made to increase the  
15 value of any property. The deduction allowed by  
16 this paragraph shall be allowed in the case of taxes  
17 imposed upon a shareholder of a company upon his  
18 interest as shareholder, which are paid by the com-  
19 pany without reimbursement from the shareholder,  
20 but in such cases no deduction shall be allowed the  
21 shareholder for the amount of such taxes;

22 **“(D) Depreciation.**—A reasonable allowance,  
23 as provided in section 23 (1), for the exhaustion,  
24 wear and tear of property, including a reasonable  
25 allowance for obsolescence;

1                    ~~“(E) Capital Losses.~~—Losses from sales or ex-  
2                    changes of capital assets, acquired subsequent to  
3                    December 31, 1941, to the extent provided in section  
4                    117;

5                    ~~“(F) Bond Premium Deduction.~~—The deduc-  
6                    tion for amortizable bond premium provided in  
7                    section 125.

8                    ~~“(d) RENTAL VALUE OF REAL ESTATE.~~—The deduc-  
9                    tion under subsection (e) (7) (C) or (e) (7) (D) of  
10                    this section on account of any real estate owned and occu-  
11                    pied in whole or in part by a life insurance company, shall  
12                    be limited to an amount which bears the same ratio to  
13                    such deduction (computed without regard to this subsec-  
14                    tion) as the rental value of the space not so occupied bears  
15                    to the rental value of the entire property.

16                    ~~“(e) DEDUCTIONS OF FOREIGN CORPORATIONS.~~—In  
17                    the case of a foreign corporation the deductions allowed in  
18                    this section shall be allowed to the extent provided in Sup-  
19                    plement I in the case of a foreign corporation engaged in  
20                    trade or business within the United States.

21                    ~~“(f) DOUBLE DEDUCTIONS.~~—Nothing in this section or  
22                    in section 202 or 203 shall be construed to permit the same  
23                    items to be twice deducted.

24                    ~~“(g) HEALTH AND ACCIDENT INSURANCE.~~—The net  
25                    income of a life insurance company writing cancellable health



1 and accident contracts shall be determined by adding to the  
 2 net income computed under subsection ~~(e)~~ ~~(7)~~ of this sec-  
 3 tion,  $3\frac{1}{2}$  per centum of the unearned premiums and unpaid  
 4 losses on such contracts. For the purposes of this subsection  
 5 such unearned premiums shall be considered to be not less  
 6 than 25 per centum of the net premiums written during the  
 7 taxable year on such contracts.

8 **"SEC. 202. ADJUSTED NORMAL-TAX NET INCOME.**

9 **"(a) DEFINITION.**—For the purposes of section 201,  
 10 the term 'adjusted normal-tax net income' means the normal-  
 11 tax net income minus the reserve and other policy liability  
 12 credit provided in subsection ~~(b)~~.

13 **"(b) RESERVE AND OTHER POLICY LIABILITY**  
 14 **CREDIT.**—As used in this section the term 'reserve and other  
 15 policy liability credit' means an amount computed by multi-  
 16 plying the normal tax net income by a figure, to be deter-  
 17 mined and proclaimed by the Secretary for each taxable year  
 18 based on such data with respect to life insurance companies  
 19 for the preceding taxable year as the Secretary considers  
 20 representative for such year in accordance with the following  
 21 formula: The ratio which ~~(1)~~ the aggregate of the sums of  
 22 ~~(A)~~ 2 per centum of the reserves for deferred dividends;  
 23 ~~(B)~~ interest paid, and ~~(C)~~ the product of ~~(i)~~ the mean of  
 24 the adjusted reserves at the beginning and end of the taxable  
 25 year and ~~(ii)~~ the reserve earnings rate bears to ~~(2)~~ the

1 aggregate of the net incomes computed without any deduction  
2 for tax-free interest.

3 **"SEC. 202. ADJUSTED CORPORATION SURTAX NET INCOME.**

4 **"(a) DEFINITION.**—For the purposes of section 201,  
5 the term 'adjusted corporation surtax net income' means the  
6 corporation surtax net income minus the reserve and other  
7 policy liability credit.

8 **"(b) RESERVE AND OTHER POLICY LIABILITY**  
9 **CREDIT.**—As used in this section, the term 'reserve and other  
10 policy liability credit' means an amount computed by multi-  
11 plying the corporation surtax net income by the figure deter-  
12 mined and proclaimed under section 202 (b)."

13 **"SEC. 201. LIFE INSURANCE COMPANIES.**

14 **"(a) IMPOSITION OF TAX.**—

15 **"(1) IN GENERAL.**—There shall be levied, collected,  
16 and paid for each taxable year upon the adjusted normal-  
17 tax net income (as defined in section 202) and upon the  
18 adjusted corporation surtax net income (as defined in sec-  
19 tion 203) of every life insurance company taxes at the  
20 rates provided in section 13 or section 14 (b) and in  
21 section 15 (b).

22 **"(2) FOREIGN LIFE INSURANCE COMPANIES.**—

23 A foreign life insurance company carrying on a life  
24 insurance business within the United States if with  
25 respect to its United States business it would qualify

1 as a life insurance company under subsection (b) shall  
2 be taxable in the same manner as a domestic life insur-  
3 ance company except that the determinations necessary  
4 for the purposes of this chapter shall be made on the basis  
5 of the income, disbursements, assets, and liabilities re-  
6 ported in the annual statement for the taxable year of the  
7 United States business of such company on the form  
8 approved for life insurance companies by the National  
9 Association of Insurance Commissioners.

10 **“(3) NO UNITED STATES INSURANCE BUSINESS.—**  
11 *Foreign life insurance companies not carrying on an*  
12 *insurance business within the United States shall not*  
13 *be taxable under this section but shall be taxable as*  
14 *other foreign corporations.*

15 **“(b) DEFINITION OF LIFE INSURANCE COMPANY.—**  
16 *When used in this chapter, the term ‘life insurance company’*  
17 *means an insurance company which is engaged in the busi-*  
18 *ness of issuing life insurance and annuity contracts (either*  
19 *separately or combined with health and accident insurance),*  
20 *or noncancellable contracts of health and accident insurance,*  
21 *and which has life insurance reserves (as defined in subsec-*  
22 *tion (c) (2)) plus unearned premiums and unpaid losses on*  
23 *noncancellable life, health, or accident policies not included in*  
24 *life insurance reserves, comprising more than 50 per centum*  
25 *of its total reserves. For the purpose of this subsection, total*

1. reserves means life insurance reserves, unearned premiums  
 2. and unpaid losses not included in life insurance reserves, and  
 3. all other insurance reserves required by law. For taxable  
 4. years beginning after December 31, 1943, a burial or funeral  
 5. benefit insurance company engaged directly in the manufac-  
 6. ture of funeral supplies or the performance of funeral services  
 7. shall not be taxable under this section but shall be taxable  
 8. under section 204 or section 207.

9. **"(c) OTHER DEFINITIONS.**—In the case of a life in-  
 10. surance company—

11. **"(1) GROSS INCOME.**—The term 'gross income'  
 12. means the gross amount of income received during the  
 13. taxable year from interest, dividends, and rents.

14. **"(2) LIFE INSURANCE RESERVES.**—The term 'life  
 15. insurance reserves' means amounts which are computed  
 16. or estimated on the basis of recognized mortality or mor-  
 17. bidity tables and assumed rates of interest, and which  
 18. are set aside to mature or liquidate, either by payment  
 19. or reinsurance, future unaccrued claims arising from  
 20. life insurance, annuity, and noncancellable health and  
 21. accident insurance contracts (including life insurance  
 22. or annuity contracts combined with noncancellable health  
 23. and accident insurance) involving, at the time with re-  
 24. spect to which the reserve is computed, life, health, or  
 25. accident contingencies. Such life insurance reserves, ex-

1        *cept in the case of policies covering life, health, and ac-*  
2        *cident insurance combined in one policy issued on the*  
3        *weekly premium payment plan, continuing for life and*  
4        *not subject to cancellation and except as hereinafter pro-*  
5        *vided in the case of assessment life insurance, must also*  
6        *be required by law. In the case of an assessment life*  
7        *insurance company or association the term 'life insurance*  
8        *reserves' includes sums actually deposited by such com-*  
9        *pany or association with State or Territorial officers*  
10       *pursuant to law as guaranty or reserve funds, and any*  
11       *funds maintained under the charter or articles of incor-*  
12       *poration or association, or bylaws approved by State*  
13       *Insurance Commissioner of such company or association*  
14       *exclusively for the payment of claims arising under cer-*  
15       *tificates of membership or policies issued upon the assess-*  
16       *ment plan and not subject to any other use.*

17       *"(3) ADJUSTED RESERVES.—The term 'adjusted*  
18       *reserves' means life insurance reserves plus 7 per centum*  
19       *of that portion of such reserves as are computed on a*  
20       *preliminary term basis.*

21       *"(4) RESERVE EARNINGS RATE.—The term 're-*  
22       *serve earnings rate' means a rate computed by adding*  
23       *2.1125 per centum (65 per centum of  $3\frac{1}{4}$  per centum)*  
24       *to 35 per centum of the average rate of interest assumed*  
25       *in computing life insurance reserves. Such average rate*

1 shall be calculated by multiplying each assumed rate of  
2 interest by the mean of the amounts of the adjusted re-  
3 serves computed at that rate at the beginning and end of  
4 the taxable year and dividing the sum of the products by  
5 the mean of the total adjusted reserves at the beginning  
6 and end of the taxable year.

7 **"(5) RESERVE FOR DEFERRED DIVIDENDS.**—The  
8 term 'reserve for deferred dividends' means sums held  
9 at the end of the taxable year as a reserve for dividends  
10 (other than dividends payable during the year following  
11 the taxable year) the payment of which is deferred for a  
12 period of not less than five years from the date of the  
13 policy contract.

14 **"(6) INTEREST PAID.**—The term 'interest paid'  
15 means—

16 **"(A)** All interest paid within the taxable year  
17 on indebtedness, except on indebtedness incurred  
18 or continued to purchase or carry obligations (other  
19 than obligations of the United States issued after  
20 September 24, 1917, and originally subscribed for  
21 by the taxpayer) the interest upon which is wholly  
22 exempt from taxation under this chapter, and

23 **"(B)** All amounts in the nature of interest,  
24 whether or not guaranteed, paid within the taxable  
25 year on insurance or annuity contracts (or con-

1        *tracts arising out of insurance or annuity con-*  
2        *tracts) which do not involve, at the time of payment,*  
3        *life, health, or accident contingencies.*

4        *“(7) NET INCOME.—The term ‘net income’ means*  
5        *the gross income less—*

6                *“(A) Tax-free Interest.—The amount of inter-*  
7                *est received during the taxable year which under*  
8                *section 22 (b) (4) is excluded from gross income;*

9                *“(B) Investment Expenses.—Investment ex-*  
10               *penses paid during the taxable year. If any general*  
11               *expenses are in part assigned to or included in the*  
12               *investment expenses, the total deduction under this*  
13               *subparagraph shall not exceed one-fourth of 1 per*  
14               *centum of the mean of the book value of the invested*  
15               *assets held at the beginning and end of the taxable*  
16               *year plus one-fourth of the amount by which net*  
17               *income computed without any deduction for invest-*  
18               *ment expenses allowed by this subparagraph, or for*  
19               *tax-free interest allowed by subparagraph (A),*  
20               *exceeds  $3\frac{3}{4}$  per centum of the book value of the mean*  
21               *of the invested assets held at the beginning and end*  
22               *of the taxable year;*

23               *“(C) Real Estate Expenses.—Taxes and other*  
24               *expenses paid during the taxable year exclusively*  
25               *upon or with respect to the real estate owned by the*

11. company, not including taxes assessed against local  
 12. benefits of a kind tending to increase the value of the  
 13. property assessed, and not including any amount  
 14. paid out for new buildings, or for permanent im-  
 15. provements or betterments made to increase the value  
 16. of any property. The deduction allowed by this  
 17. paragraph shall be allowed in the case of taxes im-  
 18. posed upon a shareholder of a company upon his  
 19. interest as shareholder, which are paid by the com-  
 20. pany without reimbursement from the shareholder,  
 21. but in such cases no deduction shall be allowed the  
 22. shareholder for the amount of such taxes;

13                   “(D) Depreciation.—A reasonable allowance,  
 14. as provided in section 23 (1), for the exhaustion,  
 15. wear and tear of property, including a reasonable  
 16. allowance for obsolescence.

17                   “(d) RENTAL VALUE OF REAL ESTATE.—The deduc-  
 18. tion under subsection (c) (7) (C) or (c) (7) (D) of this  
 19. section on account of any real estate owned and occupied in  
 20. whole or in part by a life insurance company, shall be limited  
 21. to an amount which bears the same ratio to such deduction  
 22. (computed without regard to this subsection) as the rental  
 23. value of the space not so occupied bears to the rental value of  
 24. the entire property.



1       “(e) **AMORTIZATION OF PREMIUM AND ACCRUAL OF**  
2 **DISCOUNT.**—The gross income, the deduction provided in  
3 section 201 (c) (7) (A) and the credit allowed against net  
4 income in section 26 (a) shall each be decreased by the  
5 appropriate amortization of premium and increased by the  
6 appropriate accrual of discount attributable to the taxable  
7 year on bonds, notes, debentures or other evidences of indebt-  
8 edness held by a life insurance company. Such amortization  
9 and acerual shall be determined (1) in accordance with the  
10 method regularly employed by such company, if such method  
11 is reasonable, and (2) in all other cases, in accordance with  
12 regulations prescribed by the Commissioner with the approval  
13 of the Secretary.

14       “(f) **DOUBLE DEDUCTIONS.**—Nothing in this section or  
15 in section 202 or 203 shall be construed to permit the same  
16 items to be twice deducted.

17       “(g) **CREDITS UNDER SECTION 26.**—For the purposes  
18 of this section, in computing normal tax net income and cor-  
19 poration surtax net income, the credits provided in section 26  
20 shall be allowed in the manner and to the extent provided  
21 in sections 13 (a) and 15 (a).”

22       “**SEC. 202. ADJUSTED NORMAL-TAX NET INCOME.**

23       “(a) **DEFINITION.**—For the purposes of section 201,  
24 the term ‘adjusted normal-tax net income’ means the normal-  
25 tax net income minus the reserve and other policy liability

1 credit provided in subsection (b) and plus the amount of the  
2 adjustment for certain reserves provided in subsection (c).

3 **"(b) RESERVE AND OTHER POLICY LIABILITY**

4 **CREDIT.**—As used in this section the term 'reserve and other  
5 policy liability credit' means an amount computed by multi-  
6 plying the normal-tax net income by a figure, to be determined  
7 and proclaimed by the Secretary for each taxable year. This  
8 figure shall be based on such data with respect to life insur-  
9 ance companies for the preceding taxable year as the Secre-  
10 tary considers representative and shall be computed in accord-  
11 ance with the following formula: The ratio which (1) the  
12 aggregate of the sums of (A) 2 per centum of the reserves  
13 for deferred dividends, (B) interest paid, and (C) the product  
14 of (i) the mean of the adjusted reserves at the beginning and  
15 end of the taxable year and (ii) the reserve earnings rate  
16 bears to (2) the aggregate of the excess of net incomes com-  
17 puted without any deduction for tax-free interest, over the  
18 adjustment for certain reserves provided in subsection (c).

19 **"(c) ADJUSTMENT FOR CERTAIN RESERVES.**—In the

20 case of a life insurance company writing contracts other than  
21 life insurance or annuity contracts (either separately or com-  
22 bined with noncancellable health and accident insurance), the  
23 term 'adjustment for certain reserves' means an amount equal  
24 to  $3\frac{1}{4}$  per centum of the unearned premiums and unpaid losses  
25 on such other contracts which are not included in life insur-

1. *ance reserves. For the purposes of this subsection such*  
 2. *unearned premiums shall not be considered to be less than*  
 3. *25 per centum of the net premiums written during the taxable*  
 4. *year on such other contracts.*

5. **“SEC. 203. ADJUSTED CORPORATION SURTAX NET INCOME.**

6. **“(a) DEFINITION.—***For the purposes of section 201, the*  
 7. *term ‘adjusted corporation surtax net income’ means the cor-*  
 8. *poration surtax net income minus the reserve and other policy*  
 9. *liability credit and plus the adjustment for certain reserves*  
 10. *provided in section 202 (c).*

11. **“(b) RESERVE AND OTHER POLICY LIABILITY**  
 12. **CREDIT.—***As used in this section, the term ‘reserve and other*  
 13. *policy liability credit’ means an amount computed by multi-*  
 14. *plying the corporation surtax net income by the figure deter-*  
 15. *mined and proclaimed under section 202 (b).”*

16. **(b) TECHNICAL AMENDMENTS.—**

17. **(1)** *Section 103 (relating to rates of tax on citizens*  
 18. *and corporations of certain foreign countries) is amended*  
 19. *by striking out “201 (b)” wherever appearing therein*  
 20. *and inserting “201 (a)”.*

21. **(2)** *Section 208 (relating to net operating losses):*  
 22. *(207) is amended by inserting after the word “supple-*  
 23. *ment” a comma and the words “other than life insur-*  
 24. *ance companies,” is repealed.*

1 (208) SEC. 146. INSURANCE COMPANIES OTHER THAN LIFE  
2 OR MUTUAL.

3 SEC. 166. INSURANCE COMPANIES OTHER THAN LIFE OR  
4 MUTUAL AND MUTUAL MARINE INSURANCE  
5 COMPANIES.

6 (a) Section 204 (a) (relating to tax on insurance com-  
7 panies other than life or mutual) is amended to read as  
8 follows:

9 "(a) IMPOSITION OF TAX.—

10 "(1) IN GENERAL.—There shall be levied, collected,  
11 and paid for each taxable year upon the normal-tax net  
12 income and upon the corporation surtax net income of  
13 every insurance company (other than a life or mutual  
14 insurance company) (209) and every mutual marine  
15 insurance company taxes at the rates specified in section  
16 13 or section 14 (b) and in section 15 (b).

17 "(2) NORMAL-TAX AND CORPORATION SURTAX  
18 NET INCOME OF FOREIGN INSURANCE COMPANIES  
19 OTHER THAN LIFE OR MUTUAL (210) AND FOREIGN  
20 MUTUAL MARINE.—In the case of a foreign insurance  
21 company (other than a life or mutual insurance com-  
22 pany) (211) and a foreign mutual marine insurance  
23 company, the normal-tax net income shall be the net  
24 income from sources within the United States minus the

1 credit provided in section 26 (a), the credit provided  
 2 in section 26 (b), and the credit for income subject to  
 3 the tax imposed by Subchapter E of Chapter 2 provided  
 4 in section 26 (e) and the corporation surtax net income  
 5 shall be the net income from sources within the United  
 6 States minus the credit provided in section 26 (b)  
 7 (computed by limiting such credit to 85 per centum of  
 8 the net income reduced by the credit for income sub-  
 9 ject to the tax imposed by Subchapter E of Chapter 2  
 10 in lieu of 85 per centum of the adjusted net income  
 11 so reduced), and minus the credit for income subject to  
 12 the tax imposed by Subchapter E of Chapter 2 provided  
 13 in section 26 (e).

14       “(3) NO UNITED STATES INSURANCE BUSINESS.—  
 15 Foreign insurance companies (other than a life or mu-  
 16 tual insurance company) (212) and foreign mutual ma-  
 17 rine insurance companies not carrying on an insurance  
 18 business within the United States shall not be taxable  
 19 under this section but shall be taxable as other foreign  
 20 corporations.”

21       (213)(b) Section 204 (e) (relating to deductions) is  
 22 amended by striking out the period at the end thereof and  
 23 inserting a semicolon and the following new paragraphs:

24       “(11) The increase during the taxable year in sur-  
 25 plus apportioned to policy holders in their capacity as

1 such. Any decrease during the taxable year in surplus  
 2 apportioned to policy holders in their capacity as such  
 3 shall be included in gross income;

4 ~~“(12) Dividends and similar distributions paid to~~  
 5 ~~policy holders in their capacity as such;~~

6 ~~“(13) The deductions allowed under paragraphs~~  
 7 ~~(11) and (12), and the inclusion in gross income~~  
 8 ~~under paragraph (11), shall be computed under, and~~  
 9 ~~limited to the amount which would be allowed if the~~  
 10 ~~taxpayer were taxable under, section 207, except that~~  
 11 ~~in determining such amount investment income available~~  
 12 ~~to pay dividends and similar distributions shall be an~~  
 13 ~~amount which bears the same ratio to the amount ascer-~~  
 14 ~~tained under section 207 (b) (7) as the mean of the~~  
 15 ~~sum of (A) unearned premiums and unpaid losses on~~  
 16 ~~participating insurance and (B) surplus apportioned to~~  
 17 ~~policy holders at the beginning and end of the taxable~~  
 18 ~~year bears to the mean of the total ledger assets at the~~  
 19 ~~beginning and end of the taxable year.”~~

20 *(b) Section 204 (b) (5) (relating to definition of pre-*  
 21 *miums earned) is amended by striking out the semicolon at*  
 22 *the end thereof and inserting a period and the following new*  
 23 *sentence: “For the purposes of this subsection, unearned pre-*  
 24 *miums shall include life insurance reserves, as defined in*  
 25 *section 201 (c) (2), pertaining to the life, burial, or funeral*

1 insurance, or annuity business of an insurance company sub-  
2 ject to the tax imposed by this section and not qualifying as a  
3 life insurance company under section 201 (b);”

4 (c) Section 204 (c) (relating to deductions) is amended  
5 as follows:

6 (1) by changing paragraph (5) to read:

7 “(5) CAPITAL LOSSES.—Capital losses to the ex-  
8 tent provided in section 117 plus losses from capital  
9 assets sold or exchanged in order to obtain funds to  
10 meet abnormal insurance losses and to provide for the  
11 payment of dividends and similar distributions to policy-  
12 holders. Capital assets shall be considered as sold or  
13 exchanged in order to obtain funds to meet abnormal  
14 insurance losses and to provide for the payment of  
15 dividends and similar distributions to policyholders to the  
16 extent that the gross receipts from their sale or exchange  
17 are not greater than the excess, if any, for the taxable  
18 year of the sum of dividends and similar distributions  
19 paid to policyholders in their capacity as such, losses  
20 paid, and expenses paid over the sum of interest, divi-  
21 dends, rents, and net premiums received. In the appli-  
22 cation of section 117 (e) for the purposes of this  
23 section, the net capital loss for the taxable year shall  
24 be the amount by which losses for such year from sales  
25 or exchanges of capital assets exceeds the sum of the gains

1 from such sales or exchanges and whichever of the fol-  
 2 lowing amounts is the lesser:

3 "(A) the corporation surtax net income (com-  
 4 puted without regard to gains or losses from sales or  
 5 exchanges of capital assets); or

6 "(B) losses from the sale or exchange of cap-  
 7 ital assets sold or exchanged to obtain funds to meet  
 8 abnormal insurance losses and to provide for the  
 9 payment of dividends and similar distributions to  
 10 policyholders.

11 and (2) by striking out the period at the end thereof and  
 12 inserting a semicolon and the following new paragraph:

13 "(11) Dividends and similar distributions paid or  
 14 declared to policyholders in their capacity as such. The  
 15 term 'paid or declared' shall be construed according to  
 16 the method of accounting regularly employed in keeping  
 17 the books of the insurance company."

18 (d) Section 204 is amended by adding at the end thereof  
 19 the following new subsection:

20 "(f) CREDITS UNDER SECTION 26.—For the purposes  
 21 of this section, in computing normal tax net income and cor-  
 22 poration surtax net income, the credits provided in section 26  
 23 shall be allowed in the manner and to the extent provided  
 24 in sections 13 (a) and 15 (a)."

25 (214)(e) (e) CROSS REFERENCE.—For stamp tax on



1 policies written by foreign insurers, see section 502 of this  
2 Act.

3 **(215) SEC. 147. MUTUAL INSURANCE COMPANIES OTHER**  
4 **THAN LIFE.**

5 **(a) EXEMPT COMPANIES.**—Section 101 (11) is  
6 amended to read as follows:

7 **“(11) Mutual hail, cyclone, casualty, liability, or**  
8 **fire insurance companies or associations (including inter-**  
9 **insurers and reciprocal underwriters) writing insurance**  
10 **contracts solely on a mutual basis, if the mean of the**  
11 **ledger assets held at the beginning and end of the tax-**  
12 **able year does not exceed \$100,000;”**

13 **(b) TAXABLE COMPANIES.**—Section 207 (relating to  
14 taxation of mutual insurance companies other than life) is  
15 amended to read as follows:

16 **“SEC. 207. MUTUAL INSURANCE COMPANIES OTHER THAN**  
17 **LIFE.**

18 **“(a) IMPOSITION OF TAX.**—There shall be levied, col-  
19 lected, and paid for each taxable year upon the net income  
20 of every mutual insurance company (other than a life insur-  
21 ance company) the corporation surtax net income of which  
22 is over \$50,000, a tax computed as follows:

23 **“(1) NORMAL TAX.**—A normal tax on the normal-  
24 tax net income, computed at the rates provided in section  
25 13, or 48 per centum of the amount by which the

1 normal-tax net income exceeds \$50,000, whichever is  
2 the lesser; plus

3 ~~“(2) SURTAX.—~~A surtax on the corporation sur-  
4 tax net income, computed at the rates provided in section  
5 15 (b), or 42 per centum of the amount by which the  
6 corporation surtax net income exceeds \$50,000, which-  
7 ever is the lesser.

8 ~~“(3) LEDGER ASSETS OVER \$100,000 BUT LESS~~  
9 ~~THAN \$150,000.—~~If the mean of the ledger assets held  
10 at the beginning and end of the taxable year is over  
11 \$100,000 but less than \$150,000, the tax under this sub-  
12 section shall be an amount which bears the same propor-  
13 tion to the sum of the lesser amounts ascertained under  
14 paragraphs (1) and (2) as the excess over \$100,000 of  
15 such mean of the ledger assets bears to \$50,000.

16 ~~“(4) NORMAL-TAX AND CORPORATION SURTAX~~  
17 ~~NET INCOME OF FOREIGN MUTUAL INSURANCE COM-~~  
18 ~~PANIES OTHER THAN LIFE.—~~In the case of a foreign  
19 mutual insurance company (other than a life insurance  
20 company), the normal-tax net income shall be the net  
21 income from sources within the United States minus the  
22 credit provided in section 26 (a), the credit provided in  
23 section 26 (b), and the credit for income subject to the  
24 tax imposed by Subchapter F of Chapter 2 provided in  
25 section 26 (c), and the corporation surtax net income

1 shall be the net income from sources within the United  
 2 States minus the credit provided in section 26 (b) (com-  
 3 puted by limiting such credit to 85 per centum of the  
 4 net income reduced by the credit for income subject to  
 5 the tax imposed by Subchapter E of Chapter 2 in lieu  
 6 of 85 per centum of the adjusted net income so reduced),  
 7 and minus the credit for income subject to the tax  
 8 imposed by Subchapter E of Chapter 2 provided in  
 9 section 26 (c).

10 ~~“(5) NO UNITED STATES INSURANCE BUSINESS.—~~

11 Foreign mutual insurance companies (other than a life  
 12 insurance company) not carrying on an insurance busi-  
 13 ness within the United States shall not be taxable under  
 14 this section but shall be taxable as other foreign cor-  
 15 porations.

16 ~~“(b) DEFINITION OF INCOME, ETC.—~~In the case of an  
 17 insurance company subject to the tax imposed by this  
 18 section—

19 ~~“(1) GROSS INCOME.—~~‘Gross income’ means the  
 20 sum of (A) investment income as defined in paragraph  
 21 (2), (B) underwriting income as defined in paragraph  
 22 (4), and (C) all other items constituting gross income  
 23 under section 22;

24 ~~“(2) INVESTMENT INCOME.—~~‘Investment income’  
 25 means the gross amount of income during the taxable

1. year from interest, dividends, rents, and gains from sales  
 2. or exchanges of capital assets to the extent provided in  
 3. section 117, less (A) losses from sales or exchanges of  
 4. capital assets to the extent provided in section 117,  
 5. (B) investment expenses, (C) real estate expenses,  
 6. (D) depreciation, and (E) interest paid;

7. **“(3) INVESTMENT EXPENSES, ETC.—**As used in  
 8. this section the terms ‘investment expenses’, ‘real estate  
 9. expenses’, ‘depreciation’, and ‘interest paid’ shall have  
 10. the same meaning, and shall be subject to the same  
 11. limitations, as in section 201 (e) (7) (B), (C), and  
 12. (D); section 201 (e) (6) (A); and section 201 (d)  
 13. (relating to life insurance companies), but shall be con-  
 14. sidered as if the word ‘paid’ wherever it appears therein  
 15. were ‘paid or accrued’;

16. **“(4) UNDERWRITING INCOME.—**Underwriting in-  
 17. come’ means net premiums received during the taxable  
 18. year on insurance contracts plus any decrease during  
 19. such year in any of the items specified in subparagraph  
 20. (C) less:

21. **“(A) Losses paid in excess of salvage and re-**  
 22. **insurance recoverable;**

23. **“(B) Underwriting expenses and loss adjust-**  
 24. **ment expenses paid or accrued;**

25. **“(C) The increase during the taxable year in**

1 any of the following items: (i) unearned premiums;  
2 (ii) unpaid losses; and (iii) surplus apportioned to  
3 policyholders;

4 “(D) Dividends and similar distributions paid  
5 to policyholders out of premium income and surplus  
6 apportioned to policyholders. Dividends and similar  
7 distributions paid to policyholders shall be considered  
8 to be paid out of premium income and surplus appor-  
9 tioned to policyholders only to the extent they ex-  
10 ceed the sum of the investment income of the taxable  
11 year available to pay dividends and similar distribu-  
12 tions in that year plus the investment income of the  
13 preceding taxable years (if beginning after Decem-  
14 ber 31, 1941) available to pay such dividends and  
15 similar distributions in such years but not so used;

16 “(5) NET PREMIUMS RECEIVED.—Not premiums  
17 received during the taxable year on insurance contracts  
18 means gross premiums (including premium deposits  
19 and assessments) written or received on insurance con-  
20 tracts less return premiums and premiums paid for re-  
21 insurance. Amounts returned where the amount is not  
22 fixed in the insurance contract but depends upon the  
23 experience of the company or the discretion of the  
24 management shall not be included in return premiums

1 but shall be treated as dividends to policyholders under  
 2 paragraph (4) (D);

3 ~~“(6) SURPLUS APPORTIONED TO POLICY-~~  
 4 ~~HOLDERS.—~~

5 ~~“(A) In General.—~~Surplus apportioned to pol-  
 6 icyholders’ means such portion of the surplus of the  
 7 company as is held for distribution to policyholders  
 8 before the expiration of five years after the termina-  
 9 tion of their policies in equitable proportion to the  
 10 amount of the surplus contributed by each policy-  
 11 holder or group of policyholders and includes  
 12 amounts set aside for the payment of dividends and  
 13 similar distributions to policyholders. The amount  
 14 of surplus apportioned to policyholders shall in no  
 15 case be considered to exceed an amount which would  
 16 leave unapportioned surplus equal to or less than the  
 17 unapportioned surplus as of the beginning of the  
 18 first taxable year which begins after December 31,  
 19 1941;

20 ~~“(B) Limitation on Amount Includible.—~~For  
 21 the purposes of subparagraph (A), no amount shall  
 22 be included in surplus apportioned to policyholders  
 23 unless, under the provisions of the insurance con-  
 24 tract, or by the by-laws of the company, the dis-

1 distribution of such amount is specifically required and  
2 the distribution is not at the discretion of the direc-  
3 tors of the company. The fact that the distribution  
4 of an amount can be withheld in order to comply  
5 with requirements of State law, or may be subjected  
6 to lien or assessment to meet abnormal loss or de-  
7 cline in market value of assets, shall not prevent  
8 the inclusion of such amount in surplus apportioned  
9 to policyholders. In no case shall an amount held  
10 for more than five years from the termination of  
11 the policy be included in surplus apportioned to  
12 policyholders;

13 **“(C) Special Rule for Taxable Years Begin-**  
14 **ning After December 31, 1941, and Before January**  
15 **1, 1945.—**For the purposes of subparagraph (A),  
16 for taxable years beginning after December 31,  
17 1941, and before January 1, 1945, an amount shall  
18 be included in surplus apportioned to policyholders  
19 if includible under subparagraph (B) or if payable to  
20 policyholders under the established normal practice  
21 of the company;

22 **“(7) INVESTMENT INCOME AVAILABLE TO PAY**  
23 **DIVIDENDS AND SIMILAR DISTRIBUTIONS.—**Investment  
24 income available to pay dividends and similar distribu-

1 tions' means investment income for the taxable year  
 2 ~~(computed without regard to section 117 (d) and (e))~~  
 3 less ~~(A)~~ an amount equal to 21 per centum of the in-  
 4 terest on obligations with respect to which a credit is  
 5 allowable under section 26 ~~(a)~~ ~~(relating to interest on~~  
 6 ~~certain obligations of the United States)~~, and ~~(B)~~ an  
 7 amount equal to 45 per centum of so much of the invest-  
 8 ment income ~~(computed with regard to section 117 (d)~~  
 9 ~~and (e))~~ as exceeds the sum of ~~(i)~~ the interest on  
 10 obligations with respect to which a credit is allowable  
 11 under section 26 ~~(a)~~, plus ~~(ii)~~ the interest on obliga-  
 12 tions described in section 22 ~~(b) (4)~~, plus ~~(iii)~~ the  
 13 credit provided in section 26 ~~(b)~~ ~~(relating to dividends~~  
 14 ~~received on stock of domestic corporations)~~;

15 ~~“(8) NET INCOME.—~~‘Net income’ means the gross  
 16 income as defined in paragraph ~~(1)~~ of this subsection  
 17 less the following deductions:

18 ~~“(A) All deductions as provided in section 23~~  
 19 ~~to the extent not otherwise allowed;~~

20 ~~“(B) The amount of the net operating loss~~  
 21 ~~deduction provided in section 23 (s) except that in~~  
 22 ~~computing such deduction the terms ‘third preceding~~  
 23 ~~taxable year’, ‘second preceding taxable year’, and~~  
 24 ~~‘first preceding taxable year’ as used in section 123~~



1 shall not include any taxable year beginning before  
2 January 1, 1942; and

3 “(C) The amount of interest which under sec-  
4 tion 22 (b) (4) is excluded for the taxable year  
5 from gross income.

6 “(e) DEDUCTIONS OF FOREIGN CORPORATIONS.—In  
7 the case of a foreign corporation the deductions allowed in  
8 this section shall be allowed to the extent provided in Sup-  
9 plement I in the case of a foreign corporation engaged in  
10 trade or business within the United States.

11 “(d) DOUBLE DEDUCTIONS.—Nothing in this section  
12 shall be construed to permit the same item to be twice  
13 deducted.”

14 **SEC. 167. MUTUAL INSURANCE COMPANIES OTHER THAN LIFE**  
15 **OR MARINE.**

16 (a) **EXEMPT COMPANIES.**—Section 101 (11) is  
17 amended to read as follows:

18 “(11) *Mutual insurance companies or associations*  
19 *other than life or marine (including interinsurers and*  
20 *reciprocal underwriters) if the gross amount received*  
21 *during the taxable year from interest, dividends, rents,*  
22 *and premiums (including deposits and assessments) does*  
23 *not exceed \$75,000;”.*

24 (b) **TAXABLE COMPANIES.**—Section 207 (relating to

1 taxation of mutual insurance companies other than life) is  
2 amended to read as follows:

3 **"SEC. 207. MUTUAL INSURANCE COMPANIES OTHER THAN LIFE**  
4 **OR MARINE.**

5 **"(a) IMPOSITION OF TAX.**—There shall be levied, col-  
6 lected, and paid for each taxable year upon the income of  
7 every mutual insurance company (other than a life or a  
8 marine insurance company) a tax computed under paragraph  
9 (1) or paragraph (2) whichever is the greater.

10 **"(1)** If the corporation surtax net income is over  
11 \$3,000 a tax computed as follows:

12 **"(A) Normal Tax.**—A normal tax on the nor-  
13 mal-tax net income, computed at the rates provided  
14 in section 13 or section 14 (b), or 30 per centum  
15 of the amount by which the normal-tax net income  
16 exceeds \$3,000, whichever is the lesser; plus

17 **"(B) Surtax.**—A surtax on the corporation  
18 surtax net income, computed at the rates provided in  
19 section 15 (b), or 20 per centum of the amount by  
20 which the corporation surtax net income exceeds  
21 \$3,000, whichever is the lesser.

22 **"(2)** If for the taxable year the gross amount of  
23 income from interest, dividends, rents, and net premiums,  
24 minus dividends to policy holders, minus the interest

1 which under section 22 (b) (4) is excluded from gross  
2 income, exceeds \$75,000, a tax equal to the excess of—

3 “(A) 1 per centum of the amount so computed,  
4 or 2 per centum of the excess of the amount so com-  
5 puted over \$75,000, whichever is the lesser, over

6 “(B) the amount of the tax imposed under Sub-  
7 chapter E of Chapter 2.

8 This paragraph shall not apply with respect to inter-  
9 insurers or reciprocal underwriters.

10 “(3) GROSS AMOUNT RECEIVED OVER \$75,000 BUT  
11 LESS THAN \$125,000.—If the gross amount received dur-  
12 ing the taxable year from interest, dividends, rents, and  
13 premiums (including deposits and assessments) is over  
14 \$75,000 but less than \$125,000, the amount ascertained  
15 under paragraph (1) and paragraph (2) (A) shall  
16 be an amount which bears the same proportion to the  
17 amount ascertained under such paragraph (1) or para-  
18 graph (2) (A), computed without reference to this para-  
19 graph, as the excess over \$75,000 of such gross amount  
20 received bears to \$50,000.

21 “(4) FOREIGN MUTUAL INSURANCE COMPANIES  
22 OTHER THAN LIFE OR MARINE.—In the case of a fore-  
23 eign mutual insurance company (other than a life or  
24 marine insurance company), the net income shall be the  
25 net income from sources within the United States and

1 the gross amount of income from interest, dividends,  
 2 rents, and net premiums shall be the amount of such  
 3 income from sources within the United States.

4 **"(5) NO UNITED STATES INSURANCE BUSI-**  
 5 **NESS.**—Foreign mutual insurance companies (other than  
 6 a life or marine insurance company) not carrying on an  
 7 insurance business within the United States shall not be  
 8 taxable under this section but shall be taxable as other  
 9 foreign corporations.

10 **"(b) DEFINITION OF INCOME, ETC.**—In the case of an  
 11 insurance company subject to the tax imposed by this section—

12 **"(1) GROSS INVESTMENT INCOME.**—'Gross invest-  
 13 ment income' means the gross amount of income during  
 14 the taxable year from interest, dividends, rents, and gains  
 15 from sales or exchanges of capital assets to the extent  
 16 provided in section 117;

17 **"(2) NET PREMIUMS.**—'Net premiums' means gross  
 18 premiums (including deposits and assessments) written  
 19 or received on insurance contracts during the taxable  
 20 year less return premiums and premiums paid or in-  
 21 curred for reinsurance. Amounts returned where the  
 22 amount is not fixed in the insurance contract but depends  
 23 upon the experience of the company or the discretion of  
 24 the management shall not be included in return premiums

1 but shall be treated as dividends to policyholders under  
2 paragraph (3);

3 **"(3) DIVIDENDS TO POLICYHOLDERS.**—*Dividends*  
4 *to policyholders' means dividends and similar distribu-*  
5 *tions paid or declared to policyholders. The term 'paid*  
6 *or declared' shall be construed according to the method*  
7 *regularly employed in keeping the books of the insurance*  
8 *company;*

9 **"(4) NET INCOME.**—*The term 'net income' means*  
10 *the gross investment income less—*

11 **"(A) Tax-free Interest.**—*The amount of interest*  
12 *which under section 22 (b) (4) is excluded for the*  
13 *taxable year from gross income;*

14 **"(B) Investment Expenses.**—*Investment ex-*  
15 *penses paid or accrued during the taxable year. If*  
16 *any general expenses are in part assigned to or in-*  
17 *cluded in the investment expenses, the total deduc-*  
18 *tion under this subparagraph shall not exceed one-*  
19 *fourth of 1 per centum of the mean of the book*  
20 *value of the invested assets held at the beginning*  
21 *and end of the taxable year plus one-fourth of the*  
22 *amount by which net income computed without any*  
23 *deduction for investment expenses allowed by this*  
24 *subparagraph, or for tax-free interest allowed by*  
25 *subsection (b) (4) (A), exceeds 3½ per centum of*

1       the book value of the mean of the invested assets held  
2       at the beginning and end of the taxable year;

3       “(C) *Real Estate Expenses.*—Taxes and other  
4       expenses paid or accrued during the taxable year  
5       exclusively upon or with respect to the real estate  
6       owned by the company, not including taxes assessed  
7       against local benefits of a kind tending to increase the  
8       value of the property assessed, and not including any  
9       amount paid out for new buildings, or for permanent  
10      improvements or betterments made to increase the  
11      value of any property. The deduction allowed by  
12      this paragraph shall be allowed in the case of taxes  
13      imposed upon a shareholder of a company upon his  
14      interest as shareholder, which are paid or accrued  
15      by the company without reimbursement from the  
16      shareholder, but in such cases no deduction shall be  
17      allowed the shareholder for the amount of such taxes;

18      “(D) *Depreciation.*—A reasonable allowance,  
19      as provided in section 23 (1), for the exhaustion,  
20      wear and tear of property, including a reasonable  
21      allowance for obsolescence;

22      “(E) *Interest Paid or Accrued.*—All interest  
23      paid or accrued within the taxable year on in-  
24      debtedness, except on indebtedness incurred or con-  
25      tinued to purchase or carry obligations (other than

1 obligations of the United States issued after Septem-  
2 ber 24, 1917, and originally subscribed for by the  
3 taxpayer) the interest upon which is wholly exempt  
4 from taxation under this chapter.

5       “(F) Capital Losses.—Capital losses to the  
6 extent provided in section 117 plus losses from cap-  
7 ital assets sold or exchanged in order to obtain funds to  
8 meet abnormal insurance losses and to provide for the  
9 payment of dividends and similar distributions to  
10 policyholders. Capital assets shall be considered as  
11 sold or exchanged in order to obtain funds to meet  
12 abnormal insurance losses and to provide for the  
13 payment of dividends and similar distributions to  
14 policyholders to the extent that the gross receipts from  
15 their sale or exchange are not greater than the excess,  
16 if any, for the taxable year of the sum of dividends  
17 and similar distributions paid to policyholders, losses  
18 paid, and expenses paid over the sum of interest,  
19 dividends, rents, and net premiums received. In the  
20 application of section 117 (e) for the purposes of  
21 this section, the net capital loss for the taxable year  
22 shall be the amount by which losses for such year  
23 from sales or exchanges of capital assets exceeds the  
24 sum of the gains from such sales or exchanges and  
25 whichever of the following amounts is the lesser:

1                   “(i) the corporation surtax net income  
2                   (computed without regard to gains or losses from  
3                   sales or exchanges of capital assets); or

4                   “(ii) losses from the sale or exchange of  
5                   capital assets sold or exchanged to obtain funds  
6                   to meet abnormal insurance losses and to provide  
7                   for the payment of dividends and similar dis-  
8                   tributions to policyholders.

9                   “(c) RENTAL VALUE OF REAL ESTATE.—The deduc-  
10                  tion under subsection (b) (4) (C) or (b) (4) (D) of this  
11                  section on account of any real estate owned and occupied in  
12                  whole or in part by a mutual insurance company other than  
13                  life or marine, shall be limited to an amount which bears the  
14                  same ratio to such deduction (computed without regard to  
15                  this subsection) as the rental value of the space not so oc-  
16                  cupied bears to the rental value of the entire property.

17                  “(d) AMORTIZATION OF PREMIUM AND ACCRUAL OF  
18                  DISCOUNT.—The gross amount of income during the taxable  
19                  year from interest, the deduction provided in subsection (b)  
20                  (4) (A), and the credit allowed against net income in sec-  
21                  tion 26 (a) shall each be decreased by the appropriate amor-  
22                  tization of premium and increased by the appropriate accrual  
23                  of discount attributable to the taxable year on bonds, notes,  
24                  debentures or other evidences of indebtedness held by a mu-  
25                  tual insurance company other than life or marine. Such



1 *amortization and accrual shall be determined (1) in accord-*  
 2 *ance with the method regularly employed by such company,*  
 3 *if such method is reasonable, and (2) in all other cases, in*  
 4 *accordance with regulations prescribed by the Commissioner*  
 5 *with the approval of the Secretary.*

6 *“(e) DEDUCTIONS OF FOREIGN CORPORATIONS.—In*  
 7 *the case of a foreign corporation the deductions allowed in*  
 8 *this section shall be allowed to the extent provided in Supple-*  
 9 *ment F in the case of a foreign corporation engaged in trade*  
 10 *or business within the United States.*

11 *“(f) DOUBLE DEDUCTIONS.—Nothing in this section*  
 12 *shall be construed to permit the same item to be twice deducted.*

13 *“(g) CREDITS UNDER SECTION 26.—For the purposes*  
 14 *of this section, in computing normal tax net income and cor-*  
 15 *poration surtax net income, the credits provided in section 26*  
 16 *shall be allowed in the manner and to the extent provided in*  
 17 *sections 13 (a) and 15 (a).”*

18 *(c) CROSS REFERENCE.—For stamp tax on policies*  
 19 *written by foreign insurers, see section 502 of this Act.*

20 **(216)(d) STOCK ACCIDENT AND HEALTH INSURANCE**  
 21 **COMPANIES.—Section 101 is amended by adding a new**  
 22 **paragraph reading as follows:**

23 *“(21) Stock accident and health insurance com-*  
 24 *panies engaged in the business of issuing cancellable*  
 25 *accident and health insurance contracts, if the gross*

1 amount received during the taxable year from interest,  
2 dividends, rents, and premiums does not exceed  
3 \$200,000."

4 SEC. (217) 148 168. TECHNICAL AMENDMENT TO DEFINI-  
5 TION OF "DIVIDEND".

6 Section 115 (a) (relating to definition of dividends) is  
7 amended by striking out "(except in section 203 (a) (3)  
8 and section 207 (c) (1), relating to insurance companies)"  
9 and inserting the following "(except in section 201 (c) (5),  
10 section (218) 204 (e) (12), and section 207 (b) (4) (D),  
11 relating to insurance companies 204 (c) (11) and 207 (a)  
12 (2) and (b) (3) (where the reference is to dividends of  
13 insurance companies paid to policy holders))".

14 SEC. (219) 149 169. TRANSACTIONS IN STOCKS, SECURITIES,  
15 AND COMMODITIES NOT CONSIDERED  
16 ENGAGING IN TRADE OR BUSINESS  
17 IN CERTAIN CASES.

18 The last sentence of section 211 (b) (relating to defini-  
19 tion of being engaged in trade or business in the United  
20 States) is amended to read as follows: "Such phrase does  
21 not include the effecting, through a resident broker, commis-  
22 sion agent, or custodian, of transactions in the United States  
23 in commodities (if of a kind customarily dealt in on an  
24 organized commodity exchange, if the transaction is of the  
25 kind customarily consummated at such place, and if the alien,

1 partnership, or corporation has no office or place of business  
 2 in the United States at any time during the taxable year  
 3 through which or by the direction of which such transactions  
 4 in commodities are effected), or in stocks or securities."

5 **(220) SEC. 170. PERIOD FOR FILING PETITION EXTENDED IN**  
 6 **CERTAIN CASES.**

7 *(a) PERIOD EXTENDED.—Section 272 (a) (1) (re-*  
 8 *lating to period for filing petition with Board of Tax*  
 9 *Appeals) is amended by inserting at the end thereof the*  
 10 *following new sentence: "If the notice is addressed to a*  
 11 *person outside the States of the Union and the District of*  
 12 *Columbia, the period specified in this paragraph shall be*  
 13 *one hundred and fifty days in lieu of ninety days."*

14 *(b) EFFECTIVE DATE.—The amendment made by this*  
 15 *section shall be applicable with respect to notices of deficiency*  
 16 *mailed after the date of the enactment of this Act.*

17 **SEC. (221) 159 171. STATUTE OF LIMITATIONS ON REFUNDS**  
 18 **AND CREDITS.**

19 **(a) LIMIT ON AMOUNT OF CREDIT OR REFUND.—**  
 20 **Section 322 (b) (2) is amended to read as follows:**

21 **"(2) LIMIT ON AMOUNT OF CREDIT OR REFUND.—**  
 22 **The amount of the credit or refund shall not exceed the**  
 23 **portion of the tax paid—**

24 **"(A) If a return was filed by the taxpayer,**  
 25 **and the claim was filed within three years from the**

1 time the return was filed, during the three years  
 2 immediately preceding the filing of the claim.

3 “(B) If a claim was filed, and (i) no return  
 4 was filed, or (ii) if the claim was not filed within  
 5 three years from the time the return was filed by  
 6 the taxpayer, during the two years immediately  
 7 preceding the filing of the claim:

8 “(C) If no claim was filed and the allowance  
 9 of credit or refund is made within three years from  
 10 the time the return was filed by the taxpayer, dur-  
 11 ing the three years immediately preceding the  
 12 allowance of the credit or refund.

13 “(D) If no claim was filed, and (i) no return  
 14 was filed or (ii) the allowance of the credit or  
 15 refund is not made within three years from the  
 16 time the return was filed by the taxpayer, during  
 17 the two years immediately preceding the allowancē  
 18 of the credit or refund.

19 “(3) (222) **LIMITATIONS. EXCEPTIONS IN THE**  
 20 **CASE OF WAIVERS.**—If both the Commissioner and the  
 21 taxpayer have, within the period described in paragraph  
 22 (1) for the filing of a claim for credit or refund, agreed in  
 23 writing under the provisions of section 276 (b) to extend  
 24 beyond the period prescribed in section 275 the time  
 25 within which the Commissioner may make an assessment,

1 the period within which a claim for credit or refund may be  
2 filed, or credit or refund allowed or made if no claim is filed,  
3 shall be the period within which the Commissioner may  
4 make an assessment pursuant to such agreement or any ex-  
5 tension thereof, and six months thereafter, except that the  
6 provisions of paragraph (1) shall apply to any claim filed,  
7 or credit or refund allowed or made, before the execution  
8 of such agreement. The amount of the credit or refund  
9 shall not exceed the total of the portions of tax paid (A)  
10 during the two years immediately preceding the execu-  
11 tion of such agreement, or, if such agreement was exe-  
12 cuted within three years from the time the return was  
13 filed, during the three years immediately preceding the  
14 execution of such agreement, (B) after the execution of  
15 the agreement and before the expiration of the period  
16 within which the Commissioner might make an assess-  
17 ment pursuant to such agreement or any extension  
18 thereof, and (C) during six months after the expiration  
19 of such period, except that the provisions of paragraph  
20 (2) shall apply to any claim filed, or credit or refund  
21 allowed, before the execution of the agreement. If any  
22 portion of the tax is paid after the expiration of the period  
23 within which the Commissioner might make an assess-  
24 ment pursuant to such agreement, and if no claim for  
25 credit or refund is filed after the time of such payment

1 and before the end of six months after the expiration of  
2 such period, then credit or refund may be allowed or  
3 made if a claim therefor is filed by the taxpayer within  
4 six months from the time of such payment, or, if no claim  
5 is filed within such six-month period after the payment,  
6 if the credit or refund is allowed or made within such  
7 period, but the amount of the credit or refund shall not  
8 exceed the portion of the tax paid during the six months  
9 immediately preceding the filing of the claim, or, if no  
10 claim was filed (and the credit or refund is allowed after  
11 six months after the expiration of the period within which  
12 the Commissioner might make an assessment), during  
13 the six months immediately preceding the allowance of  
14 the credit or refund.

15 **"(4) RETURN CONSIDERED FILED ON DUE DATE."**

16 For the purposes of this subsection, a return filed before  
17 the last day prescribed by law for the filing thereof shall  
18 be considered as filed on such last day. For the purposes  
19 of paragraphs (2) and (3) of this subsection, and for  
20 the purposes of subsection (d) of this section, an advance  
21 payment of any portion of the tax made at the time such  
22 return was filed shall be considered as made on the last  
23 day prescribed by law for the payment of the tax or, if  
24 the taxpayer elected to pay the tax in installments, on  
25 the last day prescribed for the payment of the first in-

1. stallment. For the purposes of this paragraph, the last  
 2. day prescribed by law for filing the return or paying the  
 3. tax shall be determined without regard to any extension  
 4. of time granted the taxpayer.

5. " (5) SPECIAL PERIOD OF LIMITATION WITH RE-  
 6. SPECT TO BAD DEBTS AND WORTHLESS SECURITIES.—

7. If the claim for credit or refund relates to an overpay-  
 8. ment on account of—

9. " (A) the deductibility by the taxpayer, under  
 10. section 23 (k) (1), section 23 (k) (4), or sec-  
 11. tion 204 (c), of a debt as a debt which became  
 12. worthless, or, under section 23 (g) (2) or (k) (2),  
 13. of a loss from worthlessness of a security, or

14. " (B) the effect that the deductibility of a debt  
 15. or loss described in subparagraph (A) has on the  
 16. application to the taxpayer of a carry-over, (223) or  
 17. of a carry-back

18. in lieu of the three-year period of limitation prescribed  
 19. in paragraph (1), the period shall be 7 years from  
 20. the date prescribed by law for filing the return for the  
 21. year with respect to which the claim is made. In the  
 22. case of such a claim, the amount of the credit or refund  
 23. may exceed the portion of the tax paid within the period  
 24. provided in paragraph (2) or paragraph (3), which-  
 25. ever is applicable, to the extent of the amount of the

1 overpayment attributable to the deductibility of items  
2 described in this paragraph.”

3 (b) OVERPAYMENT FOUND BY BOARD.—Section 322

4 (d) is amended to read as follows:

5 “(d) OVERPAYMENT FOUND BY BOARD.—If the Board  
6 finds that there is no deficiency and further finds that the tax-  
7 payer has made an overpayment of tax in respect of the  
8 taxable year in respect of which the Commissioner deter-  
9 mined the deficiency, the Board shall have jurisdiction to  
10 determine the amount of such overpayment, and such amount  
11 shall, when the decision of the Board has become final, be  
12 credited or refunded to the taxpayer. No such credit or  
13 refund shall be made of any portion of the tax unless the  
14 Board determines as part of its decision (1) that such portion  
15 was paid (A) within two years before the filing of the claim,  
16 the mailing of the notice of deficiency, or the execution of  
17 an agreement by both the Commissioner and the taxpayer  
18 pursuant to section 276 (b) to extend beyond the time  
19 prescribed in section 275 the time within which the Commis-  
20 sioner might assess the tax, whichever is earliest, or (B)  
21 within three years before the filing of the claim, the mail-  
22 ing of the notice of deficiency, or the execution of the agree-  
23 ment, whichever is earliest, if the claim was filed, the notice  
24 of deficiency mailed, or the agreement executed within three



1 years from the time the return was filed by the taxpayer, or  
 2 (C) after the execution of such an agreement and before  
 3 the expiration of the period within which the Commissioner  
 4 might make an assessment pursuant to such agreement or  
 5 any extension thereof, or (D) after the mailing of the notice  
 6 of deficiency; or (2), if such portion was not paid within  
 7 the period described in clause (1), but the notice of defi-  
 8 ciency was mailed within seven years from the time pre-  
 9 scribed for the filing of the return, or a claim described in  
 10 subsection (b) (5) was filed, that such portion does not  
 11 exceed the amount of the overpayment attributable to the  
 12 deductibility of items described in subsection (b) (5)."

13 (c) **EFFECTIVE DATE OF AMENDMENT.**—The amend-  
 14 ment inserting paragraph (5) of section 322 (b) shall be  
 15 applicable to taxable years beginning after December 31,  
 16 1938.

17 **SEC. (224) 172. REGULATED INVESTMENT COMPANIES.**

18 (a) **DEFINITION AND RATES OF NORMAL TAX AND**  
 19 **SURTAX.**—Supplement Q of Chapter 1 is amended to read  
 20 as follows:

21 "Supplement Q—Regulated Investment Companies

22 "SEC. 36L. DEFINITION.

23 "(a) **IN GENERAL.**—For the purposes of this chapter,  
 24 the term 'regulated investment company' means any domes-  
 25 tic corporation (whether chartered or created as an invest-

(1) ment trust, or otherwise), other than a personal holding  
 (2) company as defined in section 501, which at all times during  
 (3) the taxable year is registered under the Investment Com-  
 (4) pany Act of 1940 (54 Stat. 789, 15 U. S. C., 1940 ed., secs.  
 (5) 80(a)-1 to 80(b)-2), or that Act, as amended; either as a man-  
 (6) agement company or as a unit investment trust (225), or  
 (7) *which is a common trust fund or similar fund excluded by*  
 (8) *section 3 (c) (3) of such Act from the definition of 'invest-*  
 (9) *ment company' and is not included in the definition of*  
 (10) *'common trust fund' by section 169.* 01

(11) (b) LIMITATIONS.—Despite the provisions of subsec-  
 (12) tion (a), a corporation shall not be considered a regulated  
 (13) investment company for any taxable year unless— 81

(14) (1) At least 90 per centum of its gross income is  
 (15) derived from dividends, interest, and gains from the sale  
 (16) or other disposition of stock or securities; and 01

(17) (2) Less than 30 per centum of its gross income  
 (18) is derived from the sale or other disposition of stock or  
 (19) securities held for less than three months; and 01

(20) (226)“(3) An amount not less than 90 per centum of  
 (21) its net income for the taxable year; computed without  
 (22) regard to net long-term and net short-term capital gains;  
 (23) is distributed to its shareholders as taxable dividends  
 (24) during the taxable year; and 12

(25) (227)“(4) (3) At the close of each quarter of the tax-

1       able year (A) at least 50 per centum of the value of its  
2       total assets is represented by cash and cash items (in-  
3       cluding receivables), Government securities, securities  
4       of other regulated investment companies, and other  
5       securities for the purposes of this calculation limited  
6       in respect of any one issuer to an amount not greater  
7       in value than 5 per centum of the value of the total  
8       assets of the taxpayer and to not more than 10 per  
9       centum of the outstanding voting securities of such  
10      issuer, and (B) not more than 25 per centum of the  
11      value of its total assets is invested in the securities  
12      (other than Government securities or the securities  
13      of other regulated investment companies) of any one  
14      issuer, or of two or more issuers which the taxpayer  
15      controls and which are determined, under regulations pre-  
16      scribed by the Commissioner with the approval of the  
17      Secretary, to be engaged in the same or similar trades  
18      or businesses or related trades or businesses. For the pur-  
19      poses of clause (B), in ascertaining the value of the tax-  
20      payer's investment in the securities of an issuer, there  
21      shall be included its proper proportion of the investment  
22      of any other corporation, a member of a controlled group,  
23      in the securities of such issuer, as determined under regu-  
24      lations prescribed by the Commissioner and approved by  
25      the Secretary. The term 'controls', as used in this para-

1 graph, means the ownership in a corporation of 20 per  
2 centum or more of the total combined voting power of  
3 all classes of stock entitled to vote. The term 'controlled  
4 group', as used in this paragraph, means one or more  
5 chains of corporations connected through stock owner-  
6 ship with the taxpayer if (i) 20 per centum or more of  
7 the total combined voting power of all classes of stock  
8 entitled to vote of each of the corporations (except  
9 the taxpayer) is owned directly by one or more of the  
10 other corporations, and (ii) the taxpayer owns directly  
11 20 per centum or more of the total combined voting  
12 power of all classes of stock entitled to vote, of at  
13 least one of the other corporations. The term 'value'  
14 as used in this paragraph means, with respect to securi-  
15 ties (other than those of majority-owned subsidiaries)  
16 for which market quotations are readily available, the  
17 market value of such securities; and with respect to  
18 other securities and assets, fair value as determined in  
19 good faith by the board of directors, except that in the  
20 case of securities of majority-owned subsidiaries which  
21 are investment companies such fair value shall not  
22 exceed market value or asset value, whichever is higher.  
23 All other terms used in the preceding provisions of this  
24 paragraph shall have the same meaning as when used  
25 in the Investment Company Act of 1940, or that Act

1 as amended. A corporation which meets the foregoing  
2 requirements of this paragraph at the close of any  
3 quarter shall not lose its status as a regulated investment  
4 company because of a discrepancy during a subsequent  
5 quarter between the value of its various investments and  
6 such requirements unless such discrepancy exists imme-  
7 diately after the acquisition of any security or other  
8 property and is wholly or partly the result of such  
9 acquisition. A corporation which does not meet such  
10 requirements at the close of any quarter by reason of  
11 a discrepancy existing immediately after the acquisition  
12 of any security or other property which is wholly or  
13 partly the result of such acquisition during such quarter  
14 shall not lose its status for such quarter as a regulated  
15 investment company if such discrepancy is eliminated  
16 within thirty days after the close of such quarter and in  
17 such cases it shall be considered to have met such re-  
18 quirements at the close of such quarter for the purposes  
19 of applying the preceding sentence. A corporation  
20 which meets such requirements at the close of its first  
21 full quarter after the date of the enactment of the Reve-  
22 nue Act of 1942, or eliminates any discrepancy between  
23 the value of its investments and such requirements  
24 existing at the close of such quarter within thirty days

1 thereafter, shall be deemed to have met such require-  
2 ments at all previous times; and

3 (228)~~“(5)~~ For such year it complies with all rules and  
4 regulations prescribed by the Commissioner, with the  
5 approval of the Secretary, for the purpose of ascertain-  
6 ing the actual ownership of its outstanding stock.

7 (229)~~“(4)~~ It files with its return for the taxable year  
8 an election to be a regulated investment company or has  
9 made such election for a previous taxable year which  
10 began after December 31, 1941.

11 **(230)“SEC. 362. TAX ON REGULATED INVESTMENT COM-**  
12 **PANIES.**

13 ~~“(a) SUPPLEMENT Q NET INCOME.—~~For the purposes  
14 of this chapter the term ‘Supplement Q net income’ means  
15 the adjusted net income, computed without the net oper-  
16 ating loss deduction provided in section 22 (s), minus the  
17 basic surtax credit computed under section 27 (b) without  
18 the application of paragraphs (2) and (3). For the pur-  
19 poses of this subsection, the net income shall be computed  
20 without regard to section 47 (c).

21 ~~“(b) IMPOSITION OF TAX.—~~There shall be levied, col-  
22 lected, and paid for each taxable year upon the Supplement  
23 Q net income of every regulated investment company a tax  
24 equal to 2½ per centum of the amount thereof.

1 **“SEC. 362. SURTAX ON REGULATED INVESTMENT COM-**  
2 **PANIES.**

3 **“(a) SUPPLEMENT Q SURTAX NET INCOME.—**For the  
4 purposes of this chapter the term ‘Supplement Q surtax net  
5 income’ means the net income, computed without the net  
6 operating loss deduction provided in section 23 (s), minus  
7 the dividends paid during the taxable year increased by the  
8 consent dividends credit provided in section 28. For the  
9 purposes of this subsection the amount of dividends paid shall  
10 be computed in the same manner as provided in subsections  
11 (d), (e), (f), (g), (h), and (i) of section 27 for the  
12 purpose of the basic surtax credit provided in section 27.  
13 For the purposes of this subsection, the net income shall be  
14 computed without regard to section 47 (c).

15 **“(b) IMPOSITION OF TAX.—**There shall be levied, col-  
16 lected, and paid for each taxable year upon the Supplement  
17 Q surtax net income of every regulated investment company  
18 a surtax equal to 21 per centum of the amount thereof.

19 **“SEC. 364. ALTERNATIVE TAX ON CAPITAL GAINS.**

20 **“For the purpose of computing the alternative tax under**  
21 **section 117 (c) (1), the 25 per centum tax imposed upon**  
22 **the amount by which the net long-term capital gain exceeds**  
23 **the net short-term capital loss shall not be in excess of 25**  
24 **per centum of the Supplement Q surtax net income.”**

1 "SEC. 362. TAX ON REGULATED INVESTMENT COMPANIES.

2     “(a) EARNINGS AND PROFITS.—The earnings and  
3 profits of a regulated investment company for any taxable  
4 year beginning after December 31, 1941 (but not its ac-  
5 cumulated earnings and profits) shall not be reduced by any  
6 amount which is not allowable as a deduction in computing  
7 its net income for such taxable year.

8     “(b) METHOD OF TAXATION OF COMPANIES AND  
9 SHAREHOLDERS.—In the case of a regulated investment  
10 company which distributes during the taxable year to its  
11 shareholders as taxable dividends other than capital gain  
12 dividends an amount not less than 90 per centum of its net  
13 income for the taxable year computed without regard to  
14 net long-term and net short-term capital gains, and complies  
15 for such year with all rules and regulations prescribed by  
16 the Commissioner, with the approval of the Secretary, for  
17 the purpose of ascertaining the actual ownership of its out-  
18 standing stock:

19         “(1) Its Supplement Q net income shall be its  
20 adjusted net income (computed by excluding the excess,  
21 if any, of the net long-term capital gain over the net  
22 short-term capital loss, and without the net operating loss  
23 deduction provided in section 23 (s)) minus the basic  
24 surtax credit (excluding capital gain dividends) com-



1 computed under section 27 (b) without the application of  
2 paragraphs (2) and (3). For the purposes of this  
3 paragraph, the net income shall be computed without  
4 regard to section 47 (c).

5 “(2) Its Supplement Q surtax net income shall be  
6 its net income (computed by excluding the excess, if any,  
7 of the net long-term capital gain over the net short-term  
8 capital loss, and without the net operating loss deduction  
9 provided in section 23 (s)) minus the dividends (other  
10 than capital gain dividends) paid during the taxable year  
11 increased by the consent dividends credit provided by  
12 section 28. For the purposes of this paragraph and para-  
13 graph (5) the amount of dividends paid shall be com-  
14 puted in the same manner as provided in subsections (d),  
15 (e), (f), (g), (h), and (i) of section 27 for the purpose  
16 of the basic surtax credit provided in section 27. For  
17 the purposes of this paragraph the net income shall be  
18 computed without regard to section 47 (c).

19 “(3) There shall be levied, collected, and paid for  
20 each taxable year upon its Supplement Q net income a  
21 tax equal to 24 per centum of the amount thereof.

22 “(4) There shall be levied, collected, and paid for  
23 each taxable year upon its Supplement Q surtax net  
24 income a tax equal to 16 per centum of the amount  
25 thereof.

1       “(5) There shall be levied, collected, and paid for  
2       each taxable year a tax of 25 per centum of the excess,  
3       if any, of the net long-term capital gain over the sum  
4       of the net short-term capital loss and the amount of  
5       capital gain dividends paid during the year. ( )

6       “(6) A capital gain dividend shall be treated by  
7       the shareholders as gains from the sale or exchange of  
8       capital assets held for more than 6 months. ( ) 8

9       “(7) A capital gain dividend means any dividend  
10      or part thereof which is designated by the company as  
11      a capital gain dividend in a written notice mailed to its  
12      shareholders at any time prior to the expiration of thirty  
13      days after close of its taxable year. If the aggregate  
14      amount so designated with respect to a taxable year of  
15      the company is greater than the excess of the net long-  
16      term capital gain over the net short-term capital loss of  
17      the taxable year, the portion of each distribution which  
18      shall be a capital gain dividend shall be only that pro-  
19      portion of the amount so designated which such excess  
20      of the net long-term capital gain over the net short-term  
21      capital loss bears to the aggregate amount so designated.”

22      (b) TECHNICAL AMENDMENTS.—

23      (1) Section 4 (relating to applicability of supple-  
24      ments) is amended by striking out “(j) Mutual invest-  
25      ment companies,—Supplement Q” and inserting in lieu

1 thereof "(j) Regulated investment companies,—Supple-  
2 ment Q".

3 (2) Section 14 (e) (relating to tax on corpora-  
4 tions) is amended to read as follows:

5 "(e) REGULATED INVESTMENT COMPANIES.—In the  
6 case of (231)regulated investment companies, as defined in  
7 a corporation subject to the tax imposed by Supplement Q  
8 (232)(relating to regulated investment companies), the tax  
9 shall be as provided in such supplement."

10 (233)(c) RETROACTIVE PROVISIONS RELATING TO EARN-  
11 INGS AND PROFITS.—For any taxable year beginning after  
12 December 31, 1935, and before January 1, 1942, of a cor-  
13 poration which filed an income tax return as a mutual in-  
14 vestment company, the earnings and profits of such corpora-  
15 tion for such taxable year (but not its accumulated earnings  
16 and profits) shall not be reduced by any amount which is  
17 not allowable as a deduction in computing its net income for  
18 such taxable year; except that this subsection shall not result  
19 in earnings and profits of the taxable year in excess of the  
20 aggregate of the distributions made by the corporation to  
21 its shareholders during the taxable year exclusive of the  
22 amounts, if any, which the corporation advised its share-  
23 holders to be nontaxable for Federal income tax purposes.

1 SEC. (234) 152-173. AMENDMENTS TO SUPPLEMENT R.

2 (a) EXCHANGES AND SALES OF PROPERTY.—Section  
3 371 (b) (relating to exchanges of property for property) is  
4 amended to read as follows:

5 “(b) EXCHANGES AND SALES OF PROPERTY BY COR-  
6 PORATIONS.—No gain shall be recognized to a transferor  
7 corporation which is a registered holding company or an  
8 associate company of a registered holding company, if such  
9 corporation, in obedience to an order of the Securities and  
10 Exchange Commission transfers property in exchange for  
11 property, and such order recites that such exchange by  
12 the transferor corporation is necessary or appropriate to the  
13 integration or simplification of the holding company system  
14 of which the transferor corporation is a member. If any such  
15 property so received is nonexempt property, gain shall be  
16 recognized unless such nonexempt property, or an amount  
17 equal to the fair market value of such property at the time of  
18 the transfer is, within 24 months of the transfer, under regula-  
19 tions prescribed by the Commissioner with the approval of  
20 the Secretary, and in accordance with an order of the Securi-  
21 ties and Exchange Commission, expended for property other  
22 than nonexempt property or is invested as a contribution to  
23 the capital, or as paid-in surplus, of another corporation,  
24 and such order recites that such expenditure or investment by

1 the transferor corporation is necessary or appropriate to the  
2 integration or simplification of the holding company system  
3 of which the transferor corporation is a member. If the fair  
4 market value of such nonexempt property at the time of the  
5 transfer exceeds the amount expended and the amount in-  
6 vested, as required in the second sentence of this paragraph,  
7 the gain, if any, to the extent of such excess, shall be recog-  
8 nized. Any gain, to the extent that it cannot be applied  
9 in reduction of basis under section 372 (a) (2) shall be  
10 recognized. For the purposes of this subsection, a distribu-  
11 tion in cancellation or redemption (235) (*except a distribution*  
12 *having the effect of a dividend*) of the whole or a part of  
13 the transferor's own stock (not acquired on the transfer)  
14 and a payment in complete or partial retirement or cancel-  
15 lation of securities representing indebtedness of the transferor  
16 or a complete or partial retirement or cancellation of such  
17 securities which is a part of the consideration for the transfer,  
18 shall be considered an expenditure for property other than  
19 nonexempt property, and if, on the transfer, a liability of  
20 the transferor is assumed, or property of the transferor is  
21 transferred subject to a liability, the amount of such liability  
22 shall be considered to be an expenditure by the transferor  
23 for property other than nonexempt property. This subsec-  
24 tion shall not apply unless the transferor corporation con-  
25 sents, at such time and in such manner as the Commissioner,

1 with the approval of the Secretary, may by regulations pre-  
 2 scribe, to the regulations prescribed under section 372 (a)  
 3 (2), in effect at the time of filing its return for the taxable  
 4 year in which the transfer occurs."

5 (b) AMENDMENT OF SECTION 371 (f).—Section  
 6 371 (f) is amended to read as follows:

7 " (f) APPLICATION OF SECTION.—The provisions of  
 8 this section shall not apply to an exchange, expenditure,  
 9 investment, distribution, or sale unless (1) the order of  
 10 the Securities and Exchange Commission in obedience to  
 11 which such exchange, expenditure, investment, distribution,  
 12 or sale was made recites that such exchange, expenditure,  
 13 investment, distribution, or sale is necessary or appropri-  
 14 ate to effectuate the provisions of section 11 (b) of the  
 15 Public Utility Holding Company Act of 1935, 49 Stat.  
 16 820 (U. S. C., title 15, sec. 79(236)k (b) ), (2) such order  
 17 specifies and itemizes the stock and securities and other prop-  
 18 erty which are ordered to be acquired, transferred, received,  
 19 or sold upon such exchange, acquisition, expenditure, distri-  
 20 bution, or sale, and, in the case of an investment, the in-  
 21 vestment to be made, and (3) such exchange, acquisition,  
 22 expenditure, investment, distribution or sale was made in  
 23 obedience to such order, and was completed within the time  
 24 prescribed therefor."

1 (c) AMENDMENT OF SECTION 372 (a) —Section  
2 372 (a) is amended—

3 (1) by inserting after “(a) EXCHANGES GEN-  
4 ERALLY.—” the following:

5 “(1) EXCHANGES SUBJECT TO THE PROVISIONS OF  
6 SECTION 371 (a).—”;

7 (2) by striking out “371 (a), (b), or (e),” and  
8 inserting in lieu thereof “371 (a) or (e)”, and by strik-  
9 ing out “371 (a) or (b)” and inserting in lieu thereof  
10 “371 (a)”; and

11 (3) by inserting at the end thereof the following:

12 “(2) EXCHANGES SUBJECT TO THE PROVISIONS OF  
13 SECTION 371 (b).—The gain not recognized upon a  
14 transfer by reason of section 371 (b) shall be applied to  
15 reduce the basis for determining gain or loss on sale or  
16 exchange of the following categories of property in the  
17 hands of the transferor immediately after the transfer,  
18 and property acquired within 24 months after such  
19 transfer by an expenditure or investment to which sec-  
20 tion 371 (b) relates on account of the acquisition of  
21 which gain is not recognized under such subsection, in  
22 the following order:

23 “(1) Property of a character subject to the allow-  
24 ance for depreciation under section 23 (1);

25 “(2) Property (not described in paragraph (1))

1 with respect to which a deduction for amortization is  
2 allowable under section 23 (t) ;

3 " (3) Property with respect to which a deduction  
4 for depletion is allowable under section 23 (m) but not  
5 allowable under section 114 (b) (2), (3), or (4) ;

6 " (4) Stock and securities of corporations not mem-  
7 bers of the system group of which the transferor is a  
8 member (other than stock or securities of a corporation  
9 of which the transferor is a subsidiary) ;

10 " (5) Securities (other than stock) of corporations  
11 which are members of the system group of which the  
12 transferor is a member (other than securities of the  
13 transferor) or of a corporation of which the transferor is a  
14 subsidiary) ;

15 " (6) Stock of corporations which are members of  
16 the system group of which the transferor is a member  
17 (other than stock of the transferor or of a corporation of  
18 which the transferor is a subsidiary) ;

19 " (7) All other remaining property of the transferor  
20 (other than stock or securities of the transferor or of a  
21 corporation of which the transferor is a subsidiary) ;

22 The manner and amount of the reduction to be applied to  
23 particular property within any of the categories described in  
24 paragraphs (1) to (7), inclusive, shall be determined under



1 regulations prescribed by the Commissioner with the approval  
2 of the Secretary.”

3 (d) AMENDMENT OF SECTION 373 (a).—Section 373  
4 (a) is amended to read as follows:

5 “(a) The term ‘order of the Securities and Exchange  
6 Commission’ means an order issued after May 28, 1938, by  
7 the Securities and Exchange Commission which requires,  
8 authorizes, permits, or approves transactions described in  
9 such order to effectuate the provisions of section 11 (b) of  
10 the Public Utility Holding Company Act of 1935, 49 Stat.  
11 820 (U. S. C., title 15, sec. 79(237)k (b)), which has  
12 become or becomes final in accordance with law.”

13 (e) AMENDMENT OF SECTION 373 (e) (1).—Section  
14 373 (e) (1) is amended to read as follows:

15 “(1) Any consideration in the form of evidences  
16 of indebtedness owed by the transferor or a cancellation  
17 or assumption of debts or other liabilities of the trans-  
18 feror (including a continuance of encumbrances subject  
19 to which the property was transferred);”.

20 (f) AMENDMENT OF SECTION 373 (e) (4).—Section  
21 373 (e) (4) is amended to read as follows:

22 “(4) Stock or securities which were acquired from  
23 a registered holding company or an associate company  
24 of a registered holding company which acquired such  
25 stock or securities after February 28, 1938, unless such

1 stock or securities (other than obligations described as  
 2 nonexempt property in paragraph (1), (2), or (3))  
 3 were acquired in obedience to an order of the Securities  
 4 and Exchange Commission or were acquired with the  
 5 authorization or approval of the Securities and Exchange  
 6 Commission under any section of the Public Utility  
 7 Holding Company Act of 1935, 49 Stat. 820 (U. S. C.,  
 8 title 15, sec. 79(238)k (b) );”.

9 (g) TECHNICAL AMENDMENT.—Section 371 (e) is  
 10 amended by striking out “or (b)”.

11 (239)(h) BASIS.—Section 113 (a) (17) is amended to  
 12 read as follows:

13 “(17) PROPERTY ACQUIRED IN CONNECTION  
 14 WITH EXCHANGES AND DISTRIBUTIONS IN OBEDIENCE  
 15 TO CERTAIN ORDERS OF THE SECURITIES AND  
 16 EXCHANGE COMMISSION.—If the property was ac-  
 17 quired in a taxable year beginning before January 1,  
 18 1942, in any manner described in section 372 prior  
 19 to its amendment by the Revenue Act of 1942,  
 20 the basis shall be that prescribed in such section  
 21 (prior to its amendment by such Act) with respect to such  
 22 property. If the property was acquired in a taxable year  
 23 beginning after December 31, 1941, in any manner described  
 24 in section 372 (other than subsection (a) (2)) after its  
 25 amendment by such Act, the basis shall be that prescribed in

1 *such section (after its amendment by such Act) with respect*  
 2 *to such property."*

3 **(240) ~~(h)~~ (i) CROSS REFERENCE.**—For exemption from  
 4 stamp tax on certain transactions described in this section  
 5 see section 507 of this Act.

6 **(241) SEC. 153. COLLECTION OF TAX AT SOURCE.**

7 **~~(a)~~ REQUIREMENT OF COLLECTION AT SOURCE.**—The  
 8 Internal Revenue Code is amended by inserting after Supple-  
 9 ment T of Chapter 1 the following new supplement:

10 **"Supplement U—Collection of Tax at Source on Dividends,  
 11 Bond Interest, and Wages**

12 **"SEC. 425. DEFINITIONS.**

13 **"As used in this supplement—**

14 **~~(a)~~ PAYROLL PERIOD.**—The term 'payroll period'  
 15 means a period for which a payment of remuneration is  
 16 ordinarily made to the employee by his employer.

17 **~~(b)~~ WAGES.**—The term 'wages' means all remunera-  
 18 tion for services performed by an employee for his employer,  
 19 including the cash value of all remuneration paid in any  
 20 medium other than cash; except that such term shall not  
 21 include remuneration paid ~~(1)~~ for services performed by a  
 22 member of the military or naval forces of the United States,  
 23 other than pensions and retired pay, ~~(2)~~ for agricultural  
 24 labor (as defined in section 1426 ~~(h)~~), ~~(3)~~ for domestic  
 25 service in a private home, local college club, or local chapter

1 of a college fraternity or sorority, ~~(4)~~ for casual labor not  
2 in the course of the employer's trade or business, ~~(5)~~ for  
3 services as an employee of a nonresident alien individual,  
4 foreign partnership, or foreign corporation, if such individual,  
5 partnership, or corporation is not engaged in trade or busi-  
6 ness in the United States, ~~(6)~~ for services as an employee  
7 of a foreign government or any wholly-owned instrumentality  
8 thereof, or ~~(7)~~ for services performed as an employee while  
9 outside the United States (as defined in section 3707 (a)-  
10 ~~(9)~~), unless the major part of the services performed during  
11 the calendar year by such employee for his employer are  
12 performed within the United States.

13       “(c) RECIPIENT.—The term ‘recipient of the income’  
14 means any person entitled to credit against the tax imposed  
15 by this chapter the tax withheld and collected at the source  
16 under this supplement upon the dividends, bond interest, or  
17 wages of such person.

18       “(d) BOND.—The term ‘bond’ means any bond, debenture,  
19 note, or certificate or other evidence of indebtedness  
20 issued by any corporation (including those issued by a  
21 government or political subdivision thereof, or any agency  
22 or instrumentality of any one or more of the foregoing),  
23 with interest coupons or in registered form; but shall not  
24 include any such evidence of indebtedness issued by a for-  
25 eign government or any wholly-owned instrumentality thereof

1 or issued by a foreign corporation which is not engaged in  
2 trade or business in the United States.

3 “(e) DIVIDENDS.—The term ‘dividends’ shall not in-  
4 clude any dividends paid by a foreign corporation which is  
5 not engaged in trade or business in the United States.

6 “(f) WITHHOLDING AGENT.—The term ‘withholding  
7 agent’ means any person required to withhold, collect, and  
8 pay the tax under section 426.

9 “(g) EMPLOYEE.—The term ‘employee’ includes (in  
10 addition to any individual who is a servant under the law  
11 of master and servant) any individual who performs serv-  
12 ice, of whatever nature, for a person (including the United  
13 States, a State, Territory, or any political subdivision  
14 thereof, or the District of Columbia, or any agency or  
15 instrumentality of any one or more of the foregoing), unless  
16 the service is performed by the individual in pursuit of his  
17 own independently established business. The term ‘em-  
18 ployee’ also includes an officer of a corporation.

19 “(h) EMPLOYER.—The term ‘employer’ includes any  
20 person for whom an individual performs any service, of what-  
21 ever nature, as the employee of such person.

22 **“SEC. 426. TAX COLLECTED AT SOURCE.**

23 “(a) REQUIREMENT OF WITHHOLDING.—There shall  
24 be withheld, collected, and paid (except in the cases provided  
25 for in section 143) upon all dividends, bond interest, and

1 wages of every person, to the extent that such dividends,  
 2 interest, and wages are includible in gross income, a tax  
 3 equal to 10 per centum of (1) such dividends and interest,  
 4 and (2) the excess of each payment of such wages over the  
 5 withholding deduction allowable under this supplement; ex-  
 6 cept that, for the calendar year 1943, such tax shall be  
 7 5 per centum. As used in this subsection, the term 'person'  
 8 shall not include any person (other than a partnership or  
 9 a common trust fund) exempt from tax under this chapter  
 10 or a corporation.

11 **"(b) WITHHOLDING DEDUCTION.—**

12 **"(1)** In computing the tax required to be with-  
 13 held from wages under subsection (a), there shall be  
 14 allowed as a deduction against the wages paid for each  
 15 payroll period an amount determined in accordance  
 16 with the following schedule (which is based upon the  
 17 credits allowed in section 25 (b) plus 10 per centum of  
 18 such credits):

"Payroll Period	Single Person (Not head of family)	Married Person or Head of Family	Each Dependent
Weekly .....	\$11.00	\$26.00	\$8.50
Biweekly .....	22.00	52.00	17.00
Semimonthly .....	22.00	55.00	18.00
Monthly .....	46.00	110.00	36.00
Quarterly .....	138.00	330.00	108.00
Semiannually .....	276.00	660.00	216.00
Annually .....	552.00	1,320.00	432.00

18 **"(2)** If a payroll period in respect of any wages is  
 19 less than one week, the excess of the aggregate of the

1 wages paid during each calendar week over the deduc-  
2 tion allowed by this subsection for a weekly payroll  
3 period shall be used in computing the tax required to be  
4 withheld.

5 “(3) If a payroll period in respect of any wages, or  
6 any other period with respect to which wages are paid, is  
7 not otherwise specifically provided for in this subsection,  
8 the deduction allowable against each payment of such  
9 wages shall be the deduction allowable in the case of an  
10 annual payroll period divided by 365 and multiplied by  
11 the number of days in such period, including Sundays  
12 and holidays.

13 “(4) In any case in which wages are paid without  
14 regard to any payroll period or other period, the deduc-  
15 tion allowable against each payment of such wages shall  
16 be the deduction allowable in the case of an annual  
17 payroll period divided by 365 and multiplied by the  
18 number of days (including Sundays and holidays) which  
19 have elapsed since the last payment of such wages dur-  
20 ing the calendar year or January 1 of such year, which-  
21 ever last occurred.

22 “(5) The deduction allowable under this subsection  
23 in respect of any individual for any 12-month period shall  
24 not exceed the total deduction which would have been

1 allowable under paragraph (1) if the only payroll period  
2 of such individual had been a weekly payroll period.

3 ~~(c) WITHHOLDING WHERE OWNER OR AMOUNT IS~~  
4 ~~UNKNOWN.~~—In any case in which the withholding agent is  
5 unable to determine the owner of the security or obligation  
6 in respect of which any dividend or bond interest is payable  
7 or the amount of any dividend, bond interest, or wages  
8 specified in subsection (a) which is includible in gross income,  
9 the Commissioner, under regulations prescribed by him with  
10 the approval of the Secretary, may authorize the tax to be  
11 withheld, collected, and paid.

12 ~~“(d) TAX PAID BY RECIPIENT.~~—If any tax required  
13 under this supplement to be withheld and collected is paid  
14 by the recipient of the income, it shall not be re-collected  
15 from the withholding agent; but such payment shall in no  
16 case relieve the withholding agent from liability for interest  
17 or additions to the tax otherwise applicable in respect of any  
18 tax imposed by this chapter.

19 ~~“(e) EXEMPT INDIVIDUALS.~~—No tax shall be with-  
20 held or collected pursuant to this supplement in the case  
21 of dividends or bond interest of an individual if there is filed  
22 with the withholding agent a certificate in such form and  
23 at such times as may be required under regulations prescribed  
24 by the Commissioner, with the approval of the Secretary,



1 stating that the gross income of such individual (or, if such  
2 individual is a married person, the gross income of such  
3 individual and his spouse) for the taxable year in which such  
4 dividends or interest are includible in gross income will not  
5 exceed the credits allowed in section 25 (b).

6       “(f) CREDIT FOR TAX WITHHELD AT SOURCE.—The  
7 tax withheld and collected under this supplement shall not  
8 be allowed as a deduction either to the withholding agent  
9 or to the recipient of the income in computing net income;  
10 but the amount of the tax so withheld and collected shall be  
11 credited against the tax imposed by this chapter upon the  
12 recipient of the income.

13       “(g) REFUNDS.—Where there has been an overpay-  
14 ment of tax under this section, any refund or credit made  
15 under the provisions of section 322 shall be made to the  
16 recipient of the income in respect of whom the tax was with-  
17 held; but, in any case in which such tax was not so withheld  
18 by the withholding agent, such refund or credit shall be made  
19 to the withholding agent.

20       “(h) INCLUDED AND EXCLUDED WAGES.—If the re-  
21 munerations paid by an employer to an employee for services  
22 performed during one-half or more of any payroll period  
23 constitutes wages, all the remuneration paid by such employer  
24 to such employee for such period shall be deemed to be  
25 wages; but if the remuneration paid by an employer to an

1 employee for services performed during more than one-half  
2 of any such payroll period does not constitute wages, then  
3 none of the remuneration paid by such employer to such  
4 employee for such period shall be deemed to be wages.

5 **"SEC. 427. RULES FOR DETERMINATION OF WITHHOLDING**  
6 **DEDUCTION.**

7 **"In determining the withholding deduction under section**  
8 **426 (b)—**

9 **"(a) DEFINITIONS.—**

10 **"(1) 'Married person' means a married person liv-**  
11 **ing with husband or wife.**

12 **"(2) 'Dependent' means a person (other than hus-**  
13 **band or wife) dependent upon and receiving his chief**  
14 **support from the taxpayer if such dependent person is**  
15 **under eighteen years of age or is incapable of self-sup-**  
16 **port because mentally or physically defective, excluding**  
17 **as a dependent, in the case of a head of a family, one who**  
18 **would be excluded under section 25 (b) (2) (B).**

19 **"(b) DETERMINATION OF STATUS.—The determination**  
20 **of whether a person is living with husband or wife, is a head**  
21 **of a family, or has a dependent, shall be made as of the first**  
22 **day of any payroll period of such person in respect of which**  
23 **the withholding and collection of the tax is required under**  
24 **this supplement. Any change of status affecting the with-**  
25 **holding deduction of such person shall take effect as of the**

1 first day of the first payroll period beginning after such  
2 change.

3       “(c) MARRIED PERSONS NOT LIVING WITH HUSBAND  
4 OR WIFE.—A married person not a head of a family and not  
5 living with husband or wife shall be treated as a single person.

6       “(d) HUSBAND AND WIFE BOTH EMPLOYED.—In the  
7 case of married persons, if both husband and wife receive  
8 wages each spouse shall be entitled to one-half of the deduc-  
9 tion allowed a married person, except that if one of such  
10 spouses receives wages for casual services, no deduction shall  
11 be allowed such spouse, and the other spouse shall be entitled  
12 to the deduction allowed a married person.

13       “(e) STATUS UNKNOWN.—Any person who fails to  
14 submit the information required by section 431 (relating to  
15 his status for the purpose of the withholding deduction) shall  
16 be treated as a single person.

17 “SEC. 423. WITHHOLDING AGENT.

18       “(a) COLLECTION OF TAX.—The tax required to be  
19 withheld by section 426 shall be collected by the person hav-  
20 ing control of the payment of such dividends, bond interest,  
21 or wages, by deducting such amount from such dividends,  
22 interest, or wages, as the case may be, as and when paid.  
23 As used in this subsection, the term ‘person’ includes officers  
24 and employees of the United States, or of a State, Territory,  
25 or any political subdivision thereof, or of the District of

1 Columbia, or any agency or instrumentality of any one or  
2 more of the foregoing.

3       “(b) INDEMNIFICATION OF WITHHOLDING AGENT.—

4 Every person required to withhold and collect any tax under  
5 this supplement shall be liable for the payment of such tax,  
6 and shall not be liable to any person for the amount of any  
7 such payment.

8       “(c) ADJUSTMENTS.—If more or less than the correct  
9 amount of tax is withheld or paid for any quarter in any  
10 calendar year, proper adjustments, with respect both to the  
11 tax withheld or the tax paid, may be made in any subsequent  
12 quarter of such calendar year, without interest, in such man-  
13 ner and at such times as may be prescribed by regulations  
14 made by the Commissioner, with the approval of the  
15 Secretary.

16 **“SEC. 420. RETURN AND PAYMENT BY WITHHOLDING**  
17 **AGENT.**

18       “**RETURNS, PAYMENT, AND RECORDS.**—In lieu of any  
19 time prescribed for the return and payment of the tax im-  
20 posed by this chapter, every person required to withhold  
21 and collect any tax under section 426 shall make a return  
22 and pay such tax on or before the last day of the month  
23 following the close of each quarter of each calendar year.  
24 Every such person shall keep such records and render under  
25 oath such statements with respect to the tax so withheld

1 and collected as may be prescribed by the Commissioner,  
2 with the approval of the Secretary.

3 **"SEC. 430. RECEIPTS.**

4 **~~"(a)~~ WAGES.—**

5 **~~"(1)~~ GENERAL RULE.—**Every employer shall fur-  
6 nish to each employee—

7 **~~"(A)~~** in respect of his period of employment  
8 during the calendar year, on or before February 15 of  
9 the succeeding year, or, if his employment is termi-  
10 nated before the close of such calendar year, on the  
11 day on which the last payment of wages is made to  
12 him, and

13 **~~"(B)~~** with each payment of wages made to such  
14 employee during the calendar year in respect of  
15 which tax is withheld,

16 a written statement showing the period of employment  
17 covered by the statement, the wages paid by the em-  
18 ployer to such employee for such period, and the amount  
19 of the tax withheld and collected under this supplement  
20 in respect of such wages.

21 **~~"(2)~~ EMPLOYERS OF 3 OR MORE.—**Notwithstand-  
22 ing the provisions of paragraph ~~(1)~~, if, under regula-  
23 tions prescribed by the Commissioner with the approval  
24 of the Secretary, the nature and experience of the  
25 business is such that an employer may reasonably be

1 expected to employ on each of some 20 days during the  
2 calendar year, each day being in a different calendar  
3 week, 8 or more individuals for some portion of the  
4 day (whether or not at the same moment of time) such  
5 employer shall furnish each employee in respect of his  
6 period of employment during such calendar year, on or  
7 before February 15 of the succeeding year, or, if his  
8 employment is terminated before the close of such cal-  
9 endar year, on the day on which the last payment of  
10 wages is made to him, a written statement showing the  
11 period of employment covered by the statement, the  
12 wages paid by the employer to such employee for such  
13 period, and the amount of the tax withheld and collected  
14 in respect of such wages.

15 **“(b) DIVIDENDS AND BOND INTEREST.**—Every person  
16 required to withhold and collect a tax in respect of dividends  
17 or bond interest shall furnish a statement to the person to  
18 whom such dividends or bond interest are paid, at the time  
19 payment is made, showing the amount of the tax so with-  
20 held and collected.

21 **“(c) REGULATIONS.**—The statements required to be  
22 furnished by this section shall be furnished at such other  
23 times, shall contain such other information, and shall be in  
24 such form as the Commissioner with the approval of the  
25 Secretary may by regulations prescribe.

1 **"SEC. 431. WITHHOLDING DEDUCTION CERTIFICATES.**

2 "On or before the close of the first payroll period—

3 "~~(1)~~ in respect of which the withholding and col-  
4 lection of the tax is required under this supplement,5 "~~(2)~~ in each calendar year thereafter, and6 "~~(3)~~ after the commencement of employment with  
7 a different employer,8 every employee shall furnish to his employer signed state-  
9 ments relating to his status for the purpose of computing his  
10 withholding deduction. Such statements shall also be fur-  
11 nished by the employee on or before the close of any payroll  
12 period during which a change in his status occurs. Such  
13 statements shall be made at such other times, shall be made  
14 on such forms, and shall contain such information as the Com-  
15 missioner, with the approval of the Secretary, may by  
16 regulations prescribe.17 **"SEC. 432. PENALTIES.**18 "~~(a)~~ **PENALTIES APPLICABLE TO WITHHOLDING**  
19 **AGENTS.—**20 "~~(1)~~ **PENALTIES FOR FRAUDULENT RECEIPT OR**  
21 **FAILURE TO FURNISH RECEIPT.—**In lieu of any other  
22 penalty provided by law (except the penalty provided by  
23 paragraph ~~(2)~~ of this subsection), any person required  
24 under the provisions of section 430 to furnish a receipt

1 in respect of tax withheld pursuant to this supplement  
2 who wilfully furnishes a false or fraudulent receipt, or  
3 who wilfully fails to furnish a receipt in the manner, at  
4 the time, and showing the information required under  
5 section 430, or regulations prescribed thereunder, shall  
6 for each such failure, upon conviction thereof, be fined  
7 not more than \$1,000, or imprisoned for not more than  
8 one year, or both.

9 “(2) **ADDITIONAL PENALTY.**—In addition to the  
10 penalty provided by paragraph (1) of this subsection,  
11 any person required under the provisions of section 430  
12 to furnish a receipt in respect of tax withheld pursuant  
13 to this supplement who wilfully furnishes a false or  
14 fraudulent receipt, or who wilfully fails to furnish a re-  
15 ceipt in the manner, at the time, and showing the in-  
16 formation required under section 430, or regulations pre-  
17 scribed thereunder, shall for each such failure be subject  
18 to a civil penalty of not more than \$50.

19 “(3) **FAILURE OF WITHHOLDING AGENT TO FILE**  
20 **RETURN.**—In case of any failure to make and file return  
21 required by this supplement, within the time prescribed  
22 by law or prescribed by the Commissioner in pursuance  
23 of law, unless it is shown that such failure is due to rea-  
24 sonable cause and not due to wilful neglect, the addition



1 to the tax provided for in section 291 shall be not less  
2 than \$5.

3 ~~“(b) PENALTIES APPLICABLE TO RECIPIENTS.—~~

4 ~~“(1) PENALTY FOR FRAUDULENT WITHHOLDING~~  
5 ~~DEDUCTION CERTIFICATE OR FAILURE TO FURNISH~~  
6 ~~WITHHOLDING DEDUCTION CERTIFICATE.—Any indi-~~  
7 ~~vidual required to supply information to his employer~~  
8 ~~under the provisions of section 431, or regulations pre-~~  
9 ~~scribed under the authority thereof, who wilfully supplies~~  
10 ~~false or fraudulent information, or who wilfully fails to~~  
11 ~~supply information relating to a change of status which~~  
12 ~~would decrease the withholding deduction, shall, in lieu of~~  
13 ~~the penalty provided in section 145 (a), upon conviction~~  
14 ~~thereof, be fined not more than \$500, or imprisoned for~~  
15 ~~not more than one year, or both.~~

16 ~~“(2) PENALTY FOR FRAUDULENT EXEMPTION~~  
17 ~~CERTIFICATE.—Any individual who wilfully supplies~~  
18 ~~false or fraudulent information in an exemption certificate~~  
19 ~~filed pursuant to the provisions of section 426 (c), or~~  
20 ~~regulations prescribed under the authority thereof, shall,~~  
21 ~~in lieu of the penalty provided in section 145 (a), upon~~  
22 ~~conviction thereof, be fined not more than \$500, or im-~~  
23 ~~prisoned for not more than one year, or both.”~~

24 ~~(b) SPECIAL CLASSES OF TAXPAYERS.—Section 4 is~~

1 amended by adding at the end thereof the following new  
2 subsection:

3     ~~“(m) WITHHOLDING OF TAX AT SOURCE ON DIVI-~~  
4 ~~DENDS, BOND INTEREST, AND WAGES.—Supplement U.”~~

5     ~~(c) CREDIT FOR TAXES WITHHELD AT SOURCE.—~~

6 Section 32 is amended to read as follows:

7 **“SEC. 32. TAXES WITHHELD AT SOURCE.**

8     “The amount of tax withheld at the source under section  
9 143, 144, or 426 shall be allowed as a credit against the tax.”

10     ~~(d) PAYMENT OF TAX IN INSTALLMENTS.—Section~~  
11 ~~56 (b) is amended to read as follows:~~

12     ~~“(b) INSTALLMENT PAYMENTS.—~~

13         ~~“(1) CORPORATIONS.—In the case of a corporation,~~  
14 ~~the taxpayer may elect to pay the tax in four equal in-~~  
15 ~~stallments, in which event the first installment shall be~~  
16 ~~paid on the date prescribed for the payment of the tax~~  
17 ~~by the taxpayer, the second installment shall be paid on~~  
18 ~~the fifteenth day of the third month, the third installment~~  
19 ~~on the fifteenth day of the sixth month, and the fourth~~  
20 ~~installment on the fifteenth day of the ninth month, after~~  
21 ~~such date.~~

22         ~~“(2) INDIVIDUALS.—In the case of a taxpayer~~  
23 ~~other than a corporation, the taxpayer may elect to pay~~  
24 ~~the tax in four installments, in which event the first~~

1 installment shall be in an amount equal to 10 per centum  
2 of his surtax net income plus one-fourth of the amount  
3 by which the tax imposed by this chapter (computed  
4 without regard to the credit provided in section 32)  
5 exceeds such 10 per centum of his surtax net income.  
6 The amount of the first installment as computed here-  
7 under shall be reduced by the amount of the credit pro-  
8 vided in section 32; and, in case such credit is equal to  
9 or in excess of the amount of the first installment as  
10 computed hereunder but is less than the tax imposed by  
11 this chapter (computed without regard to such credit),  
12 such credit shall constitute the first installment. The  
13 first installment shall be paid on the date prescribed for  
14 the payment of the tax by the taxpayer, and the balance  
15 of the tax in three equal installments, in which case the  
16 second installment shall be paid on the fifteenth day of  
17 the third month, the third installment on the fifteenth  
18 day of the sixth month, and the fourth installment on the  
19 fifteenth day of the ninth month, after such date.

20 **"(3) SPECIAL RULE.—**In the case of a taxable  
21 year beginning after December 31, 1942, and before  
22 January 1, 1944, the first installment shall be in an  
23 amount (in lieu of the amount provided in paragraph  
24 (2) of this subsection) equal to 5 per centum of his  
25 surtax net income plus one-fourth of the amount by

1 which the tax imposed by this chapter (computed  
2 without regard to the credit provided in section 32)  
3 exceeds such 5 per centum of his surtax net income.

4 “(4) SUPPLEMENT T TAXPAYER.—In the case of  
5 an individual taxpayer who makes his return and pays  
6 his tax under Supplement T, the taxpayer may elect to  
7 pay the tax in four equal installments, in which event  
8 each installment shall be in an amount equal to one-  
9 fourth of the excess of the tax imposed by this chapter  
10 over the credit provided in section 32. The first in-  
11 stallment shall be paid on the date prescribed for the  
12 payment of the tax by the taxpayer, the second install-  
13 ment shall be paid on the fifteenth day of the third  
14 month, the third installment on the fifteenth day of the  
15 sixth month, and the fourth installment on the fifteenth  
16 day of the ninth month, after such date.

17 “(5) NONPAYMENT OF INSTALLMENT.—If any  
18 installment is not paid on or before the date fixed for  
19 its payment, the whole amount of the tax unpaid shall  
20 be paid upon notice and demand from the collector.”

21 (e) FOREIGN TAX CREDIT.—Section 131 is amended  
22 by adding at the end thereof the following new subsection:

23 “(h) TAX WITHHELD AT SOURCE.—For the purposes  
24 of this supplement the tax imposed by this chapter shall be

1 the tax computed without regard to the credit provided in  
2 section 32 (tax withheld at source).”

3 ~~(f) ESTATES AND TRUSTS.~~—Supplement E of Chap-  
4 ter 1 is amended by adding at the end thereof the following  
5 new section:

6 **“SEC. 173. TAX WITHHELD AT SOURCE.**

7 “The amount allowed as a credit by section 32, for tax  
8 withheld at the source, shall be apportioned between the  
9 trust or estate and the beneficiaries under regulations pre-  
10 scribed by the Commissioner with the approval of the Secre-  
11 tary. The amount of such credit shall not be allowed to a  
12 common trust fund, but a proportionate share thereof shall  
13 be allowed to each participant in such fund.”

14 ~~(g) PARTNERSHIPS.~~—Supplement F of Chapter 1 is  
15 amended by adding at the end thereof the following new  
16 section:

17 **“SEC. 101. TAX WITHHELD AT SOURCE.**

18 “The amount allowed as a credit by section 32, for tax  
19 withheld at the source, shall not be allowed to a partnership,  
20 but a proportionate share of such credit shall be allowed to  
21 each partner.”

22 ~~(h) REFUNDS AND CREDITS.~~—

23 ~~(1) Section 322 (a) is amended to read as follows:~~

24 ~~“(a) AUTHORIZATION.—~~

25 ~~“(1) OVERPAYMENT.—Where there has been an~~

1 overpayment of any tax imposed by this chapter, the  
2 amount of such overpayment shall be credited against  
3 any income, war-profits, or excess-profits tax or install-  
4 ment thereof then due from the taxpayer, and any bal-  
5 ance shall be refunded immediately to the taxpayer.

6 “(2) EXCESSIVE WITHHOLDING.—Where the  
7 amount of the tax withheld at the source under Supple-  
8 ment U exceeds the tax imposed by this chapter (after  
9 allowance of the credit provided by section 31 and the  
10 credit provided by section 32 for tax withheld at source  
11 under section 143), the amount of such excess shall be  
12 credited against any income tax or installment thereof  
13 then due from the taxpayer, and any balance thereof  
14 shall be refunded immediately to the taxpayer.

15 “(3) REFUNDS OF \$50 OR LESS.—If the receipts  
16 provided for in section 430 are filed with the individual's  
17 return under this chapter, and the amount of the tax as  
18 shown by such receipts to have been withheld and col-  
19 lected at the source exceeds the tax shown on the re-  
20 turn, computed without regard to the credit allowable  
21 for the tax withheld and collected under Supplement U  
22 and adjusted for any errors appearing on the face of the  
23 return, the amount of such excess shall be refunded im-  
24 mediately if it does not exceed \$50: *Provided, however,*  
25 *That if such refund is made within six months after (A)*

1 the last day prescribed by law for the filing of such  
 2 return; or (B) the fifteenth day of the third month  
 3 following the close of such individual's taxable year,  
 4 whichever is later, no interest shall be allowed."

5 ~~(2)~~ Section 322 (c) is amended to read as follows:

6 "~~(c)~~ **PRESUMPTION AS TO PAYMENT.**—For the pur-  
 7 poses of this section, any tax actually withheld and collected  
 8 at the source under Supplement U shall, in respect of the  
 9 recipient of the income (as defined in section 425 (e)), be  
 10 deemed to have been paid by him on the fifteenth day of  
 11 the third month following the close of his taxable year in  
 12 which such tax was so withheld and collected.

13 "~~(f)~~ **TAX WITHHELD AT SOURCE.**—For refund or  
 14 credit in case of withholding agent, see sections 143 (f)  
 15 and 426 (g)."

16 ~~(i)~~ **CREDITS AGAINST SUPPLEMENT T TAX.**—Section  
 17 403 is amended to read as follows:

18 **"SEC. 403. CREDIT AGAINST TAX NOT ALLOWED.**

19 "Section 31 (relating to foreign tax credit) shall not  
 20 apply with respect to the tax imposed by this supplement."

21 ~~(j)~~ **PROHIBITION OF ADMINISTRATIVE REVIEW OF**  
 22 **COMMISSIONER'S DECISION.**—Section 3790 is amended by  
 23 inserting "(a)" before the first paragraph and by adding the  
 24 following new subsection:

25 "~~(b)~~ The allowance by the Commissioner under the

1 provisions of section 322 (a) (3) of a refund of tax withheld  
 2 at source (including interest thereon, if any), shall not be  
 3 subject to review by any other administrative or accounting  
 4 officer, employee, or agent of the United States."

5 ~~(k) CROSS REFERENCES.—~~

6 ~~(1) PAYMENT OF TAX.—~~Section 56 (f) is amended  
 7 to read as follows:

8 ~~(f) TAX WITHHELD AT SOURCE.—~~For requirement of  
 9 withholding tax at source, see sections 143, 144, and Sup-  
 10 plement U."

11 ~~(2) PENALTIES.—~~Section 145 (d) is amended by  
 12 inserting "(1)" before the first paragraph and by adding  
 13 the following new paragraph:

14 ~~"(2) For additional penalties for fraudulent receipts~~  
 15 ~~or failure to furnish receipts required by section 430, for~~  
 16 ~~fraudulent withholding deduction certificates or failure to~~  
 17 ~~furnish such certificates as required by section 431, and~~  
 18 ~~for fraudulent exemption certificates filed under section~~  
 19 ~~426 (f), see section 432."~~

20 ~~(3) MINIMUM PENALTY FOR FAILURE TO FILE~~  
 21 ~~RETURN.—~~Section 901 is amended by inserting "(a)"  
 22 before the first paragraph and by adding the following  
 23 new subsection:

24 ~~"(b) For minimum addition to the tax for failure of~~



1 withholding agent to make and file return required by  
2 Supplement U, see section 432 (a) (3).”

3 (4) INTEREST ON OVERPAYMENTS.—Section 3771  
4 is amended by adding at the end thereof the following  
5 new subsection:

6 “(e) TAX WITHHELD AT SOURCE.—For date of pay-  
7 ment in respect of tax withheld at source under Supplement  
8 U, see section 322 (e).”

9 (1) EFFECTIVE DATE.—The provisions of this section,  
10 except subsections (d) and (i), shall take effect on January  
11 1, 1943, and shall be applicable to all dividends, bond in-  
12 terest, and wages (as defined in Supplement U) paid on or  
13 after such date; and the provisions of subsections (d) and  
14 (i) shall take effect on January 1, 1944.

15 (242)SEC. 174. TEMPORARY INCOME TAX ON INDIVIDUALS.

16 (a) *The Internal Revenue Code is amended by inserting*  
17 *at the end of Chapter 1 the following new subchapter:*

18 “SUBCHAPTER D—VICTORY TAX ON INDIVIDUALS

19 “Part I—Rate and Computation of Tax

20 “SEC. 450. IMPOSITION OF TAX.

21 “*There shall be levied, collected, and paid for each taxable*  
22 *year beginning after December 31, 1942, a victory tax of 5*  
23 *per centum upon the victory tax net income of every individual*  
24 *(other than a nonresident alien subject to the tax imposed by*  
25 *section 211 (a)).*

## 1 "SEC. 451. VICTORY TAX NET INCOME.

2       “(a) *DEFINITION.*—The term ‘victory tax net income’ in  
3 the case of any taxable year means (except as provided in sub-  
4 section (c)) the gross income (other than gains from the sale  
5 or exchange of capital assets as defined in section 117 and  
6 other than interest allowed as a credit against net income  
7 under section 25 (a) (1) and (2)) for such year minus the  
8 sum of the following deductions:

9               “(1) *EXPENSES.*—The expenses allowable as a de-  
10 duction by section 23 (a) (1) and (2).

11               “(2) *INTEREST.*—Interest allowable as a deduction by  
12 section 23 (b), if the indebtedness in respect of which such  
13 interest is allowed was incurred in carrying on any trade  
14 or business, or was incurred for the production or collec-  
15 tion of income, or for the management, conservation, or  
16 maintenance of property held for the production of  
17 income.

18               “(3) *TAXES.*—Amounts allowable as a deduction by  
19 section 23 (c), to the extent such amounts are paid or  
20 incurred in connection with the carrying on of a trade  
21 or business, or in connection with property used in the  
22 trade or business, or in connection with property held for  
23 the production of income.

24               “(4) *LOSSES.*—Losses (other than losses from the  
25 sale or exchange of capital assets) allowable as a deduc-

1        *tion under section 23 (e) (1), subject to the limitation*  
2        *provided in section 23 (h).*

3            *“(5) BAD DEBTS.—The amount allowable by sec-*  
4        *tion 23 (k) (1).*

5            *“(6) DEPRECIATION.—The amount allowable by*  
6        *section 23 (l).*

7            *“(7) DEPLETION.—The amount allowable by sec-*  
8        *tion 23 (m) and (n).*

9            *“(8) PENSION TRUSTS.—The amount allowable by*  
10       *section 23 (p).*

11           *“(9) NET OPERATING LOSS.—The net operating*  
12       *loss deduction allowable by section 23 (s).*

13           *“(10) AMORTIZATION.—The amount allowable by*  
14       *section 23 (t).*

15           *“(11) ALIMONY.—The amount allowable by section*  
16       *23 (u).*

17           *“(12) SPECIAL DEDUCTION.—The amount allow-*  
18       *able by section 120.*

19           *“(13) ESTATES AND TRUSTS.—In the case of an*  
20       *estate or trust, the amount allowable by subsection (a)*  
21       *of section 162 in addition to the amounts allowable by*  
22       *subsections (b) and (c) of such section.*

23           *“(b) ITEMS NOT DEDUCTIBLE.—The deductions allow-*  
24       *able by subsection (a) shall be subject to the limitations con-*  
25       *tained in section 24 and Supplement J and, in the case of*

1 *nonresident aliens subject to the victory tax, shall be subject*  
2 *to the limitations contained in Supplement H.*

3       “(c) *SUPPLEMENT T TAXPAYER.*—*If for any taxable*  
4 *year a taxpayer makes his return and pays his tax under*  
5 *Supplement T, the term ‘victory tax net income’ means the*  
6 *gross income for such year.*

7       “(d) *BASIS FOR DETERMINING LOSS.*—*The basis for*  
8 *determining the amount of deduction for losses sustained, to*  
9 *be allowed under paragraph (4) of subsection (a), and for*  
10 *bad debts, to be allowed under paragraph (5) of subsection*  
11 *(a), shall be the adjusted basis provided in section 113 (b)*  
12 *for determining the loss from the sale or other disposition of*  
13 *property.*

14       “(e) *RULE APPLICABLE TO PARTICIPANTS IN A COM-*  
15 *MON TRUST FUND.*—*In the case of a participant in a common*  
16 *trust fund, he shall in respect of the common trust fund income*  
17 *include in computing his victory tax net income, whether or*  
18 *not distributed and whether or not distributable, only his pro-*  
19 *portionate share of the ordinary net income or the ordinary*  
20 *net loss of the common trust fund, computed as provided in*  
21 *section 169 (d).*

22       “(f) *RULE APPLICABLE TO PARTNERS.*—*In the case*  
23 *of an individual carrying on business in partnership, he shall*  
24 *in respect of the partnership income include in computing*  
25 *his victory tax net income, whether or not distribution is*

1 made to him, only his distributive share of the ordinary net  
2 income or the ordinary net loss of the partnership, computed  
3 as provided in section 183 (b).

4 "SEC. 452. SPECIFIC EXEMPTION.

5 "In the case of every individual there shall be allowed  
6 as a credit against the victory tax net income a specific  
7 exemption of \$624. In the case of a husband and wife  
8 filing a joint return under section 51 (b), if the victory tax  
9 net income of one spouse is less than \$624, the aggregate  
10 specific exemption of both spouses shall be limited to \$624  
11 plus the victory tax net income of such spouse.

12 "SEC. 453. CREDIT AGAINST VICTORY TAX.

13 "(a) ALLOWANCE OF CREDIT.—There shall be allowed  
14 as a credit against the victory tax for each taxable year:

15 "(1) The amount paid by the taxpayer during the  
16 taxable year as premiums on life insurance, in force on  
17 September 1, 1942, upon his own life, or upon the life  
18 of his spouse, or upon the life of any dependent of the  
19 taxpayer specified in section 25 (b) (2) (A); and the  
20 amount paid during the taxable year as premiums on  
21 life insurance which is a renewal or conversion of such  
22 life insurance in force on September 1, 1942, to the  
23 extent that such premiums do not exceed the premiums  
24 payable on such life insurance in force on September 1,  
25 1942. \*

1           “(2) The amount by which the smallest amount of  
2 indebtedness of the taxpayer outstanding at any time dur-  
3 ing the period beginning September 1, 1942, and ending  
4 with the close of the preceding taxable year, exceeds the  
5 amount of indebtedness of the taxpayer outstanding at the  
6 close of the taxable year.

7           “(3) The amount by which the amount of obliga-  
8 tions of the United States owned by the taxpayer on the  
9 last day of the taxable year exceeds the greater of (A)  
10 the amount of such obligations owned by the taxpayer on  
11 December 31, 1942, or (B) the highest amount of such  
12 obligations owned by the taxpayer on the last day of any  
13 preceding taxable year ending after December 31, 1942.  
14 As used in this paragraph (i) the term ‘owned by the  
15 taxpayer’ shall include the amount of the obligations  
16 owned solely by the taxpayer and one-half of the amount  
17 of the obligations owned jointly by the taxpayer with  
18 another, but shall not include such obligations acquired  
19 by the taxpayer by gift, or inheritance, or otherwise than  
20 by purchase; (ii) the term ‘obligations of the United  
21 States’ means such obligations of the United States as  
22 the Secretary may by regulations prescribe, and as are  
23 purchased in such manner and under such terms and  
24 conditions as he may specify; and (iii) the term ‘amount

1 of obligations of the United States' means the amount  
2 paid for such obligations.

3 "(b) *LIMITATION ON CREDIT.*—The amount of such  
4 credit for the taxable year shall not exceed the amount of the  
5 post war credit or refund allowed by section 454 for such  
6 taxable year.

7 "SEC. 454. *POST WAR CREDIT OR REFUND OF VICTORY TAX.*

8 "(a) *ALLOWANCE OF CREDIT.*—As soon as practicable  
9 after date of cessation of hostilities in the present war (as  
10 defined in section 475 (b)), the following amount of the  
11 victory tax paid for each taxable year beginning after Decem-  
12 ber 31, 1942, shall be credited against any income tax or  
13 installment thereof then due from the taxpayer, and any  
14 balance shall be refunded immediately to the taxpayer:

15 "(1) In the case of a single person or a married  
16 person not living with husband or wife, 25 per centum  
17 of the victory tax or \$500, whichever is the lesser.

18 "(2) In the case of the head of a family, 40 per  
19 centum of the victory tax or \$1,000, whichever is the  
20 lesser. In the case of a married person living with hus-  
21 band or wife where separate returns are filed by each  
22 spouse, 40 per centum of the victory tax or \$500, which-  
23 ever is the lesser. In the case of a married person living  
24 with husband or wife where a separate return is filed

1     *by one spouse and no return is filed by the other spouse,*  
2     *or in the case of a husband and wife filing a joint return*  
3     *under section 51 (b), only one such credit shall be allowed*  
4     *and such credit shall not exceed 40 per centum of the*  
5     *victory tax or \$1,000, whichever is the lesser.*

6             *“(3) For each dependent specified in section 25*  
7     *(b), excluding as a dependent, in the case of a head of*  
8     *a family, one who would be excluded under section 25*  
9     *(b) (2) (B), 2 per centum of the victory tax or \$100,*  
10     *whichever is the lesser.*

11             **“(b) CHANGE OF STATUS.—***If for any taxable year*  
12     *the status of the taxpayer (other than a taxpayer who makes*  
13     *his return and pays his tax under Supplement T) with re-*  
14     *spect to his marital relationship or with respect to his depend-*  
15     *ents, changed during the taxable year, the amount of the*  
16     *credit or refund provided by this section for such taxable*  
17     *year shall be apportioned, under rules and regulations pre-*  
18     *scribed by the Commissioner with the approval of the Secre-*  
19     *tary, in accordance with the number of months before and*  
20     *after such change. For the purpose of such apportionment*  
21     *a fractional part of a month shall be disregarded unless it*  
22     *amounts to more than half a month in which case it shall be*  
23     *considered as a month.*

24             **“(c) STATUS OF SUPPLEMENT T TAXPAYER.—***If for*



1 any taxable year a taxpayer makes his return and pays his  
2 tax under Supplement T, for the purpose of the credit or  
3 refund provided by this section, his status for such year with  
4 respect to his marital relationship or with respect to his de-  
5 pendants shall be determined in accordance with the provi-  
6 sions of section 401.

7       “(d) *PERIOD OF LIMITATION.*—No post war credit or  
8 refund of any part of the victory tax provided in this section  
9 shall be allowed or made after 7 years from the date of cessa-  
10 tion of hostilities in the present war, unless claim for credit or  
11 refund is filed before the expiration of such date. No interest  
12 shall be allowed on such credits or refunds.

13       “(e) *LIMITATION OF CREDIT.*—The post war credit or  
14 refund allowed by this section shall be reduced by the amount  
15 of any credit allowed under section 453.

16       “SEC. 455. *RETURNS.*

17       “(a) *INDIVIDUAL RETURNS.*—Every individual having  
18 a gross income in excess of \$624 for the taxable year, shall  
19 make, under regulations prescribed by the Commissioner with  
20 the approval of the Secretary, a return, which shall contain or  
21 be verified by a written declaration that it is made under the  
22 penalties of perjury, stating specifically the items of his gross  
23 income and the deductions and credits allowed under this  
24 subchapter.

25       “(b) *FIDUCIARY RETURNS.*—Every fiduciary (except

1 a receiver appointed by authority of law in possession of part  
2 only of the property of an individual) shall make, under regu-  
3 lations prescribed by the Commissioner with the approval of  
4 the Secretary, a return under oath, for any individual, estate,  
5 or trust for which he acts, if the gross income of such indi-  
6 vidual, estate, or trust is in excess of \$624 for the taxable  
7 year, stating specifically the items of gross income and the  
8 deductions and credits allowed under this subchapter. The  
9 provisions of section 142 (b) shall be applicable with respect  
10 to any return required to be made under this subsection.

11 **"SEC. 456. LIMITATION ON TAX.**

12 "The tax imposed by section 450 (victory tax), computed  
13 without regard to the credits provided in sections 453, 454,  
14 and 466 (f), shall not exceed the excess of 90 per centum  
15 of the net income of the taxpayer for the taxable year over  
16 the tax imposed by sections 11 (normal tax) and 12 (surtax),  
17 computed without regard to the credits provided in sections  
18 31, 32, and 466 (f).

19 **"Part II—Collection of Tax at Source on Wages**

20 **"SEC. 465. DEFINITIONS.**

21 "As used in this part—

22 "(a) **PAY-ROLL PERIOD.**—The term 'pay-roll period'  
23 means a period for which a payment of wages is ordinarily  
24 made to the employee by his employer.

25 "(b) **WAGES.**—The term 'wages' means all remunera-

1 *tion for services performed by an employee for his employer,*  
2 *including the cash value of all remuneration paid in any*  
3 *medium other than cash; except that such term shall not*  
4 *include remuneration paid (1) for services performed as a*  
5 *member of the military or naval forces of the United States,*  
6 *other than pensions and retired pay, (2) for agricultural*  
7 *labor (as defined in section 1426 (h)), (3) for domestic*  
8 *service in a private home, local college club, or local chapter*  
9 *of a college fraternity or sorority, (4) for casual labor not*  
10 *in the course of the employer's trade or business, (5) for*  
11 *services as an employee of a nonresident alien individual,*  
12 *foreign partnership, or foreign corporation, if such individual*  
13 *partnership, or corporation is not engaged in trade or busi-*  
14 *ness in the United States, (6) for services as an employee*  
15 *of a foreign government or any wholly owned instrumentality*  
16 *thereof, or (7) for services performed as an employee while*  
17 *outside the United States (as defined in section 3797 (a)*  
18 *(9)), unless the major part of the services performed during*  
19 *the calendar year by such employee for his employer are*  
20 *performed within the United States.*

21       “(c) **WITHHOLDING AGENT.**—*The term ‘withholding*  
22 *agent’ means any person required to withhold, collect, and*  
23 *pay the tax under section 466.*

24       “(d) **EMPLOYEE.**—*The term ‘employee’ includes (in*

1 addition to any individual who is a servant under the law  
 2 of master and servant) any individual who performs serv-  
 3 ice, of whatever nature, for a person (including the United  
 4 States, a State, Territory, or any political subdivision  
 5 thereof, or the District of Columbia, or any agency or  
 6 instrumentality of any one or more of the foregoing), unless  
 7 the service is performed by the individual in pursuit of his  
 8 own independently established business. The term 'em-  
 9 ployee' also includes an officer of a corporation.

10       “(e) **EMPLOYER.**—The term ‘employer’ includes any  
 11 person for whom an individual performs any service, of  
 12 whatever nature, as the employee of such person.

13       **“SEC. 466. TAX COLLECTED AT SOURCE.**

14       “(a) **REQUIREMENT OF WITHHOLDING.**—There shall  
 15 be withheld, collected, and paid upon all wages of every per-  
 16 son, to the extent that such wages are includible in gross in-  
 17 come, a tax equal to 5 per centum of the excess of each pay-  
 18 ment of such wages over the withholding deduction allowable  
 19 under this part. This subsection and subsection (c) shall not  
 20 be applicable in any case provided for in section 143, except  
 21 in the case of wages paid to residents of a contiguous country  
 22 who enter and leave the United States at frequent intervals.

23       “(b) **WITHHOLDING DEDUCTION.**—

24       “(1) In computing the tax required to be withheld

1        *under subsection (a), there shall be allowed as a deduc-*  
 2        *tion against the wages paid for each pay-roll period an*  
 3        *amount determined in accordance with the following*  
 4        *schedule:*

<b>Pay-roll period</b>	<b>Withholding deduction</b>
<i>Weekly</i> -----	<i>\$12</i>
<i>Biweekly</i> -----	<i>24</i>
<i>Semimonthly</i> -----	<i>26</i>
<i>Monthly</i> -----	<i>52</i>
<i>Quarterly</i> -----	<i>156</i>
<i>Semiannually</i> -----	<i>312</i>
<i>Annually</i> -----	<i>624</i>

5            *“(2) If a pay-roll period in respect of any wages is*  
 6        *less than one week, the excess of the aggregate of the*  
 7        *wages paid during each calendar week over the deduc-*  
 8        *tion allowed by this subsection for a weekly pay-roll*  
 9        *period shall be used in computing the tax required to be*  
 10       *withheld.*

11           *“(3) If a pay-roll period in respect of any wages,*  
 12        *or any other period with respect to which wages are paid,*  
 13        *is not otherwise specifically provided for in this subsec-*  
 14        *tion, the deduction allowable against each payment of*  
 15        *such wages shall be the deduction allowable in the case*  
 16        *of an annual pay-roll period divided by 365 and multi-*  
 17        *plied by the number of days in such period, including*  
 18        *Sundays and holidays.*

19           *“(4) In any case in which wages are paid by an*

1     *employer without regard to any pay-roll period or other*  
 2     *period, the deduction allowable against each payment of*  
 3     *such wages shall be the deduction allowable in the case*  
 4     *of an annual pay-roll period divided by 365 and multi-*  
 5     *plied by the number of days (including Sundays and*  
 6     *holidays) which have elapsed since the date of the last*  
 7     *payment of such wages by such employer during the*  
 8     *calendar year, or the date of commencement of employ-*  
 9     *ment with such employer during such year, or January*  
 10    *1 of such year, whichever is the later.*

11         *“(5) The deduction allowable under this subsection*  
 12     *in respect of any individual for any calendar year shall*  
 13     *not exceed the total deduction which would have been*  
 14     *allowable under paragraph (1) if the only pay-roll period*  
 15     *of such individual had been an annual pay-roll period.*

16     **“(c) WAGE BRACKET WITHHOLDING.—**

17         **“(1) At the election of the employer, if his pay-roll**  
 18     **period with respect to an employee is weekly, biweekly,**  
 19     **semimonthly, or monthly, there shall be withheld, collected,**  
 20     **and paid upon the wages of such employee a tax deter-**  
 21     **mined in accordance with the following tables, which shall**  
 22     **be in lieu of the tax required to be withheld under sub-**  
 23     **section (a):**

<i>For weekly pay-roll period</i>			<i>For biweekly pay-roll period</i>		
<i>If the wages are over</i>	<i>But not over</i>	<i>The amount of tax to be withheld shall be</i>	<i>If the wages are over</i>	<i>But not over</i>	<i>The amount of tax to be withheld shall be</i>
\$12	\$16	\$0. 10	\$24	\$30	\$0. 10
16	20	. 30	30	40	. 50
20	24	. 50	40	50	1. 00
24	28	. 70	50	60	1. 50
28	32	. 90	60	70	2. 00
32	36	1. 10	70	80	2. 50
36	40	1. 30	80	100	3. 30
40	50	1. 60	100	120	4. 30
50	60	2. 10	120	140	5. 30
60	70	2. 60	140	160	6. 30
70	80	3. 10	160	180	7. 30
80	90	3. 60	180	200	8. 30
90	100	4. 10	200	220	9. 30
100	110	4. 60	220	240	10. 30
110	120	5. 10	240	260	11. 30
120	130	5. 60	260	280	12. 30
130	140	6. 10	280	300	13. 30
140	150	6. 60	300	320	14. 30
150	160	7. 10	320	340	15. 30
160	170	7. 60	340	360	16. 30
170	180	8. 10	360	380	17. 30
180	190	8. 60	380	400	18. 30
190	200	9. 10	400	420	19. 30
200		\$9.40 plus	420	440	20. 30
		5% of the	440	460	21. 30
		excess over	460	480	22. 30
		\$200.	480	500	23. 30
			500		\$23.80 plus
					5% of the
					excess over
					\$500.

<i>For semimonthly pay-roll period</i>			<i>For monthly pay-roll period</i>		
<i>If the wages are over</i>	<i>But not over</i>	<i>The amount of tax to be withheld shall be</i>	<i>If the wages are over</i>	<i>But not over</i>	<i>The amount of tax to be withheld shall be</i>
\$26	\$30	\$0. 10	\$52	\$60	\$0. 20
30	40	. 40	60	80	. 90
40	50	. 90	80	100	1. 90
50	60	1. 40	100	120	2. 90
60	70	1. 90	120	140	3. 90
70	80	2. 40	140	160	4. 90
80	100	3. 20	160	200	6. 40
100	120	4. 20	200	240	8. 40
120	140	5. 20	240	280	10. 40
140	160	6. 20	280	320	12. 40
160	180	7. 20	320	360	14. 40
180	200	8. 20	360	400	16. 40
200	220	9. 20	400	440	18. 40
220	240	10. 20	440	480	20. 40
240	260	11. 20	480	520	22. 40
260	280	12. 20	520	560	24. 40
280	300	13. 20	560	600	26. 40
300	320	14. 20	600	640	28. 40
320	340	15. 20	640	680	30. 40
340	360	16. 20	680	720	32. 40
360	380	17. 20	720	760	34. 40
380	400	18. 20	760	800	36. 40
400	420	19. 20	800	840	38. 40
420	440	20. 20	840	880	40. 40
440	460	21. 20	880	920	42. 40
460	480	22. 20	920	960	44. 40
480	500	23. 20	960	1, 000	46. 40
500	-----	\$23.70 plus 5% of the excess over \$500.	1, 000	-----	\$47.40 plus 5% of the excess over \$1,000.



1       “(d) *WITHHOLDING WHERE AMOUNT IS UNKNOWN.*—

2     *In any case in which the withholding agent is unable to deter-*  
3     *mine the amount of any wages which is includible in gross in-*  
4     *come, the Commissioner, under regulations prescribed by him*  
5     *with the approval of the Secretary, may authorize the tax to be*  
6     *withheld, collected, and paid.*

7       “(e) *TAX PAID BY RECIPIENT.*—*If any tax required*  
8     *under this part to be withheld and collected is paid by the*  
9     *recipient of the income, it shall not be re-collected from the*  
10    *withholding agent; but such payment shall in no case relieve*  
11    *the withholding agent from liability for interest or additions*  
12    *to the tax otherwise applicable in respect of the tax imposed*  
13    *by this chapter.*

14       “(f) *CREDIT FOR TAX WITHHELD AT SOURCE.*—*The*  
15    *tax withheld and collected under this part shall not be*  
16    *allowed as a deduction either to the withholding agent or*  
17    *to the recipient of the income in computing net income;*  
18    *but the amount of the tax so withheld and collected shall be*  
19    *allowed as a credit against the tax imposed by this chapter*  
20    *upon the recipient of the income. Such credit shall be allowed*  
21    *first against the victory tax imposed by section 450 (ad-*  
22    *justed for the credit allowed by section 453) and the excess*  
23    *of such credit, if any, over the victory tax, so adjusted,*  
24    *shall be allowed against the tax imposed by sections 11 and*  
25    *12 or section 400, as the case may be.*

1       “(g) *REFUNDS.*—Where there has been an overpayment  
2 of tax under this part, any refund or credit made under  
3 the provisions of section 322 shall be made to the recipient of  
4 the income; but, in any case in which such tax was not so  
5 withheld by the withholding agent, such refund or credit  
6 shall be made to the withholding agent.

7       “(h) *INCLUDED AND EXCLUDED WAGES.*—If the re-  
8 munerat<sup>o</sup>n paid by an employer to an employee for services  
9 performed during one-half or more of any payroll period  
10 constitutes wages, all the remuneration paid by such employer  
11 to such employee for such period shall be deemed to be wages;  
12 but if the remuneration paid by an employer to an employee  
13 for services performed during more than one-half of any  
14 such payroll period does not constitute wages, then none of the  
15 remuneration paid by such employer to such employee for  
16 such period shall be deemed to be wages.

17 **“SEC. 467. WITHHOLDING AGENT.**

18       “(a) *COLLECTION OF TAX.*—The tax required to be  
19 withheld by section 466 shall be collected by the person hav-  
20 ing control of the payment of such wages by deducting such  
21 amount from such wages as and when paid. As used in this  
22 subsection, the term ‘person’ includes officers and employees  
23 of the United States, or of a State, Territory, or any political  
24 subdivision thereof, or of the District of Columbia, or any  
25 agency or instrumentality of any one or more of the foregoing.

1       “(b) *INDEMNIFICATION OF WITHHOLDING AGENT.*—  
2       *Every person required to withhold and collect any tax under*  
3       *this part shall be liable for the payment of such tax, and shall*  
4       *not be liable to any person for the amount of any such pay-*  
5       *ment.*

6       “(c) *ADJUSTMENTS.*—*If more or less than the correct*  
7       *amount of tax is withheld or paid for any quarter in any*  
8       *calendar year, proper adjustments, with respect both to the*  
9       *tax withheld or the tax paid, may be made in any subsequent*  
10      *quarter of such calendar year, without interest, in such*  
11      *manner and at such times as may be prescribed by regulations*  
12      *made by the Commissioner, with the approval of the Secretary.*

13      “*SEC. 468. RETURN AND PAYMENT BY WITHHOLDING AGENT.*

14      “*In lieu of the time prescribed in sections 53 and 56 for*  
15      *the return and payment of the tax imposed by this chapter,*  
16      *every person required to withhold and collect any tax under*  
17      *section 466 shall make a return and pay such tax on or before*  
18      *the last day of the month following the close of each quarter*  
19      *of each calendar year. Every such person shall include with*  
20      *the final return for the calendar year a duplicate copy of each*  
21      *receipt required to be furnished under section 469. Every*  
22      *such person shall also keep such records and render under*  
23      *oath such statements with respect to the tax so withheld and*  
24      *collected as may be required under regulations prescribed by*  
25      *the Commissioner, with the approval of the Secretary.*

## 1 "SEC. 469. RECEIPTS.

2       “(a) *WAGES*.—Every employer required to withhold  
3 and collect a tax in respect of the wages of an employee shall  
4 furnish to each such employee in respect of his employment  
5 during the calendar year, on or before January 31 of the  
6 succeeding year, or, if his employment is terminated before  
7 the close of such calendar year, on the day on which the last  
8 payment of wages is made, a written statement showing the  
9 period covered by the statement, the wages paid by the em-  
10 ployer to such employee during such period, and the amount  
11 of the tax withheld and collected under this part in respect of  
12 such wages.

13       “(b) *REGULATIONS*.—The statements required to be  
14 furnished by this section shall be furnished at such other  
15 times, shall contain such other information, and shall be in  
16 such form as the Commissioner, with the approval of the  
17 Secretary, may by regulations prescribe.

18       “(c) *EXTENSION OF TIME*.—The Commissioner, under  
19 such regulations as he may prescribe with the approval of  
20 the Secretary, may grant to any employer a reasonable exten-  
21 sion of time (not in excess of 30 days) with respect to the  
22 statements required to be furnished to employees on the day  
23 on which the last payment of wages is made.

## 24 "SEC. 470. PENALTIES.

25 (a) *PENALTIES FOR FRAUDULENT RECEIPT OR*

1 *FAILURE TO FURNISH RECEIPT.*—In lieu of any other pen-  
2 alty provided by law (except the penalty provided by sub-  
3 section (b) of this section), any person required under the  
4 provisions of section 469 to furnish a receipt in respect of tax  
5 withheld pursuant to this part who wilfully furnishes  
6 a false or fraudulent receipt, or who wilfully fails to furnish  
7 a receipt in the manner, at the time, and showing the infor-  
8 mation required under section 469, or regulations prescribed  
9 thereunder, shall for each such failure, upon conviction thereof,  
10 be fined not more than \$1,000, or imprisoned for not more  
11 than one year, or both.

12 “(b) *ADDITIONAL PENALTY.*—In addition to the pen-  
13 alty provided by subsection (a) of this section, any person  
14 required under the provisions of section 469 to furnish a  
15 receipt in respect of tax withheld pursuant to this part  
16 who wilfully furnishes a false or fraudulent receipt, or who  
17 wilfully fails to furnish a receipt in the manner, at the time,  
18 and showing the information required under section 469, or  
19 regulations prescribed thereunder, shall for each such failure  
20 be subject to a civil penalty of not more than \$50.

21 “(c) *FAILURE OF WITHHOLDING AGENT TO FILE*  
22 *RETURN.*—In case of any failure to make and file return  
23 required by this part, within the time prescribed by  
24 law or prescribed by the Commissioner in pursuance of law,  
25 unless it is shown that such failure is due to reasonable cause

1 *and not due to wilful neglect, the addition to the tax provided*  
2 *for in section 291 shall not be less than \$5.*

3 *“Part III—Expiration Date and Definitions*

4 *“SEC. 475. DEFINITIONS.*

5 *“(a) NET INCOME.—When used in this title, where not*  
6 *otherwise distinctly expressed or manifestly incompatible with*  
7 *the intent thereof, the term ‘net income’ shall be construed to*  
8 *mean ‘victory tax net income’ for the purposes of this sub-*  
9 *chapter.*

10 *“(b) DATE OF CESSATION OF HOSTILITIES IN THE*  
11 *PRESENT WAR.—As used in this subchapter, the term ‘date*  
12 *of cessation of hostilities in the present war’ means the date*  
13 *on which hostilities in the present war between the United*  
14 *States and the governments of Germany, Japan, and Italy*  
15 *cease, as fixed by proclamation of the President or by con-*  
16 *current resolution of the two Houses of Congress, whichever*  
17 *date is earlier, or in case the hostilities between the United*  
18 *States and such governments do not cease at the same time,*  
19 *such date as may be so fixed as an appropriate date for the*  
20 *purposes of this subchapter.*

21 *“SEC. 476. EXPIRATION DATE.*

22 *“The taxes imposed by this subchapter shall not apply*  
23 *with respect to any taxable year commencing after the date*  
24 *of cessation of hostilities in the present war.”*

25 *(b) CLASSIFICATION OF PROVISIONS.—Section 3 is*

1 amended by adding at the end thereof the following new  
2 paragraph:

3 “Subchapter D—Victory tax on individuals, divided into  
4 parts and sections”.

5 (c) *RATES OF TAX ON CITIZENS OF CERTAIN FOR-*  
6 *EIGN COUNTRIES.*—Section 103 is amended by striking out  
7 “and 362” and inserting “362, and 450”; and by striking  
8 out “or 362” and inserting “362, and 450”.

9 (d) *FOREIGN TAX CREDIT.*—

10 Section 131 is further amended by adding at the  
11 end thereof the following new subsection:

12 “(i) *TAX WITHHELD AT SOURCE.*—For the purposes  
13 of this supplement the tax imposed by this chapter shall be  
14 the tax computed without regard to the credit provided in  
15 section 32 and section 466 (f).”

16 (e) *REFUNDS AND CREDITS.*—

17 (1) Section 322 (a) is amended to read as follows:

18 “(a) *AUTHORIZATION.*—

19 “(1) *OVERPAYMENT.*—Where there has been ~~an~~  
20 overpayment of any tax imposed by this chapter, the  
21 amount of such overpayment shall be credited against  
22 any income, war-profits, or excess-profits tax or install-  
23 ment thereof then due from the taxpayer, and any bal-  
24 ance shall be refunded immediately to the taxpayer.

25 “(2) *EXCESSIVE WITHHOLDING.*—Where the

1     *amount of the tax withheld at the source under Part II*  
 2     *of Subchapter D exceeds the tax imposed by this chapter*  
 3     *(after allowance of the credits provided by sections 31,*  
 4     *32, and 453), the amount of such excess shall be credited*  
 5     *against any income tax or installment thereof then due*  
 6     *from the taxpayer, and any balance thereof shall be*  
 7     *refunded immediately to the taxpayer.”*

8             (2) Section 322 (e) is amended to read as follows:

9             “(e) **PRESUMPTION AS TO DATE OF PAYMENT.**—For  
 10     *the purposes of this section, any tax actually withheld and*  
 11     *collected at the source under Part II of Subchapter D shall,*  
 12     *in respect of the recipient of the income, be deemed to have*  
 13     *been paid by him on the fifteenth day of the third month fol-*  
 14     *lowing the close of his taxable year in which such tax was*  
 15     *so withheld and collected; except that in the case of a nonresi-*  
 16     *dent alien individual, it shall be deemed to have been paid by*  
 17     *him on the fifteenth day of the sixth month following the close*  
 18     *of his taxable year.*

19             “(f) **TAX WITHHELD AT SOURCE.**—For refund or  
 20     *credit in case of withholding agent, see sections 143 (f) and*  
 21     **466 (g).”**

22             (f) **CROSS REFERENCES.**—

23             (1) **PAYMENT OF TAX.**—Section 56 (f) is amended  
 24     to read as follows:



1       “(f) *TAX WITHHELD AT SOURCE.*—For requirement  
2 of withholding tax at source, see sections 143, 144, and Part  
3 II of Subchapter D.”

4           (2) *CREDITS AGAINST TAX.*—The Internal Reve-  
5 nue Code is amended by adding after section 33 the fol-  
6 lowing new sections:

7 “SEC. 34. *CREDITS AGAINST VICTORY TAX.*

8       “*For credits against victory tax, see sections 453, 454,*  
9 *and 466 (f).*”

10 “SEC. 35. *CREDIT FOR TAX WITHHELD ON WAGES.*

11       “*For credit against the tax for tax withheld on wages, see*  
12 *section 466 (f).*”

13           (3) *PENALTIES.*—Section 145 (d) is amended by  
14 inserting “(1)” before the first paragraph and by adding  
15 the following new paragraph:

16       “(2) *For additional penalties for fraudulent re-*  
17 *ceipts or failure to furnish receipts required by section*  
18 *469, see section 470.*”

19           (4) *MINIMUM PENALTY FOR FAILURE TO FILE*  
20 *RETURN.*—Section 291 is amended by inserting “(a)”  
21 before the first paragraph and by adding the following  
22 new subsection:

23       “(b) *For minimum addition to the tax for failure of*  
24 *withholding agent to make and file return required by Part*  
25 *II of Subchapter D, see section 470 (c).*”

1           (5) *INTEREST ON OVERPAYMENTS.*—Section 3771  
2           is amended by adding at the end thereof the following new  
3           subsection:

4           “(e) *TAX WITHHELD AT SOURCE.*—For date of pay-  
5           ment in respect of tax withheld at source under Part II of  
6           Subchapter D, see section 322 (e).”

7           (g) *EFFECTIVE DATE.*—The provisions of this section  
8           shall take effect on January 1, 1943, and shall be applicable  
9           to all wages (as defined in Part II of Subchapter D) paid  
10          on or after such date.

11   **(243)SEC. 175. NET INCOME OF INDIVIDUALS.**

12          (a) *AMENDMENT TO INTERNAL REVENUE CODE.*—  
13          Supplement B of chapter 1 of the Internal Revenue Code  
14          is amended by adding at the end thereof the following new  
15          section:

16   **“SEC. 128. LIMITATION ON DEDUCTIONS ALLOWABLE TO INDI-**  
17                           **VIDUALS IN CERTAIN CASES.**

18          “(a) *RECOMPUTATION OF NET INCOME.*—If the de-  
19          ductions allowable to an individual (except for the provisions  
20          of this section) and attributable to a trade or business  
21          carried on by him for five consecutive taxable years have,  
22          in each of such years, exceeded the gross income derived  
23          from such trade or business, the net income of such indi-  
24          vidual for each of such years shall be recomputed. For the  
25          purpose of such recomputation, such deductions shall be

1 *allowed only to the extent of \$10,000 plus the gross income*  
2 *attributable to such a trade or business, and no net operating*  
3 *loss deduction shall be allowed.*

4       “(b) *REDETERMINATION OF TAX.*—Upon the basis of  
5 *the net income computed under the provisions of subsection*  
6 *(a), the tax imposed by this chapter shall be redetermined*  
7 *for each such taxable year to which this chapter is applicable*  
8 *and any excess thereof, resulting solely from the disallow-*  
9 *ance of the deductions specified in subsection (a), over the*  
10 *amount of the tax previously determined shall be assessed*  
11 *and collected as a deficiency.*

12       “(c) *SUSPENSION OF STATUTE OF LIMITATIONS.*—  
13 *Notwithstanding the provisions of section 275, any deficiency*  
14 *determined under subsection (b) for a taxable year preceding*  
15 *the fifth taxable year referred to in subsection (a) may be*  
16 *assessed within one year after the expiration of the time pre-*  
17 *scribed by law for the assessment of a deficiency for such*  
18 *fifth taxable year.”*

19       “(b) *EFFECTIVE DATE OF AMENDMENT.*—The amend-  
20 *ment made by subsection (a) shall be applicable to taxable*  
21 *years beginning after December 31, 1937, but no deficiency*  
22 *shall be assessed or collected thereunder for any taxable year*  
23 *beginning prior to January 1, 1942.*

1 **Part II—Personal Holding Companies**

2 **SEC. 181. RATES OF PERSONAL HOLDING COMPANY TAX.**

3 The rate schedule of section 500 (relating to tax on  
4 personal holding companies) is amended to read as follows:

5 “(1) 75 per centum of the amount thereof not in  
6 excess of \$2,000; plus

7 “(2) 85 per centum of the amount thereof in excess  
8 of \$2,000.”.

9 **SEC. 182. EXEMPTION OF CERTAIN CORPORATIONS FROM**  
10 **PERSONAL HOLDING COMPANY TAX.**

11 (a) **EXEMPTION OF CERTAIN LOAN AND INVESTMENT**  
12 **CORPORATIONS.**—Section 501 (b) (relating to exemptions  
13 from personal holding company tax) is amended to read as  
14 follows:

15 “(b) **EXCEPTIONS.**—The term ‘personal holding com-  
16 pany’ does not include—

17 “(1) A corporation exempt from taxation under  
18 section 101.

19 “(2) A bank as defined in section 104.

20 “(3) A life insurance company.

21 “(4) A surety company.

22 “(5) A foreign personal holding company as de-  
23 fined in section 331.

24 “(6) A licensed personal finance company

1       (244)subject to the supervision of State authority having  
2       supervision over financial institutions under State super-  
3       vision, at least 80 per centum of the gross income of  
4       which is lawful interest received from individuals each of  
5       whose indebtedness to such company did not at any time  
6       during the taxable year exceed \$300 in principal amount,  
7       if such interest is not payable in advance or compounded  
8       and is computed only on unpaid balances.

9           “(7) A loan or investment corporation (245)sub-  
10       ject to the supervision of State authority having super-  
11       vision over financial institution, a substantial part of the  
12       business of which consists of receiving funds not subject  
13       to check and evidenced by installment or fully paid cer-  
14       ificates of indebtedness or investment, and making loans  
15       and discounts, and the loans to a person who is a share-  
16       holder in such corporation during such taxable year by or  
17       for whom 10 per centum or more in value of its outstand-  
18       ing stock is owned directly or indirectly (including in the  
19       case of an individual, stock owned by the members of his  
20       family as defined in section 503 (a) (2) ) outstanding at  
21       any time during such year do not exceed \$5.000 in  
22       principal amount.”

23       (b) **TAXABLE YEARS TO WHICH AMENDMENT APPLI-**  
24       **CABLE.**—The amendment made by this section shall be  
25       applicable to taxable years beginning after December 31,

1 ~~(246)~~1938 1941, except that if a taxpayer, within the time  
 2 and in the manner and subject to such regulations as the Com-  
 3 missioner with the approval of the Secretary prescribes, elects  
 4 to have such amendments apply retroactively to all taxable  
 5 years of the taxpayer beginning after December 31, 1938,  
 6 and not beginning after December 31, 1941, such amend-  
 7 ments shall be applicable to such taxable years.

8 **SEC. 183. CONSOLIDATED INCOME.**

9 Section 501 (c) is amended by inserting at the end  
 10 thereof the following: "The preceding sentence shall apply  
 11 only if the common parent corporation is a common parent  
 12 of an affiliated group of railroad corporations which would  
 13 be eligible to file consolidated returns under section 141  
 14 prior to its amendment by the Revenue Act of 1942. ~~(247)~~In  
 15 determining for the purposes of section 141 ~~(c)~~ ~~(8)~~ and  
 16 ~~(9)~~ the gross income of a corporation within the require-  
 17 ment prescribed by section 501 ~~(a)~~ ~~(1)~~, there shall be  
 18 disregarded any income resulting from transactions between  
 19 such corporation and other corporations which are members  
 20 of the affiliated group."

21 ~~(248)~~**SEC. 184. COMPUTATION OF UNDISTRIBUTED SUBCHAP-**  
 22 **TER A NET INCOME.**

23 **(a)** Section 504 (relating to deductions from subchapter  
 24 **A net income)** is amended by adding at the end thereof the  
 25 **following:**

1       “(d) Amounts distributed before January 1, 1944, in  
 2 redemption of preferred stock outstanding before January  
 3 1, 1934 (including any preferred stock issued after Janu-  
 4 ary 1, 1934, in lieu of such previously outstanding preferred  
 5 stock) if such distributions are made by a corporation the  
 6 aggregate of whose gross sales and gross receipts arising from  
 7 manufacturing, commercial, processing, and service opera-  
 8 tions during the four-year period immediately before Janu-  
 9 ary 1, 1934, exceeded the aggregate of its gross receipts from  
 10 dividends, interest, royalties, annuities, and gains from the  
 11 sale or exchange of stock or securities during such period.”

12       (b) The amendment made by this section shall be appli-  
 13 cable to taxable years beginning after December 31, 1940.

14 **SEC. (249)~~184~~ 185. DEFICIENCY DIVIDENDS OF PERSONAL**  
 15 **HOLDING COMPANIES.**

16       Section 506 (relating to credits and refunds in case of  
 17 deficiency dividends) is amended by inserting at the end  
 18 thereof the following new subsections:

19       “(g) **RATE FOR TAXABLE YEARS 1939, 1940, AND**  
 20 **1941.—If the deficiency is established or determined for a**  
 21 **taxable year which begins after December 31, 1939, and does**  
 22 **not begin after December 31, 1941, the rates under sub-**  
 23 **sections (a) and (b) used in determining the amount of**  
 24 **the credit or refund shall be 71½ per centum in lieu of 65**  
 25 **per centum and 82½ per centum in lieu of 75 per centum.**”





1 end thereof the following new sentence: "Such term  
 2 also means any distribution to its shareholders, whether  
 3 in money or in other property, made by a corporation  
 4 which, under the law applicable to the taxable year in  
 5 which the distribution is made, is a personal holding  
 6 company, or which, for the taxable year in respect of  
 7 which the distribution is made under section 405 (c)  
 8 or section 407 is a personal holding company under the  
 9 law applicable to such taxable year."

10 (3) AMENDMENT TO REVENUE ACT OF 1936.—  
 11 Section 115 (a) of the Revenue Act of 1936 (relating  
 12 to definition of dividend) is amended by inserting at  
 13 the end thereof the following new sentence: "Such term  
 14 also means any distribution to its shareholders, whether  
 15 in money or in other property, made by a corporation  
 16 in a taxable year of the corporation beginning after  
 17 December 31, 1936, which, for such year, is a personal  
 18 holding company."

19 (b) PERSONAL HOLDING COMPANY DIVIDENDS  
 20 ~~(251) NOT TAX FREE AND NOT APPLIED IN REDUCTION~~  
 21 OF BASIS.—Section 115 (b) (relating to source of distribu-  
 22 tions) of the Internal Revenue Code, the Revenue Act of  
 23 1938, and the Revenue Act of 1936, are amended by insert-  
 24 ing at the end of such subsection the following new sentence:  
 25 "The preceding sentence shall not apply to a distribution

1 which is a dividend within the meaning of the last sentence  
2 of subsection (a).”

3 (c) DIVIDENDS PAID AFTER CLOSE OF TAXABLE  
4 YEAR.—Section 504 (c) of the Internal Revenue Code and  
5 section 405 (c) of the Revenue Act of 1938 (relating to  
6 credit for dividends paid after close of taxable year) are  
7 amended as follows:

8 (1) By amending subsection (c) (1) and (2) to  
9 read as follows:

10 “(c) Dividends paid after the close of the taxable year  
11 and before the 15th day of the third month following the close  
12 of the taxable year, if claimed under this subsection in the  
13 return, but only to the extent to which such dividends would  
14 have been includible in the computation of the basic surtax  
15 credit for the taxable year if distributed during such taxable  
16 year; but the amount allowed under this subsection shall not  
17 exceed either:

18 “(1) The undistributed Subchapter A net income  
19 for the taxable year computed without regard to this  
20 subsection; or”;

21 (2) And by striking out “(3)” and inserting in  
22 lieu thereof “(2)”.

23 (d) DEFICIENCY DIVIDENDS.—

24 (1) AMENDMENT OF INTERNAL REVENUE CODE.—

25 The first sentence of section 506 (c) (1) is amended

1 to read as follows: "For the purposes of this subchapter,  
2 the term 'deficiency dividends' means the amount of the  
3 dividends paid, on or after the date of the closing agree-  
4 ment or on or after the date the decision of the Board or  
5 the judgment becomes final, as the case may be, and  
6 prior to filing claim under subsection (d), which would  
7 have been includible in the computation of the basic  
8 surtax credit for the taxable year with respect to which  
9 the deficiency was asserted if distributed during such  
10 taxable year."

11 (2) AMENDMENT OF REVENUE ACT OF 1938.—  
12 The first sentence of section 407 (c) (1) of the Revenue  
13 Act of 1938 is amended to read as follows: "For the  
14 purposes of this title, the term 'deficiency dividends'  
15 means the amount of the dividends paid, on or after the  
16 date of the closing agreement or on or after the date the  
17 decision of the Board or the judgment becomes final, as  
18 the case may be, and prior to filing claim under subsec-  
19 tion (d), which would have been includible in the com-  
20 putation of the basic surtax credit for the taxable year  
21 with respect to which the deficiency was asserted if dis-  
22 tributed during such taxable year."

23 (3) AMENDMENT OF REVENUE ACT OF 1936.—  
24 Title 1A of the Revenue Act of 1936, as amended  
25 (relating to surtax on personal holding companies), is

1 further amended by adding at the end thereof the  
2 following new section:

3 **"SEC. 361. DEFICIENCY DIVIDENDS.**

4 "The provisions of section 407 of the Revenue Act of  
5 1938, as amended by section 185 (d) (2) of the Revenue  
6 Act of 1942 shall be applicable with respect to a deficiency  
7 established or determined under this title for any taxable year  
8 beginning after December 31, 1936, and before January 1,  
9 1938."

10 (e) **CONSENT DIVIDENDS.—**

11 (1) Section 28 (d) (1) of the Internal Revenue  
12 Code and section 28 (d) (1) of the Revenue Act  
13 of 1938 are amended to read as follows:

14 " (1) Unless it files (in accordance with regulations  
15 prescribed by the Commissioner with the approval of the  
16 Secretary) with its return for such year, or within one  
17 year after the date of enactment of the Revenue Act of  
18 1942, in the case of a corporation which is a personal  
19 holding company for the taxable year with respect to  
20 which it claims the benefits of this section, signed consents  
21 made under oath by persons who were shareholders, on  
22 the last day of the taxable year, of the corporation, of  
23 any class of consent stock; and".

24 (2) For the purposes of this section, section 28 of  
25 the Revenue Act of 1938, as amended by this subsection,

1 shall be applicable with respect to a corporation for any  
2 taxable year beginning after December 31, 1936, and  
3 before January 1, 1938, for which it was, under the  
4 applicable law, a personal holding company, and to its  
5 shareholders. Such section 28 shall be applied as though  
6 the phrase "basic surtax credit" in subsection (c) thereof  
7 were "dividends paid credit".

8 (f) EFFECTIVE DATE OF AMENDMENTS.—The amend-  
9 ments made by subsections (a) to (e), inclusive, shall be  
10 effective as of the date of enactment of the laws amended  
11 thereby.

12 (g) RETROACTIVE APPLICATION.—The amendments  
13 made by subsections (a) to (d), inclusive, shall not apply  
14 with respect to any distribution, which is a dividend solely  
15 by reason of the last sentence of section 115 (a) of the  
16 applicable revenue law, made prior to the date of enactment  
17 of this Act by a corporation which, under the law applicable  
18 to the taxable year in which the distribution is made, is a  
19 personal holding company, or which, for the taxable year  
20 in respect of which it is made under section 504 (c) or sec-  
21 tion 506 or a corresponding provision of a prior income tax  
22 law, is a personal holding company under the law applicable  
23 to such taxable year, unless—

24 (1) The corporation (under regulations prescribed  
25 by the Commissioner with the approval of the Secre-

1 tary) files, within one year after the date of the enact-  
2 ment of this Act, a claim for the benefit of this section  
3 on account of such distribution;

4 (2) Such claim is accompanied by signed consents  
5 made under oath by each person to whom the corpora-  
6 tion made such distribution agreeing to the inclusion of  
7 the amount of such distribution to him in his gross in-  
8 come as a taxable dividend. If any such person is no  
9 longer in existence or is under disability then the consent  
10 may be made by his legal representative; and

11 (3) Each such consent filed is accompanied by cash,  
12 or such other medium of payment as the Commissioner  
13 may by regulations authorize, in an amount equal to the  
14 amount that would be required by section 143 (b) or  
15 144 of the applicable revenue law to be deducted and  
16 withheld by the corporation if the amount of the distribu-  
17 tion to the shareholder had been paid to the shareholder  
18 in cash as a dividend. The amount accompanying such  
19 consent shall be credited against the tax under the ap-  
20 plicable revenue law imposed by section 211 (a) or 231  
21 (a) upon the shareholder.

22 (h) **OVERPAYMENTS AND DEFICIENCIES.**—If the re-  
23 fund or credit of any overpayment for any taxable year, to  
24 the extent resulting from the application of subsections (e)  
25 and (g) of this section is prevented on the date of the

1 enactment of this Act or within one year from such date,  
2 then, notwithstanding any other provision of law or rule  
3 of law (other than this subsection and other than section  
4 3761 of the Internal Revenue Code or section 3229 of the  
5 Revised Statutes, or such section as amended by section 815  
6 of the Revenue Act of 1938, relating to compromises),  
7 such overpayment shall be refunded or credited in the same  
8 manner as in the case of an income tax erroneously col-  
9 lected if claim therefor is filed within one year from the  
10 date of the enactment of this Act. If the assessment or  
11 collection of any deficiency for any taxable year, to the  
12 extent resulting from the application of subsections (e) and  
13 (g) of this section, is prevented on the date of the filing of  
14 the shareholders' consents referred to in subsection (e) or  
15 on the date of filing of the claim referred to in subsection  
16 (g) (1) or within one year from the date of filing of such  
17 consents or claim, as the case may be, then, notwithstand-  
18 ing any other provision of law or rule of law, such deficiency  
19 shall be assessed and collected if assessment is made within  
20 one year from the date of the filing of such consents or  
21 claim, as the case may be. The failure of a shareholder to  
22 include in his gross income for the proper taxable year the  
23 amount specified in the consent made by him referred to  
24 in subsection (g) (2) shall have the same effect, with  
25 respect to the deficiency resulting therefrom, as is provided

1 in section 272 (f) of the applicable revenue law with respect  
 2 to a deficiency resulting from a mathematical error appearing  
 3 on the face of the return.

4 (i) ADDITIONAL CREDIT OR REFUND FOR PRIOR  
 5 YEARS.—Section 506 of the Internal Revenue Code (re-  
 6 lating to deficiency dividends) is amended by adding at the  
 7 end thereof the following new subsection:

8 “~~(252)(h)~~ (j) ADDITIONAL CREDIT OF REFUND FOR  
 9 PRIOR TAXABLE YEAR.—

10 “(1) ELECTION TO HAVE A CERTAIN DIVIDEND  
 11 CONSIDERED AS A DEFICIENCY DIVIDEND.—If a corpora-  
 12 tion was a personal holding company for any taxable  
 13 year beginning after December 31, 1936, and prior to  
 14 January 1, 1942, and its adjusted net income, Title 1A  
 15 net income or Subchapter A net income, in the case of  
 16 a tax imposed by Titles 1A of the Revenue Acts of  
 17 1936 and 1938, or Subchapter A of the Internal  
 18 Revenue Code, as the case may be, exceeds the sum  
 19 of (A) the earnings and profits accumulated after  
 20 February 28, 1913, as of the beginning of the taxable  
 21 year and (B) the earnings and profits of the taxable  
 22 year (computed as of the close of the taxable year  
 23 without diminution by reason of any distributions made  
 24 during the taxable year) and if prior to the date of



1 enactment of the Revenue Act of 1942, the corporation  
2 paid all or any portion of the tax imposed by Title 1A  
3 or Subchapter A for any such taxable year or years then  
4 the corporation may elect, within ~~(253) ninety days~~ *six*  
5 *months* after the date of enactment of the Revenue Act of  
6 1942 to have the amount of a dividend paid within such  
7 ~~(254) ninety-day~~ *six-month* period considered as a defi-  
8 ciency dividend. Such election must be made by the  
9 filing of a claim (under regulations prescribed by the  
10 Commissioner with the approval of the Secretary) within  
11 such ~~(255) ninety-day~~ *six-month* period and after the  
12 payment of the dividend, specifying the taxable year or  
13 years with respect to which such dividend applies, set-  
14 ting forth the amount of the dividend to be apportioned  
15 to each taxable year, and claiming the benefit of this  
16 subsection by reason of such dividend.

17 “(2) EFFECT OF ELECTION.—If the corporation  
18 exercises the election authorized under paragraph (1)  
19 of this subsection—

20 “(A) The credit or refund shall be computed,  
21 and credited or refunded without interest, as pro-  
22 vided in subsection (b) and at the rates provided  
23 therein or in subsection (g), as the case may be, but  
24 shall be subject to the limitations in subsection (f).  
25 In any case where a dividend is apportioned to more

1 than one taxable year the credit or refund shall be  
 2 determined for each taxable year on the basis of the  
 3 amount of the dividend apportioned thereto; and

4 “(B) The dividends paid credit for the taxable  
 5 year in which paid and for a prior taxable year or  
 6 years shall be determined as provided in subsection  
 7 (c) (2).”

## 8 TITLE II—EXCESS PROFITS TAX

### 9 (256) *Part I—Excess Profits Tax Amendments*

#### 10 SEC. 201. TAXABLE YEARS TO WHICH AMENDMENTS 11 APPLICABLE.

12 Except as otherwise expressly provided, the amendments  
 13 made by this title shall be applicable only with respect to  
 14 taxable years beginning after December 31, 1941.

#### 15 SEC. 202. RATE OF EXCESS-PROFITS TAX.

16 Section 710 (a) (257)(1) (relating to rate of excess-  
 17 profits tax) is amended to read as follows:

18 “~~(258)(a)~~ *IMPOSITION (1) GENERAL RULE.*—There  
 19 shall be levied, collected, and paid, for each taxable year,  
 20 upon the adjusted excess-profits net income, as defined in  
 21 subsection (b), of every corporation (except a corporation  
 22 exempt under section 727) a tax equal to ~~(259)90~~ per  
 23 centum of the amount thereof *whichever of the following*  
 24 *amounts is the lesser:*

1           “(A) 90 per centum of the adjusted excess-  
2           profits net income, or

3           “(B) an amount which when added to the tax  
4           imposed for the taxable year under Chapter 1 (other  
5           than section 102) equals 80 per centum of the cor-  
6           poration surtax net income, computed under section  
7           15 or Supplement G, as the case may be, but with-  
8           out regard to the credit provided in section 26 (e)  
9           (relating to income subject to the tax imposed by  
10          this subchapter).”

11 **(260)SEC. 203. CERTAIN FISCAL YEAR TAXPAYERS.**

12          (a) **COMPUTATION OF TAX FOR YEAR ENDING IN**  
13 **1942.**—Section 710 (a) (relating to imposition of excess-  
14 profits tax) is amended by inserting at the end thereof the  
15 following new paragraph:

16           “(3) **TAXABLE YEARS BEGINNING IN 1941 AND**  
17 **ENDING AFTER JUNE 30, 1942.**—In the case of a taxable  
18 year beginning in 1941 and ending after June 30,  
19 1942, the tax shall be an amount equal to the sum of—

20           “(A) that portion of a tentative tax under this  
21 subchapter, computed without regard to section 203  
22 of the Revenue Act of 1942, which the number of  
23 days in such taxable year before July 1, 1942, bears  
24 to the total number of days in such taxable year, plus

25           “(B) that portion of a tentative tax under this



1 relating to the deduction of the excess profits credit carry-over,  
2 is amended by striking out "excess profits credit carry-over"  
3 and by inserting in lieu thereof "unused excess profits credit  
4 adjustment".

5 (b) CARRY-BACK OF UNUSED CREDIT.—Section 710

6 (c) (relating to the determination of the excess profits credit  
7 carry-over) is amended to read as follows:

8 "(c) UNUSED EXCESS PROFITS CREDIT ADJUST-  
9 MENT.—

10 "(1) COMPUTATION OF UNUSED EXCESS PROFITS  
11 CREDIT ADJUSTMENT.—The unused excess profits credit  
12 adjustment for any taxable year shall be the aggregate  
13 of the unused excess profits credit carry-overs and un-  
14 used excess profits credit carry-backs to such taxable  
15 year.

16 "(2) DEFINITION OF UNUSED EXCESS PROFITS  
17 CREDIT.—The term 'unused excess profits credit' means  
18 the excess, if any, of the excess profits credit for any  
19 taxable year beginning after December 31, 1939, over  
20 the excess profits net income for such taxable year, com-  
21 puted on the basis of the excess profits credit applicable  
22 to such taxable year. For such purpose the excess  
23 profits credit and the excess profits net income for any  
24 taxable year beginning in 1940 shall be computed under  
25 the law applicable to taxable years beginning in 1941.

1     *The unused excess profits credit for a taxable year of*  
2     *less than twelve months shall be an amount which is*  
3     *such part of the unused excess profits credit determined*  
4     *under the first sentence of this paragraph as the number*  
5     *of days in the taxable year is of the number of days in*  
6     *the twelve months ending with the close of the taxable*  
7     *year.*

8             **“(3) AMOUNT OF UNUSED EXCESS PROFITS**  
9             **CREDIT CARRY-BACK AND CARRY-OVER.—**

10            **“(A) Unused Excess Profits Credit Carry-**  
11            **back.—If for any taxable year beginning after**  
12            **December 31, 1941, the taxpayer has an unused**  
13            **excess profits credit, such unused excess profits credit**  
14            **shall be an unused excess profits credit carry-back for**  
15            **each of the two preceding taxable years, except that**  
16            **the carry-back in the case of the first preceding tax-**  
17            **able year shall be the excess, if any, of the amount**  
18            **of such unused excess profits credit over the adjusted**  
19            **excess profits net income for the second preceding tax-**  
20            **able year computed for such taxable year (i) by**  
21            **determining the unused excess profits credit adjust-**  
22            **ment without regard to such unused excess profits**  
23            **credit, and (ii) without the deduction of the specific**  
24            **exemption provided in subsection (b) (1).**

25            **“(B) Unused Excess Profits Credit Carry-**

1            *Over.—If for any taxable year beginning after*  
2            *December 31, 1939, the taxpayer has an unused*  
3            *excess profits credit, such unused excess profits*  
4            *credit shall be an unused excess profits credit carry-*  
5            *over for each of the two succeeding taxable years,*  
6            *except that the carry-over in the case of the second*  
7            *succeeding taxable year shall be the excess, if any,*  
8            *of the amount of such unused excess profits credit*  
9            *over the adjusted excess profits net income for the*  
10           *intervening taxable year computed for such inter-*  
11           *vening taxable year (i) by determining the unused*  
12           *excess profits credit adjustment without regard to*  
13           *such unused excess profits credit or to any unused*  
14           *excess profits credit carry-back, and (ii) without the*  
15           *deduction of the specific exemption provided in sub-*  
16           *section (b) (1). For the purposes of the preced-*  
17           *ing sentence, the unused excess profits credit for*  
18           *any taxable year beginning after December 31, 1941,*  
19           *shall first be reduced by the sum of the adjusted*  
20           *excess profits net income for each of the two preced-*  
21           *ing taxable years (computed for each such pre-*  
22           *ceding taxable year (i) by determining the unused*  
23           *excess profits credit adjustment without regard to*  
24           *such unused excess profits credit or to the unused*  
25           *excess profits credit for the succeeding taxable year,*





1           “(4) *MUTUAL INSURANCE COMPANIES.*—In the  
2 case of a mutual insurance company other than life or  
3 marine, if the gross amount received from interest, divi-  
4 dends, rents, and premiums (including deposits and  
5 assessments) is over \$75,000 but less than \$125,000, the  
6 tax imposed under this section shall be an amount which  
7 bears the same proportion to the amount ascertained  
8 under this section, computed without reference to this  
9 paragraph, as the excess over \$75,000 of such gross  
10 amount received bears to \$50,000.”

11           (b) Section 711 (a) (1) (relating to excess profits  
12 credit computed under income credit) is amended by inserting  
13 at the end thereof the following new paragraph:

14           “(H) *Life Insurance Companies.*—In the case  
15 of a life insurance company, there shall be deducted  
16 from the normal tax net income, the excess of (1)  
17 the product of (i) the figure determined and pro-  
18 claimed under section 202 (b) and (ii) the excess  
19 profits net income computed without regard to this  
20 subparagraph, over (2) the adjustment for certain  
21 reserves provided in section 202 (c).”

22 ~~(265)(b)~~ (c) Section 711 (a) (2) (relating to the excess  
23 profits credit computed under invested capital credit) is  
24 amended by inserting at the end thereof the following new  
25 subparagraph:

1           (266) ~~“(J)~~ In the case of a life insurance company,  
 2           the reserve and other policy liability credit shall be  
 3           reduced by 50 per centum thereof.”

4                     “(J) In the case of a life insurance company,  
 5           there shall be deducted from the normal tax net  
 6           income, 50 per centum of the excess of (1) the  
 7           product of (i) the figure determined and proclaimed  
 8           under section 202 (b) and (ii) the excess profits  
 9           net income computed without regard to this sub-  
 10          paragraph, over (2) the adjustment for certain  
 11          reserves provided in section 202 (c).”

12 (267)~~(e)~~ (d) Section 718 (relating to equity invested cap-  
 13 ital) is amended by inserting at the end thereof the following  
 14 new subsection:

15           “(f) The reserves of an insurance company shall not  
 16 be included in computing equity invested capital under this  
 17 section but shall be treated as borrowed capital as provided  
 18 in section 719.”

19 (268)~~(d)~~ (e) Section 719 (a) (relating to borrowed capital)  
 20 is amended by striking out the period at the end thereof and  
 21 inserting a comma and the word “plus” and a comma and  
 22 the following new paragraphs:

23           “(3) In the case of an insurance company, the  
 24 mean of the amount of the pro rata unearned premiums

1 determined at the beginning and end of the taxable year,  
2 plus,

3 “(4) In the case of a life insurance company, the  
4 mean of the amount of the (269)life insurance *adjusted*  
5 reserves, and the mean of the amount of the reserves on  
6 insurance (270)or annuity contracts (or contracts arising  
7 out of insurance (271)or annuity contracts) which  
8 do not involve, at the time with reference to which the  
9 computation was made, life, health, or accident contingencies,  
10 determined at the beginning and end of the  
11 taxable year.”

12 (272)(f) *Section 723 (relating to equity invested capital in*  
13 *special cases) is amended by designating the present section*  
14 *as subsection “(a)” and by adding a new subsection to read*  
15 *as follows:*

16 “(b) *The equity invested capital of mutual insurance*  
17 *companies other than life, or marine, shall be the mean of*  
18 *the surplus, plus 50 per centum of the mean of all reserves*  
19 *required by law, both surplus and reserves being determined*  
20 *at the beginning and end of the taxable year. The*  
21 *surplus shall include all of the assets of the company*  
22 *other than reserves required by law.”*

23 (273)(e) **SPECIFIC EXEMPTION.**—For specific exemption of  
24 mutual insurance companies other than life, see amendment  
25 made by section 203 of this Act.



1 (b) RULES FOR COMPUTATION OF CHARITABLE, ETC.,  
 2 DEDUCTIONS IN COMPUTING EXCESS PROFITS NET IN-  
 3 COME REPEALED.—

4 (1) Section 711 (a) (1) (G) (relating to the  
 5 deduction for charitable contributions, etc., in computing  
 6 excess profits net income under the income credit) is  
 7 repealed.

8 (2) Section 711 (a) (2) (I) (relating to the  
 9 deduction for charitable contributions, etc., in comput-  
 10 ing excess profits net income under the invested capital  
 11 method) is repealed.

12 ~~(275)(c) EXCESS PROFITS CREDIT CARRY OVER.~~—Section  
 13 ~~710 (c) (1)~~ (defining the unused excess-profits credit) is  
 14 amended by inserting at the end thereof the following new  
 15 sentence: "For such purpose, in the case of taxable years  
 16 beginning after December 31, 1941, the excess-profits credit  
 17 and the excess-profits net income for any taxable year begin-  
 18 ning in 1940 or in 1941 shall be computed under the law  
 19 applicable to taxable years beginning in 1942."

20 SEC. ~~(276)~~<sup>296</sup> 207. CAPITAL GAINS AND LOSSES IN THE  
 21 COMPUTATION OF EXCESS PROFITS  
 22 NET INCOME.

23 (a) EXCESS PROFITS CREDIT COMPUTED UNDER IN-  
 24 COME CREDIT.—Section 711 (a) (1) (B) is amended to  
 25 read as follows:

1                   “(B) Gains and Losses From Sales or Ex-  
 2                   changes of Capital Assets.—There shall be excluded  
 3                   gains and losses from sales or exchanges of capital  
 4                   assets held for more than (277)15 6 months.”

5   (278)(b) *RETIREMENT OF LONG-TERM BONDS.*—Section  
 6   711 (a) (1) (C) is amended by striking out “eighteen  
 7   months” and inserting in lieu thereof “6 months”.

8   (279)(b) (c) *EXCESS PROFITS CREDIT COMPUTED UNDER*  
 9   *INVESTED CAPITAL CREDIT.*—Section 711 (a) (2) (D)  
 10 is amended to read as follows:

11                   “(D) Gains and Losses From Sales or Ex-  
 12                   changes of Capital Assets.—There shall be excluded  
 13                   gains and losses from sales or exchanges of capital  
 14                   assets held for more than (280)15 6 months.”

15   (281)(d) *RETIREMENT OF LONG-TERM BONDS.*—Section  
 16   711 (a) (2) (E) is amended by striking out “eighteen  
 17   months” and inserting in lieu thereof “6 months”.

18   (282)(e) (e) *TAXABLE YEARS IN BASE PERIOD.*—Section  
 19   711 (b) (1) (B) is amended to read as follows:

20                   “(B) Gains and Losses From Sales or Ex-  
 21                   changes of Capital Assets.—There shall be excluded  
 22                   gains and losses from sales or exchanges of capital  
 23                   assets held for more than (283)15 6 months.”

24   (284)(f) *RETIREMENT OF LONG-TERM BONDS.*—Section



1 December 31, 1939, but not beginning after December 31,  
 2 1941, the second sentence of section 711 (a) (1) (B), section  
 3 711 (a) (2) (D), and section 711 (b) (1) (B) is amended  
 4 to read as follows: "There shall be excluded the excess of  
 5 the recognized gains from the sale, exchange, or involuntary  
 6 conversion (as a result of destruction in whole or in part,  
 7 theft or seizure, or an exercise of the power of requisition or  
 8 condemnation or the threat or imminence thereof) of property  
 9 held for more than eighteen months which is of a character  
 10 which is subject to the allowance for depreciation provided  
 11 in section 23 (1) over the recognized losses from the sale,  
 12 exchange, or involuntary conversion of such property. For  
 13 the purposes of this subparagraph, section 117 (h) (1) and  
 14 (2) shall apply in determining the period for which the  
 15 taxpayer has held property which is of a character which is  
 16 subject to the allowance for depreciation provided in section  
 17 23 (1)."

18 **(290) SEC. 209. NONTAXABLE INCOME FROM EXEMPT EXCESS**

19 **OUTPUT OF MINING AND FROM BONUS IN-**  
 20 **COME OF MINES, ETC.**

21 **(a) INCOME CREDIT.**—Section 711 (a) (1) (relating  
 22 to excess profits credit computed under income credit) is  
 23 amended by inserting at the end thereof the following new  
 24 subparagraph:



1           “(I) *Nontaxable Income of Certain Industries*  
2           *With Depletable Resources.*—In the case of a pro-  
3           ducer of minerals, as defined in section 735, there  
4           shall be excluded nontaxable income from exempt ex-  
5           cess output of mines and nontaxable bonus income  
6           provided in section 735.

7           “*In the case of a producer of logs, or a producer*  
8           *of lumber, from timber owned by him, there shall be*  
9           *excluded from his income for the taxable year at his*  
10          *option, either (1) that part thereof attributable to*  
11          *the excess of production of logs over a quota based*  
12          *upon past production to be fixed by the War Produc-*  
13          *tion Board, or other governmental agency, or (2)*  
14          *income derived from bonus payments made to him by*  
15          *any agency of the United States Government on ac-*  
16          *count of log production.”*

17          (b) *INVESTED CAPITAL CREDIT.*—Section 711 (a)  
18          (2) (relating to excess profits credit computed under invested  
19          capital credit) is amended by inserting at the end thereof the  
20          following new subparagraph:

21                 “(K) *Nontaxable Income of Certain Industries*  
22                 *With Depletable Resources.*—In the case of a pro-  
23                 ducer of minerals, as defined in section 735, there  
24                 shall be excluded nontaxable income from exempt ex-

1            *cess output of mines and nontaxable bonus income*  
 2            *provided in section 735.*

3            *“In the case of a producer of logs, or a pro-*  
 4            *ducer of lumber, from timber owned by him, there*  
 5            *shall be excluded from his income for the taxable*  
 6            *year at his option, either (1) that part thereof*  
 7            *attributable to the excess of production of logs over*  
 8            *a quota based upon past production to be fixed by*  
 9            *the War Production Board, or other governmental*  
 10           *agency, or (2) income derived from bonus payments*  
 11           *made to him by any agency of the United States*  
 12           *Government on account of log production.”*

13           *(c) NONTAXABLE INCOME.—Subchapter E of Chapter*  
 14           *2 is amended by inserting after section 734 the following new*  
 15           *section:*

16           **“SEC. 735. NONTAXABLE INCOME FROM CERTAIN MINING OP-**  
 17           **ERATIONS.**

18           *“(a) DEFINITIONS.—For the purposes of this section,*  
 19           *section 711 (a) (1) (I), and section 711 (a) (2) (K)—*

20           *“(1) EXCESS OUTPUT.—The term ‘excess output’*  
 21           *means the excess of the units of metal, coal, or nonmetallic*  
 22           *substance in the minerals recovered from the operation of*  
 23           *a mineral property for the taxable year over the normal*  
 24           *output from such property.*

1           “(2) *NORMAL OUTPUT.*—The term ‘normal output’  
2 means the average annual units of metal, coal, or non-  
3 metallic substance in the minerals recovered from the  
4 operation of a mineral property in the taxable years  
5 beginning after December 31, 1935, and not beginning  
6 after December 31, 1939, of the person owning such prop-  
7 erty (whether or not the taxpayer) (hereinafter called  
8 ‘base period’). The average annual units of metal, coal,  
9 or nonmetallic substance recovered shall be computed by  
10 dividing the aggregate of the units recovered during the  
11 base period by the number of months for which the prop-  
12 erty was in operation during the base period and by  
13 multiplying the amount so ascertained by twelve. Any  
14 property which was in operation for less than six months  
15 during the base period shall, for the purposes of this  
16 section, be deemed not to have been in operation during  
17 the base period.

18           “(3) *MINERAL PROPERTY.*—The term ‘mineral  
19 property’ means a mineral deposit, the development and  
20 plant necessary for the extraction of the deposit, and so  
21 much of the surface of the land as is necessary for pur-  
22 poses of such extraction.

23           “(4) *MINERALS.*—The term ‘minerals’ means ores  
24 of the metals, coal, and such nonmetallic substances as  
25 abrasives, asbestos, asphaltum, barytes, borax, building

1 stone, cement rock, clay, crushed stone, feldspar, fluor-  
 2 spar, fuller's earth, graphite, gravel, gypsum, limestone,  
 3 magnesite, marl, mica, mineral pigments, peat, potash,  
 4 precious stones, refractories, rock phosphate, salt, sand,  
 5 silica, slate, soapstone, soda, sulphur, and talc.

6           “(5) *NORMAL UNIT PROFIT.*—The term ‘normal  
 7 unit profit’ means the average profit for the base period  
 8 per unit of metal, coal, or nonmetallic substance in the  
 9 minerals recovered from the mineral property during  
 10 such period, determined by dividing the net income with  
 11 respect to minerals recovered from the mineral property  
 12 (computed with the allowance for depletion computed in  
 13 accordance with the basis for depletion applicable to the  
 14 current taxable year) during the base period by the num-  
 15 ber of units of metal, coal, or nonmetallic substance in  
 16 the minerals recovered from such property during the  
 17 base period.

18           “(6) *ESTIMATED RECOVERABLE UNITS.*—The  
 19 term ‘estimated recoverable units’ means the estimated  
 20 number of units of metal, coal, or nonmetallic sub-  
 21 stances in the estimated recoverable minerals from the  
 22 mineral property at the end of the taxable year plus  
 23 the excess output for such year. All estimates shall be  
 24 subject to the approval of the Commissioner, the de-

1 terminations of whom, for the purposes of this section,  
2 shall be final and conclusive.

3 “(7) *EXEMPT EXCESS OUTPUT.*—The term  
4 ‘exempt excess output’ for any taxable year means a  
5 number of units equal to the following percentages of  
6 the excess output for such year:

7 “100 per centum if the excess output exceeds 50  
8 per centum of the estimated recoverable units;

9 “95 per centum if the excess output exceeds  $33\frac{1}{3}$   
10 but not 50 per centum of the estimated recoverable  
11 units;

12 “90 per centum if the excess output exceeds 25  
13 but not  $33\frac{1}{3}$  per centum of the estimated recoverable  
14 units;

15 “85 per centum if the excess output exceeds 20  
16 but not 25 per centum of the estimated recoverable  
17 units;

18 “80 per centum if the excess output exceeds  $16\frac{2}{3}$   
19 but not 20 per centum of the estimated recoverable  
20 units;

21 “60 per centum if the excess output exceeds  $14\frac{2}{7}$   
22 but not  $16\frac{2}{3}$  per centum of the estimated recoverable  
23 units;

24 “40 per centum if the excess output exceeds  $12\frac{1}{2}$

1 but not  $14\frac{3}{4}$  per centum of the estimated recoverable  
2 units;

3 "30 per centum if the excess output exceeds 10 but  
4 not  $12\frac{1}{2}$  per centum of the estimated recoverable units;

5 "20 per centum if the excess output exceeds 5 but  
6 not 10 per centum of the estimated recoverable units.

7 "(b) *NONTAXABLE INCOME FROM EXEMPT EXCESS*  
8 *OUTPUT.*—For any taxable year for which the excess out-  
9 put of mineral property which was in operation during the  
10 base period exceeds 5 per centum of the estimated recoverable  
11 units from such property, the nontaxable income from exempt  
12 excess output for such year shall be an amount equal to  
13 the exempt excess output for such year multiplied by the  
14 normal unit profit, but such amount shall not exceed the net  
15 income (computed with the allowance for depletion)  
16 attributable to the excess output for such year. For any  
17 taxable year, the nontaxable income from exempt excess out-  
18 put of a coal mining or iron mining property which was in  
19 operation during the base period shall be an amount equal to  
20 the excess output of such property for such year multiplied  
21 by one-half of the unit net income from such property for  
22 such year; and for such purpose 'unit net income' means  
23 the amount ascertained by dividing the net income from the  
24 coal or iron recovered from the property during the taxable

1 year by the number of units of coal or iron recovered from  
2 such property in such taxable year.

3       “(c) **NONTAXABLE BONUS INCOME.**—The term ‘non-  
4 taxable bonus income’ means the amount of the income  
5 derived from bonus payments made by any agency of the  
6 United States Government on account of the production in  
7 excess of a specified quota of a mineral product the exhaus-  
8 tion of which gives rise to an allowance for depletion under  
9 section 23 (m), but such amount shall not exceed the net  
10 income attributable to the output in excess of such quota.

11       “(d) **RULE IN CASE INCOME FROM EXCESS OUTPUT**  
12 **INCLUDES BONUS PAYMENT.**—In any case in which the in-  
13 come attributable to the excess output includes bonus payments  
14 (as provided in subsection (c)), the taxpayer may elect,  
15 under regulations prescribed by the Commissioner with the  
16 approval of the Secretary, to receive either the benefits of  
17 subsection (b) or subsection (c) with respect to such income as  
18 is attributable to excess output above the specified quota.”

19       “(d) **RETROACTIVE EXCLUSION OF NONTAXABLE**  
20 **BONUS INCOME.**—The amendments made by this section  
21 inserting section 711 (a) (1) (I), section 711 (a) (2) (K),  
22 and section 735 (c), to the extent that they relate to non-  
23 taxable bonus income, shall be applicable to taxable years  
24 beginning after December 31, 1940.

1 **(291)SEC. 210. NET OPERATING LOSS DEDUCTION ADJUSTMENT.**

2 (a) Section 711 (a) (1) (relating to the excess profits  
3 credit computed under income credit) is amended by adding  
4 at the end thereof the following new subparagraph:

5 “(J) NET OPERATING LOSS DEDUCTION ADJUST-  
6 MENT.—The net operating loss deduction shall be ad-  
7 justed as follows:

8 “(i) In computing the net operating loss for  
9 any taxable year under section 122 (a), and the  
10 net income for any taxable year under section 122  
11 (b), no deduction shall be allowed for any excess  
12 profits tax imposed by this subchapter; and

13 “(ii) In lieu of the reduction provided in sec-  
14 tion 122 (c), such reduction shall be in the amount  
15 by which the excess profits net income computed with  
16 the exceptions and limitations specified in section  
17 122 (d) (1), (2), (3) and (4) exceeds the excess  
18 profits net income (computed without the net operat-  
19 ing loss deduction).”

20 (b) Section 711 (a) (2) (relating to the excess profits  
21 credit computed under invested capital credit) is amended by  
22 adding at the end thereof the following new subparagraph:

23 “(L) NET OPERATING LOSS DEDUCTION ADJUST-  
24 MENT.—The net operating loss deduction shall be ad-  
25 justed as follows:



1           “(i) In computing the net operating loss for  
2 any taxable year under section 122 (a), and the net  
3 income for any taxable year under section 122 (b),  
4 no deduction shall be allowed for any excess profits  
5 tax imposed by this subchapter, the deduction for  
6 interest shall be reduced by the amount of any reduc-  
7 tion under subparagraph (B) of this paragraph,  
8 and the gross income shall be increased by the amount  
9 of the adjustment specified by subparagraph (G) of  
10 this paragraph to the extent that such adjustment  
11 includes interest other than interest described in sec-  
12 tion 122 (d) (2); and

13           “(ii) In lieu of the reduction provided in section  
14 122 (c), such reduction shall be in the amount by  
15 which the excess profits net income computed with the  
16 exceptions and limitations provided in section 122  
17 (d) (1), (2), (3) and (4) exceeds the excess profits  
18 net income (computed without the net operating loss  
19 deduction).”

20           (c) The amendments made by this section shall be effec-  
21 tive as of the date of enactment of the Excess Profits Tax  
22 Act of 1940.

1 **(292) SEC. 211. CREDIT FOR DIVIDENDS RECEIVED IN COMPU-**  
2 **TATION OF EXCESS PROFITS NET INCOME IN**  
3 **CONNECTION WITH INVESTED CAPITAL**  
4 **CREDIT.**

5 *(a) Section 711 (a) (2) (A) is amended to read as*  
6 *follows:*

7 *“(A) Dividends Received.—The credit for divi-*  
8 *dends received shall apply, without limitation, to*  
9 *all dividends on stock of all corporations, except that*  
10 *no credit for dividends received shall be allowed*  
11 *with respect to dividends (actual or constructive)*  
12 *on stock of foreign personal holding companies or*  
13 *dividends on stock which is not a capital asset.”*

14 *(b) The amendment made by subsection (a) shall be*  
15 *effective as of the date of enactment of the Excess Profits Tax*  
16 *Act of 1940.*

17 **SEC. (293)~~207~~ 212. APPLICATION OF EXCESS PROFITS TAX**  
18 **TO CERTAIN FOREIGN CORPORA-**  
19 **TIONS.**

20 **(a) Section 712 (b) (relating to the excess profits**  
21 **credit of foreign corporations) and section 724 (relating to**  
22 **invested capital in the case of foreign corporations and cor-**  
23 **porations entitled to benefits of section 251) are amended by**

1 striking out "or having an office or place of business therein",  
2 wherever occurring therein and section 712 (b) is amended  
3 by striking out "or had an office or place of business  
4 therein".

5 (b) Section 727 (f) (relating to exempt corporations)  
6 is amended by striking out "and not having an office or  
7 place of business therein".

8 **SEC. (294)<sup>208</sup> 213. EXCESS PROFITS NET INCOME PLACED**  
9 **ON ANNUAL BASIS.**

10 (a) GENERAL RULE.—Section 711 (a) (3) (relating  
11 to taxable years of less than twelve months) is amended to  
12 read as follows:

13 " (3) TAXABLE YEAR LESS THAN TWELVE  
14 MONTHS.—

15 " (A) General Rule.—If the taxable year is a  
16 period of less than twelve months the excess profits  
17 net income for such taxable year (referred to in  
18 this paragraph as the 'short taxable year') shall be  
19 placed on an annual basis by multiplying the amount  
20 thereof by the number of days in the twelve months  
21 ending with the close of the short taxable year and  
22 dividing by the number of days in the short taxable  
23 year. The tax shall be such part of the tax com-  
24 puted on such annual basis as the number of days

1 in the short taxable year is of the number of days  
2 in the twelve months ending with the close of the  
3 short taxable year.

4 “(B) Exception.—If the taxpayer establishes  
5 its adjusted excess profits net income for the period  
6 of twelve months beginning with the first day of the  
7 short taxable year, computed as if such twelve-  
8 month period were a taxable year, under the law  
9 applicable to the short taxable year, and using the  
10 credits applicable in determining the adjusted excess  
11 profits net income for such short taxable year, then  
12 the tax for the short taxable year shall be reduced to  
13 an amount which is such part of the tax computed  
14 on such adjusted excess profits net income so estab-  
15 lished as the excess profits net income for the short  
16 taxable year is of the excess profits net income for  
17 such twelve-month period. The taxpayer (other  
18 than a taxpayer to which the next sentence applies)  
19 shall compute the tax and file its return without the  
20 application of this subparagraph. If, prior to one  
21 year from the date of the beginning of the short  
22 taxable year, the taxpayer has disposed of substan-  
23 tially all its assets, in lieu of the twelve-month period  
24 provided in the preceding provisions of this sub-

1 paragraph, the twelve-month period ending with  
2 the close of the short taxable year shall be used.  
3 For the purposes of this subparagraph, the excess  
4 profits net income for the short taxable year shall  
5 not be placed on an annual basis as provided in sub-  
6 paragraph (A), and the excess profits net income  
7 for the twelve-month period used shall in no case be  
8 considered less than the excess profits net income for  
9 the short taxable year. The benefits of this sub-  
10 paragraph shall not be allowed unless the taxpayer,  
11 at such time as regulations prescribed hereunder  
12 require, makes application therefor in accordance  
13 with such regulations, and such application, in case  
14 the return was filed without regard to this sub-  
15 paragraph, shall be considered a claim for credit or  
16 refund. The Commissioner, with the approval of  
17 the Secretary, shall prescribe such regulations as he  
18 may deem necessary for the application of this sub-  
19 paragraph.”

20 (b) **TAXABLE YEARS TO WHICH AMENDMENT APPLI-**  
21 **CABLE.**—The amendment made by this section shall be ap-  
22 plicable to taxable years beginning after December 31, 1939.

1 SEC. (295)~~209~~ 214. INTEREST ON CERTAIN FEDERAL OB-  
 2 LIGATIONS.

3 (a) COMPUTATION OF INCOME DEFICIT.—Section 713  
 4 (c) (relating to definition of deficit) is amended to read as  
 5 follows:

6 “(c) DEFICIT IN EXCESS PROFITS NET INCOME.—For  
 7 the purposes of this section the term ‘deficit in excess profits  
 8 net income’ with respect to any taxable year means the  
 9 amount by which the deductions plus the credit for dividends  
 10 received and the credit provided in section 26 (a) (relating  
 11 to interest on certain obligations of the United States and its  
 12 instrumentalities) exceeded the gross income. For the pur-  
 13 poses of this subsection in determining whether there was  
 14 such an excess and in determining the amount thereof, the  
 15 adjustments provided in section 711 (b) (1) shall be made.”

16 (b) CROSS REFERENCES.—For amendments to Supple-  
 17 ment A on computation of base period income in case of  
 18 certain reorganizations, see section (296)~~217~~ 227 of this Act.

19 (297)SEC. 215. BASE PERIOD NET INCOME OF LOWEST YEAR  
 20 IN BASE PERIOD.

21 *Section 713 (e) (1) (relating to exclusion of deficit year*  
 22 *from computation of average base period net income) is*  
 23 *amended to read as follows:*

1           “(1) By computing the aggregate of the excess  
 2           profits net income for each of the taxable years of the tax-  
 3           payer in the base period, reduced by the sum of the  
 4           deficits in excess profits net income<sup>2</sup> for each of such years.  
 5           If the excess profits net income (or deficit in excess profits  
 6           net income) for one taxable year in the base period  
 7           divided by the number of months in such taxable year is  
 8           less than 75 per centum of the aggregate of the excess  
 9           profits net income (reduced by deficits in excess profits net  
 10          income) for the other taxable years in the taxpayer’s base  
 11          period divided by the number of months in such other  
 12          taxable years (herein called ‘average monthly amount’)  
 13          the amount used for such one year under this paragraph  
 14          shall be 75 per centum of the average monthly amount  
 15          multiplied by the number of months in such one year, and  
 16          the year increased under this sentence shall be the year  
 17          the increase in which will produce the highest average  
 18          base period net income;”

19   SEC. (298)<sup>210 216</sup> CAPITAL REDUCTION IN CASE OF MEM-  
 20                                   BERS OF CONTROLLED GROUP.

21           Section 713 (g) (relating to adjustments in excess  
 22           profits credit on account of capital changes) is amended by  
 23           adding at the end thereof the following new paragraph:

24           “(5) If, on any day of the taxable year, the tax-  
 25           payer and any one or more other corporations are mem-

1       bers of the same controlled group, then the daily capital  
2       reduction of the taxpayer for such day shall be increased  
3       by whichever of the following amounts is the lesser:

4               “(A) The aggregate of the adjusted basis (for  
5       determining loss upon sale or exchange) of stock in  
6       such other corporation (or if more than one, in such  
7       other corporations) acquired by the taxpayer after  
8       the beginning of the taxpayer’s first taxable year  
9       under this subchapter, minus the aggregate of the  
10      adjusted basis (for determining loss upon sale or  
11      exchange) of stock in such other corporation (or if  
12      more than one, in such other corporations) dis-  
13      posed of by the taxpayer prior to such day and after  
14      the beginning of the taxpayer’s first taxable year  
15      under this subchapter; or

16              “(B) The excess of the aggregate of the ad-  
17      justed basis (for determining loss upon sale or ex-  
18      change) of stock in all domestic corporations and  
19      of obligations described in section 22 (b) (4),  
20      held by the taxpayer at the beginning of such day  
21      over the aggregate of the adjusted basis (for deter-  
22      mining loss upon sale or exchange) of stock in all  
23      domestic corporations and of obligations described  
24      in section 22 (b) (4), held by the taxpayer at



1           the beginning of its first taxable year under this  
2           subchapter.

3           If any stock or obligations described in subparagraph  
4           (A) or (B) was disposed of prior to such day, its basis  
5           shall be determined under the law applicable to the year  
6           in which so disposed of. The excluded capital of the  
7           taxpayer for such day shall be reduced by the amount by  
8           which the taxpayer's daily capital reduction for such day  
9           is increased under this paragraph. As used in this para-  
10          graph, a controlled group means one or more chains of  
11          corporations connected through stock ownership with a  
12          common parent corporation if (i) more than 50 per  
13          centum of the total combined voting power of all classes  
14          of stock entitled to vote, or more than 50 per centum of  
15          the total value of shares of all classes of stock, of each  
16          of the corporations (except the common parent corpo-  
17          ration) is owned directly by one or more of the other  
18          corporations and (ii) the common parent corporation  
19          owns directly more than 50 per centum of the total com-  
20          bined voting power of all classes of stock entitled to vote,  
21          or more than 50 per centum of the total value of shares  
22          of all classes of stock, of at least one of the other corpo-  
23          rations."

1 SEC. (299)~~211~~ 217. INVESTED CAPITAL CREDIT.

2 Section 714 is amended to read as follows:

3 "SEC. 714. EXCESS PROFITS CREDIT—BASED ON INVESTED  
4 CAPITAL.5 "The excess profits credit, for any taxable year, com-  
6 puted under this section, shall be the amount shown in the  
7 following table:

"If the invested capital for the taxable year, determined under section 715, is:	The credit shall be:
Not over \$5,000,000.....	8% of the invested capital.
Over \$5,000,000, but not over \$10,000,000.	\$400,000, plus 7% of the excess over \$5,000,000.
Over \$10,000,000, but not over \$200,000,000.	\$750,000, plus 6% of the excess over \$10,000,000.
Over \$200,000,000.....	\$12,150,000, plus 5% of the excess over \$200,000,000."

8 SEC. (300)~~212~~ 218. BASIS OF PROPERTY PAID IN.9 The last two sentences of section 718 (a) (2) (relating  
10 to property paid in) are amended to read as follows: "If the  
11 property was disposed of before such taxable year, such basis  
12 shall be determined under the law applicable to the year of  
13 disposition, but without regard to the value of the property  
14 as of March 1, 1913. If the property was disposed  
15 of before March 1, 1913, its basis shall be considered to  
16 be its fair market value at the time paid in.  
17 If the unadjusted basis of the property is a sub-  
18 stituted basis, such basis shall be adjusted, with respect

1 to the period before the property was paid in, by an amount  
 2 equal to the adjustments proper under section 115 (1) for  
 3 determining earnings and profits;”.

4 **(301) SEC. 219. DEFICIT IN EARNINGS AND PROFITS OF AN-**  
 5 **OTHER CORPORATION.**

6 *(a) ADDITION TO EQUITY INVESTED CAPITAL OF*  
 7 *TRANSFeree.—Section 718 (a) is amended by inserting*  
 8 *at the end thereof the following new paragraph:*

9 *“(7) DEFICIT IN EARNINGS AND PROFITS OF AN-*  
 10 *OTHER CORPORATION.—In the case of a transferee, as*  
 11 *defined in subsection (c) (5), an amount, determined*  
 12 *under such paragraph, equal to the portion of the deficit*  
 13 *in earnings and profits of a transferor attributable to*  
 14 *property received previously to such day.”*

15 *(b) REDUCTION OF EQUITY INVESTED CAPITAL OF*  
 16 *TRANSFEROR.—Section 718 (b) is amended by inserting*  
 17 *at the end thereof the following new paragraph:*

18 *“(5) DEFICIT IN EARNINGS AND PROFITS TRANS-*  
 19 *FERRED TO ANOTHER CORPORATION.—In the case of*  
 20 *a transferor, as defined in subsection (c) (5), an*  
 21 *amount, determined under such paragraph, equal to the*  
 22 *portion of the deficit in earnings and profits of the trans-*  
 23 *feror attributable to property transferred previously to*  
 24 *such day.”*

25 *(c) EARNINGS AND PROFITS OF TRANSFEROR AND*

1 *TRANSFeree*.—Section 718 (c) (relating to rules for de-  
 2 *termining invested capital*) is amended by inserting at the  
 3 *end thereof the following new paragraph:*

4           “(5) *DEFICIT IN EARNINGS AND PROFITS—*  
 5 *EARNINGS AND PROFITS OF TRANSFEROR AND TRANS-*  
 6 *FEREE*.—If a corporation (hereinafter called ‘trans-  
 7 *feror*’) transfers substantially all its property to  
 8 *another corporation formed to acquire such property*  
 9 *(hereinafter called ‘transferee’), if—*

10           “(A) *the sole consideration for the transfer of*  
 11 *such property is the transfer to the transferor or its*  
 12 *shareholders of all the stock of all classes (except*  
 13 *qualifying shares) of the transferee. (In deter-*  
 14 *mining whether the transfer is solely for stock, the*  
 15 *assumption by the transferee of a liability of the*  
 16 *transferor or the fact that the property acquired is*  
 17 *subject to a liability shall be disregarded);*

18           “(B) *the basis of the property, in the hands of*  
 19 *the transferee, for the purposes of this subsection, is*  
 20 *determined by reference to the basis of the property*  
 21 *in the hands of the transferor;*

22           “(C) *the transferor is forthwith completely*  
 23 *liquidated in pursuance of the plan under which the*  
 24 *acquisition of the property is made; and*



1 such taxable year by an amount equal to the amount of the  
 2 interest on, reduced by the amount of the amortizable bond  
 3 premium under section 125 attributable to, all obligations  
 4 held during the taxable year which are described in section  
 5 22 (b) (4) any part of the interest from which is excludible  
 6 from gross income or allowable as a credit against net  
 7 income."

8 **(303)SEC. 221. ABNORMALITIES IN INCOME IN TAXABLE**  
 9 **PERIOD.**

10 (a) **RULE FOR COMPUTATIONS.**—Section 721 (c) and  
 11 (d) (relating to computation of tax in case of abnormalities in  
 12 income in the taxable period) is amended to read as follows:

13 **"(c) COMPUTATION OF TAX FOR CURRENT TAXABLE**  
 14 **YEAR.**—The tax under this subchapter for the taxable year, in  
 15 which the whole of such abnormal income would without  
 16 regard to this section be includible, shall not exceed the  
 17 sum of:

18 **"(1) The tax under this subchapter for such taxable**  
 19 **year computed without the inclusion in gross income of**  
 20 **the portion of the net abnormal income which is attrib-**  
 21 **utable to any other taxable year, and**

22 **"(2) The aggregate of the increase in the tax under**  
 23 **this subchapter for the taxable year (computed under**  
 24 **paragraph (1)) and for each previous taxable year**  
 25 **which would have resulted if, for each previous taxable**

1        *year to which any portion of such net abnormal income*  
2        *is attributable, an amount equal to such portion had been*  
3        *included in the gross income for such previous taxable*  
4        *year.*

5        *“(d) COMPUTATION OF TAX FOR FUTURE TAXABLE*  
6        *YEAR.—The amount of the net abnormal income attributable*  
7        *to any future taxable year shall, for the purposes of this sub-*  
8        *chapter, be included in the gross income for such taxable*  
9        *year.*

10        *“(1) The tax under this subchapter for such future*  
11        *taxable year shall not exceed the sum of—*

12                *“(A) the tax under this subchapter for such*  
13                *future taxable year computed without the inclusion in*  
14                *gross income of the portion of such net abnormal*  
15                *income which is attributable to such year, and*

16                *“(B) the decrease in the tax under this sub-*  
17                *chapter for the previous taxable year in which the*  
18                *whole of such abnormal income would, without re-*  
19                *gard to this section, be includible which resulted by*  
20                *reason of the computation of such tax for such pre-*  
21                *vious taxable year under the provisions of subsection*  
22                *(c); but the amount of such decrease shall be dimin-*  
23                *ished by the aggregate of the increases in the tax*  
24                *under this subchapter for the future taxable year as*  
25                *computed under subparagraph (A) and for the tax-*

1            *able years intervening between such previous taxable*  
2            *year and such future taxable year which have re-*  
3            *sulted because of the inclusion of the portions of such*  
4            *net abnormal income attributable to such intervening*  
5            *years in the gross income for such intervening years.*

6            *“(2) If, in the application of subsection (c), net*  
7            *abnormal income from more than one taxable year is*  
8            *attributable to any future taxable year, paragraph (1)*  
9            *of this subsection shall be applied with respect to such*  
10           *future taxable year in the order of the taxable years from*  
11           *which the net abnormal income is attributable beginning*  
12           *with the earliest, as if the portion of the net abnormal*  
13           *income from each such year was the only amount so*  
14           *attributable to such future taxable year, and (except in*  
15           *the case of the portion for the earliest previous taxable*  
16           *year) as if the tax under this subchapter for the future*  
17           *taxable year was the tax determined under paragraph*  
18           *(1) with respect to the portion for the next earlier previ-*  
19           *ous taxable year.*

20           *“(3) If in the application of paragraph (1) to*  
21           *any future taxable year it is determined that the decrease*  
22           *in tax computed under paragraph (1) (B) with re-*  
23           *spect to the net abnormal income, a portion of which*  
24           *is included in the gross income for the future taxable*  
25           *year, does not exceed the aggregate of the increases in*



1 tax computed under paragraph (1) (B) with respect  
2 to such net abnormal income, then the portions of such  
3 net abnormal income attributable to taxable years sub-  
4 sequent to such future taxable year shall not be included  
5 in the gross income for such subsequent taxable years.  
6 For the purpose of computing the tax under this sub-  
7 chapter for a taxable year subsequent to the future tax-  
8 able year, the portion of net abnormal income attributable  
9 to the future taxable year shall not be included in the  
10 gross income for such future taxable year to the extent  
11 that the inclusion of such portion of net abnormal income  
12 in the gross income for such future taxable year did not  
13 result in an increase in tax for such future taxable year  
14 by reason of the provisions of paragraph (1).

15 “(e) APPLICATION OF SECTION.—This section shall be  
16 applied only for the purpose of computing the tax under this  
17 subchapter as provided in subsections (c) and (d), and shall  
18 have no effect upon the computation of base period net income.  
19 For the purposes of subsections (c) and (d)—

20 “(1) Net abnormal income means the aggregate of  
21 the net abnormal income of all classes for one taxable  
22 year.

23 “(2) Under regulations prescribed by the Com-  
24 missioner with the approval of the Secretary, the tax  
25 under this subchapter for previous taxable years shall

1        *be computed as if the portions of net abnormal income*  
2        *for each previous taxable year for which the tax was*  
3        *computed under this section were included in the gross*  
4        *income for the other previous taxable years to which*  
5        *such portions were attributable.*

6            *“(3) If both subsections (c) and (d) are applicable*  
7        *to any current taxable year, subsection (d) shall be*  
8        *applied without regard to subsection (c), and subsection*  
9        *(c) shall be applied as if the tax under this subchapter,*  
10       *except for subsection (c), was the tax computed under*  
11       *subsection (d) and as if the gross income and the other*  
12       *amounts necessary to determine the adjusted excess profits*  
13       *net income were those amounts which would result in the*  
14       *tax computed under subsection (d).*

15        *“(f) ABNORMAL INCOME FROM EXPLORATION, ETC.—*  
16       *If by reason of taking into account, in determining con-*  
17       *structive average base period net income under section 722,*  
18       *exploration, discovery, prospecting, research, or development*  
19       *of tangible property, patents, formulae, or processes, or any*  
20       *combination of the foregoing, extending over a period of*  
21       *more than 12 months, such constructive average base period*  
22       *net income is higher than it would be without such tak-*  
23       *ing into account, only such portion of the income in the*  
24       *taxable year resulting from such activity which is of a class*  
25       *described in subsection (a) (2) (C) as is attributable to*

1 *another taxable year under this subchapter shall be deemed*  
 2 *attributable to a year other than the taxable year."*

3 (b) *TAXABLE YEARS TO WHICH AMENDMENTS AP-*  
 4 *PLICABLE.—The amendments made by this section shall be*  
 5 *applicable with respect to taxable years beginning after*  
 6 *December 31, 1939.*

7 **SEC. (304)~~243~~ 222. RELIEF PROVISIONS.**

8 (a) **GENERAL RELIEF.**—Section 722 is amended to  
 9 read as follows:

10 **"SEC. 722. GENERAL RELIEF—CONSTRUCTIVE AVERAGE**  
 11 **BASE PERIOD NET INCOME.**

12 "(a) **GENERAL RULE.**—In any case in which the tax-  
 13 payer establishes that the tax computed under this sub-  
 14 chapter (without the benefit of this section) results in an  
 15 excessive and discriminatory tax and establishes what would  
 16 be a fair and just amount representing normal earnings to  
 17 be used as a constructive average base period net income  
 18 for the purposes of an excess profits tax based upon a com-  
 19 parison of normal earnings and earnings during an excess  
 20 profits tax period, the tax shall be determined by using  
 21 such constructive average base period net income in lieu  
 22 of the average base period net income otherwise determined  
 23 under this subchapter. In determining such constructive  
 24 average base period net income, no regard shall be had to  
 25 events or conditions affecting the taxpayer, the industry of

1 which it is a member, or taxpayers generally occurring for  
2 existing after December 31, 1939 (305), *except that, in the*  
3 *cases described in the last sentence of section 722 (b) (4) and*  
4 *in section 722 (c), regard shall be had to the change in the*  
5 *character of the business under section 722 (b) (4) or the*  
6 *nature of the taxpayer and the character of its business under*  
7 *section 722 (c) to the extent necessary to establish the normal*  
8 *earnings to be used as the constructive average base period net*  
9 *income.*

10       “(b) TAXPAYERS USING AVERAGE EARNINGS  
11 METHOD.—The tax computed under this subchapter (with-  
12 out the benefit of this section) shall be considered to be  
13 excessive and discriminatory in the case of a taxpayer en-  
14 titled to use the excess profits credit based on income pur-  
15 suant to section 713, if its average base period net income is  
16 an inadequate standard of normal earnings because—

17       “(1) in one or more taxable years in the base  
18 period normal production, output, or operation was  
19 interrupted or diminished because of the occurrence,  
20 either immediately prior to, or during the base period,  
21 of events unusual and peculiar in the experience of such  
22 taxpayer,

23       “(2) the business of the taxpayer was depressed in  
24 the base period because of temporary economic circum-  
25 stances unusual in the case of such taxpayer or because

1 of the fact that an industry of which such taxpayer was  
2 a member was depressed by reason of temporary eco-  
3 nomic events unusual in the case of such industry,

4 “(3) the business of the taxpayer was depressed  
5 in the base period by reason of conditions generally pre-  
6 vailing in an industry of which the taxpayer was a  
7 member, subjecting such taxpayer to

8 “(A) a profits cycle differing materially in  
9 length and amplitude from the general business  
10 cycle, or

11 “(B) sporadic and intermittent periods of high  
12 production and profits, and such periods are inade-  
13 quately represented in the base period,

14 “(4) the taxpayer, either during or immediately  
15 prior to the base period, commenced business or changed  
16 the character of the business and the average base period  
17 net income does not reflect the normal operation for the  
18 entire base period of the business. If the business of the  
19 taxpayer did not reach, by the end of the base period,  
20 the earning level which it would have reached if the  
21 taxpayer had commenced business or made the change  
22 in the character of the business two years before it did  
23 so, it shall be deemed to have commenced the business  
24 or made the change at such earlier time. For the pur-  
25 poses of this subparagraph, the term ‘change in the char-

1       acter of the business' includes a change in the operation  
2       or management of the business, a difference in the prod-  
3       ucts or services furnished, a difference in the capacity  
4       for production or operation, a difference in the ratio  
5       of nonborrowed capital to total capital, and the acqui-  
6       sition before January 1, 1940, of all or part of the assets  
7       of a competitor, with the result that the competition of  
8       such competitor was eliminated or diminished. Any  
9       change in the capacity for production or operation of  
10      the business consummated during any taxable year end-  
11      ing after December 31, 1939, as a result of ~~(306)~~ com-  
12      mitments made prior to January 1, 1940, binding the  
13      taxpayer to make the change a course of action to which  
14      the taxpayer was committed prior to January 1, 1940; or  
15      any acquisition before May 31, 1941, from a competitor  
16      engaged in the dissemination of information through the  
17      public press, of substantially all the assets of such com-  
18      petitor employed in such business with the result that  
19      competition between the taxpayer and the competitor  
20      existing before January 1, 1940, was eliminated, shall  
21      be deemed to be a change on December 31, 1939, in  
22      the character of the business, or

23           “(5) of any other factor affecting the taxpayer's  
24      business which may reasonably be considered as resulting  
25      in an inadequate standard of normal earnings during the

1 base period and the application of this section to the tax-  
2 payer would not be inconsistent with the principles  
3 underlying the provisions of this subsection, and with  
4 the conditions and limitations enumerated therein.

5 “(c) INVESTED CAPITAL CORPORATIONS, ETC.—The  
6 tax computed under this subchapter (without the benefit of  
7 this section) shall be considered to be excessive and dis-  
8 criminatory in the case of a taxpayer, not entitled to use  
9 the excess profits credit based on income pursuant to section  
10 713, if the excess profits credit based on invested capital is  
11 an inadequate standard for determining excess profits,  
12 because—

13 “(1) the business of the taxpayer is of a class in  
14 which intangible assets not includible in invested capital  
15 under section 718 make important contributions to  
16 income,

17 “(2) the business of the taxpayer is of a class in  
18 which capital is not an important income-producing  
19 factor, or

20 “(3) the invested capital of the taxpayer is abnor-  
21 mally low.

22 In such case for the purposes of this subchapter, such tax-  
23 payer shall be considered to be entitled to use the excess  
24 profits credit based on income, using the constructive average  
25 base period net income determined under subsection (a).

1 For the purposes of section 713 (g) and section 743, the  
2 beginning of the taxpayer's first taxable year under this sub-  
3 chapter shall be considered to be that date after which capital  
4 additions and capital reductions were not taken into account  
5 for the purposes of this subsection.

6 ~~(307)~~“(d) LIMITATION ON APPLICATION OF GENERAL  
7 RULE.—The constructive average base period net income  
8 determined under subsection (a) shall not be used for any  
9 taxable year unless—

10       “(1) the tax under this subchapter for such tax-  
11 able year computed without reference to this section,  
12 exceeds 6 per centum of the taxpayer's normal tax net  
13 income for such year computed without the credit pro-  
14 vided in section 26 (e) (relating to adjusted excess  
15 profits net income); and

16       “(2) the tax under this subchapter for the taxable  
17 year computed by using the constructive average base  
18 period net income determined under subsection (a) (but  
19 without regard to subsection (e)) would be less than 95  
20 per centum of the tax for the taxable year computed  
21 without reference to this section.

22       “(e) EXTENT OF REDUCTION OF TAX UNDER THIS  
23 SECTION.—The tax under this subchapter, determined with  
24 the use of the constructive average base period net income



1 determined under subsection ~~(a)~~, shall not be less than  
2 either—

3       ~~“(1)~~ The amount of such tax, determined without  
4 regard to this subsection but with the use of the con-  
5 structive average base period net income determined  
6 under subsection ~~(a)~~, plus 5 per centum of the tax so  
7 determined, or

8       ~~“(2)~~ 6 per centum of the taxpayer's normal tax net  
9 income, computed without the credit provided in section  
10 26 ~~(c)~~ (relating to adjusted excess profits net income);

11       ~~“(308)(f)~~ (d) APPLICATION FOR RELIEF UNDER THIS  
12 SECTION.—The taxpayer shall compute its tax, file its return,  
13 and pay its tax under this subchapter without the application  
14 of this section, except as provided in section 710 (a) ~~(309)~~  
15 ~~(3)~~ (2). The benefits of this section shall not be allowed  
16 unless the taxpayer, not later than six months after the date  
17 prescribed by law for the filing of its return, ~~(310)~~ *or if the*  
18 *application relates to a taxable year beginning after Decem-*  
19 *ber 31, 1939, but not beginning after December 31, 1941,*  
20 *within six months after the date of the enactment of the Reve-*  
21 *nue Act of 1942, makes application therefor in accordance*  
22 *with regulations to be prescribed by the Commissioner with*  
23 *the approval of the Secretary, except that if the Commis-*  
24 *sioner in the case of any taxpayer with respect to the tax*  
25 *liability of any taxable year—*

1           “(1) issues a preliminary notice proposing a defi-  
2           ciency in the tax imposed by this subchapter such tax-  
3           payer may, within ninety days after the date of such  
4           notice make such application, or

5           “(2) mails a notice of deficiency (A) without hav-  
6           ing previously issued a preliminary notice thereof or  
7           (B) within ninety days after the date of such prelimi-  
8           nary notice, such taxpayer may claim the benefits of  
9           this section in its petition to the Board or in an amended  
10          petition in accordance with the rules of the Board.

11 If the application is not filed within six months after the date  
12 prescribed by law for the filing of the return, (311) *or if the*  
13 *application relates to a taxable year beginning after Decem-*  
14 *ber 31, 1939, but not beginning after December 31, 1941,*  
15 *within six months after the date of the enactment of the*  
16 *Revenue Act of 1942,* the operation of this section shall not  
17 reduce the tax otherwise determined under this subchapter by  
18 an amount in excess of the amount of the deficiency finally  
19 determined under this subchapter without the application of  
20 this section. If a constructive average base period net in-  
21 come has been determined under the provisions of this section  
22 for any taxable year, the Commissioner may, by regulations  
23 approved by the Secretary, prescribe the extent to which the  
24 limitations prescribed by this subsection may be waived for

1 the purpose of determining the tax under this subchapter for  
2 a subsequent taxable year.

3 “~~(312)(g)~~ (e) RULES FOR APPLICATION OF SEC-  
4 TION.—For the purposes of this section—

5 “(1) the tax imposed by this subchapter shall be  
6 the tax before the allowance of the foreign tax credit  
7 pursuant to section 729 (c) and (d) ;

8 “(2) in the case of a taxpayer, the average base  
9 period net income of which is computed under Supple-  
10 ment A, for the period for which the income of any  
11 other person is included in the computation of the  
12 average base period net income of the taxpayer, the  
13 taxpayer shall be treated as if such other person’s busi-  
14 ness were a part of the business of the ~~(313)~~taxpayer.”  
15 taxpayer.

16 ~~(314)~~“(f) MINING CORPORATIONS.—In the case of a tax-  
17 payer to which section 711 (a) (1) (I) or section 711 (a)  
18 (2) (K) applies, if its constructive average base period net  
19 income is established under this section, there shall also be  
20 determined a fair and just amount to be used as normal out-  
21 put and normal unit profit for the purposes of section 735.”

22 (b) DEFERMENT OF PAYMENT OF TAX.—Section 710  
23 (a) is amended by inserting at the end thereof the following  
24 new paragraph:

25 “~~(315)(3)~~ (5) DEFERMENT OF PAYMENT IN CASE

1 OF ABNORMALITY.—If the adjusted excess profits net in-  
 2 come (computed without reference to section 722) for  
 3 the taxable year of a taxpayer which claims on its  
 4 return, in accordance with regulations prescribed by  
 5 the Commissioner with the approval of the Secretary,  
 6 the benefits of section 722, is in excess of 50 per  
 7 centum of its normal tax net income for such year,  
 8 computed without the credit provided in section  
 9 26 (e) (relating to adjusted excess profits net income),  
 10 the amount of tax payable at the time prescribed for  
 11 payment may be reduced by an amount equal to 33 per  
 12 centum of the amount of the reduction in the tax so  
 13 claimed. For the purposes of section 271, if the tax  
 14 payable is the tax so reduced, the tax so reduced shall  
 15 be considered the amount shown on the return.” CI

16 ~~(316)(e) ABNORMAL INCOME FOR THE TAXABLE YEAR.—~~  
 17 ~~Section 721 (a) (1) (relating to abnormalities in income, in~~  
 18 ~~the taxable period) is amended by adding at the end thereof~~  
 19 ~~the following new sentence: “Income of a class derived from~~  
 20 ~~any activity of the business which is taken into account in~~  
 21 ~~the determination of a constructive average base period net~~  
 22 ~~income under section 722 shall not constitute ‘abnormal~~  
 23 ~~income’ for the purposes of this section.”~~

24 ~~(317)(d) (c) REVIEW OF ABNORMALITIES BY A DIVISION~~  
 25 ~~OF THE BOARD.—Section 732 (relating to review of abnor-~~

malities by the Board) is amended by inserting at the end thereof the following new subsection:

(318)~~“(d) SPECIAL DIVISION OF BOARD.—~~The determinations and redeterminations by the Board provided for in this section shall be made by a special division of the Board which shall be constituted by the Chairman and consist of not less than three members of the Board. Such determinations and redeterminations shall not be reviewable by the Board, and the decisions of such division making such determinations and redeterminations shall be deemed decisions of the Board.”

*“(d) REVIEW BY SPECIAL DIVISION OF BOARD.—The determinations and redeterminations by any division of the Board involving any question arising under section 721 (a) (2) (C) or section 722 shall be reviewed by a special division of the Board which shall be constituted by the Chairman and consist of not less than three members of the Board. The decisions of such special division shall not be reviewable by the Board, and shall be deemed decisions of the Board.”*

(319)~~(e) BONUS INCOME OF INDUSTRIES WITH DEPLETABLE RESERVES.—~~

~~(1) INCOME CREDIT.—~~Section 711 (a) (1) (relating to excess profits credit computed under income credit) is amended by inserting at the end thereof the following new subparagraph:

1           “~~(H)~~ Bonus Income.—There shall be excluded  
2 income derived from bonus payments made by any  
3 agency of the United States Government on account  
4 of the production in excess of a specified quota of a  
5 product the exhaustion of which gives rise to an  
6 allowance for depletion under section 23 ~~(m)~~.”

7           ~~(2)~~ INVESTED CAPITAL CREDIT.—Section 711 ~~(a)~~  
8 ~~(2)~~ ~~(relating to excess profits credit computed under~~  
9 ~~invested capital credit)~~ is amended by inserting at the  
10 end thereof the following new subparagraph:

11           “~~(K)~~ Bonus Income.—There shall be excluded  
12 income derived from bonus payments made by any  
13 agency of the United States Government on account  
14 of the production in excess of a specified quota of a  
15 product the exhaustion of which gives rise to an  
16 allowance for depletion under section 23 ~~(m)~~.”

17 ~~(320)~~~~(f)~~ *(d)* INSTALMENT BASIS ~~(321)~~ AND OTHER TAX-  
18 PAYERS.—Subchapter E of Chapter 2 is amended by insert-  
19 ing after section ~~(322)~~~~734~~ 735 the following new section:

20 “SEC. ~~(323)~~~~735~~ 736. RELIEF FOR INSTALMENT BASIS TAX-  
21 PAYERS ~~(324)~~ AND TAXPAYERS WITH  
22 INCOME FROM LONG-TERM CONTRACTS.

23 ~~(325)~~“~~(a)~~ ELECTION TO ACCRUE INCOME.—In the case of  
24 any taxpayer computing income from instalment sales under  
25 the method provided by section ~~(a)~~, if such taxpayer es-

1 establishes that the average volume of credit extended to pur-  
2 chasers on the instalment plan in the four preceding taxable  
3 years was more than 125 per centum of the volume of such  
4 credit extended to such purchasers in the taxable year, it may  
5 elect, in its first return for the taxable year, for the purposes  
6 of the tax imposed by this subchapter, to compute, pursuant  
7 to regulations prescribed by the Commissioner with the ap-  
8 proval of the Secretary, its gross income from instalment sales  
9 on the basis of the taxable period for which such income is  
10 accrued, in lieu of the basis provided by section 44 (a).  
11 Such election shall be irrevocable when once made and shall  
12 apply also to all subsequent taxable years, and the gross in-  
13 come from instalment sales for each taxable year before the  
14 first year with respect to which the election is made but  
15 beginning after December 31, 1939, shall be adjusted for the  
16 purposes of this subchapter to conform to such election. In  
17 making such adjustments, no amount shall be included in  
18 computing excess profits net income for any excess profits  
19 tax taxable year on account of instalment sales made in  
20 taxable years beginning before January 1, 1940.

21       “(a) *ELECTION TO ACCRUE INCOME.*—In the case of  
22 any taxpayer computing income from instalment sales under  
23 the method provided by section 44 (a), if such taxpayer  
24 establishes, in accordance with regulations prescribed by the  
25 Commissioner with the approval of the Secretary, that the

1 average volume of credit extended to purchasers on the in-  
2 stalment plan in the four taxable years preceding the first  
3 taxable year beginning after December 31, 1941, was more  
4 than 125 per centum of the volume of such credit extended  
5 to such purchasers in the taxable year, or the average out-  
6 standing instalment accounts receivable at the end of each of  
7 the four taxable years preceding the first taxable year begin-  
8 ning after December 31, 1941, was more than 125 per centum  
9 of the average of such accounts receivable at the end of the  
10 taxable year, or if the taxpayer was not in existence for four  
11 previous taxable years, the taxable years during which the  
12 taxpayer was in existence, in either case including only such  
13 years for which the income was computed under the method  
14 provided in section 44 (a), it may elect, in its return for the  
15 taxable year, for the purposes of the tax imposed by this sub-  
16 chapter, to compute, in accordance with regulations prescribed  
17 by the Commissioner with the approval of the Secretary, its  
18 income from instalment sales on the basis of the taxable period  
19 for which such income is accrued, in lieu of the basis provided  
20 by section 44 (a). Except as hereinafter provided, such elec-  
21 tion shall be irrevocable when once made and shall apply  
22 also to all subsequent taxable years, and the income from  
23 instalment sales for each taxable year before the first year  
24 with respect to which the election is made but beginning  
25 after December 31, 1939, shall be adjusted for the purposes



1 of this subchapter to conform to such election. In making  
2 such adjustments, no amount shall be included in computing  
3 excess profits net income for any excess profits tax taxable  
4 year on account of instalment sales made in taxable years  
5 beginning before January 1, 1940. If the taxpayer estab-  
6 lishes, in accordance with regulations prescribed by the Com-  
7 missioner with the approval of the Secretary, that in a taxable  
8 year subsequent to the year with respect to which an election  
9 has been made under the preceding provisions of this subsec-  
10 tion it would not be eligible to elect such accrual method, the  
11 taxpayer may in accordance with such regulations elect in its  
12 return for such year to abandon such accrual method. Such  
13 election shall be irrevocable when once made and shall pre-  
14 clude any further elections under this subsection. For the  
15 taxable year for which the latter election is made and subsē-  
16 quent taxable years, income shall be computed in accordance  
17 with section 44 (c).”

18 “(b) **ELECTION ON LONG-TERM CONTRACTS.**—In the  
19 case of any taxpayer computing income from contracts the  
20 performance of which requires more than 12 months, if it  
21 is abnormal for the taxpayer to derive income of such class,  
22 or, if the taxpayer normally derives income of such class but  
23 the amount of such income of such class includible in the  
24 gross income of the taxable year is in excess of 125 per  
25 centum of the average amount of the gross income of the

1 same class for the four previous taxable years, or, if the  
2 taxpayer was not in existence for four previous taxable years,  
3 the taxable years during which the taxpayer was in existence,  
4 it may elect, in its return for such taxable year for the pur-  
5 poses of this subchapter, or in the case of a taxable year the  
6 return for which was filed prior to the date of the enactment  
7 of the Revenue Act of 1942, within 6 months after the date  
8 of the enactment of such Act, to compute, in accordance with  
9 regulations prescribed by the Commissioner with the approval  
10 of the Secretary, such income upon the percentage of com-  
11 pletion method of accounting. Such election shall be made  
12 in accordance with such regulations and shall be irrevocable  
13 when once made and shall apply to all other contracts, past,  
14 present, or future, the performance of which required or  
15 requires more than 12 months. The net income of the tax-  
16 payer for each year prior to that with respect to which the  
17 election is made shall be adjusted for the purposes of this  
18 subchapter, including the computation of excess profits net  
19 income in each taxable year of the base period under section  
20 711 (b), to conform to such election but for purposes of  
21 chapter 1, the tax imposed by this subchapter for any prior  
22 taxable year on account of the adjustment required by this  
23 subsection shall be considered a part of the tax imposed by  
24 this subchapter for the taxable year in which such income  
25 is, without regard to this subsection, includible in gross in-

1 *come. Income described in this subsection shall not be con-*  
2 *sidered abnormal income under section 721.*

3       “(326)~~(b)~~ (c) ADJUSTMENT ON ACCOUNT OF  
4 CHANGE.—If an adjustment specified in subsection (a)  
5 (327)or subsection (b), as the case may be, is, with respect  
6 to any taxable year, prevented, on the date of the election  
7 by the taxpayer (328)to change its method of computing  
8 income from instalment sales under subsection (a) or sub-  
9 section (b), as the case may be, or within two years from  
10 such date, by any provision or rule of law (other than  
11 this section and other than section 3761, relating to  
12 compromises), such adjustment shall nevertheless be made  
13 if in respect of the taxable year for which adjustment is  
14 sought a notice of deficiency is mailed or a claim for refund is  
15 filed, as the case may be, within two years after the date such  
16 election is made. If at the time of the mailing of such notice  
17 of deficiency or the filing of such claim for refund, the ad-  
18 justment is so prevented, then the amount of the adjustment  
19 authorized by this subsection shall be limited to the increase  
20 or decrease in the tax (329)imposed by Chapter 1 and this  
21 subchapter previously determined for such taxable year which  
22 results solely from the effect of subsection (a) (330)or sub-  
23 section (b), as the case may be, and such amount shall be  
24 assessed and collected, or credited or refunded, in the same  
25 manner as if it were a deficiency or an overpayment, as

1 the case may be, for such taxable year and as if on the  
 2 date of such election, two years remain before the expiration  
 3 of the ~~(331) periods~~ *period* of limitation upon assessment  
 4 or the filing of claim for refund for the taxable year. The  
 5 tax previously determined shall be ascertained in accord-  
 6 ance with section 734 (d). The amount to be assessed  
 7 and collected under this subsection in the same manner as  
 8 if it were a deficiency or to be refunded or credited in the  
 9 same manner as if it were an overpayment, shall not be  
 10 diminished by any credit or set-off based upon any item, in-  
 11 clusion, deduction, credit, exemption, gain or loss, other than  
 12 one resulting from the effect of subsection (a) ~~(332)~~ *or sub-*  
 13 *section (b), as the case may be.* Such amount, if paid, shall  
 14 not be recovered by a claim or suit for refund, or suit for  
 15 erroneous refund based upon any item, inclusion, deduction,  
 16 credit, exemption, gain or loss, other than one resulting from  
 17 the effect of subsection ~~(333)~~ *(a) or subsection (b), as the*  
 18 *case may be."*

19 **(334)(e) RETROACTIVE APPLICATION OF PROVISIONS**  
 20 **RELATIVE TO GENERAL RELIEF AND INCOME FROM**  
 21 **LONG-TERM CONTRACTS.—**

22       (1) *The amendments made by this section to section*  
 23       722 *shall be applicable with respect to taxable years be-*  
 24       *ginning after December 31, 1939.*

25       (2) *Subsection (b) of section 736 and so much of*



1 *lating to exemption of personal service corporations) is*  
 2 *amended by inserting at the end thereof the following new*  
 3 *sentence: "Such corporation shall not be exempt for such*  
 4 *year if it is a member of an affiliated group of corporations*  
 5 *filing consolidated returns under section 141."*

6 **(337)(c) EXEMPTION OF REGULATED INVESTMENT COM-**  
 7 **PANIES.**—Section 727 (c) and (d) (relating to exemption  
 8 of certain investment companies from excess profits tax) are  
 9 amended to read as follows:

10 " (c) Regulated investment companies as defined in  
 11 section 361 without the application of section 361 (b)  
 12 **(338)(3) (4)."**

13 **(339)SEC. 224. EXCESS PROFITS TAX RETURNS.**

14 (a) Section 729 (b) (1) (relating to double computation  
 15 on returns) is repealed.

16 (b) Sections 712 (c) and 741 (b) (relating to dis-  
 17 claimer of excess profits credit) are repealed.

18 (c) The amendments made by this section shall be ap-  
 19 plicable with respect to taxable years beginning after Decem-  
 20 ber 31, 1939.

21 **SEC. (340)215 225. CONSOLIDATED RETURNS.**

22 (a) **SECTION 730 NOT APPLICABLE.**—Section 730 (re-  
 23 lating to consolidated excess profits tax returns) shall not  
 24 apply with respect to any taxable year beginning after  
 25 December 31, 1941.

1 (b) CROSS REFERENCE.—Section 729 (b) (relating to  
2 returns) is amended by adding at the end thereof the follow-  
3 ing new paragraph:

4 “(3) CONSOLIDATED RETURNS.—For provisions  
5 relating to consolidated returns, see section 141.”

6 (341)SEC. 226. EXEMPTION FROM TAX OF MINING OF CERTAIN  
7 STRATEGIC MINERALS.

8 (a) EXEMPTION.—Subchapter E of Chapter 2 is  
9 amended by inserting after section 730 the following new  
10 section:

11 “SEC. 731. CORPORATIONS ENGAGED IN MINING OF STRATEGIC  
12 MINERALS.

13 “In the case of any domestic corporation engaged in the  
14 mining of antimony, chromite, manganese, nickel, platinum,  
15 quicksilver, sheet mica, tantalum, tin, tungsten, or vanadium,  
16 the portion of the adjusted excess profits net income attributable  
17 to such mining in the United States shall be exempt from the  
18 tax imposed by this subchapter. The tax on the remaining  
19 portion of such adjusted excess profits net income shall be an  
20 amount which bears the same ratio to the tax computed with-  
21 out regard to this section as such remaining portion bears to  
22 the entire adjusted excess profits net income.”

23 (b) TAXABLE YEARS TO WHICH AMENDMENT AP-  
24 PPLICABLE.—The amendment made by this section shall be

1 applicable to taxable years beginning after December 31, 1940.

2 (342)SEC. 227. AMENDMENTS TO SECTION 734.

3 (a) *IN GENERAL.*—Section 734 is amended to read as  
4 follows:

5 “SEC. 734. ADJUSTMENT IN CASE OF POSITION INCONSISTENT  
6 WITH PRIOR INCOME TAX LIABILITY.

7 “(a) *DEFINITIONS.*—For the purposes of this section—

8 “(1) *TAXPAYER.*—The term ‘taxpayer’ means any  
9 person subject to a tax under the applicable revenue Act.

10 “(2) *INCOME TAX.*—The term ‘income tax’ means  
11 an income tax imposed by Chapter 1 or Chapter 2A of  
12 this title; Title I and Title IA of the Revenue Acts of  
13 1938, 1936, and 1934; Title I of the Revenue Acts of  
14 1932 and 1928; Title II of the Revenue Acts of 1926  
15 and 1924; Title II of the Revenue Acts of 1921 and  
16 1918; Title I of the Revenue Act of 1917; Title I of  
17 the Revenue Act of 1916; or section II of the Act of  
18 October 3, 1913; a war profits or excess profits tax im-  
19 posed by Title III of the Revenue Acts of 1921 and  
20 1918; or Title II of the Revenue Act of 1917; or an  
21 income, war profits, or excess profits tax imposed by  
22 any of the foregoing provisions, as amended or supple-  
23 mented.

24 “(3) *PRIOR TAXABLE YEAR.*—A taxable year



1 beginning after December 31, 1939, shall not be con-  
2 sidered a prior taxable year.

3 “(4) The term ‘predecessor of the taxpayer’ means—

4 “(A) A person which is a component corpora-  
5 tion of the taxpayer within the meaning of section  
6 740; and

7 “(B) A person which on April 1, 1941, or at  
8 any time thereafter, controlled the taxpayer. The  
9 term ‘controlled’ as herein used shall have the same  
10 meaning as ‘control’ under section 112 (h), and

11 “(C) Any person in an unbroken series ending  
12 with the taxpayer if subparagraph (A) or (B)  
13 would apply to the relationship between the parties.

14 “(b) CIRCUMSTANCES OF ADJUSTMENT.—

15 “(1) If—

16 “(A) in determining at any time the tax of a  
17 taxpayer under this subchapter an item affecting the  
18 determination of the excess profits credit is treated  
19 in a manner inconsistent with the treatment accorded  
20 such item in the determination of the income-tax  
21 liability of such taxpayer or a predecessor for a prior  
22 taxable year or years, and

23 “(B) the treatment of such item in the prior  
24 taxable year or years consistently with the deter-  
25 mination under this subchapter would effect an in-

1       crease or decrease in the amount of the income taxes  
2       previously determined for such taxable year or years,  
3       and

4               “(C) on the date of such determination of the  
5       tax under this subchapter correction of the effect of  
6       the inconsistent treatment in any one or more of the  
7       prior taxable years is prevented (except for the pro-  
8       visions of section 3801) by the operation of any law  
9       or rule of law (other than section 3761, relating to  
10      compromises),

11      then the correction shall be made by an adjustment under  
12      this section. If in a subsequent determination of the tax  
13      under this subchapter for such taxable year such inconsis-  
14      tent treatment is not adopted, then the correction shall  
15      not be made in connection with such subsequent deter-  
16      mination.

17             “(2) Such adjustment shall be made only if there is  
18      adopted in the determination a position maintained by  
19      the Commissioner (in case the net effect of the adjust-  
20      ment would be a decrease in the income taxes previously  
21      determined for such year or years) or by the taxpayer  
22      with respect to whom the determination is made (in case  
23      the net effect of the adjustment would be an increase  
24      in the income taxes previously determined for such year  
25      or years) which position is inconsistent with the treat-

1        *ment accorded such item in the prior taxable year or*  
2        *years which was not correct under the law applicable*  
3        *to such year.*

4            *“(3) BURDEN OF PROOF.—In any proceeding be-*  
5        *fore the Board or any court the burden of proof in estab-*  
6        *lishing that an inconsistent position has been taken (A)*  
7        *shall be upon the Commissioner, in case the net effect of*  
8        *the adjustment would be an increase in the income taxes*  
9        *previously determined for the prior taxable year or years,*  
10       *or (B) shall be upon the taxpayer, in case the net effect*  
11       *of the adjustment would be a decrease in the income taxes*  
12       *previously determined for the prior taxable year or*  
13       *years.*

14           *“(c) METHOD AND EFFECT OF ADJUSTMENT.—*

15            *“(1) The adjustment authorized by subsection (b),*  
16        *in the amount ascertained as provided in subsection (d),*  
17        *if a net increase shall be added to, and if a net decrease*  
18        *shall be subtracted from, the tax otherwise computed*  
19        *under this subchapter for the taxable year with respect*  
20        *to which such inconsistent position is adopted.*

21            *“(2) If more than one adjustment under this section*  
22        *is made because more than one inconsistent position is*  
23        *adopted with respect to one taxable year under this sub-*  
24        *chapter, the separate adjustments, each an amount ascer-*  
25        *tained as provided in subsection (d), shall be aggre-*

1 gated, and the aggregate net increase or decrease shall  
2 be added to or subtracted from the tax otherwise com-  
3 puted under this subchapter for the taxable year with  
4 respect to which such inconsistent positions are adopted.

5       “(3) If all the adjustments under this section, made  
6 on account of the adoption of an inconsistent position  
7 or positions with respect to one taxable year under this  
8 subchapter, result in an aggregate net increase, the tax  
9 imposed by this subchapter shall in no case be less than  
10 the amount of such aggregate net increase.

11       “(4) If all the adjustments under this section, made  
12 on account of the adoption of an inconsistent position or  
13 positions with respect to a taxable year under this sub-  
14 chapter (hereinafter in this paragraph called the cur-  
15 rent taxable year), result in an aggregate net decrease,  
16 and the amount of such decrease exceeds the tax imposed  
17 by this subchapter (without regard to the provisions of  
18 this section) for the current taxable year, such excess  
19 shall be subtracted from the tax imposed by this sub-  
20 chapter for each succeeding taxable year, but the amount  
21 of the excess to be so subtracted shall be reduced by the  
22 reduction in tax for intervening taxable years which has  
23 resulted from the subtraction of such excess from the tax  
24 imposed for each such year.

25       “(d) ASCERTAINMENT OF AMOUNT OF ADJUSTMENT.—

1 *In computing the amount of an adjustment under this section*  
2 *there shall first be ascertained the amount of the income*  
3 *taxes previously determined for each of the prior taxable*  
4 *years for which correction is prevented. The amount of*  
5 *each such tax previously determined for each such taxable*  
6 *year shall be (1) the tax shown by the taxpayer, or by the*  
7 *predecessor, upon the return for such prior taxable year,*  
8 *increased by the amounts previously assessed (or collected*  
9 *without assessment) as deficiencies, and decreased by the*  
10 *amounts previously abated, credited, refunded, or otherwise*  
11 *repaid in respect of such tax; or (2) if no amount was shown*  
12 *as the tax by such taxpayer or such predecessor upon the*  
13 *return, or if no return was made by such taxpayer or such*  
14 *predecessor, then the amounts previously assessed (or col-*  
15 *lected without assessment) as deficiencies, but such amounts*  
16 *previously assessed, or collected without assessment, shall be*  
17 *decreased by the amounts previously abated, credited, re-*  
18 *funded, or otherwise repaid in respect of such tax. There*  
19 *shall then be ascertained the increase or decrease in each such*  
20 *tax previously determined for each such year which results*  
21 *solely from the treatment of the item consistently with the*  
22 *treatment accorded such item in the determination of the tax*  
23 *liability under this subchapter. To the increase or decrease*  
24 *so ascertained for each such tax for each such year there shall*  
25 *be added interest thereon computed as if the increase or de-*

1 crease constituted a deficiency or an overpayment, as the case.  
2 may be, for such prior taxable year. Such interest shall be  
3 computed to the fifteenth day of the third month following the  
4 close of the excess profits tax taxable year with respect to  
5 which the determination is made. There shall be ascertained  
6 the difference between the aggregate of such increases, plus  
7 the interest attributable to each, and the aggregate of such  
8 decreases, plus the interest attributable to each, and the net  
9 increase or decrease so ascertained shall be the amount of the  
10 adjustment under this section with respect to the inconsistent  
11 treatment of such item.

12       “(e) *INTEREST IN CASE OF NET INCREASE OR*  
13 *DECREASE.—*

14           “(1) *If an adjustment under this section results in*  
15 *a net decrease, or more than one adjustment results in an*  
16 *aggregate net decrease, the portion of such net decrease*  
17 *or aggregate net decrease, as the case may be, subtracted*  
18 *from the tax which represents interest shall be included*  
19 *in gross income of the taxable year in which falls the*  
20 *date prescribed for the payment of the tax under this*  
21 *subchapter.*

22           “(2) *If an adjustment under this section results in*  
23 *a net increase, or more than one adjustment results in an*  
24 *aggregate net increase, the portion of such net increase*  
25 *or aggregate net increase, as the case may be, which*



1 (except qualifying shares) of the corporation which  
2 has acquired such properties, or

3 “(B) substantially all the properties of another  
4 corporation and the sole consideration for the transfer  
5 of such properties is the transfer to such other cor-  
6 poration of voting stock of the corporation which  
7 has acquired such properties, or

8 “(C) before October 1, 1940, properties of  
9 another corporation solely as paid-in surplus or a  
10 contribution to capital in respect of voting stock  
11 owned by such other corporation, or

12 “(D) substantially all the properties of a part-  
13 nership in an exchange to which section 112 (b)  
14 (5), or so much of section 112 (c) or (e) as refers  
15 to section 112 (b) (5), or to which a correspond-  
16 ing provision of a prior revenue law, is or was  
17 applicable.

18 For the purposes of subparagraphs (B) and (C) in  
19 determining whether such voting stock or such paid-in  
20 surplus or contribution to capital is the sole consideration,  
21 the assumption by the acquiring corporation of a liability  
22 of the other, or the fact that property acquired is subject  
23 to a liability, shall be disregarded. Subparagraph (B)  
24 or (C) shall apply only if the corporation transferring



1 such properties is forthwith completely liquidated in pur-  
2 suance of the plan under which the acquisition is made,  
3 and the transaction of which the acquisition is a part has  
4 the effect of a statutory merger or consolidation.

5 “(2) A corporation which has acquired property  
6 from another corporation in a transaction with respect  
7 to which gain or loss was not recognized under section  
8 112 (b) (6) of Chapter 1 or a corresponding provision  
9 of a prior revenue law;

10 “(3) A corporation the result of a statutory merger  
11 of two or more corporations; or

12 “(4) A corporation the result of a statutory con-  
13 solidation of two or more corporations.

14 “(b) COMPONENT CORPORATION.—The term ‘compo-  
15 nent corporation’ means—

16 “(1) In the case of a transaction described in sub-  
17 section (a) (1), the corporation which transferred the  
18 assets;

19 “(2) In the case of a transaction described in sub-  
20 section (a) (2), the corporation the property of which  
21 was acquired;

22 “(3) In the case of a statutory merger, all corpora-  
23 tions merged, except the corporation resulting from the  
24 merger; or

25 “(4) In the case of a statutory consolidation, all

1 corporations consolidated, except the corporation result-  
2 ing from the consolidation; or

3 “(5) In the case of a transaction specified in sub-  
4 section (a) (1) (D), the partnership whose properties  
5 were acquired.

6 “(c) INCOME OF CERTAIN COMPONENT CORPORA-  
7 TIONS NOT INCLUDED.—For the purposes of section 712,  
8 section ~~(345)~~741, and section ~~742~~ 742, and section 743 in  
9 the case of a corporation which is a component corporation  
10 in a transaction described in subsection (a), ~~(346)~~for the  
11 purposes of computing, for any taxable year beginning after  
12 December 31, 1941, the excess profits credit of such com-  
13 ponent corporation or of an acquiring corporation of which  
14 the acquiring corporation in such transaction is not a com-  
15 ponent, no account shall be taken of the net income, capital  
16 addition, or capital reduction of such component corporation  
17 before such transaction, or of the net income, capital addition  
18 or capital reduction before such transaction, of its component  
19 corporations in any transaction before such transaction.

20 “(1) *Except as provided in paragraph (2), for*  
21 *the purpose of computing, for any taxable year begin-*  
22 *ning after December 31, 1941, the excess profits credit*  
23 *of such component corporation or of an acquiring cor-*  
24 *poration of which the acquiring corporation in such*  
25 *transaction is not a component, except in the applica-*

1       tion of sections 713 (f) and 742 (h) (other than, the  
2       limitation on the amount of average base period net  
3       income or Supplement A average base period net  
4       income, as the case may be, determined thereunder), no  
5       account shall be taken of the excess profits net income  
6       of such component corporation for any period before  
7       the day after such transaction, or of the excess profits  
8       net income for any period before the day after such  
9       transaction of its component corporations in any trans-  
10      action before such transaction, and no account shall be  
11      taken of the capital addition or capital reduction of  
12      such component corporation either immediately before  
13      such transaction or for any prior period, or of the  
14      capital addition or capital reduction either immediately  
15      before such transaction or for any prior period of its  
16      component corporations in any transaction before such  
17      transaction.

18           “(2) In case such transaction occurred in a taxable  
19      year of such component corporation beginning after  
20      December 31, 1941, for the purpose of computing the  
21      excess profits credit of such component corporation for  
22      such taxable year, the amount of its average base period  
23      net income or Supplement A average base period net  
24      income, as the case may be, shall be limited to an amount  
25      which bears the same ratio to such average base period

1 net income or Supplement A average base period net  
 2 income, as the case may be (computed without regard  
 3 to this paragraph but with the application of paragraph  
 4 (1) in case of a prior transaction described in subsec-  
 5 tion (a) with respect to such component corporation  
 6 or a component corporation thereof), as the number of  
 7 days in such taxable year before the day after such  
 8 transaction bears to the total number of days in such  
 9 taxable year.

10 For the purposes of section 742, in the case of a corporation  
 11 which is a component corporation in a transaction described  
 12 in subsection (a), in computing for any taxable year the  
 13 Supplement A average base period net income of the acquiring  
 14 corporation in such transaction or of a corporation of which  
 15 such acquiring corporation becomes a component corporation,  
 16 no account shall be taken of the excess profits net income of  
 17 such component corporation for any period beginning with  
 18 the day after such transaction.

19 (347)“(d) **BASE PERIOD.**—In the case of a taxpayer which  
 20 is an acquiring corporation the base period shall be:

21 “(1) If the tax is being computed for any taxable  
 22 year beginning in 1940, the forty-eight months preced-  
 23 ing the beginning of such taxable year; or

24 “(2) If the tax is being computed for any taxable  
 25 year beginning after December 31, 1940, and before

1        January 1, 1942, the forty-eight months preceding  
2        what would have been its first taxable year beginning in  
3        1940 if it had had a taxable year beginning in 1940 on  
4        the date on which the taxable year for which the tax is  
5        being computed began; or

6        *(d) In the case of a taxpayer which is an acquiring*  
7        *corporation the base period shall be the four calendar years*  
8        *1936 to 1939, both inclusive, except that, if the taxpayer*  
9        *became an acquiring corporation prior to September 1, 1940,*  
10        *the base period shall be the same as that applicable to its first*  
11        *taxable year ending in 1941.*

12        “(3) If the tax is being computed for any taxable  
13        year beginning after December 31, 1941, the four cal-  
14        endar years 1936 to 1939, both inclusive.

15        “(e) **BASE PERIOD YEARS.**—In the case of a taxpayer  
16        which is an acquiring corporation its base period years shall  
17        be the four successive twelve-month periods beginning on the  
18        same date as the beginning of its base period.

19        “(f) **EXISTENCE OF ACQUIRING CORPORATION.**—~~For~~  
20        the purposes of section 712 (a), if any component corpora-  
21        tion of the taxpayer was in existence before January 1,  
22        1940, the taxpayer shall be considered to have been in  
23        existence before such date.

24        “(g) **COMPONENT CORPORATIONS OF COMPONENT**  
25        **CORPORATIONS.**—If a corporation is a component corpora-

1 tion of an acquiring corporation, under subsection (b) or  
 2 under this subsection, it shall (except for the purposes of  
 3 section ~~(348)741~~ 742 (d) (1) and (2) and section  
 4 ~~(349)742~~ 743 (a) (1), (2), and (3)) also be a com-  
 5 ponent corporation of the corporation of which such acquiring  
 6 corporation is a component corporation.

7 “(h) **SOLE PROPRIETORSHIP.**—For the purposes of sec-  
 8 tions 740 (a) (1) (Q), 740 (b) (5), and ~~(350)741~~  
 9 742 (g), a business owned by a sole proprietorship shall be  
 10 considered a partnership.”

11 ~~(351)(b)~~ *REPEAL OF SECTION 741 (a).*—*Section 741 (a)*  
 12 *is repealed.*

13 ~~(352)(c)~~ *AMENDMENTS TO SECTION 742.*—*Section 742 is*  
 14 *amended to read as follows:*

15 **“SEC. ~~(353)741~~ 742. SUPPLEMENT A AVERAGE BASE PE-**  
 16 **RIOD NET INCOME.**

17 “In the case of a taxpayer which is an acquiring corpora-  
 18 tion, its average base period net income (for the purpose of  
 19 the credit computed under section 713) shall be the amount  
 20 computed under section 713 or the amount of its Supplement  
 21 A average base period net income, whichever is the greater.  
 22 The Supplement A average base period net income shall be  
 23 the amount computed without regard to subsection (h) of  
 24 this section or computed under subsection (h) of this section,

1 whichever is the greater. The Supplement A average base  
2 period net income shall be computed as follows:

3 “(a) By ascertaining with respect to each of its base  
4 period years—

5 “(1) The amount of its and each of its component  
6 corporation’s excess profits net income for each of its  
7 and such component corporation’s taxable years begin-  
8 ning with or within such base period year; or, in the case  
9 of each such taxable year of the taxpayer or of such com-  
10 ponent corporation, as the case may be, in which the  
11 deductions plus the credit for dividends received and the  
12 credit provided in section 26 (a) (relating to interest  
13 on certain obligations of the United States and its in-  
14 strumentalities) exceeded the gross income, the amount  
15 of such excess;

16 “(2) (A) The aggregate of the amounts of ex-  
17 cess profits net income ascertained under paragraph (1);  
18 (B) the aggregate of the excesses ascertained under  
19 paragraph (1); and (C) the difference between the  
20 aggregates found under clause (A) and clause (B).  
21 If the aggregate ascertained under clause (A) is greater  
22 than the aggregate ascertained under clause (B), the  
23 difference shall for the purposes of subsection (b) be  
24 designated a ‘plus amount’, and if the aggregate ascer-  
25 tained under clause (B) is greater than the aggregate

1 found under clause (A), the difference shall for the  
2 purposes of subsection (b) be designated a 'minus  
3 amount'.

4 If, in the case of the taxpayer or any component corpora-  
5 tion of the taxpayer, one and only one taxable year of the  
6 taxpayer or such component corporation, as the case may  
7 be, begins with or within such base period year and such tax-  
8 able year is less than twelve months, the amount of the excess  
9 profits net income, or the amount of such excess of deduc-  
10 tions plus the credit for dividends received and the credit  
11 provided in section 26 (a) (relating to interest on certain  
12 obligations of the United States and its instrumentalities) over  
13 gross income, as the case may be, for such taxable year, shall  
14 be placed on an annual basis in the same manner as is pro-  
15 vided in section 711 (a) (3). If more than one taxable year  
16 of the taxpayer or such component corporation, as the case  
17 may be, begins with or within such base period year, the ag-  
18 gregate of the amounts of excess profits net income minus the  
19 aggregate of the excesses of deductions plus the credit for divi-  
20 dends received and the credit provided in section 26 (a)  
21 (relating to interest on certain obligations of the United States  
22 and its instrumentalities) over gross income, or the aggregate  
23 of such excesses minus the aggregate of the amounts of excess  
24 profits net income, as the case may be, for such taxable years



1 shall be ~~(354)~~ placed on an annual basis by dividing by the  
2 aggregate of the number of days in such taxable years and  
3 multiplying by three hundred and sixty-five adjusted to such  
4 extent as the Commissioner, under regulations prescribed  
5 by him with the approval of the Secretary, prescribes as  
6 necessary in order that such base period year shall reflect  
7 income for a period of twelve months. For the purposes  
8 of this section, a taxable year of a component corporation  
9 beginning within the base period which also begins with  
10 or within the taxable year of the acquiring corporation in  
11 which the acquisition occurred, or which also begins with or  
12 within the same base period year with which or within which  
13 began such taxable year of the acquiring corporation, shall  
14 be considered a taxable year of the acquiring corporation,  
15 and such taxable year shall be considered to have begun in  
16 the base period year with which or within which such taxable  
17 year of the acquiring corporation began.

18       “(b) By adding the plus amounts ascertained under sub-  
19 section (a) (2) for each year of the base period; and  
20 ~~(355)~~ by subtracting from such sum, if for two or more years  
21 of the base period there was a minus amount, the sum of the  
22 minus amounts, excluding the greatest.

23       “(1) If the tax under this subchapter is being com-  
24 puted for a taxable year not beginning after December  
25 31, 1941, by subtracting from such sum, if for two or

1 *more years of the basis period there was a minus amount,*  
2 *the sum of the minus amounts, excluding the greatest; or*

3       “(2) *If the tax under this subchapter is being com-*  
4 *puted for a taxable year beginning after December 31,*  
5 *1941, by subtracting from such sum the sum of the minus*  
6 *amounts. If the amount used under the preceding sen-*  
7 *tence for the lowest year is less than 75 per centum of the*  
8 *sum of the plus amounts reduced by the sum of the minus*  
9 *amounts for the other years in the base period divided*  
10 *by three, the amount which shall be used for such lowest*  
11 *year shall be 75 per centum of the amount last ascer-*  
12 *tained.*

13       “(c) *By dividing the amount ascertained under subsec-*  
14 *tion (b) by four.*

15       “(d) *In no case shall the average base period net income*  
16 *be less than zero. In the case of a taxpayer which becomes*  
17 *an acquiring corporation in any taxable year beginning after*  
18 *December 31, 1939, if, on September 11, 1940, and at all*  
19 *times until the taxpayer became an acquiring corporation—*

20       “(1) *the taxpayer owned not less than 75 per*  
21 *centum of each class of stock of each of the qualified*  
22 *component corporations involved in the transaction in*  
23 *which the taxpayer became an acquiring corporation; or*

24       “(2) *one of the qualified component corporations*  
25 *involved in the transaction owned not less than 75 per*

1       centum of each class of stock of the taxpayer, and of each  
2       of the other qualified component corporations involved  
3       in the transaction,  
4       the average base period net income of the taxpayer shall not  
5       be less than (A) the average base period net income of that  
6       one of its qualified component corporations involved in the  
7       transaction the average base period net income of which is  
8       greatest, or (B) the average base period net income of the  
9       taxpayer computed without regard to the base period net  
10      income of any of its qualified component corporations in-  
11      volved in the transaction. As used in this subsection, the  
12      term 'qualified component corporation' means a component  
13      corporation which was in existence on the date of the begin-  
14      ning of the taxpayer's base period.

15      “(e) For the purposes of subsection (a) (1) of this  
16      section—

17           “(1) If neither the taxpayer corporation nor any  
18           of its component corporations was actually in existence  
19           on December 31, 1936, the excess profits net income  
20           of each such corporation (356) ~~(except a corporation~~  
21           ~~which became a component corporation of an acquiring~~  
22           ~~corporation before the beginning of the acquiring corpo-~~  
23           ~~ration's first taxable year which began in 1940)~~ for  
24           each base period year at no time during which any of  
25           such corporations was actually in existence, shall

1       **(357)** *(except in the case of a corporation which became*  
2       *a component corporation of its acquiring corporation*  
3       *before the beginning of the acquiring corporation's first*  
4       *taxable year which began in 1940)* be an amount equal  
5       to 8 per centum of the excess of—

6               “(A) **(358)** *in the case of any such corporation*  
7               *to which paragraph (2) is not applicable, the daily*  
8               *invested capital of such corporation for the first*  
9               *day of its first taxable year under this subchapter*  
10              *beginning in 1940* **(359)** *plus, in case it became, in*  
11              *such first taxable year but on a day in any other such*  
12              *corporation's taxable year beginning in 1939, an*  
13              *acquiring corporation with respect to such other cor-*  
14              *poration, the daily invested capital of such other*  
15              *corporation for such day, over*

16              “(B) an amount equal to the same percentage  
17              of such daily invested capital as would be applicable  
18              under section 720 in reduction of the average in-  
19              vested capital of such corporation for the last tax-  
20              able year beginning in 1939 if such section had been  
21              applicable to such year (computed as if the admis-  
22              sible and inadmissible assets of any other such cor-  
23              poration with respect to which it became, in such  
24              taxable year, an acquiring corporation, had been  
25              held by it).

1     (360)“(2) *In case the transaction by which a corpora-*  
2     *tion became a component corporation of its acquiring*  
3     *corporation occurred in the last taxable year of such*  
4     *component corporation beginning in 1939 but on a day*  
5     *in a taxable year of such acquiring corporation begin-*  
6     *ning in 1940, the excess profits net income of such com-*  
7     *ponent corporation for each base period year described*  
8     *in paragraph (1) shall be an amount equal to 8 per*  
9     *centum of the excess of—*

10             “(A) *the daily invested capital of such com-*  
11             *ponent corporation for such day, over*

12             “(B) *an amount equal to the same percentage*  
13             *of such daily invested capital as would be applicable*  
14             *under section 720 in reduction of the average invested*  
15             *capital of such component corporation for the twelve-*  
16             *month period ending with the preceding day if such*  
17             *twelve-month period constituted a taxable year and*  
18             *such section had been applicable to such taxable*  
19             *year.*

20             “(361)~~(2)~~ (3) *In case any corporation described*  
21     *in paragraph (1) owned stock in any other such corpora-*  
22     *tion on the first day of such owning corporation’s first*  
23     *taxable year under this subchapter beginning in 1940,*  
24     (362)*its and such other corporation’s excess profits net*  
25     *income for each base period year described in paragraph*

1 ~~(1)~~ shall be determined in accordance with regulations  
2 prescribed by the Commissioner with the approval of the  
3 Secretary *the amounts computed under subparagraphs*  
4 *(A) and (B) of paragraphs (1) and (2) with respect*  
5 *to such corporations shall be adjusted, under regulations*  
6 *prescribed by the Commissioner with the approval of*  
7 *the Secretary, to such extent as may be necessary to*  
8 *prevent the excess profits net income of such corporations*  
9 *for the base period years described in paragraph (1)*  
10 *from reflecting money or property having been paid in*  
11 *by either of such corporations to the other for stock or*  
12 *as paid-in surplus or as a contribution to capital, or*  
13 *from reflecting stock of either having been paid in for*  
14 *stock of the other or as paid-in surplus or as a*  
15 *contribution to capital. For the purposes of this para-*  
16 *graph, stock in either such corporation which has in the*  
17 *hands of the other corporation a basis determined with*  
18 *reference to the basis of stock previously acquired by the*  
19 *issuance of such other corporation's own stock shall be*  
20 *deemed to have been paid in for the stock of such other*  
21 *corporation.*

22 “~~(363)(3)~~ (4) In determining whether, for any  
23 taxable year, the deductions plus the credit for dividends  
24 received and the credit provided in section 26 (a) (re-  
25 lating to interest on certain obligations of the United

1 States and its instrumentalities) exceeded the gross in-  
2 come, and in determining the amount of such excess, the  
3 adjustments provided in section 711 (b) (1) shall be  
4 made.

5 “(f) (1) If, after December 31, 1935—

6 “(A) the taxpayer acquired stock in another  
7 corporation, and thereafter such other corporation  
8 became a component corporation of the taxpayer, or

9 “(B) a corporation (hereinafter called ‘first  
10 corporation’) acquired stock in another corporation  
11 (hereinafter called ‘second corporation’), and there-  
12 after the first and second corporations became com-  
13 ponent corporations of the taxpayer,

14 then to the extent that the consideration for such acquisition  
15 was not the issuance of the taxpayer’s or first corporation’s,  
16 as the case may be, own stock, the Supplement A average  
17 base period net income of the taxpayer shall be reduced, and  
18 the transferred capital addition and reduction adjusted, in  
19 respect of the income and capital addition and reduction of  
20 the corporation whose stock was so acquired and in respect  
21 of the income and capital addition and reduction of any other  
22 corporation which at the time of such acquisition was con-  
23 nected directly or indirectly through stock ownership with  
24 the corporation whose stock was so acquired and which  
25 thereafter became a component corporation of the taxpayer,

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1 in such amounts and in such manner as shall be determined  
2 in accordance with regulations prescribed by the Commis-  
3 sioner with the approval of the Secretary. (364) *For the*  
4 *purposes of this paragraph, stock which has, in the hands of*  
5 *the taxpayer or first corporation, as the case may be, a basis*  
6 *determined with reference to the basis of stock previously*  
7 *acquired by the issuance of the taxpayer's or first corpora-*  
8 *tion's, as the case may be, own stock, shall be considered as*  
9 *having been acquired in consideration of the issuance of the*  
10 *taxpayer's or first corporation's, as the case may be, own*  
11 *stock.*

12 “(2) If during the taxable year for which tax is com-  
13 puted under this subchapter the taxpayer acquires assets in  
14 a transaction which constitutes it an acquiring corporation,  
15 the amount includible under subsection (a), attributable to  
16 such transaction, shall be limited to an amount which bears  
17 the same ratio to the amount computed without regard to this  
18 subsection as the number of days in the taxable year after  
19 such transaction bears to the total number of days in such  
20 taxable year.

21 “(g) In the case of a partnership which is a component  
22 corporation by virtue of section 740 (b) (5), the compu-  
23 tations required by this Supplement shall be made, under  
24 rules and regulations prescribed by the Commissioner with  
25 the approval of the Secretary, as if such partnership had



1 been a corporation. For the purpose of such computations,  
2 in making the adjustment for income taxes required by  
3 section 711 (b) (1) (A), the partnership so regarded as  
4 a corporation shall be considered as having distributed all its  
5 net income as a dividend.

6 “(h) INCREASED EARNINGS IN LAST HALF OF BASE  
7 PERIOD.—

8 “(1) GENERAL RULE.—The Supplement A average  
9 base period net income determined under this subsection  
10 shall be computed by ascertaining for each half of the  
11 base period the sum of the plus amounts determined  
12 under subsection (a) reduced if for any year in such  
13 half a minus amount was determined by the minus  
14 amount for such year. If the amount ascertained for the  
15 second half exceeds the amount ascertained for the first  
16 half, the Supplement A average base period net income  
17 shall be the sum, divided by two, of the amount so as-  
18 certained for the second half plus one-half of such ex-  
19 cess, except that it shall not exceed the largest plus  
20 amount determined under subsection (a) with respect  
21 to any base period year.

22 “(2) LIMITATION ON AMOUNT INCLUDIBLE FOR  
23 CERTAIN TAXABLE YEARS ENDING AFTER MAY 31,  
24 1940.—For the purposes of this subsection the excess  
25 profits net income of any corporation for any taxable

1 year beginning in 1939 and ending after May 31, 1940,  
2 shall in no case exceed an amount computed as follows:

3 " (A) By reducing the excess profits net income  
4 by an amount which bears the same ratio thereto as  
5 the number of months after May 31, 1940, bears to  
6 the total number of months in such taxable year; and

7 " (B) By adding to the amount ascertained un-  
8 der subparagraph (A) an amount which bears the  
9 same ratio to the excess profits net income for the  
10 last preceding taxable year as such number of months  
11 after May 31, 1940, bears to the number of months  
12 in such preceding year. The amount added under  
13 this subparagraph shall not exceed the amount of the  
14 excess profits net income for such last preceding  
15 taxable year.

16 " (C) If the number of months in such preced-  
17 ing taxable year is less than such number of months  
18 after May 31, 1940, by adding to the amount ascer-  
19 tained under subparagraph (B) an amount which  
20 bears the same ratio to the excess profits net income  
21 for the second preceding taxable year as the excess  
22 of such number of months after May 31, 1940, over  
23 the number of months in such preceding taxable year  
24 bears to the number of months in such second preced-  
25 ing taxable year."

1 **(365)(d) AMENDMENTS TO SECTION 743.**—Section 743 is  
2 *amended to read as follows:*

3 **“SEC. ~~(366)~~<sup>742</sup> 743. NET CAPITAL CHANGES.**

4       “(a) **TAXPAYER USING THIS SUPPLEMENT.**—For the  
5 purposes of section 713 (g), if the transaction which con-  
6 stitutes the taxpayer an acquiring corporation occurs in a  
7 taxable year of the taxpayer which begins after December  
8 31, 1939, and the taxpayer’s average base period net income  
9 is computed under section ~~(367)~~<sup>744</sup> 742, the following  
10 rules shall apply in computing the daily capital addition and  
11 reduction of the taxpayer for each day after such transaction:

12       “(1) The transferred capital addition or reduction  
13 of the component corporation shall be treated as if it  
14 were a capital addition or reduction, as the case may  
15 be, of the taxpayer.

16       “(2) The transferred capital addition of the com-  
17 ponent corporation shall be its daily capital addition  
18 as of the time immediately before the transaction (com-  
19 puted under section 713 (g), but without regard to its  
20 reduction under the fourth sentence of paragraph (3)  
21 on account of excluded capital, but with the application  
22 of paragraph (6) of this subsection).

23       “(3) The transferred capital reduction of the com-  
24 ponent corporation shall be its daily capital reduction  
25 as of the time immediately before the transaction (com-

1.     puted under section 713 (g) but with the application of  
2     paragraph (7) of this subsection).

3             “(4) In computing the daily capital addition of the  
4     taxpayer, money or property paid in to the taxpayer by  
5     any of its component corporations, and property con-  
6     sisting of stock in any such component corporation paid  
7     in by shareholders of such component corporation, shall  
8     be disregarded.

9             “(5) In computing the daily capital reduction of  
10    the taxpayer, distributions by the taxpayer to any of its  
11    component corporations not out of earnings and profits  
12    shall be disregarded.

13            “(6) In computing the transferred capital addition  
14    of the component corporation, money or property paid  
15    in to such component corporation by the taxpayer or any  
16    other component corporation and property consisting of  
17    stock in the taxpayer or any other component corpora-  
18    tion paid in by shareholders of the taxpayer or other  
19    component corporation, shall be disregarded.

20            “(7) In computing the transferred capital reduction  
21    of the component corporation, distributions by such com-  
22    ponent corporation to the taxpayer or any other com-  
23    ponent corporation shall be disregarded.

24            “(8) The daily capital addition of the taxpayer to  
25    which any amount is added under paragraph (1) shall

1 be the amount thereof computed before its reduction  
 2 under the fourth sentence of section 713 (g) on account  
 3 of excluded capital.

4 “(b) RULE WHERE ACQUIRING CORPORATION IS  
 5 COMPONENT OF TAXPAYER.—In cases where an acquiring  
 6 corporation is a component of the taxpayer, and the trans-  
 7 action which constitutes such corporation an acquiring cor-  
 8 poration occurs in a taxable year of such corporation which  
 9 begins after December 31, 1939, for the purpose of determin-  
 10 ing the daily capital addition or reduction of the taxpayer  
 11 the above rules shall be applied in a similar manner to  
 12 determine the daily capital addition or reduction of such  
 13 acquiring corporation for each day after such transaction.

14 **(368)“SEC. 743. FOREIGN CORPORATIONS.**

15 “The term ‘corporation’ as used in this Supplement does  
 16 not include a foreign corporation.”

17 **(369)(b) (e) AMENDMENTS TO EXCESS PROFITS TAX  
 18 MADE NECESSARY BY AMENDMENTS TO SUPPLEMENT A.—**

19 (1) CROSS REFERENCE.—Section 712 (relating to  
 20 allowance of excess profits credit) is amended by insert-  
 21 ing at the end thereof the following new subsection:

22 “(d) SPECIAL RULE IN CONNECTION WITH CERTAIN  
 23 REORGANIZATIONS.—For the existence of taxpayer through  
 24 component corporation, see section 740 (f).”

25 (2) TECHNICAL AMENDMENT.—Section 713 (a)

1 (1) (A) (relating to amount of credit for income  
2 method) is amended to read as follows:

3 " (A) 95 per centum of the average base period  
4 net income,".

5 **(370)(e) (f) TAXABLE YEARS TO WHICH AMENDMENTS**  
6 **APPLICABLE.**—The amendments made by this section shall  
7 be applicable only to the computation of the tax for taxable  
8 years beginning after December 31, 1941, except that  
9 **(371)(1)** *the last sentence of section 740 (c), as added by*  
10 *subsection (a) of this section shall be applicable to the compu-*  
11 *tation of the tax for all taxable years beginning after Decem-*  
12 *ber 31, 1939, and (2) if a taxpayer, within the time and in*  
13 *the manner and subject to such regulations as the Commis-*  
14 *sioner with the approval of the Secretary prescribes, elects to*  
15 *have such amendments (except those which by their terms*  
16 *are limited to taxable years beginning after December 31,*  
17 *1941(372), and except that referred to in clause (1)) apply*  
18 *retroactively to all taxable years of the taxpayer beginning*  
19 *after December 31, 1939, such amendments shall (373)also*  
20 *be applicable (374)to the computation of the tax for taxable*  
21 *years beginning after December 31, 1939.*

22 **(375)SEC. 217. AMENDMENTS TO SUPPLEMENT B.**

23 ~~(a) TERMINATION OF SUPPLEMENT B.~~—Supplement  
24 ~~B of Chapter 2E (relating to highest bracket amount and~~

1 invested capital) shall not apply to any taxable year begin-  
 2 ning after December 31, 1941.

3 ~~(b) REPEAL OF SECTION 751.~~ Section 751 (relating  
 4 to determination of property paid in, etc., in certain cases) is  
 5 repealed as of the date of its enactment.

6 **(376)SEC. 229. TERMINATION OF SUPPLEMENT B.**

7 *(a) RETROACTIVE REPEAL OF SECTION 752.—*

8 *(1) Section 752 (relating to highest bracket*  
 9 *amount) is repealed as of the date of enactment of*  
 10 *the Second Revenue Act of 1940.*

11 *(2) Section 710 (a) (2) (relating to application*  
 12 *of highest bracket amount in computing tax) is repealed*  
 13 *as of the date of enactment of the Second Revenue Act*  
 14 *of 1940.*

15 *(b) Sections 750 and 751 (relating to determination*  
 16 *of property paid in, etc., in certain cases) shall not apply*  
 17 *with respect to any taxable year beginning after December*  
 18 *31, 1941.*

19 **SEC. (377)~~218~~ 230. INVESTED CAPITAL IN CONNECTION**  
 20 **WITH CERTAIN EXCHANGES AND**  
 21 **LIQUIDATIONS.**

22 **(a) EXCHANGES AND LIQUIDATIONS.—**Chapter 2E  
 23 is amended by inserting at the end thereof the following new  
 24 Supplement:

1 "Supplement C—Invested Capital in Connection With  
2 Certain Exchanges and Liquidations

3 "SEC. 760. EXCHANGES.

4 (378)“(a) DEFINITIONS.—For the purpose of this section—

5 “(1) EXCHANGE.—The term ‘exchange’ means an  
6 exchange, to which section 112 (b) (3), (4), or (5) or  
7 so much of section 112 (c), (d), or (e) as refers to  
8 section 112 (b) (3), (4), or (5), or to which a cor-  
9 responding provision of a prior revenue law, is or was  
10 applicable, by one corporation of its property wholly or  
11 in part for stock or securities of another corporation, or  
12 a transfer of property by one corporation to another cor-  
13 poration after December 31, 1917, the basis of which  
14 in the hands of such other corporation is or was deter-  
15 mined under section 113 (a) (8) (B), or would have  
16 been so determined had such section been in effect.

17 “(2) TRANSFEREE UPON AN EXCHANGE.—The  
18 term ‘transferee upon an exchange’ means a corporation  
19 which upon an exchange acquires property in exchange,  
20 wholly or in part, for its stock or securities, or which  
21 acquires property from another corporation after De-  
22 cember 31, 1917, the basis of which in its hands is or  
23 was determined under section 113 (a) (8) (B), or



1 would have been so determined had such section been in  
2 effect.

3 “(a) *DEFINITIONS, ETC.*—For the purposes of this  
4 section—

5 “(1) ‘*EXCHANGE*’, ‘*TRANSFEROR*’, AND ‘*TRANS-*  
6 *FEREE*’.—The term ‘exchange’ means a transaction by  
7 which one corporation (hereinafter called ‘transferee’) re-  
8 ceives property of another corporation (hereinafter called  
9 ‘transferor’) and the basis of the property received, in  
10 the hands of the transferee, for the purposes of section  
11 718 (a) is determined by reference to the basis in the  
12 hands of the transferor.

13 “(2) *DETERMINATION OF BASIS OF PROPERTY*  
14 *RECEIVED.*—The basis, in the hands of the transferee, of  
15 the property of the transferor received by the transferee  
16 upon the exchange shall be determined in accordance with  
17 section 718 (a).

18 “(b) *RULE.*—In the application of section 718 (a) to  
19 a transferee upon an exchange in determining the amount  
20 paid in for stock of the transferee, or as paid-in surplus or as  
21 a contribution to capital of the transferee, in connection with  
22 such exchange, only an amount shall be deemed to have been  
23 so paid in equal to the excess of the basis (379) (for deter-  
24 mining loss) in the hands of the transferee of the property of

1 the transferor received by the transferee upon the exchange  
2 over the sum of—

3 “(1) The amount of any liability of the transferor  
4 assumed upon the exchange and of any liability subject  
5 to which such property was so received, plus

6 “(2) The amount of any liability of the transferee  
7 (not arising out of any liability described in paragraph  
8 (1)) constituting consideration for the property so  
9 received, plus

10 “(3) The aggregate of the amount of any money  
11 and the fair market value of any other property (other  
12 than such stock and other than property described in  
13 paragraphs (1) and (2)) transferred to the transferor.

14 “(c) REDUCTION IN DAILY INVESTED CAPITAL.—In  
15 the application of section 717 to a transferee upon an ex-  
16 change, the daily invested capital for any day after such  
17 exchange shall be reduced by an amount equal to the amount  
18 by which the sum of the amounts specified in paragraphs  
19 (1), (2), and (3) of subsection (b) exceeds the basis  
20 (380) ~~(for determining loss)~~ in the hands of the transferee of  
21 the property of the transferor received upon the exchange.

22 ~~(381)~~ **SEC. 761. TRANSACTIONS IN LIQUIDATION.**

23 ~~“(a) DEFINITION OF LIQUIDATING TRANSACTION.—~~

24 As used in this section, the term ‘liquidating transaction’  
25 means:

1           ~~“(1) The complete liquidation of another corpora-~~  
 2           ~~tion under section 112 (b) (6) or the corresponding~~  
 3           ~~provision of a prior revenue law, or~~

4           ~~“(2) The liquidation of another corporation, or a~~  
 5           ~~transaction having the effect of liquidating in whole or~~  
 6           ~~in part, some or all of the stock of another corporation—~~

7                   ~~“(A) if gain or loss in whole or in part is not~~  
 8                   ~~recognized either in a consolidated income or ex-~~  
 9                   ~~cess profits tax return or because of the provisions of~~  
 10                   ~~section 112 (b) (4) or (5), or so much of sec-~~  
 11                   ~~tion 112 (c) to (e), inclusive, as refers to sec-~~  
 12                   ~~tion 112 (b) (4) or (5), or the corresponding~~  
 13                   ~~provision of a prior revenue law, and~~

14                   ~~“(B) if the property received by the taxpayer~~  
 15                   ~~has a basis described in section 113 (b) (2) (A).~~

16           ~~“(b) ADJUSTMENT OF EQUITY INVESTED CAPITAL—~~

17           ~~If property is received by the taxpayer in a liquidating~~  
 18           ~~transaction, the equity invested capital for each day following~~  
 19           ~~the transaction shall be adjusted as follows:~~

20                   ~~“(1) If the stock of the transferor which is in effect~~  
 21                   ~~anceled upon such liquidating transaction is determined~~  
 22                   ~~to have been acquired by the issuance of stock in trans-~~  
 23                   ~~actions in which gain or loss in whole or in part was not~~  
 24                   ~~recognized, there shall be included, in lieu of the amounts~~  
 25                   ~~determined to be otherwise includible in the equity in-~~

1 vested capital of the taxpayer with respect to such stock,  
2 the amount determined to be necessary to reflect the  
3 equity invested capital and the deficit in earnings and  
4 profits, if any, of the transferor with respect to such  
5 stock.

6 “(2) If such stock of the transferor is determined  
7 not to have been acquired by the issuance of stock in  
8 transactions in which gain or loss in whole or in part  
9 was not recognized, the equity invested capital of the  
10 taxpayer shall be adjusted to the extent necessary to  
11 reflect in its accumulated earnings and profits and its  
12 earnings and profits for the taxable year the portion of  
13 the earnings and profits or the deficit in earnings and  
14 profits, as the case may be, of the transferor accumulated  
15 subsequent to the date which is determined to be the date  
16 of acquisition by the taxpayer of control (or, with re-  
17 spect to stock acquired subsequent to the acquisition of  
18 control, the date of acquisition of such stock) of the  
19 transferor and determined to be attributable to such  
20 stock. For the purposes of the computations under  
21 this paragraph, the basis of the property held by the  
22 transferor or its predecessor at the time of the acquisition  
23 of control (or of acquisition of the stock in the case of  
24 property determined to be attributable to stock acquired  
25 since the acquisition of control) which is attributable

1 to such stock shall be, in lieu of the basis prescribed by  
2 section 113 or the corresponding provision of a prior  
3 revenue law, an amount determined by reference to  
4 the adjusted basis for determining loss upon a sale  
5 or exchange of such stock in the hands of the tax-  
6 payer or a predecessor. The basis so assigned shall  
7 apply, in lieu of the basis otherwise prescribed in  
8 computing any amount (determined by reference to the  
9 basis of such property in the hands of the transferor)  
10 entering into the computation of the equity invested  
11 capital of the taxpayer or any other corporation comput-  
12 ing equity invested capital by reference to the equity in-  
13 vested capital of the taxpayer. For the purposes of this  
14 paragraph the adjusted basis for determining loss upon a  
15 sale or exchange of such stock shall be determined with-  
16 out regard to any adjustment authorized by the last sen-  
17 tence of section 113 (a) (11) which is already reflected  
18 in the earnings and profits or deficit in earnings and  
19 profits attributable to such stock.

20 ~~“(e) MERGERS AND CONSOLIDATIONS.—~~In determining  
21 the amount of the adjustments under subsections (a) and (b),  
22 if a corporation owned stock in another corporation, and

23 ~~“(1) such corporations are merged or consolidated~~  
24 ~~in a statutory merger or consolidation, or~~

25 ~~“(2) such corporations are parties to a liquidating~~

1 transaction which results in the liquidation of such stock  
 2 in a manner similar to that resulting from a statutory  
 3 merger or consolidation;

4 for the purposes of this section such stock shall be considered  
 5 to have been acquired by the corporation resulting from the  
 6 merger, consolidation, or transaction, and the properties at-  
 7 tributable thereto received by it in liquidation of such stock.

8 ~~“(d) DETERMINATIONS.—Any determination which is~~  
 9 ~~required to be made under this section shall be made in ac-~~  
 10 ~~cordance with regulations which shall be prescribed by the~~  
 11 ~~Commissioner with the approval of the Secretary.”~~

12 **“SEC. 761. INVESTED CAPITAL ADJUSTMENT AT THE TIME OF**  
 13 **TAX-FREE INTERCORPORATE LIQUIDATIONS.**

14 **“(a) DEFINITION OF INTERCORPORATE LIQUIDA-**  
 15 **TION.—As used in this section, the term ‘intercorporate liq-**  
 16 **uidation’ means the receipt (whether or not after December**  
 17 **31, 1941) by a corporation (hereinafter called the ‘trans-**  
 18 **ferree’) of property in complete liquidation of another cor-**  
 19 **poration (hereinafter called the ‘transferor’), to which**

20 **“(1) the provisions of section 112 (b) (6), or the**  
 21 **corresponding provision of a prior revenue law, is appli-**  
 22 **cable or**

23 **“(2) a provision of law is applicable prescribing**  
 24 **the nonrecognition of gain or loss in whole or in part**  
 25 **upon such receipt (including a provision of the regula-**

1        *tions applicable to a consolidated income or excess profits*  
 2        *tax return but not including section 112 (b) (7), (9), or*  
 3        *(10) or a corresponding provision of a prior revenue*  
 4        *law),*  
 5        *but only if none of such property so received is a stock*  
 6        *or a security in a corporation the stock or securities of which*  
 7        *are specified in the law applicable to the receipt of such prop-*  
 8        *erty as stock or securities permitted to be received (or which*  
 9        *would be permitted to be received if they were the sole con-*  
 10       *sideration) without the recognition of gain.*

11        *“(b) DEFINITION OF PLUS ADJUSTMENT AND MINUS*  
 12        *ADJUSTMENT.—For the purposes of this section—*

13                *“(1) PLUS ADJUSTMENT.—The term ‘plus adjust-*  
 14                *ment’ means the amount, with respect to an intercorporate*  
 15                *liquidation, determined to be equal to the amount by*  
 16                *which the aggregate of the amount of money received by*  
 17                *the transferee in such intercorporate liquidation, and of*  
 18                *the adjusted basis at the time of such receipt of all prop-*  
 19                *erty (other than money) so received, exceeds the sum of—*

20                        *“(A) the aggregate of the adjusted basis of each*  
 21                        *share of stock with respect to which such property*  
 22                        *was received; such adjusted basis of each share to be*  
 23                        *determined immediately prior to the receipt of any*  
 24                        *property in such liquidation with respect to such*  
 25                        *share, and*

1           “(B) the aggregate of the liabilities of the trans-  
 2           feror assumed by the transferee in connection with  
 3           the receipt of such property, of the liabilities (not  
 4           assumed by the transferee) to which such property  
 5           so received was subject, and of any other considera-  
 6           tion (other than the stock with respect to which such  
 7           property was received) given by the transferee for  
 8           such property so received.

9           “(2) MINUS ADJUSTMENT.—The term ‘minus  
 10          adjustment’ means the amount, with respect to an inter-  
 11          corporate liquidation, determined to be equal to the  
 12          amount by which the sum of—

13           “(A) the aggregate of the adjusted basis of  
 14           each share of stock with respect to which such prop-  
 15           erty was received; such adjusted basis of each share  
 16           to be determined immediately prior to the receipt  
 17           of any property in such liquidation with respect to  
 18           such share, and

19           “(B) the aggregate of the liabilities of the  
 20           transferor assumed by the transferee in connection  
 21           with the receipt of such property, of the liabilities  
 22           (not assumed by the transferee) to which such  
 23           property so received was subject, and of any other  
 24           consideration (other than the stock with respect to



1           *which such property was received) given by the*  
2           *transferee for such property so received*  
3           *exceeds the aggregate of the amount of the money so*  
4           *received and of the adjusted basis, at the time of receipt,*  
5           *of all property (other than money) so received.*

6           “(3) **RULES FOR APPLICATION OF PARAGRAPHS**  
7           **(1) AND (2).**—*In determining the plus adjustment or*  
8           *minus adjustment with respect to any share, the com-*  
9           *putation shall be made in the same manner as is pre-*  
10           *scribed in paragraphs (1) and (2) of this subsection,*  
11           *except that there shall be brought into account only that*  
12           *part of each item which is determined to be attributable*  
13           *to such share.*

14           “(c) **RULES FOR THE APPLICATION OF THIS**  
15           **SECTION.**—

16           “(1) **STOCK HAVING COST BASIS.**—*The property*  
17           *received by a transferee in an intercorporate liquidation*  
18           *attributable to a share of stock having in the hands of*  
19           *the transferee a basis determined to be a cost basis,*  
20           *shall be considered to have, for the purposes of subsection,*  
21           *(b), an adjusted basis at the time so received determined*  
22           *as follows:*

23           “(A) *The aggregate of the property (other than*  
24           *money) held by the transferor at the time of the*  
25           *acquisition by the transferee of control of the trans-*

1           feror (or, if such share was acquired after the ad-  
2           quisition of such control, at the time of the acquisition  
3           of such share, or, if such control was not acquired,  
4           at the time immediately prior to the receipt of any  
5           property in the intercorporate liquidation in respect  
6           of such share) shall be deemed to have an aggregate  
7           basis equal to the amount obtained by (i) multiplying  
8           the amount of the adjusted basis at such time of such  
9           share in the hands of the transferee by the aggregate  
10          number of share units in the transferor at such time  
11          (the interest represented by such share being taken  
12          as the share unit), and (ii) adjusting for the amount  
13          of money on hand and the liabilities of the transferor  
14          at such time.

15               “(B) The basis which property of the transferor  
16          is deemed to have under subparagraph (A) at the  
17          time therein specified shall be used in determining the  
18          basis of property subsequently acquired by the trans-  
19          feror the basis of which is determined with reference  
20          to the basis of property specified in subparagraph  
21          (A).

22               “(C) The basis which property of the transferor  
23          is deemed to have under subparagraphs (A) and (B)  
24          at the time therein specified shall be used in determin-

1            *ing all subsequent adjustments to the basis of such*  
2            *property.*

3            *“(D) The property so received by the transferee*  
4            *shall be deemed to have, at the time of its receipt,*  
5            *the same basis it is deemed to have under the fore-*  
6            *going provisions of this paragraph in the hands of*  
7            *the transferor, or in the case of property not speci-*  
8            *fied in subparagraph (A) or (B), the same basis”*  
9            *it would have had in the hands of the transferor.*

10           *“(E) Only such part of the aggregate property*  
11           *received by the transferee in the intercorporate*  
12           *liquidation as is attributable to such share shall be*  
13           *considered as having the adjusted basis which prop-*  
14           *erty is deemed to have under subparagraphs (A),*  
15           *(B), (C), and (D) of this paragraph.*

16           *“(2) BASIS OF STOCK NOT A COST BASIS.—The*  
17           *property received by a transferee in an intercorporate*  
18           *liquidation attributable to a share of stock having in the*  
19           *hands of the transferee a basis determined to be a basis*  
20           *other than a cost basis shall, for the purposes of sub-*  
21           *section (b), be considered to have, at the time of its*  
22           *receipt, the basis it would have had had the first sentence*  
23           *of section 113 (a) (15) been applicable.*

24           *“(3) DEFINITION OF CONTROL.—As used in this*  
25           *subsection. the term ‘control’ means the ownership of*

1        *stock possessing at least 80 per centum of the total com-*  
 2        *bined voting power of all classes of stock entitled to vote*  
 3        *and the ownership of at least 80 per centum of the total*  
 4        *number of shares of all other classes of stock (except*  
 5        *nonvoting stock which is limited and preferred as to*  
 6        *dividends), but only if in both cases such ownership*  
 7        *continues until the completion of the intercorporate*  
 8        *liquidation.*

9        *“(d) ADJUSTMENT OF EQUITY INVESTED CAPITAL:—*  
 10       *If property is received by the transferee in an intercorporate*  
 11       *liquidation, in computing the equity invested capital of the*  
 12       *transferee for any day following the completion of such inter-*  
 13       *corporate liquidation—*

14       *“(1) with respect to any share of stock in the trans-*  
 15       *feror having in the hands of the transferee, immediately*  
 16       *prior to the receipt of any property in such intercorporate*  
 17       *liquidation, a basis determined to be a cost basis, the*  
 18       *earnings and profits or deficit in earnings and profits of*  
 19       *the transferee shall be computed as if on the day following*  
 20       *the completion of such intercorporate liquidation (the*  
 21       *transferee had realized a recognized gain equal to the*  
 22       *amount of the plus adjustment in respect of such share, or*  
 23       *had sustained a recognized loss equal to the amount of the*  
 24       *minus adjustment in respect of such share;*

25       *“(2) with respect to any share of stock in the trans-*

1       feror having in the hands of the transferee, immediately  
2       prior to the receipt of any property in such intercorporate  
3       liquidation, a basis determined to be a basis other than a  
4       cost basis, there shall be treated as an amount includible  
5       in the sum specified in section 718 (a) the amount of the  
6       plus adjustment with respect to such share, or as an  
7       amount includible in the sum specified in section 718 (b)  
8       the amount of the minus adjustment with respect to such  
9       share.

10       “(e) **INVESTED CAPITAL BASIS.**—The adjusted basis  
11       which property received by the transferee in an intercorporate  
12       liquidation is considered to have under the provisions of  
13       subsection (c) at the time of its receipt shall be thereafter  
14       treated as the adjusted basis, in lieu of the adjusted basis  
15       otherwise prescribed, in computing any amount, determined  
16       by reference to the basis of such property in the hands of  
17       the transferee, entering into the computation of the invested  
18       capital of the transferee, or of any other corporation the com-  
19       putation of the invested capital of which is determined by  
20       reference to the basis of such property in the hands of the  
21       transferee.

22       “(f) **STATUTORY MERGERS AND CONSOLIDATIONS.**—  
23       If a corporation owns stock in another corporation and such  
24       corporations are merged or consolidated in a statutory merger  
25       or consolidation, then for the purposes of this section and

1 section 718 such stock shall be considered to have been  
2 acquired (in such statutory merger or consolidation) by the  
3 corporation resulting from the statutory merger or consoli-  
4 dation, and the properties of such other corporation attribut-  
5 able to such stock to have been received by such resulting  
6 corporation as a transferee from such other corporation as a  
7 transferor in an intercorporate liquidation.

8 “(g) DETERMINATIONS.—

9 “(1) REGULATIONS.—Any determination which is  
10 required to be made under this section (including deter-  
11 minations in applying this section in cases where there  
12 is a series of transferees of the property and cases where  
13 the stock of the transferor is acquired by the transferee  
14 from another corporation, and the determinations of the  
15 basis and adjusted basis which property or items thereof  
16 have or are considered to have) shall be made in accord-  
17 ance with regulations which shall be prescribed by the  
18 Commissioner with the approval of the Secretary. If the  
19 transferor or the transferee is a foreign corporation, the  
20 provisions of this section shall apply to such extent and  
21 under such conditions and limitations as may be pro-  
22 vided in such regulations.

23 “(2) APPLICATION TO LIQUIDATION EXTENDING  
24 OVER LONG PERIOD.—The Commissioner is authorized  
25 to prescribe rules similar to those provided in this sec-

1        *tion with respect to the days within the period beginning*  
 2        *with the date on which the first property is received in*  
 3        *the intercorporate liquidation and ending with the day*  
 4        *of its completion; and the extent to which, and the con-*  
 5        *ditions and limitations under which, such rules are to*  
 6        *be applicable."*

7        **(382)(b) RETROACTIVE APPLICATION OF RULES ON EX-**  
 8        **CHANGES.**—The amendment made by this section inserting  
 9        section 760 shall be applicable to taxable years beginning  
 10       after December 31, 1939.

11       **(383)(e) (b) TECHNICAL AMENDMENT.**—

12                (1) Section 718 (d) is amended to read as  
 13       follows:

14                “(d) For special rules affecting computation of prop-  
 15       erty paid in for stock in connection with certain exchanges  
 16       and liquidations, see Supplement C.”

17                (2) Section 719 (a) (1) is amended by striking  
 18       out “, and not including indebtedness described in sec-  
 19       tion 751 (b) relating to certain exchanges”.

20       **(384)(d) (c) PREVIOUS RULES TERMINATED.**—Section 718  
 21       (a) (5) (relating to increase in equity invested capital on ac-  
 22       count of gain on tax-free liquidation), section 718 (b) (4)  
 23       (relating to reduction in equity invested capital on account  
 24       of loss on tax-free liquidation), and section 718 (c) (4)  
 25       (relating to property paid in for stock on merger or con-

1 solidation) shall not apply with respect to any taxable year  
2 beginning after December 31, 1941.

3 **(385)(d) OPTIONAL RETROACTIVITY OF AMENDMENTS TO**  
4 **1940 AND 1941.**—The amendment made by this section  
5 inserting section 761 shall also be applicable in the com-  
6 putation of the tax for all taxable years beginning after  
7 December 31, 1939, if the taxpayer, within the time and in  
8 the manner and subject to such regulations as the Commis-  
9 sioner, with the approval of the Secretary prescribes, elects  
10 to have such amendment apply and in such case the pro-  
11 visions of section 718 (a) (5), section 718 (b) (4), and  
12 section 718 (c) (4) shall not apply in such computations.

13 **(386)Part II—Post-War Refund of Excess Profits Tax**

14 **SEC. 250. POST-WAR REFUND OF EXCESS PROFITS TAX.**

15 *Subchapter E of Chapter 2 is amended by inserting at*  
16 *the end thereof the following new Part:*

17 **Part III—Post-War Refund of Excess Profits Tax**

18 **“SEC. 780. POST-WAR REFUND OF EXCESS PROFITS TAX.**

19 **“(a) IN GENERAL.**—The Secretary of the Treasury is  
20 *authorized and directed to establish a credit to the account*  
21 *of each taxpayer subject to the tax imposed under this sub-*  
22 *chapter, for each taxable year ending after December 31,*  
23 *1941, and not beginning after the date of cessation of hostilities*  
24 *in the present war, of an amount equal to 10 per centum of*



1 the tax imposed under this subchapter for each such taxable  
2 year. In the case of a taxpayer whose tax is computed under  
3 section 108, the term 'tax imposed under this subchapter'  
4 means for the purposes of this part the amount ascertained  
5 under section 108 (a) (1) (B).

6       “(b) *APPLICATION OF CREDIT TO PURCHASE OF*  
7 *BONDS.*—Within three months after the payment of the amount  
8 of the excess profits tax shown on the return for a tax-  
9 able year to which subsection (a) applies, if the payment is  
10 made before three months before the date of maturity  
11 of bonds for such year under subsection (c), there shall  
12 be issued to and in the name of the taxpayer bonds of the  
13 United States in an aggregate amount equal to 10 per centum  
14 of the tax paid in respect of which a credit is provided under  
15 subsection (a), and the credit established under subsection (a)  
16 for such taxable year is hereby made available for the pur-  
17 chase of such bonds.

18       “(c) *TERMS AND MATURITY OF BONDS.*—The bonds  
19 provided for in subsection (a) shall be issued under the  
20 authority and subject to the provisions of the Second Liberty  
21 Bond Act, as amended, and the purposes for which bonds  
22 may be issued under such Act are extended to include the  
23 purpose for which bonds are required to be issued under  
24 this section. Such bonds shall bear no interest, shall be non-  
25 negotiable, and shall not be transferable by sale, exchange,

1 assignment, pledge, hypothecation, or otherwise, on or before  
 2 the date of cessation of hostilities in the present war, but after  
 3 said date, such bonds shall be negotiable, and may be sold,  
 4 exchanged, pledged, assigned, hypothecated, or otherwise  
 5 transferred, without restriction, and shall be redeemable (at  
 6 the option of the United States) in whole or in part upon  
 7 three months' notice. Such bonds for any taxable year to  
 8 which this section applies shall mature on the last day of  
 9 that calendar year, beginning after the date of cessation of  
 10 hostilities in the present war, which is shown in the following  
 11 table to be applicable to such bonds for such year:

<i>Bonds purchased with the credit for any tax- able year beginning</i>	<i>Calendar year (beginning after cessation of hostili- ties) on last day of which bonds mature</i>
<i>Within the calendar year 1942</i> .....	<i>2nd</i>
<i>Within the calendar year 1943</i> .....	<i>3rd</i>
<i>Within the calendar year 1944</i> .....	<i>4th</i>
<i>After December 31, 1944</i> .....	<i>5th</i>

12       “(d) **EXEMPTION OF PROCEEDS FROM TAX.**—The  
 13 proceeds of any such bond upon redemption shall not be  
 14 included in gross income.

15       “(e) **DATE OF CESSATION OF HOSTILITIES IN THE**  
 16 **PRESENT WAR.**—As used in this section, the term ‘date of  
 17 cessation of hostilities in the present war’ means the date on  
 18 which hostilities in the present war between the United States  
 19 and the governments of Germany, Japan, and Italy cease,  
 20 as fixed by proclamation of the President or by concurrent  
 21 resolution of the two Houses of Congress, whichever date is

1 earlier, or in case the hostilities between the United States  
2 and such governments do not cease at the same time, such date,  
3 as may be so fixed as an appropriate date for the purposes  
4 of this section.

5 "SEC. 781. SPECIAL RULES FOR APPLICATION OF SECTION 780.

6       “(a) EFFECT OF DEFICIENCIES.—If a deficiency in  
7 respect of the excess profits tax for any taxable year for  
8 which a credit is provided in section 780 (a) is paid by the  
9 taxpayer before three months before the date of maturity of  
10 the bonds for such year, an amount of such credit equal  
11 to 10 per centum of the excess of the tax imposed by this  
12 subchapter on the basis of which the deficiency was deter-  
13 mined, over the tax imposed by this subchapter as previously  
14 computed and paid shall be available, as provided in section  
15 780 (b), for the purchase of bonds as provided under such  
16 section, and there shall be issued to the taxpayer bonds under  
17 such section in an amount equal to such excess and with the  
18 same maturity as in the case of bonds issued with respect  
19 to the taxable year with respect to which the deficiency is  
20 determined.

21       “(b) EFFECT OF REFUNDS.—If an overpayment of  
22 the tax imposed by this subchapter for any taxable year for  
23 which a credit is provided in section 780 (a) is refunded  
24 or credited to the taxpayer under the internal revenue laws,

1 the credit, if any, provided in such section then existing in  
2 favor of the taxpayer shall be reduced by an amount equal  
3 to 10 per centum of the excess of the tax imposed by this sub-  
4 chapter on the basis of which such tax (in respect of which  
5 the internal revenue refund or credit was made) was pre-  
6 viously computed and paid, over the tax imposed by this sub-  
7 chapter as determined in connection with the determination  
8 of the amount of the overpayment. In such a case, if such  
9 credit provided in section 780 (a) is less than the amount  
10 by which it is required to be reduced, or if there is no such  
11 credit then existing in favor of the taxpayer, the excess of  
12 such amount over the amount of such credit, if any, shall be  
13 carried forward as a charge against the taxpayer to be ap-  
14 plied in reduction of a subsequent credit under section 780  
15 (a); and if no such subsequent credit is made in favor of  
16 the taxpayer, the amount of such charge (without interest)  
17 shall be paid by the taxpayer to the United States or the  
18 amount of bonds previously issued to the taxpayer under  
19 section 780 (b) shall be adjusted on account of such charge.

20       “(c) TAX PAYMENTS AFTER CUT-OFF DATE.—In  
21 the case of a payment of the tax imposed by this subchapter  
22 shown on the return for any taxable year for which  
23 a credit is provided in section 780 (a), or the payment  
24 of a deficiency in respect of such tax for any such tax-

1 able year, after the date prescribed in section 780 (b) or  
2 781 (a) but before the date of maturity of the bonds with  
3 respect to such taxable year under section 780 (c), the  
4 amount of the credit under section 780 (a) for such taxable  
5 year attributable to such payment shall, so far as practicable,  
6 be available, as provided in section 780 (b), for the purchase  
7 of bonds as provided under such section, and, so far as prac-  
8 ticable, there shall be issued to the taxpayer bonds under such  
9 section with the same maturity as bonds issued with respect to  
10 such taxable year. To the extent that it is not practicable to  
11 issue bonds against such amount of the credit, the taxpayer  
12 shall be paid in cash. In case after the date of maturity of  
13 the bonds of any taxable year under section 780 (c) there is  
14 any credit under section 780 (a) remaining in favor of the  
15 taxpayer, attributable to such year, such remainder shall be  
16 paid to the taxpayer in cash. No amount of any payment  
17 made under this subsection to a taxpayer shall be included in  
18 gross income.

19       “(d) *LIMITATION.*—The credit under section 780 (a)  
20 for any taxable year shall not be greater than the excess of  
21 the amount of the tax paid under this subchapter to the  
22 United States (and not credited or refunded under the in-  
23 ternal revenue laws) in respect of such year over the amount  
24 of tax which would be payable to the United States if the  
25 excess profits tax rate were 81 per centum, or if the limitation

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1 of section 710 is applicable if the amount determined under  
2 such section were reduced by 10 per centum.

3 **"SEC. 782. REGULATIONS.**

4 "The Secretary of the Treasury is authorized to prescribe,  
5 from time to time, such rules and regulations as may be neces-  
6 sary to carry out the preceding provisions of this Part.

7 **"SEC. 783. CREDIT FOR DEBT RETIREMENT.**

8 "(a) **GENERAL RULE.**—An amount equal to 40 per  
9 centum of the amounts paid during the taxable year in re-  
10 payment of the principal of indebtedness shall be allowed  
11 as a credit against the tax for such year imposed by this  
12 subchapter.

13 "(b) **LIMITATIONS.**—The credit under subsection (a)  
14 with respect to any taxable year shall in no event exceed  
15 whichever of the following amounts is the lesser—

16 "(1) The amount of the post-war credit, provided  
17 for in section 780 (a), for the taxable year, computed  
18 without its reduction on account of the debt repayment  
19 credit for the taxable year.

20 "(2) An amount equal to 40 per centum of the  
21 amount by which the smallest amount of indebtedness  
22 during the period beginning September 1, 1942, and  
23 ending with the close of the preceding taxable year ex-  
24 ceeds the amount of indebtedness as of the close of the  
25 taxable year.

1           “(3) In case such taxable year begins in 1942 prior  
2 to September 2, 1942, and ends after September 1,  
3 1942, an amount equal to 40 per centum of the amount  
4 by which the amount of indebtedness as of September  
5 1, 1942, exceeds the amount of indebtedness as of the  
6 close of the taxable year.

7           “(4) In case such taxable year ends before Septem-  
8 ber 1, 1942, zero.

9 No interest shall be allowed or paid by the United States on  
10 account of any overpayment of tax attributable to any credit  
11 allowed under this section.

12           “(c) REDUCTION OF CREDIT AND OF BONDS OUT-  
13 STANDING UNDER SECTION 780.—If a credit is allowed for  
14 debt repayment in a taxable year pursuant to this section, the  
15 amount of such credit or refund shall be deducted from the  
16 credit under section 780 (a) and the amount of bonds issued  
17 under section 780 shall, to the extent necessary, be corre-  
18 spondingly adjusted.

19           “(d) DEFINITION OF INDEBTEDNESS.—For the pur-  
20 poses of this section the term ‘indebtedness’ means any indebt-  
21 edness of the taxpayer or for which the taxpayer is liable  
22 evidenced by a bond, note, debenture, bill of exchange, certifi-  
23 cate, or other evidence of indebtedness, mortgage, or deed of  
24 trust.”

1 ~~(387)~~ **TITLE III—CAPITAL STOCK AND DE-**  
 2 **CLARED VALUE EXCESS PROFITS TAXES**  
 3 *TITLE III—TERMINATION OF CAPITAL STOCK AND*  
 4 *DECLARED VALUE EXCESS PROFITS TAXES*

5 ~~(388)~~ **SEC. 301. CAPITAL STOCK TAX.**

6 ~~(a)~~ **TECHNICAL AMENDMENT.**—Section 1200 ~~(a)~~ and  
 7 ~~(b)~~ ~~(relating to rate of capital stock tax)~~ are amended by  
 8 striking out the word “adjusted” wherever occurring therein.

9 ~~(b)~~ **ANNUAL DECLARATION OF VALUE.**—Section 1202  
 10 ~~(relating to declaration of value)~~ is amended to read as  
 11 follows:

12 **“SEC. 1202. DECLARED VALUE.**

13 **“(a) DECLARATION OF VALUE.**—The declared value  
 14 shall be the value as declared by the corporation in its return  
 15 for the year ~~(which declaration of value cannot be amended)~~.  
 16 The value declared by the corporation in its return shall be  
 17 as of the close of its last income-tax taxable year ending with  
 18 or prior to the close of the capital stock tax taxable year ~~(or~~  
 19 ~~as of the date of organization in the case of a corporation~~  
 20 ~~having no income-tax taxable year ending with or prior to~~  
 21 ~~the close of such declaration year)~~.

22 **“(b) CREDIT FOR CHINA TRADE ACT CORPORA-**  
 23 **TIONS.**—For the purpose of the tax imposed by section 1200  
 24 there shall be allowed in the case of a corporation organized



1 under the China Trade Act, 1922, 42 Stat. 849 (U. S. C.,  
2 1940 ed., title 15, ch. 4), as a credit against the declared  
3 value of its capital stock, an amount equal to the proportion  
4 of such declared value which the par value of the shares of  
5 stock of the corporation, owned on the last day of the taxable  
6 year by (1) persons resident in China, the United States, or  
7 possessions of the United States, and (2) individual citizens  
8 of the United States or China wherever resident, bears to the  
9 par value of the whole number of shares of stock of the  
10 corporation outstanding on such date. For the purposes of  
11 this subsection shares of stock of a corporation shall be con-  
12 sidered to be owned by the person in whom the equitable  
13 right to the income from such shares is in good faith vested;  
14 and as used in this subsection the term 'China' shall have  
15 the same meaning as when used in the China Trade Act,  
16 1922."

17 (c) RETURNS.—The last sentence of section 1203 (b)  
18 (2) (relating to extensions of time for filing capital stock  
19 tax returns) is amended to read as follows: "With respect  
20 to the years ended June 30, 1941, and June 30, 1942, the  
21 extension may be for not more than ninety days."

22 (d) PRIOR RETURNS EFFECTIVE.—If a return for the  
23 year ended June 30, 1942, is filed under Chapter 6 of the  
24 Internal Revenue Code, without regard to the amendment

1 thereof as made by this Act, the adjusted declared value  
2 reported by the corporation on such return (whether or not  
3 correct) shall constitute the declared value for the purposes  
4 of such Chapter 6, as amended by this Act, unless a different  
5 value is declared on a subsequent return for such year received  
6 within the prescribed filing period.

7 ~~(c) EFFECTIVE DATE.~~—This section shall be effective  
8 only with respect to the year ended June 30, 1942, and  
9 succeeding years.

10 **SEC. 302. DECLARED VALUE EXCESS-PROFITS TAX.**

11 ~~(a) TECHNICAL AMENDMENTS.~~—

12 ~~(1)~~ Section 600 (relating to rate of declared value  
13 excess profits tax) is amended by striking out the word  
14 “adjusted” wherever occurring therein.

15 ~~(2)~~ Section 601 (relating to declared value) is  
16 amended by striking out the word “adjusted” wherever  
17 occurring therein.

18 ~~(b) EFFECTIVE DATE.~~—This section shall be effective  
19 only with respect to income-tax taxable years ending after  
20 June 30, 1942, and succeeding years.

21 **SEC. 301. CAPITAL STOCK TAX TERMINATED.**

22 *The capital stock tax imposed by section 1200 shall not*  
23 *apply to any taxpayer in respect of the year ending June*  
24 *30, 1942, or any succeeding year.*

1 **(389)SEC. 302. DECLARED VALUE EXCESS PROFITS TAX TER-**  
2 **MINATED.**

3 *The declared value excess profits tax imposed by section*  
4 *600 shall not apply to any taxpayer in respect of any income-*  
5 *tax taxable year ending after June 30, 1942.*

6 **SEC. 303. DECLARED VALUE EXCESS-PROFITS TAX FOR**  
7 **TAXABLE YEARS OF LESS THAN TWELVE**  
8 **MONTHS.**

9 (a) **INCOME PLACED ON ANNUAL BASIS.**—Section  
10 601 (relating to the adjusted declared value) is amended by  
11 striking out the last sentence thereof.

12 (b) Subchapter B of Chapter 2 is amended by inserting  
13 after section 604 the following new section:

14 **“SEC. 605. INCOME-TAX TAXABLE YEAR OF LESS THAN**  
15 **TWELVE MONTHS.**

16 **“(a) GENERAL RULE.**—If the income-tax taxable year  
17 is a period of less than twelve months, the net income deter-  
18 mined under section 602 for such income-tax taxable year  
19 (referred to in this section as the ‘short taxable year’) shall  
20 be placed on an annual basis by multiplying the amount  
21 thereof by the number of days in the twelve months ending  
22 with the close of the short taxable year and dividing by the  
23 number of days in the short taxable year. The tax shall be  
24 such part of the tax computed on such annual basis as the  
25 number of days in the short taxable year is of the number of

1 days in the twelve months ending with the close of the short  
2 taxable year.

3       “(b) EXCEPTION.—If the taxpayer establishes the  
4 amount of the tax under section 600 for the period of twelve  
5 months beginning with the first day of the short taxable  
6 year, computed as if such twelve-month period were an  
7 income-tax taxable year, under the law applicable to the  
8 short taxable year, and using the (390)*adjusted* declared  
9 value applicable in determining the tax for such short taxable  
10 year, then the tax determined under subsection (a) for the  
11 short taxable year shall be reduced to an amount which is  
12 such part of the tax computed for the twelve-month period  
13 as the net income for the short taxable year is of the net  
14 income established for such twelve-month period. The tax-  
15 payer (other than a taxpayer to which the next sentence  
16 applies) shall compute the tax and file its return without  
17 the application of this subsection. If, prior to one year from  
18 the date of the beginning of the short taxable year, the tax-  
19 payer has disposed of substantially all its assets, in lieu of  
20 the twelve-month period provided in the preceding provi-  
21 sion of this subsection, the twelve-month period ending with  
22 the close of the short taxable year shall be used. For the  
23 purposes of this subsection, the net income for the short  
24 taxable year shall not be placed on an annual basis under  
25 the provisions of subsection (a), and the net income for the

1 twelve-month period used shall in no case be considered less  
 2 than the net income for the short taxable year. The benefits  
 3 of this subsection shall not be allowed unless the taxpayer,  
 4 at such time as regulations prescribed hereunder require,  
 5 makes application therefor in accordance with such regula-  
 6 tions, and such application, in the case of a taxpayer required  
 7 to file return without regard to this subsection, shall be con-  
 8 sidered a claim for credit or refund. The Commissioner,  
 9 with the approval of the Secretary, shall prescribe such reg-  
 10 ulations as he may deem necessary for the application of this  
 11 subsection."

12 **(391)(c) TAXABLE YEARS TO WHICH AMENDMENTS**  
 13 *APPLICABLE.*—*The amendments made by this section shall*  
 14 *be applicable to taxable years beginning after December 31,*  
 15 *1939.*

16 **(392)SEC. 304. TECHNICAL AMENDMENTS MADE NECES-**  
 17 **SARY BY CHANGE IN BASE FOR CORPO-**  
 18 **RATION TAX**

19 Section 602 (relating to net income for purposes of the  
 20 declared value excess profits tax) is amended to read as  
 21 follows:

22 **"SEC. 602. NET INCOME.**

23 "For the purposes of this subchapter the net income shall  
 24 be the same as the net income for income tax purposes for  
 25 the year in respect of which the tax under section 600 is im-

1 posed, computed without the deduction of the tax imposed by  
 2 section 600, but with a credit against net income equal to the  
 3 credit for dividends received provided in section 26 (b) of  
 4 Chapter 1."

## 5 TITLE IV—ESTATE AND GIFT TAXES

### 6 Part I—Estate Tax

#### 7 SEC. 401. ESTATES TO WHICH AMENDMENTS APPLICABLE.

8 Except as otherwise expressly provided, the amend-  
 9 ments made by this Part shall be applicable only with re-  
 10 spect to estates of decedents dying after the date of the  
 11 enactment of this Act.

#### 12 SEC. 402. COMMUNITY INTERESTS.

13 **(393)(a)** *TRANSFERS OF COMMUNITY PROPERTY IN CON-*  
 14 *TEMPLATION OF DEATH, ETC.—Section 811 (d) (relating*  
 15 *to revocable transfers) is amended by adding at the end*  
 16 *thereof the following new paragraph:*

17 " (5) *TRANSFERS OF COMMUNITY PROPERTY IN*  
 18 *CONTEMPLATION OF DEATH, ETC.—For the purposes of*  
 19 *this subsection and subsection (c), a transfer of property*  
 20 *held as community property by the decedent and surviv-*  
 21 *ing spouse under the law of any State, Territory, or*  
 22 *possession of the United States, or any foreign country,*  
 23 *shall be considered to have been made by the decedent,*  
 24 *except such part thereof as may be shown to have been*  
 25 *received as compensation for personal services actually*

1       *rendered by the surviving spouse or derived originally*  
2       *from such compensation or from separate property of*  
3       *the surviving spouse."*

4   **(394)(a) (b) GENERAL RULE.**—Section 811 (e) (relating  
5 to joint interests) is amended as follows:

6           (1) By striking out “(e) JOINT INTERESTS - ”  
7       and inserting in lieu thereof

8       “(e) JOINT AND COMMUNITY INTERESTS.—

9           “(1) JOINT INTERESTS.—”.

10          (2) By inserting at the end thereof the following  
11       new paragraph:

12           “(2) COMMUNITY INTERESTS.—To the extent of  
13       the interest therein held as community property by the  
14       decedent and surviving spouse under the law of any  
15       State, Territory, or possession of the United States, or  
16       any foreign country, except such part thereof as may  
17       be shown to have been received as compensation for  
18       personal services actually rendered by the surviving  
19       spouse or derived originally from such compensation or  
20       from separate property of the surviving spouse. In no  
21       case shall such interest included in the gross estate of  
22       the decedent be less than the value of such part of the  
23       community property as was subject to the decedent’s  
24       power of testamentary disposition.”

25   **(395)(b) (c) CROSS REFERENCE.**—For treatment of life in-

1 surance acquired with community property, see amendment  
2 to section 811 (g) made by section 404 of this Act.

3 **SEC. 403. POWERS OF APPOINTMENT.**

4 (a) **GENERAL RULE.**—Section 811 (f) (relating to  
5 powers of appointment) is amended to read as follows:

6 “(f) **POWERS OF APPOINTMENT.**—

7 “(1) **IN GENERAL.**—To the extent of any property  
8 (A) with respect to which the decedent has at the time  
9 of his death a power of appointment, or (B) with re-  
10 spect to which he has at any time exercised or released  
11 a power of appointment in contemplation of death, or  
12 (C) with respect to which he has at any time exercised  
13 or released a power of appointment by a disposition in-  
14 tended to take effect in possession or enjoyment at or  
15 after his death, or by a disposition under which he has  
16 retained for his life or any period not ascertainable with-  
17 out reference to his death or for any period which does  
18 not in fact end before his death (i) the possession or  
19 enjoyment of, or the right to the income from, the prop-  
20 erty, or (ii) the right, either alone or in conjunction  
21 with any person, to designate the persons who shall  
22 possess or enjoy the property or the income therefrom;  
23 except in case of a bona fide sale for an adequate and full  
24 consideration in money or money's worth.



1           “(2) DEFINITION OF POWER OF APPOINTMENT.—

2           For the purposes of this subsection the term ‘power of  
3           appointment’ means any power to appoint exercis-  
4           able by the decedent either alone or in conjunction with  
5           any person, except

6           “(A) a power to appoint within a class which  
7           does not include any others than the spouse of the  
8           (396)decedent, descendants of the decedent or his  
9           *spouse decedent, spouse of the creator of the power,*  
10           *descendants of the decedent or his spouse, descendants*  
11           *(other than the decedent) of the creator of the power*  
12           *or his spouse, spouses of such descendants, donees*  
13           described in section 812 (d), and donees described  
14           in section 861 (a) (3). As used in this subpara-  
15           graph, the term ‘descendant’ includes adopted and  
16           illegitimate descendants, and the term ‘spouse’ in-  
17           cludes former spouse; and

18           “(B) a power to appoint within a restricted  
19           class if the decedent did not receive any beneficial  
20           interest, vested or contingent, in the property from  
21           the creator of the power or thereafter acquire any  
22           such interest, and if the power is not exercisable  
23           to any extent for the benefit of the decedent, his  
24           estate, his creditors, or the creditors of his estate.

25           (397)If a power to appoint is exercised to any extent by

1 creating another power to appoint, such first power shall  
2 not be considered excepted under subparagraph (A) or  
3 (B) from the definition of power of appointment. If  
4 a power to appoint is exercised by creating another  
5 power to appoint, such first power shall not be consid-  
6 ered except under subparagraph (A) or (B) from the  
7 definition of power of appointment to the extent of the  
8 value of the property subject to such second power to  
9 appoint. For the purposes of the preceding sentence the  
10 value of the property subject to such second power to  
11 appoint shall be its value unreduced by any precedent  
12 or subsequent interest not subject to such power to appoint.

13       “(3) DATE OF EXISTENCE OF POWER.—For the  
14 purposes of this subsection the power of appointment  
15 shall be considered to exist on the date of the decedent’s  
16 death even though the exercise of the power is subject  
17 to a precedent giving of notice or even though the exer-  
18 cise of the power takes effect only on the expiration of a  
19 stated period after its exercise, whether or not on or  
20 before the date of the decedent’s death notice has been  
21 given or the power has been exercised.”

22       (b) DEDUCTIONS FOR CHARITABLE, ETC., USE.—

23       (1) AMENDMENT TO SECTION 812 (d).—Section  
24 812 (d) (relating to deduction in case of estates of citi-  
25 zens or residents) is amended by inserting after the first

1 sentence the following new sentence: "Property includ-  
 2 ible in the decedent's gross estate under section 811 (f)  
 3 received by a donee described in this subsection shall,  
 4 for the purposes of this subsection, be considered a  
 5 bequest of such decedent."

6 (2) **AMENDMENT TO SECTION 861 (a) (3).**—Sec-  
 7 tion 861 (a) (3) (relating to deduction in case of  
 8 estates of nonresidents not citizens) is amended by  
 9 inserting after the first sentence the following new  
 10 sentence: "Property includible in the decedent's gross  
 11 estate under section 811 (f) received by a donee de-  
 12 scribed in this paragraph shall, for the purposes of this  
 13 paragraph, be considered a bequest of such decedent."

14 (c) **LIABILITY OF RECIPIENT OF PROPERTY OVER**  
 15 **WHICH DECEDENT HAD POWER OF APPOINTMENT.**—Sec-  
 16 tion 826 (relating to collection of unpaid tax) is amended  
 17 by adding at the end thereof the following new subsection:

18 "(d) **LIABILITY OF RECIPIENT OF PROPERTY OVER**  
 19 **WHICH DECEDENT HAD POWER OF APPOINTMENT.**—Unless  
 20 the decedent directs otherwise in his will, if any part of the  
 21 gross estate upon which the tax has been paid consists of the  
 22 value of property included in the gross estate under section  
 23 811 (f), the executor shall be entitled to recover from the  
 24 person receiving such property by reason of the exercise,  
 25 nonexercise, or release of a power of appointment such por-

1 tion of the total tax paid as the value of such property bears  
 2 to the sum of the net estate and the amount of the exemp-  
 3 tion allowed in computing the net estate (398), *determined*  
 4 *under section 935 (c), or section 861, as the case may be. If*  
 5 *there is more than one such person the executor shall be*  
 6 *entitled to recover from such persons in the same ratio."*

7 **(399)-(d). POWERS WITH RESPECT TO WHICH AMEND-**  
 8 **MENTS NOT APPLICABLE.**—The amendments made by this  
 9 section shall not apply with respect to a power to appoint,  
 10 created on or before the date of enactment of this Act, which is  
 11 not exercisable in favor of the decedent, his estate, his creditors,  
 12 or the creditors of his estate if such power to appoint was  
 13 released by the decedent before two years after the date of  
 14 enactment of this Act or if such power to appoint was exer-  
 15 cised by the decedent on or before the date of enactment  
 16 of this Act, and shall not apply with respect to a power  
 17 to appoint released on or before the date of the enactment  
 18 of this Act.

19 **(d) POWERS WITH RESPECT TO WHICH AMEND-**  
 20 **MENTS NOT APPLICABLE.**—

21 **(1)** *The amendments made by this section shall not*  
 22 *apply with respect to a power to appoint, created on or*  
 23 *before the date of the enactment of this Act, which is other*  
 24 *than a power exercisable in favor of the decedent, his*  
 25 *estate, his creditors, or the creditors of his estate, unless*

1 such power is exercised after the date of the enactment of  
2 this Act.

3 (2) The amendments made by this section shall not  
4 become applicable with respect to a power to appoint  
5 created on or before the date of enactment of this Act,  
6 which is exercisable in favor of the decedent, his estate,  
7 his creditors, or the creditors of his estate, if at such  
8 date the donee of such power is under a legal disability  
9 to release such power, until six months after the termi-  
10 nation of such legal disability. For the purposes of the  
11 preceding sentence, an individual in the military or naval  
12 forces of the United States shall, until the termination of  
13 the present war, be considered under a legal disability to  
14 release a power to appoint.

15 (3) The amendments made by this section shall not  
16 apply with respect to any power to appoint created on  
17 or before the date of the enactment of this Act if it is  
18 released on or before January 1, 1943, or within the time  
19 limited by paragraph (2) in cases to which such para-  
20 graph is applicable; and any such releases shall not be  
21 deemed to be a transfer in contemplation of death.

22 **SEC. 404. PROCEEDS OF LIFE INSURANCE.**

23 (a) **GENERAL RULE.**—Section 811 (g) (relating to  
24 life insurance) is amended to read as follows:

25 **“(g) PROCEEDS OF LIFE INSURANCE.—**

1           “(1) RECEIVABLE BY THE EXECUTOR.—To the ex-  
2           tent of the amount receivable by the executor as insur-  
3           ance under policies upon the life of the decedent.

4           “(2) RECEIVABLE BY OTHER BENEFICIARIES.—To  
5           the extent (400) of the excess over \$40,000 of the amount  
6           receivable by all other beneficiaries as insurance under  
7           policies upon the life of the decedent (A) purchased  
8           with premiums, or other consideration, paid directly or  
9           indirectly by the decedent, in proportion that the amount  
10          so paid by the decedent bears to the total premiums paid  
11          for the insurance, or (B) with respect to which the  
12          decedent possessed at his death any of the incidents of  
13          ownership, exercisable either alone or in conjunction with  
14          any other person. For the purposes of clause (A) of this  
15          paragraph, if the decedent transferred, by assignment or  
16          otherwise, a policy of insurance, the amount paid di-  
17          rectly or indirectly by the decedent shall be reduced by  
18          an amount which bears the same ratio to the amount  
19          paid directly or indirectly by the decedent as the con-  
20          sideration in money or money's worth received by the  
21          decedent for the transfer bears to the value of the policy  
22          at the time of the transfer. (401) *For the purposes of*  
23          *clause (B) of this paragraph, the term 'incident of own-*  
24          *ership' does not include a reversionary interest.*

25          “(3) TRANSFER NOT A GIFT.—The amount receiv-

1       able under a policy of insurance transferred, by assign-  
2       ment or otherwise, by the decedent shall not be includible  
3       under paragraph (2) (A) if the transfer did not consti-  
4       tute a gift, in whole or in part, under Chapter 4, or, in  
5       case the transfer was made at a time when Chapter 4  
6       was not in effect, would not have constituted a gift, in  
7       whole or in part, under such chapter had it been in effect  
8       at such time.

9           “(4) **COMMUNITY PROPERTY.**—For the purposes  
10       of this subsection, premiums or other consideration paid  
11       with property held as community property by the in-  
12       sured and surviving spouse under the law of any State,  
13       Territory, or possession of the United States, or any  
14       foreign country, shall be considered to have been paid  
15       by the insured, except such part thereof as may be shown  
16       to have been received as compensation for personal  
17       services actually rendered by the surviving spouse or  
18       derived originally from such compensation or from sep-  
19       arate property of the surviving spouse; and the term  
20       ‘incidents of ownership’ includes incidents of ownership  
21       possessed by the decedent at his death as manager of the  
22       community.”

23   **(402)(b) LIABILITY OF LIFE INSURANCE BENEFICI-**  
24   **ARIES.**—Section 826 (c) (relating to apportionment of  
25   liability of beneficiaries) is amended to read as follows:

1       “(c) *LIABILITY OF LIFE INSURANCE BENEFICI-*  
 2 *ARIES.—Unless the decedent directs otherwise in his will, if*  
 3 *any part of the gross estate upon which tax has been paid*  
 4 *consists of proceeds of policies of insurance upon the life of*  
 5 *the decedent receivable by a beneficiary other than the execu-*  
 6 *tor, the executor shall be entitled to recover from such bene-*  
 7 *ficiary such portion of the total tax paid as the proceeds in*  
 8 *excess of \$40,000 of such policies bear to the sum of the net*  
 9 *estate and the amount of the exemption allowed in computing*  
 10 *the net estate, determined under section 935 (c). If there is*  
 11 *more than one such beneficiary the executor shall be entitled*  
 12 *to recover from such beneficiaries in the same ratio.”*

13 ~~(403)(b)~~ (c) *DECEDENTS TO WHICH AMENDMENTS*  
 14 *APPLICABLE.—The amendments made by subsection (a)*  
 15 *shall be applicable only to estates of decedents dying after*  
 16 *the date of the enactment of this Act; but in determining the*  
 17 *proportion of the premiums or other consideration paid*  
 18 *directly or indirectly by the decedent (but not the total*  
 19 *premiums paid) the amount so paid by the decedent on or*  
 20 *before January 10, 1941, shall be excluded if (404) on such*  
 21 *date the decedent possessed no at no time after such date*  
 22 *the decedent possessed an incident of ownership in the policy.*

23 **SEC. 405. DEDUCTIONS NOT ALLOWABLE IN EXCESS OF**  
 24 **CERTAIN PROPERTY OF ESTATE.**



1 estate tax deductions) is amended by inserting after the  
2 second sentence the following new (405) ~~sentenee~~ *sentences*:  
3 "There shall be disallowed the amount by which the deduc-  
4 tions specified in (406) ~~paragraph~~ *paragraphs* (1), (2),  
5 (3), (4), and (5) exceed the value, at the time of the  
6 decedent's death, of property subject to claims. For the  
7 purposes of this section the term 'property subject to claims'  
8 means property includible in the gross estate of the decedent  
9 which, or the avails of which, would, under the applicable law,  
10 bear the burden of the payment of such deductions in the  
11 final adjustment and settlement of the estate; and, for the  
12 purposes of this definition, the value of the property shall be  
13 reduced by the amount of the deduction under the next  
14 sentence attributable to such property."

15 (b) PRIOR TAXED PROPERTY.—The second sentence of  
16 the second paragraph of section 812 (c) (relating to deduc-  
17 tion for prior taxed property) is amended to read as follows:  
18 "The deduction under this subsection shall be reduced by an  
19 amount which bears the same ratio to the amounts allowed  
20 as deductions under subsections (a) and (d) and the  
21 amounts of general claims allowed as deductions under sub-  
22 section (b) as the amount otherwise deductible under this  
23 subsection bears to property subject to general claims. If  
24 the property includible in the gross estate to which the deduc-

1 tion under this subsection is attributable is not wholly  
 2 property subject to general claims—  
 3 “(1) before the application of the preceding sen-  
 4 tence, the amount of the deduction under this subsection  
 5 shall be reduced by that part of such amount as the  
 6 value, at the time of the decedent’s death, of such prop-  
 7 erty (to which such deduction is attributable) subject  
 8 to claims but not to general claims is of the value, at  
 9 the time of the decedent’s death, of such property, and  
 10 “(2) in the application of the preceding sentence  
 11 in reducing the balance, if any, of such deduction, ‘the  
 12 amount otherwise deductible under this subsection’ shall  
 13 be only that part of such amount otherwise deductible  
 14 (determined without regard to clause (1) of this para-  
 15 graph) as the value, at the time of the decedent’s death,  
 16 of such property (to which such deduction is attribu-  
 17 table) subject to general claims is of the value, at the  
 18 time of the decedent’s death, of such property.  
 19 For the purposes of the two preceding sentences and this  
 20 sentence, ‘general claims’ are the amounts allowed as deduc-  
 21 tions under subsection (b) which, under the applicable  
 22 law, in the final adjustment and settlement of the estate  
 23 may be enforced against any property subject to claims,  
 24 as defined in subsection (b), and ‘property subject to gen-

1 eral claims' is the value, at the time of the decedent's death,  
2 of property subject to claims, as defined in subsection (b),  
3 reduced by the value, at the time of the decedent's death,  
4 of that part of such property against which amounts allowed  
5 as deductions under subsection (b) which are not general  
6 claims may be enforced, under the applicable law, in the  
7 final adjustment and settlement of the estate."

8 (c) PRIOR TAXED PROPERTY OF NONRESIDENTS NOT  
9 CITIZENS.—The next to the last sentence of section 861 (a)  
10 (2) (relating to deduction for prior taxed property of non-  
11 residents not citizens of the United States) is amended to  
12 read as follows: "The deduction under this paragraph shall  
13 be reduced by an amount which bears the same ratio to the  
14 amounts allowed as deductions under paragraphs (3) and  
15 (4) and the amount of general claims allowed as deduction  
16 under paragraph (1) of this subsection as the amount other-  
17 wise deductible under this paragraph bears to property sub-  
18 ject to general claims. If the property includible in the gross  
19 estate to which the deduction under the paragraph is attribu-  
20 table is not wholly property subject to general claims—

21 " (A) before the application of the preceding sen-  
22 tence, the amount of the deduction under this paragraph  
23 shall be reduced by that part of such amount as the  
24 value, at the time of the decedent's death, of such prop-  
25 erty (to which such deduction is attributable) subject

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1 to claims but not to general claims is of the value, at  
2 the time of the decedent's death, of such property, and  
3 “(B) in the application of the preceding sentence  
4 in reducing the balance, if any, of such deduction, ‘the  
5 amount otherwise deductible under this paragraph’ shall  
6 be only that part of such amount otherwise deductible  
7 (determined without regard to subparagraph (A)) as  
8 the value, at the time of the decedent's death, of such  
9 property (to which such deduction is attributable) sub-  
10 ject to general claims is of the value, at the time of the  
11 decedent's death, of such property.

12 For the purposes of the two preceding sentences and this  
13 sentence, ‘general claims’ are the amounts allowed as deduc-  
14 tions under paragraph (1) of this subsection which, under  
15 the applicable law, in the final adjustment and settlement of  
16 the estate may be enforced against that part of any property  
17 subject to claims, as defined in subsection (b) of section 812  
18 which at the time of the decedent's death is in the United  
19 States, and ‘property subject to general claims’ is the value,  
20 at the time of the decedent's death, of such property subject  
21 to claims, reduced by the value, at the time of the decedent's  
22 death, of that part of such property subject to claims against  
23 which amounts allowed as deductions under paragraph (1)  
24 of this subsection which are not general claims may be

1 enforced, under the applicable law, in the final adjustment  
2 and settlement of the estate.”

3 **SEC. 406. CHARITABLE PLEDGES.**

4 (a) **PLEDGES IN CASE OF CITIZENS.**—Section 812

5 (b) (relating to deductions in computing net estate) is  
6 amended by inserting before the period at the end of  
7 the second sentence thereof the following: “; except that  
8 in any case in which any such claim is founded upon a promise  
9 or agreement of the decedent to make a contribution or gift  
10 to or for the use of any donee described in subsection (d)  
11 for the purposes specified therein, the deduction for such  
12 claim shall not be so limited, but shall be limited to the extent  
13 that it would be allowable as a deduction under subsection  
14 (d) if such promise or agreement constituted a bequest”.

15 (b) **PLEDGES BY NONRESIDENTS NOT CITIZENS.**—Sec-  
16 tion 861 (a) (1) (relating to deductions in computing net  
17 estate) is amended to read as follows:

18 “(1) **EXPENSES, LOSSES, INDEBTEDNESS, AND**  
19 **TAXES.**—That proportion of the deductions (407)*de-*  
20 *scribed in section 812 (e) and specified in section 812*

21 (b) (other than the deductions described in the fol-  
22 lowing sentence) which the value of such part bears  
23 to the value of his entire gross estate, wherever  
24 situated. Any deduction allowable under section 812

25 (b) in the case of a claim against the estate which was

1 founded upon a promise or agreement but was not con-  
 2 tracted for an adequate and full consideration in money  
 3 or money's worth shall be allowable under this paragraph  
 4 to the extent that it would be allowable as a deduction  
 5 under paragraph (3) if such promise or agreement con-  
 6 stituted a bequest."

7 **SEC. 407. DEDUCTION ON ACCOUNT OF PROPERTY PREVI-**  
 8 **OUSLY TAXED.**

9 (a) **AMENDMENTS TO INTERNAL REVENUE CODE**  
 10 **PROVISIONS RELATING TO PROPERTY PREVIOUSLY**  
 11 **TAXED.—**

12 (1) The first paragraph of section 812 (c) is  
 13 amended to read as follows:

14 "(c) **PROPERTY PREVIOUSLY TAXED.**—An amount  
 15 equal to the value of any property (1) forming a part of  
 16 the gross estate situated in the United States of any person  
 17 who died within five years prior to the death of the decedent,  
 18 or (2) transferred to the decedent by gift within five years  
 19 prior to his death, where such property can be identified  
 20 as having been received by the decedent from the donor by  
 21 gift, or from such prior decedent by gift, bequest, devise,  
 22 or inheritance, or which can be identified as having been  
 23 acquired in exchange for property so received. Property  
 24 includible in the gross estate of the prior decedent under  
 25 section 811 (f) and property included in (408) ~~net~~ total gifts

1 of the donor under section 1000 (c) received by the decedent  
2 described in this subsection shall, for the purposes of this  
3 subsection, be considered a bequest of such prior decedent  
4 or gift of such donor. This deduction shall be allowed  
5 only where a gift tax imposed under Chapter 4, or under  
6 Title III of the Revenue Act of 1932, 47 Stat. 245, or  
7 an estate tax imposed under this chapter or any prior Act  
8 of Congress, was finally determined and paid by or on  
9 behalf of such donor, or the estate of such prior decedent,  
10 as the case may be, and only in the amount finally deter-  
11 mined as the value of such property in determining the value  
12 of the gift, or the gross estate of such prior decedent, and  
13 only to the extent that the value of such property is included  
14 in the decedent's gross estate, and only if in determining  
15 the value of the net estate of the prior decedent no deduction  
16 was allowable under this subsection, section 861 (a) (2), or  
17 the corresponding provisions of any prior Act of Congress,  
18 in respect of the property or property given in exchange  
19 therefor."

20 (2) The first sentence of the second paragraph of  
21 section 812 (c) is amended to read as follows:

22 "Where a deduction was allowed of any mortgage or  
23 other lien in determining the gift tax, or the estate tax of  
24 the prior decedent, which was paid in whole or in part  
25 prior to the decedent's death, then the deduction allowable

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1 under this subsection shall be reduced by the amount so paid.”

2 (3) The first two sentences of section 861 (a) (2)  
3 are amended to read as follows:

4 “(2) PROPERTY PREVIOUSLY TAXED.—An amount  
5 equal to the value of any property (A) forming a part  
6 of the gross estate situated in the United States of any  
7 person who died within five years prior to the death of  
8 the decedent, or (B) transferred to the decedent by gift  
9 within five years prior to his death, where such property  
10 can be identified as having been received by the decedent  
11 from the donor by gift, or from such prior decedent by  
12 gift, bequest, devise, or inheritance, or which can be  
13 identified as having been acquired in exchange for prop-  
14 erty so received. Property includible in the gross estate  
15 of the prior decedent under section 811 (f) and prop-  
16 erty included in ~~(409)~~ *net total* gifts of the donor under  
17 section 1000 (c) received by the decedent described in  
18 this paragraph shall, for the purposes of this paragraph,  
19 be considered a bequest of such prior decedent or gift  
20 of such donor. This deduction shall be allowed only  
21 where a gift tax imposed under Chapter 4, or under  
22 Title III of the Revenue Act of 1932, 47 Stat. 245, or  
23 an estate tax imposed under this chapter or any prior  
24 Act of Congress, was finally determined and paid by or



1 on behalf of such donor, or the estate of such prior  
2 decedent, as the case may be, and only in the amount  
3 finally determined as the value of such property in de-  
4 termining the value of the gift, or the gross estate of  
5 such prior decedent, and only to the extent that the  
6 value of such property is included in that part of the  
7 decedent's gross estate which at the time of his death  
8 is situated in the United States, and only if in deter-  
9 mining the value of the net estate of the prior decedent  
10 no deduction was allowable under this paragraph, sec-  
11 tion 812 (c), or the corresponding provisions of any  
12 prior Act of Congress, in respect of the property or  
13 property given in exchange therefor."

14 (b) AMENDMENTS TO REVENUE ACT OF 1926 RE-  
15 LATING TO PROPERTY PREVIOUSLY TAXED.—

16 (1) The second sentence of section 303 (a) (2)  
17 of the Revenue Act of 1926, as amended, is amended  
18 by striking out "this" following "estate tax imposed  
19 under" and inserting in lieu thereof "the Revenue Act  
20 of 1932".

21 (2) The second sentence of section 303 (b) (2)  
22 of the Revenue Act of 1926, as amended, is amended  
23 by striking out "this" following "estate tax imposed  
24 under" and inserting in lieu thereof "the Revenue Act  
25 of 1932".

1 (c) EFFECTIVE DATES.—

2 (1) The amendments made by subsection (a) (1):  
3 shall be applicable to estates of decedents dying after the  
4 date of enactment of this Act, except that the reference  
5 therein to "an estate tax imposed under this chapter or  
6 any prior Act of Congress," shall be applicable with  
7 respect to estates of decedents dying after February 10,  
8 1939.

9 (2) The amendment made by subsection (a) (2)  
10 shall be applicable with respect to estates of decedents  
11 dying after February 10, 1939.

12 (3) The amendments made by subsection (a) (3)  
13 shall be applicable to estates of decedents dying after the  
14 date of enactment of this Act, except that the reference  
15 therein to "an estate tax imposed under this chapter or  
16 any prior Act of Congress," shall be applicable with  
17 respect to estates of decedents dying after February 10,  
18 1939.

19 (4) The amendments made by subsection (b) shall  
20 be applicable with respect to estates of decedents dying  
21 after the date of enactment of the Revenue Act of 1932.

22 (d) OVERPAYMENTS.—If the refund or credit of any  
23 overpayment to the extent resulting from the application of  
24 subsections (a), (b), and (c) of this section, is prevented  
25 on the date of enactment of this Act or within one year from

1 such date, then, notwithstanding any other provision of law  
 2 or rule of law (other than this subsection of this section and  
 3 other than section 3761 of the Internal Revenue Code or  
 4 section 3229 of the Revised Statutes, or such section as  
 5 amended by section 815 of the Revenue Act of 1938, relating  
 6 to compromises), such overpayment shall be refunded or  
 7 credited in the same manner as in the case of an estate tax  
 8 erroneously collected if claim therefor is filed within one year  
 9 from the date of enactment of this Act.

10 **SEC. 408. DEDUCTION FOR DISCLAIMED LEGACIES PASS-**  
 11 **ING TO CHARITIES.**

12 (a) **DEDUCTION IN CASE OF CITIZENS AND RESI-**  
 13 **DENTS.**—The first sentence of section 812 (d) (relating to  
 14 the deduction for charitable, etc., bequests) is amended by  
 15 inserting after “The amount of all bequests, legacies, devises,  
 16 or transfers” the following: “(including the interest which  
 17 falls into any such bequest, legacy, devise, or transfer as a  
 18 result of an irrevocable disclaimer of a bequest, legacy, de-  
 19 vise, transfer, or power, if (410) ~~such disclaimer becomes~~  
 20 ~~irrevocable~~ *the disclaimer is made* prior to the date prescribed  
 21 for the filing of the estate tax return)”. [1

22 (b) **DEDUCTION IN CASE OF NON-RESIDENTS NOT**  
 23 **CITIZENS.**—The first sentence of section 861 (a) (3)  
 24 (relating to the deduction for charitable, etc., bequests) is

1 amended by inserting after "The amount of all bequests,  
 2 legacies, devises, or transfers" the following: "(including  
 3 the interest which falls into any such bequest, legacy, devise,  
 4 or transfer as a result of an irrevocable disclaimer of a bequest,  
 5 legacy, devise, transfer, or power, if (411) such disclaimer  
 6 becomes irrevocable *the disclaimer is made* prior to the date  
 7 prescribed for the filing of the estate tax return)".

8 (c) ESTATES WITH RESPECT TO WHICH AMEND-  
 9 MENTS APPLICABLE.—The amendments made by this sec-  
 10 tion shall be applicable to estates of decedents dying after  
 11 February 10, 1939.

12 SEC. 409. DENIAL OF DEDUCTION ON BEQUEST TO CER-  
 13 TAIN PROPAGANDA ORGANIZATIONS.

14 (a) CITIZENS AND RESIDENTS.—Section 812 (d) (re-  
 15 lating to deduction for bequests, etc., to charity) is amended  
 16 by inserting before the period at the end of the first sentence  
 17 the following: ", and no substantial part of the activities  
 18 of such trustee or trustees, or of such fraternal society, order,  
 19 or association, is carrying on propaganda, or otherwise  
 20 attempting, to influence legislation".

21 (b) NONRESIDENTS NOT CITIZENS.—Section 861 (a)  
 22 (3) (relating to deduction for bequests, etc., to charity)  
 23 is amended by inserting before the period at the end of  
 24 the first sentence the following: ", and no substantial part

1 of the activities of such trustee or trustees, or of such  
2 fraternal society, order, or association, is carrying on propa-  
3 ganda, or otherwise attempting, to influence legislation”.

4 **SEC. 410. PRIORITY OF CREDIT FOR LOCAL DEATH TAXES.**

5 (a) **AMENDMENT TO CREDIT FOR 1924 GIFT TAX.—**

6 Section 813 (a) (1) (relating to credit for estate tax of  
7 gift tax paid under 1924 Act) is amended by inserting after  
8 “subchapter” where it occurs the second time the following:  
9 “(after deducting from such tax the credit provided by  
10 section 813 (b) )”.

11 (b) **AMENDMENT TO CREDIT FOR 1932 AND CHAPTER**

12 **4 GIFT TAX.—**Section 813 (a) (2) (A) (relating to credit  
13 for estate tax of gift tax paid under 1932 Act or Chapter 4)  
14 is amended by inserting after “860” where it occurs the  
15 second time the following: “(after deducting from such tax  
16 the credits provided by section 813 (a) (1) and (b) )”.

17 (c) **80 PER CENTUM LIMIT ON LOCAL DEATH TAX**

18 **COMPUTED BEFORE ALLOWANCE OF GIFT TAX CREDIT.—**

19 Section 813 (b) (relating to credit for local estate, succes-  
20 sion, legacy, and inheritance taxes) is amended by striking  
21 out “(after deducting from such tax the credits provided by  
22 section 813 (a) (2) )” and inserting in lieu thereof “(be-  
23 fore deducting from such tax the credits provided by section  
24 813 (a) (1) and (2) )”.

1 **SEC. 411. LIABILITY OF CERTAIN TRANSFEREES.**

2 (a) **IMPOSITION OF LIABILITY.**—Section 827 (b) is  
3 amended to read as follows:

4 “(b) **LIABILITY OF TRANSFEREE, ETC.**—If the tax  
5 herein imposed is not paid when due, then the spouse, trans-  
6 feree, trustee, surviving tenant, person in possession of the  
7 property by reason of the exercise, nonexercise, or release of  
8 a power of appointment, or beneficiary, who receives, or has on  
9 the date of the decedent’s death, property included in the gross  
10 estate under section 811 (b), (c), (d), (e), (f), or (g), to  
11 the extent of the value, at the time of the decedent’s death, of  
12 such property, shall be personally liable for such tax. Any part  
13 of such property sold by such spouse, transferee, trustee, sur-  
14 viving tenant, person in possession of property by reason of the  
15 exercise, nonexercise, or release of a power of appointment,  
16 or beneficiary, to a bona fide purchaser for an adequate and  
17 full consideration in money or money’s worth shall be divested  
18 of the lien provided in section 827 (a) and a like lien shall  
19 then attach to all the property of such spouse, transferee,  
20 trustee, surviving tenant, person in possession, or beneficiary,  
21 except any part sold to a bona fide purchaser for an adequate  
22 and full consideration in money or money’s worth.”

23 (b) **DEFINITION OF TRANSFEREE.**—Section 900 (e) is  
24 amended to read as follows:

1       “(e) DEFINITION OF ‘TRANSFEEE’.—As used in this  
2 section, the term ‘transferee’ includes heir, legatee, devisee,  
3 and distributee, and includes a person who, under section 827  
4 (b), is personally liable for any part of the tax.”

5       **SEC. 412. EXEMPTION OF ESTATES OF NONRESIDENTS**  
6                               **NOT CITIZENS.**

7       (a) EXEMPTION.—Section 861 (a) (relating to de-  
8 ductions in case of estates of nonresidents not citizens) is  
9 amended by inserting at the end thereof the following new  
10 paragraph:

11               “(4) EXEMPTION.—An exemption of \$2,000.”

12       (b) TECHNICAL AMENDMENT WITH RESPECT TO  
13 PROPERTY PREVIOUSLY TAXED.—For technical amendment  
14 with respect to property previously taxed, see section  
15 (412)407 405 (c) of this Act.

16       (c) RETURNS.—Section 864 (a) (1) (relating to re-  
17 turns of executors of estates of nonresidents not citizens) is  
18 amended to read as follows:

19               “(1) RETURNS BY EXECUTOR.—In the case of the  
20 estate of every nonresident not a citizen of the United  
21 States any part of whose gross estate situated in the  
22 United States exceeds the amount of the specific exemp-  
23 tion provided in section 861 (a) (4), the executor  
24 shall make a return under oath in duplicate, setting  
25 forth (A) the value of that part of the gross estate of

1 the decedent situated in the United States at the time  
2 of his death; (B) the deductions allowed under section  
3 861; (C) the value of the net estate of the decedent  
4 as defined in section 861; (D) the tax paid or payable  
5 thereon; or such part of such information as may at the  
6 time be ascertainable and such supplemental data as  
7 may be necessary to establish the correct tax."

8 **(413) SEC. 413. PERIOD FOR FILING PETITION EXTENDED IN**  
9 **CERTAIN CASES.**

10 *(a) PERIOD EXTENDED.—Section 871 (a) (1) (relat-*  
11 *ing to period for filing petition with Board of Tax Appeals)*  
12 *is amended by inserting at the end thereof the following new*  
13 *sentence: "If the notice is addressed to an executor outside the*  
14 *States of the Union and the District of Columbia, the period*  
15 *specified in this paragraph shall be one hundred and fifty days*  
16 *in lieu of ninety days."*

17 *(b) EFFECTIVE DATE.—The amendment made by this*  
18 *section shall be applicable with respect to notices of deficiency*  
19 *mailed after the date of the enactment of this Act.*

20 **(414) SEC. 413. SPECIFIC EXEMPTION.**

21 ~~*(a) AMOUNT OF EXEMPTION.—Section 935 (e) (re-*~~  
22 ~~*lating to the exemption for the purposes of the additional*~~  
23 ~~*estate tax) is amended by striking out "\$10,000" and in*~~  
24 ~~*serting in lieu thereof "\$60,000".*~~

25 ~~*(b) TECHNICAL AMENDMENT.—The first sentence of*~~



1 section 826 (e) (relating to liability of life insurance bene-  
2 ficiaries) is amended by striking out “, in excess of \$40,000,”.

3 **SEC. 414. OVERPAYMENT FOUND BY BOARD.**

4 The second sentence of section 912 (relating to over-  
5 payment found by the Board of Tax Appeals) is amended  
6 by striking out “or the filing of the petition” and inserting  
7 in lieu thereof “or the mailing of the notice of deficiency”.

8 **(415)SEC. 415. DEDUCTION OF FOREIGN ESTATE, SUCCESSION,  
9 LEGACY, AND INHERITANCE TAXES, ETC.**

10 (a) *GENERAL RULE.*—Section 812 (relating to estate  
11 tax deductions) is amended by inserting at the end thereof  
12 the following new subsection:

13 “(e) *FOREIGN ESTATE, SUCCESSION, LEGACY,  
14 AND INHERITANCE TAXES.*—The amount of any estate,  
15 succession, legacy, or inheritance taxes actually paid to  
16 any foreign country in respect of any property situated  
17 within such foreign country, which is included in the  
18 gross estate and which the Commissioner determines can-  
19 not be withdrawn from such country by reason of freez-  
20 ing orders, exchange restrictions, or other prohibitions  
21 (not including any such taxes paid with respect to the  
22 estate of a person other than the decedent). This sub-  
23 section shall apply in the case of a resident not a citizen  
24 only if the decedent at the time of his death was an alien  
25 in respect of such foreign country. The deduction other-

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1        *wise allowable under this subsection shall be reduced by*  
2        *(1) the extent to which the value at the time of the de-*  
3        *cedent's death of such property, or its avails, would,*  
4        *under the applicable law, bear the burden of the pay-*  
5        *ment of items allowed as deductions under subsection*  
6        *(b) in the final adjustment and settlement of the estate,*  
7        *(2) the amount of losses deducted under subsection (b)*  
8        *attributable to such property, and (3) the amount de-*  
9        *ducted under subsection (c) and under subsection (d)*  
10       *in respect of such property. The amount of such deduc-*  
11       *tion in respect of any such property shall not exceed the*  
12       *value of such property included in the gross estate. For*  
13       *period of limitations, deficiencies and overpayments in*  
14       *certain cases, see section 874 (b) (3)."*

15       *(b) AMENDMENT OF SECTION 812 (b).—Section 812*  
16       *(b) (relating to deductions for expenses, losses, indebtedness,*  
17       *and taxes) is amended by inserting before the period at the*  
18       *end of the first sentence thereof the following: "except as*  
19       *provided in subsection (e)".*

20       *(c) AMENDMENT OF SECTION 813 (b).—Section 813*  
21       *(b) (relating to credits for State estate, succession, legacy,*  
22       *and inheritance taxes) is amended by inserting at the end*  
23       *thereof the following sentence: "For period of limitations,*  
24       *deficiencies, and overpayments in certain cases, see section*  
25       *874 (b) (3)".*

1        *(d) TECHNICAL AMENDMENT WITH RESPECT TO DE-*  
2 *DUCTIONS IN CASE OF NONRESIDENTS NOT CITIZENS.—*  
3 *For technical amendment with respect to deductions in the*  
4 *case of estates of nonresidents not citizens, see section 406 (b)*  
5 *of this Act.*

6        *(e) EXTENSION OF PERIOD OF LIMITATIONS, ETC.,*  
7 *IN CASE OF RECOVERY OF TAXES CLAIMED AS DEDUC-*  
8 *TION OR CREDIT.—Section 874 (b) (relating to exceptions*  
9 *to general rule as to period of limitation upon assessment and*  
10 *collection) is amended by inserting at the end thereof the*  
11 *following new paragraph:*

12            *“(3) RECOVERY OF TAXES CLAIMED AS DEDUC-*  
13 *TION OR CREDIT.—If any tax claimed as a deduction or*  
14 *credit under section 812 (e) or section 813 (b) is recov-*  
15 *ered from any foreign country, State, Territory, the Dis-*  
16 *trict of Columbia, or possession of the United States, the*  
17 *executor, or if the recovery is obtained after the executor*  
18 *is discharged, then any person or persons recovering such*  
19 *amount, shall give notice of such recovery to the Com-*  
20 *missioner at such time and in such manner as may be*  
21 *required by regulations prescribed by the Commissioner*  
22 *with the approval of the Secretary. \* With respect to the*  
23 *taxes due under this subchapter as a result of such re-*  
24 *covery of the amount so claimed as a deduction or*

1     *credit, the limitations provided in subsection (a) shall*  
2     *apply from the time such notice, instead of the return,*  
3     *is filed, or, in case of a failure to file such notice, shall*  
4     *not be applicable. If assessment and collection of any*  
5     *deficiency resulting from such recovery is prevented,*  
6     *except as provided in section 871 (a), then notwith-*  
7     *standing any provision of law or rule of law other than*  
8     *this paragraph and other than section 3761, notice of*  
9     *such deficiency shall be given and assessment and col-*  
10    *lection thereof shall be made in the same manner as*  
11    *in the case of any other estate tax deficiency. If the*  
12    *refund or credit of any overpayment to the extent re-*  
13    *sulting from the application of the preceding sentence*  
14    *is prevented within three years next after payment is*  
15    *made in accordance with the preceding sentence, then,*  
16    *notwithstanding any provision of law or rule of law*  
17    *other than this paragraph and other than section 3761,*  
18    *such overpayment shall be refunded or credited in the*  
19    *same manner as in the case of an estate tax erroneously*  
20    *collected if claim therefor is filed within three years from*  
21    *the date of such payment.”*

22     *(f) CROSS REFERENCE.—Section 871 (a) (2) is*  
23    *amended by striking out “Section 872, relating to jeopardy*

1 assessments; and" and by inserting in lieu thereof the  
2 following:

3 "Section 872, relating to jeopardy assessments;

4 "Section 874 (b) (3), relating to deficiencies in cer-  
5 tain cases; and"

6 (g) *CROSS REFERENCE.*—Section 913 is amended by  
7 inserting immediately after the introductory clause the fol-  
8 lowing:

9 "Section 874 (b) (3), Recovery of tax claimed as  
10 deduction or credit."

11 (h) *ESTATES TO WHICH AMENDMENTS APPLI-*  
12 *CABLE.*—

13 (1) *The amendments made by this section shall be*  
14 *applicable to estates of decedents dying after December*  
15 *31, 1941, except as provided in paragraph (2).*

16 (2) *The amendments made by this section insofar as*  
17 *they relate to section 812 (e) shall not be applicable to*  
18 *estates of decedents dying more than one year after the*  
19 *termination of the present war.*

20 **Part II—Gift Tax**

21 **SEC. 45L GIFTS TO WHICH AMENDMENTS APPLICABLE.**

22 Except as otherwise expressly provided, the amend-  
23 ments made by this Part shall be applicable only with respect  
24 to gifts made in the calendar year 1943, and succeeding  
25 calendar years.

## 1 SEC. 452. POWERS OF APPOINTMENT.

2 (a) GENERAL RULE.—Section 1000 (relating to im-  
3 position of gift tax) is amended by inserting at the end  
4 thereof the following new subsection:

5 “~~(416)~~(d) (c) POWERS OF APPOINTMENT.—An exer-  
6 cise or release of a power of appointment shall be deemed a  
7 transfer of property by the individual possessing such power.  
8 For the purposes of this subsection the term ‘power of ap-  
9 pointment’ means any power to appoint exercisable by an  
10 individual either alone or in conjunction with any person,  
11 except—

12 “(1) a power to appoint within a class which does  
13 not include any others than the spouse of such individual,  
14 ~~(417)~~descendants of such individual or his spouse  
15 *spouse of the creator of the power, descendants of such*  
16 *individual or his spouse, descendants (other than such*  
17 *individual) of the creator of the power or his spouse,*  
18 spouses of such descendants, donees described in section  
19 1004 (a) (2), and donees described in section 1004  
20 (b). As used in this paragraph, the term ‘descendant’  
21 includes adopted and illegitimate descendants, and the  
22 term ‘spouse’ includes former spouse; and

23 “(2) a power to appoint within a restricted class  
24 if such individual did not receive any beneficial interest,  
25 vested or contingent, in the property from the creator

1 of the power or thereafter acquire any such interest, and  
2 if the power is not exercisable to any extent for the  
3 benefit of such individual, his estate, his creditors, or  
4 the creditors of his estate.

5 **(418)** *A donated power to appoint created on or before*  
6 *the date of the enactment of this Act, which is estab-*  
7 *lished in favor of the decedent, his estate, his credit or*  
8 *the creditors of his estate, if such power is released before*  
9 *January 1, 1943; and release of such power before*  
10 *January 1, 1943, shall not be deemed a transfer of*  
11 *property by the individual possessing such power.*

12 **(419)** *If a power to appoint is exercised to any extent by*  
13 *creating another power to appoint, such first power shall not*  
14 *be considered excepted under paragraph (1) or (2) from the*  
15 *definition of power of appointment. If a power to appoint*  
16 *is exercised by creating another power to appoint, such first*  
17 *power shall not be considered excepted under paragraph (1)*  
18 *or (2) from the definition of power of appointment to the*  
19 *extent of the value of the property subject to such second*  
20 *power to appoint. For the purposes of the preceding sentence*  
21 *the value of the property subject to such second power to*  
22 *appoint shall be its value unreduced by any precedent or*  
23 *subsequent interest not subject to such power to appoint."*

24 **(420)(b) POWERS WITH RESPECT TO WHICH AMEND-**  
25 **MENTS NOT APPLICABLE.**—The amendments made by this

1 section shall not apply with respect to a power to appoint,  
2 created on or before the date of enactment of this Act, which  
3 is not exercisable in favor of the individual, his estate, his  
4 creditors, or the creditors of his estate if the power to appoint  
5 was released by such individual before two years after the date  
6 of enactment of this Act or if the power to appoint was exer-  
7 cised by such individual on or before the date of enactment  
8 of this Act, and shall not apply with respect to a power  
9 to appoint released on or before the date of the enactment  
10 of this Act.

11 (b) *POWERS WITH RESPECT TO WHICH AMEND-*  
12 *MENTS NOT APPLICABLE.—*

13 (1) *The amendments made by this section shall not*  
14 *apply with respect to a power to appoint, created on or*  
15 *before the date of enactment of this Act, which is other*  
16 *than a power exercisable in favor of the donee of the*  
17 *power, his estate, his creditors, or the creditors of his*  
18 *estate, unless such power is exercised after the date of*  
19 *enactment of this Act.*

20 (2) *The amendments made by this section shall not*  
21 *become applicable with respect to a power to appoint*  
22 *created on or before the date of enactment of this Act,*  
23 *which is exercisable in favor of the donee of the power,*  
24 *his estate, his creditors, or the creditors of his estate, if*



1        *at such date the donee of such power is under a legal*  
 2        *disability to release such power, until six months after*  
 3        *the termination of such legal disability. For the pur-*  
 4        *poses of the preceding sentence, an individual in the*  
 5        *military or naval forces of the United States shall, until*  
 6        *the termination of the present war, be considered under*  
 7        *a legal disability to release a power to appoint.*

8        **SEC. 453. GIFTS OF COMMUNITY PROPERTY.**

9        Section 1000 (relating to tax on gifts) is amended by  
 10       inserting at the end thereof the following new subsection:

11        “~~(421)(e) COMMUNITY PROPERTY.—All gifts of com-~~  
 12        ~~munity property~~ (d) *COMMUNITY PROPERTY.—All gifts of*  
 13        *property held as community property under the law of any*  
 14        *State, Territory, or possession of the United States, or any*  
 15        *foreign country shall be considered to be the gifts of the hus-*  
 16        *band except that gifts of such property as may be shown to*  
 17        *have been received as compensation for personal services*  
 18        *actually rendered by the wife or derived originally from such*  
 19        *compensation or from separate property of the wife shall be*  
 20        *considered to be gifts of the wife.”*

21        **SEC. 454. EXCLUSION FROM NET GIFTS REDUCED.**

22        Section 1003 (b) (2) (relating to exclusion of gifts)  
 23        is amended to read as follows:

24        “(2) **GIFTS AFTER 1938 AND PRIOR TO 1943.—In**  
 25        **the case of gifts (other than gifts in trust or of future**

1 interests in property) made to any person by the donor  
2 during the calendar year 1939 and subsequent calendar  
3 years prior to 1943, the first \$4,000 of such gifts to such  
4 person shall not, for the purposes of subsection (a), be  
5 included in the total amount of gifts made during such  
6 year.

7 “(3) GIFTS AFTER 1942.—In the case of gifts  
8 (other than gifts (422) ~~in trust or~~ of future interests in  
9 property) made to any person by the donor during the  
10 calendar year 1943 and subsequent calendar years, the  
11 first \$3,000 of such gifts to such person shall not, for  
12 the purposes of subsection (a), be included in the total  
13 amount of gifts made during such year.”

14 **SEC. 455. SPECIFIC EXEMPTION OF GIFTS REDUCED.**

15 That part of section 1004 which precedes paragraph (2)  
16 of subsection (a) is amended to read as follows:

17 **“SEC. 1004. DEDUCTIONS.**

18 “In computing net gifts for the calendar year 1942 and  
19 preceding calendar years, there shall be allowed (except as  
20 otherwise provided in paragraph (1) of subsection (a))  
21 such deductions as are provided for under the gift tax laws  
22 applicable to the years in which the gifts were made.

23 “In computing net gifts for the calendar year 1943 and  
24 subsequent calendar years, there shall be allowed as deduc-  
25 tions:

1       “(a) RESIDENTS.—In the case of a citizen or resident—

2               “(1) SPECIFIC EXEMPTION.—An exemption of  
3       \$30,000, less the aggregate of the amounts claimed and  
4       allowed as specific exemption in the computation of gift  
5       taxes for the calendar year 1932 and all calendar years  
6       intervening between that calendar year and the calendar  
7       year for which the tax is being computed under the laws  
8       applicable to such years. This exemption shall be ap-  
9       plied in all computations in respect of the calendar year  
10      1942 and previous calendar years for the purpose of  
11      computing the tax for the calendar year 1943 or any  
12      calendar year thereafter.”

13   **(423) SEC. 456. PERIOD FOR FILING PETITION EXTENDED IN**  
14                                    **CERTAIN CASES.**

15       *(a) PERIOD EXTENDED.—Section 1012 (a) (1) (re-*  
16       *lating to period for filing petition with Board of Tax*  
17       *Appeals) is amended by inserting at the end thereof the*  
18       *following new sentence: “If the notice is addressed to a donor*  
19       *outside the States of the Union and the District of Columbia,*  
20       *the period specified in this paragraph shall be one hundred*  
21       *and fifty days in lieu of ninety days.”*

22       *(b) EFFECTIVE DATE.—The amendment made by this*  
23       *section shall be applicable with respect to notices of deficiency*  
24       *mailed after the date of the enactment of this Act.*

1 **SEC. (424)<sup>456</sup> 457. OVERPAYMENT FOUND BY BOARD.**

2       The second sentence of section 1027 (d) (relating to  
3 overpayment found by the Board of Tax Appeals) is  
4 amended by striking out "or the filing of the petition" and  
5 inserting in lieu thereof "or the mailing of the notice of  
6 deficiency".

7 **SEC. (425)<sup>457</sup> 458. DEFINITION OF PROPERTY IN UNITED**  
8 **STATES.**

9       (a) **TECHNICAL AMENDMENT TO DEFINITION.**—Sec-  
10 tion 1030 (b) is amended to read as follows:

11       “(b) **PROPERTY WITHIN THE UNITED STATES.**—Stock  
12 in a domestic corporation owned and held by a nonresident  
13 not a citizen of the United States shall be deemed property  
14 situated within the United States.”

15       (b) **EFFECTIVE DATE OF AMENDMENT.**—The amend-  
16 ment made by this section shall be effective as of February  
17 10, 1939.

18 **TITLE V—AMENDMENTS TO PRIOR REVE-**  
19 **NUE ACTS AND MISCELLANEOUS PRO-**  
20 **VISIONS**

21 **SEC. 501. ADDITIONAL (426)<sup>CREDIT CREDITS FOR UNDIS-</sup>**  
22 **TRIBUTED PROFITS TAX.**

23       (a) **AMENDMENTS TO THE REVENUE ACT OF 1936.**—

24       (1) Section 14 (a) (2) of the Revenue Act of

1 1936 (relating to definition of undistributed net income)  
 2 is amended to read as follows:

3 (427)“(2) The term ‘undistributed net income’ means  
 4 the adjusted net income minus the sum of (A) the  
 5 dividends paid credit provided in section 27, (B) the  
 6 credit provided in section 26 (e), relating to contracts  
 7 restricting dividends; and (C) except in cases where  
 8 section 26 (e) (1) is applicable, the deficit credit  
 9 provided in section 26 (f).”

10 “(2) The term ‘undistributed net income’ means  
 11 the adjusted net income minus the sum of (A) the  
 12 dividend paid credit provided in section 27, (B) the  
 13 credit provided in section 26 (c) relating to restric-  
 14 tions on payment of dividends, (C) except in cases  
 15 where section 26 (c) (1) is applicable, the deficit credit  
 16 provided in section 26 (f), and (D) the redemption  
 17 credit provided in section 26 (g).”

18 (2) Section 26 (c) of the Revenue Act of 1936  
 19 (relating to credits of corporations) is amended by  
 20 amending the heading to read as follows: “(c) RESTRIC-  
 21 TIONS ON PAYMENT OF DIVIDENDS.—”; and by amend-  
 22 ing paragraph (3) to read as follows:

23 “(3) DEFICIT CORPORATIONS.—In the case of a  
 24 corporation having a deficit in accumulated earnings and  
 25 profits as of the close of the preceding taxable year, the

1 amount of such deficit, if the corporation is prohibited  
2 by a provision of a law or of an order of a public regu-  
3 latory body from paying dividends during the existence  
4 of a deficit in accumulated earnings and profits, and if  
5 such provision was in effect prior to May 1, 1936.

6 “(4) **DOUBLE CREDIT NOT ALLOWED.**—If more  
7 than one of the credits provided in the foregoing para-  
8 graphs (1), (2), and (3) apply, then the paragraph  
9 which allows the greatest credit shall be applied; and,  
10 if the credit allowable under each paragraph is the same,  
11 only one of such paragraphs shall be applied.”

12 ~~(428)~~~~(2)~~ (3) Section 26 of the Revenue Act of 1936  
13 (relating to credits of corporations) is amended by adding  
14 at the end thereof the following new ~~(429)~~subsection  
15 subsections:

16 “(f) **DEFICIT CREDIT.**—The amount by which the  
17 adjusted net income exceeds the sum of (1) the earnings and  
18 profits accumulated after February 28, 1913, as of the  
19 beginning of the taxable year, and (2) the earnings and  
20 profits of the taxable year (computed as of the close of  
21 the taxable year without diminution by reason of any dis-  
22 tributions made during the taxable year). For the purposes  
23 of this subsection, earnings and profits of the taxable year  
24 shall be computed without diminution by the amount of the  
25 tax imposed under section 14, 102, 103, or 351 for such

1 taxable year; and earnings and profits accumulated after  
2 February 28, 1913, as of the beginning of the taxable year,  
3 shall be diminished on account of the tax under section 14,  
4 102, 103, or 351 for any previous taxable year only by the  
5 amount of such tax as computed under the amendments made  
6 by section 501 of the Revenue Act of ~~(430)1942.~~ 1942.

7 **(431)**“(g) *STOCK REDEMPTION CREDIT.*—An amount  
8 *equal to the portion of the recognized gain, realized within the*  
9 *taxable year and prior to March 3, 1936, from the sale or*  
10 *other disposition of a capital asset, which, pursuant to a con-*  
11 *tract, was distributed prior to such date to shareholders in*  
12 *redemption in whole or in part of preferred stock and which*  
13 *is not otherwise allowable as a credit under any other provi-*  
14 *sion of this section or section 27.”*

15 (b) **EFFECTIVE DATE OF AMENDMENTS.**—The amend-  
16 ments made by subsection (a) shall be effective as of the date  
17 of the enactment of the Revenue Act of 1936.

18 (c) **OVERPAYMENTS.**—If the refund or credit of any  
19 overpayment for any taxable year, to the extent resulting  
20 from the application of this section, is prevented on the date  
21 of the enactment of this Act or within one year from such  
22 date, then, notwithstanding any other provision of law or rule  
23 of law (other than this subsection and other than section 3761  
24 of the Internal Revenue Code or section 3229 of the Revised  
25 Statutes, or such section as amended by section 815 of

1 the Revenue Act of 1938, relating to compromises), such  
2 overpayment shall be refunded or credited in the same  
3 manner as in the case of an income tax erroneously col-  
4 lected under the Revenue Act of 1936, if claim therefor is  
5 filed within one year from the date of the enactment of this  
6 Act.

7 **SEC. 502. STAMP TAX ON CERTAIN INSURANCE POLICIES.**

8 (a) **IMPOSITION OF TAX.**—Section 1804 (relating to  
9 stamp tax on policies issued by foreign insurers) is amended  
10 to read as follows:

11 **“SEC. 1804. INSURANCE POLICIES.**

12 “(a) **INSURANCE POLICIES OTHER THAN LIFE, AND**  
13 **INDEMNITY, FIDELITY, OR SURETY BONDS.**—On each policy  
14 of insurance (other than life), indemnity, fidelity, or surety  
15 bond, or certificate, binder, covering note, receipt, memo-  
16 randum, cablegram, letter, or other instrument by whatever  
17 name called whereby a contract of insurance or an obligation  
18 of the nature of an indemnity, fidelity, or surety bond is made,  
19 continued, or renewed against, or with respect to, hazards,  
20 risks, losses, or liabilities wholly or partly within the United  
21 States, if issued to or for, or in the name of, a domestic cor-  
22 poration or partnership, or an individual resident of the  
23 United States, or with respect to hazards, risks, or liabilities  
24 within the United States, if issued to or for, or in the name  
25 of, a foreign corporation, foreign partnership, or nonresident



1 individual, engaged in a trade or business within the United  
 2 States, and if the insurer is a nonresident alien individual, or  
 3 a foreign partnership, or a foreign corporation, and if such  
 4 policy or other instrument is not signed or countersigned  
 5 by an officer or agent of the insurer in a State, Territory, or  
 6 District of the United States within which such insurer is  
 7 authorized to do business, a tax of (432)4 8 cents on each  
 8 dollar, or fractional part thereof, of the premium charged.

9       “(b) LIFE INSURANCE, SICKNESS, AND ACCIDENT  
 10 POLICIES, AND ANNUITY CONTRACTS.—On each policy  
 11 of insurance or annuity contract, or certificate, binder, cov-  
 12 ering note, receipt, memorandum, cablegram, letter, or other  
 13 instrument by whatever name called whereby a contract of  
 14 insurance or an annuity contract is made, continued, or re-  
 15 newed with respect to the life or hazards to the person of  
 16 a citizen or resident of the United States, (433)and if the in-  
 17 surer is a nonresident alien individual, or a foreign partner-  
 18 ship, or a foreign corporation, and if such policy or other in-  
 19 strument is not signed or countersigned by an officer or agent  
 20 of the insurer in a State, Territory, or District of the United  
 21 States within which such insurer is authorized to do business,  
 22 a tax of 1 cent on each dollar or fractional part thereof, of  
 23 the premium charged if the insurer is a nonresident alien  
 24 individual, or a foreign partnership, or a foreign corpora-  
 25 tion, unless such policy or other instrument is signed or coun-

1 *tersigned by an officer or agent of the insurer in a State,*  
2 *Territory, or District of the United States within which such*  
3 *insurer is authorized to do business, or unless the insurer*  
4 *is subject to tax under section 201, a tax of 1 cent on each*  
5 *dollar or fractional part thereof, of the premium charged.*

6       “(c) REINSURANCE.—On each policy of reinsurance,  
7 certificate, binder, covering note, receipt, memorandum,  
8 cablegram, letter or other instrument by whatever name  
9 called whereby a contract of reinsurance is made, continued,  
10 or renewed against, or with respect to, any of the hazards,  
11 risks, losses, or liabilities covered by contracts described in  
12 subsections (a) and (b) of this section if the reinsurer is a  
13 nonresident alien individual, or a foreign partnership, or a  
14 foreign corporation, and if such policy or other instrument  
15 is not signed or countersigned by an officer or agent of the  
16 reinsurer in a State, Territory, or District of the United  
17 States within which such reinsurer is authorized to do busi-  
18 ness, a tax of 1 cent on each dollar, or fractional part thereof,  
19 of the premium charged.

20       “(d) When used in this section—

21           “(1) The term ‘indemnity, fidelity, or surety bond’  
22 includes any bond for indemnifying any person who shall  
23 have become bound or engaged as surety, and any bond  
24 for the due execution or performance of any contract,  
25 obligation, or requirement, or the duties of any office or

1 position, and to account for money received by virtue  
 2 thereof, where a premium is charged for the execution  
 3 of such bond.

4 “(2) The term ‘insurer’ includes any person who  
 5 shall become bound by an obligation of the nature of an  
 6 indemnity, fidelity, or surety bond, where a premium is  
 7 charged for the execution of such obligation.”

8 (b) PAYMENTS TO WHICH AMENDMENTS APPLI-  
 9 CABLE.—The amendments made by this section shall apply  
 10 to the making, continuing, or renewal of contracts occurring  
 11 on or after the first day of the first month which begins more  
 12 than 10 days after the date of the enactment of this Act.

13 **SEC. 503. SUIT AGAINST COLLECTOR BAR (434) TO SUIT**  
 14 **AGAINST UNITED STATES IN OTHER SUITS.**

15 Section 3772 (relating to suits) is amended by inserting  
 16 at the end thereof the following new subsection:

17 “(d) SUITS AGAINST COLLECTOR A BAR.—A suit  
 18 against a collector (or former collector) or his personal rep-  
 19 resentative for the recovery of any internal revenue tax  
 20 alleged to have been erroneously or illegally assessed or  
 21 collected, or of any penalty claimed to have been collected  
 22 without authority, or of any sum alleged to have been exces-  
 23 sive or in any manner wrongfully collected shall be treated  
 24 as if the United States had been a party to such suit in  
 25 applying the doctrine of res judicata in all suits instituted

1 after June 15, 1942, in respect of any internal revenue  
2 tax, and in all proceedings in the Board and on review of  
3 decisions of the Board where the petition to the Board was  
4 filed after such date."

5 **(435) SEC. 504. CHANGE OF NAME OF BOARD OF TAX**  
6 **APPEALS.**

7 ~~(a) UNITED STATES TAX COURT.~~—Effective on the  
8 day after the date of enactment of this Act, section 1100  
9 ~~(relating to status of Board of Tax Appeals)~~ is amended  
10 by inserting at the end thereof the following new sentence:  
11 "The Board shall be known as the United States Tax Court  
12 and the members thereof shall be known as the presiding  
13 judge and the judges of the United States Tax Court."

14 ~~(b) POWERS, TENURE, ETC., UNCHANGED.~~—The juris-  
15 diction, powers, and duties of the United States Tax Court,  
16 its divisions and its officers and employees, and their ap-  
17 pointment, including the designation of its officers, and  
18 the immunities, tenure of office, powers, duties, rights, and  
19 privileges of the presiding judge and judges of the United  
20 States Tax Court shall be the same as by existing law pro-  
21 vided in the case of the Board of Tax Appeals. The Com-  
22 missioner shall continue to be represented by the same counsel  
23 in the same manner before the Court as he has heretofore  
24 been represented in proceedings before the Board of Tax  
25 Appeals and the taxpayer shall continue to be represented in

1 accordance with rules of practice prescribed by the Court.  
2 No qualified person shall be denied admission to practice be-  
3 fore such Court because of his failure to be a member of any  
4 profession or calling.

5 (c) REFERENCES.—All references in any statute (ex-  
6 cept this section), or in any rule, regulation, or order, to the  
7 “Board of Tax Appeals” or to the “Board” when used in  
8 the sense of “Board of Tax Appeals”, or to the “member”,  
9 “members”, or “chairman” thereof shall be considered to be  
10 made to the United States Tax Court, the judge, judges,  
11 and presiding judge thereof, respectively.

12 SEC. (436)<sup>505</sup> 504. REQUIREMENT OF FILING NOTICE OF  
13 LIEN.

14 Section 3672 (a) (relating to requirement of filing  
15 notice of lien for taxes) is amended to read as follows:

16 “(a) INVALIDITY OF LIEN WITHOUT NOTICE.—Such  
17 lien shall not be valid as against any mortgagee, pledgee,  
18 purchaser, or judgment creditor until notice thereof has  
19 been filed by the collector—

20 “(1) UNDER STATE OR TERRITORIAL LAWS.—In  
21 the office in which the filing of such notice is author-  
22 ized by the law of the State or Territory in which the  
23 property subject to the lien is situated, whenever the  
24 State or Territory has by law authorized the filing of  
25 such notice in an office within the State or Territory; or

1           “(2) WITH CLERK OF DISTRICT COURT.—In the  
2 office of the clerk of the United States district court for  
3 the judicial district in which the property subject to the  
4 lien is situated, whenever the State or Territory has not  
5 by law authorized the filing of such notice in an office  
6 within the State or Territory; or

7           “(3) WITH CLERK OF DISTRICT COURT OF THE  
8 UNITED STATES FOR THE DISTRICT OF COLUMBIA.—In  
9 the office of the clerk of the District Court of the United  
10 States for the District of Columbia, if the property sub-  
11 ject to the lien is situated in the District of Columbia.”

12 **(437) SEC. 506. SUSPENSION OF PERIOD FOR COMPUTA-**  
13 **TION OF INTEREST IN CASE OF CERTAIN**  
14 **FOREIGN TAXPAYERS.**

15       Notwithstanding any other provision of law, in deter-  
16 mining the amount of interest with respect to income tax  
17 for taxable years beginning after December 31, 1939, in  
18 the case of nonresident alien individuals subject to the pro-  
19 visions of section 211 (a) or section 211 (c) and of foreign  
20 corporations subject to the provisions of section 231 (a) of  
21 the Internal Revenue Code, there shall be excluded the  
22 period beginning with the date of enactment of this Act and  
23 ending with the fifteenth day of the sixth month following  
24 the month in which the present war is terminated as pro-  
25 claimed by the President, if, during such period, payment of

1 such tax was prevented due to restrictions imposed with  
 2 respect to such individuals or corporations by any foreign  
 3 country.

4 **(438) SEC. 507. STAMP TAX IN CONNECTION WITH TRANS-**  
 5 **ACTIONS UNDER ORDERS OF SECURITIES**  
 6 **AND EXCHANGE COMMISSION.**

7 Section 1808 is amended by changing the designation  
 8 of subsection (g) to (h) and by inserting the following new  
 9 subsection:

10 **SEC. 505. MISCELLANEOUS AMENDMENTS TO STAMP TAX PRO-**  
 11 **VISIONS.**

12 *(a) BONDS, ETC., ISSUED BY RECEIVER.—Section*  
 13 *1801 (relating to stamp tax on issuance of corporate obliga-*  
 14 *tions) is amended by inserting at the end thereof the follow-*  
 15 *ing new sentence: "Obligations described in this section issued*  
 16 *by any receiver, trustee in bankruptcy, assignee, or other*  
 17 *person, having custody of property, or charge of the affairs,*  
 18 *of any corporation, shall, for the purposes of this chapter,*  
 19 *be deemed to be issued by the corporation."*

20 **(439)(b) TRANSFERS BY OPERATION OF LAW.—**

21 *(1) Section 1802 (relating to the stamp tax on sales*  
 22 *and transfers of capital stock) is amended by inserting*  
 23 *at the end thereof the following new subsection:*

24 *"(c) TRANSFERS BY OPERATION OF LAW.—No de-*  
 25 *livery or transfer under subsection (b) not otherwise exempt*

1 shall be exempt because effected by operation of law. The tax  
2 under such subsection shall not be imposed upon any delivery  
3 or transfer—

4           “(1) From a decedent to his executor or adminis-  
5 trator.

6           “(2) From a minor to his guardian, or from a  
7 guardian to his ward upon attaining majority.

8           “(3) From an incompetent to his committee or  
9 similar legal representative, or from a committee or  
10 similar legal representative to a former incompetent upon  
11 removal of disability.

12           “(4) From a bank, trust company, financial insti-  
13 tution, insurance company, or other similar entity, or  
14 nominee, custodian, or trustee therefor, to a public officer  
15 or commission, or person designated by such officer or  
16 commission or by a court, in the taking over of its assets,  
17 in whole or part, under State or Federal law regulating  
18 or supervising such institutions, nor upon redelivery or  
19 retransfer by any such transferee or successor thereto.

20           “(5) From a bankrupt or person in receivership  
21 due to insolvency to the trustee in bankruptcy or receiver,  
22 from such receiver to such trustee, or from such trustee  
23 to such receiver, nor upon redelivery or retransfer by  
24 any such transferee or successor thereto.



1           “(6) From a transferee under paragraphs (1) to  
2           (5), inclusive, to his successor acting in the same capacity,  
3           or from one such successor to another.

4           “(7) From a foreign country or national thereof  
5           to the United States or any agency thereof, or to the gov-  
6           ernment of any foreign country, directed pursuant to the  
7           authority vested in the President by section 5 (b) of the  
8           Trading with the Enemy Act (40 Stat. 415), as amended  
9           by the First War Powers Act (55 Stat. 838).

10           “(8) From trustees to surviving, substituted, suc-  
11           ceeding, or additional trustees of the same trust.

12           “(9) Upon the death of a joint tenant or tenant by  
13           the entireties, to the survivor or survivors.

14           No exemption shall be granted under this subsection unless the  
15           delivery or transfer is accompanied by a certificate setting  
16           forth such facts as the Commissioner, with the approval of the  
17           Secretary, may by regulation prescribe.”

18           (2) Section 3481 (relating to sales and transfers  
19           of bonds) is amended by inserting at the end thereof the  
20           following new subsection:

21           “(b) TRANSFERS BY OPERATION OF LAW.—No de-  
22           livery or transfer under subsection (a) not otherwise exempt  
23           shall be exempt because effected by operation of law. The  
24           tax under subsection (a) shall not be imposed upon any  
25           delivery or transfer—

1           “(1) From a decedent to his executor or adminis-  
2           trator.

3           “(2) From a minor to his guardian, or from a  
4           guardian to his ward upon attaining majority.

5           “(3) From an incompetent to his committee or simi-  
6           lar legal representative, or from a committee or similar  
7           legal representative to a former incompetent upon removal  
8           of disability.

9           “(4) From a bank, trust company, financial insti-  
10           tution, insurance company, or other similar entity, or  
11           nominee, custodian, or trustee therefor, to a public officer  
12           or commission, or person designated by such officer or  
13           commission or by a court, in the taking over of its  
14           assets, in whole or part, under State or Federal law  
15           regulating or supervising such institutions, nor upon re-  
16           delivery or retransfer by any such transferee or successor  
17           thereto.

18           “(5) From a bankrupt or person in receivership  
19           due to insolvency to the trustee in bankruptcy or receiver,  
20           from such receiver to such trustee, or from such trustee  
21           to such receiver, nor upon redelivery or retransfer by any  
22           such transferee or successor thereto.

23           “(6) From a transferee under paragraphs (1) to  
24           (5), inclusive, to his successor acting in the same capac-  
25           ity, or from one such successor to another.

1           “(7) From a foreign country or national thereof  
2           to the United States or any agency thereof, or to the  
3           government of any foreign country, directed pursuant  
4           to the authority vested in the President by section 5 (b)  
5           of the Trading with the Enemy Act (40 Stat. 415), as  
6           amended by the First War Powers Act (55 Stat. 838).

7           “(8) From trustees to surviving, substituted, succeed-  
8           ing, or additional trustees of the same trust.

9           “(9) Upon the death of a joint tenant or tenant by  
10          the entirety, to the survivor or survivors.

11          No exemption shall be granted under this section unless the  
12          delivery or transfer is accompanied by a certificate setting  
13          forth such facts as the Commissioner, with the approval of  
14          the Secretary, may by regulation prescribe.”

15          **(440)(c) STAMP TAX EXEMPTION OF COOPERATIVE**  
16          **BANKS, ETC.—Section 1808 (c) (relating to exemption**  
17          **from stamp tax of stocks and bonds of building and loan**  
18          **associations, etc.) is amended by inserting after the words**  
19          **“building and loan associations” a comma and the words**  
20          **“savings and loan associations, cooperative banks, and home-**  
21          **stead associations”.**

22          **(441)(d) STAMP TAX EXEMPTION OF RAILROAD AND**  
23          **CORPORATE REORGANIZATIONS IN BANKRUPTCY, ETC.—**  
24          **Section 1808 (e) and (f) (relating to exemption of railroad**

1 and corporate reorganizations) are amended to read as  
2 follows:

3       “(e) **CORPORATE REORGANIZATIONS AND REORGANI-**  
4 **ZATION OF RAILROADS.**—The provisions of section 1801,  
5 1802, and 1821 (b) of this chapter and the provisions of  
6 sections 3481 and 3482 of Chapter 31 shall not apply to the  
7 issuance, transfer or exchange of securities, or the making,  
8 delivery or filing of conveyances to make effective any plan  
9 of reorganization or adjustment—

10           “(1) confirmed under the Act entitled ‘An Act to  
11 establish a uniform system of bankruptcy throughout the  
12 United States’, approved July 1, 1898, as amended,

13           “(2) approved in an equity receivership proceeding  
14 in a court involving a railroad corporation, as defined in  
15 section 77 (m) of such Act, or

16           “(3) approved in an equity receivership proceeding  
17 in a court involving a corporation, as defined in section  
18 106 (3) of such Act,

19 if the issuance, transfer, or exchange of securities, or the mak-  
20 ing, delivery or filing of instruments of transfer or convey-  
21 ances, occurs within five years from the date of such confirma-  
22 tion or approval.”

23 **(442)(e) EXEMPTIONS IN CONNECTION WITH CERTAIN**  
24 **ORDERS OF THE SECURITIES AND EXCHANGE COMMIS-**

1 *SION AND IN THE CASE OF COMMON TRUST FUNDS.—*  
 2 *Section 1808 (g) (cross reference) is amended by striking*  
 3 *out “(g)” and inserting in lieu thereof “(h)” and by insert-*  
 4 *ing immediately before such subsection the following new*  
 5 *subsections:*

6       “(443)~~(g)~~ (f) **ORDERS OF THE SECURITIES AND EX-**  
 7 **CHANGE COMMISSION.—**The provisions of sections 1801,  
 8 1802, and 1821 (b) of this chapter and the provisions of  
 9 sections 3481 and 3482 of chapter 31 shall not apply to the  
 10 issuance, transfer, or exchange of securities, or making or de-  
 11 livery of conveyances, to make effective any order of the Se-  
 12 curities and Exchange Commission as defined in section 373  
 13 (a) of chapter 1: *Provided, That* (1) the order of the Se-  
 14 curities and Exchange Commission in obedience to which such  
 15 issuance, transfer, or exchange of securities, or conveyances  
 16 are made recites that such issuance, transfer, or exchange, or  
 17 conveyances are necessary or appropriate to effectuate the pro-  
 18 visions of section 11 (b) of the Public Utility Holding Com-  
 19 pany Act of 1935, 49 Stat. 820 (U. S. C., title 15, sec.  
 20 79k (b) ), (2) such order specifies and itemizes the securities  
 21 and other property which are ordered to be issued, trans-  
 22 ferred, exchanged, or conveyed, and (3) such issuance, trans-  
 23 fer, or exchange, or conveyance is made in obedience to  
 24 such ~~(444)order.”~~ *order,*  
 25 **(445)“(g) COMMON TRUST FUNDS.—**The provisions of

1 *section 1802 (a) shall not apply to the issue of shares or*  
 2 *certificates of a common trust fund, as defined in section 169."*  
 3 **(446)(f) EXEMPTION OF UNITED STATES, ETC., FROM**  
 4 **STAMP TAX.**—*Section 1809 (a) (relating to persons liable*  
 5 *for payment of stamp tax) is amended by inserting at the end*  
 6 *thereof the following new sentence: "The United States or any*  
 7 *agency or instrumentality thereof shall not be liable for the*  
 8 *tax with respect to an instrument to which it is a party, and*  
 9 *affixing of stamps thereby shall not be deemed payment for the*  
 10 *tax, which may be collected by assessment from any other*  
 11 *party liable therefor."*

12 **(447)(g) TRANSFER OF BONDS ON REORGANIZATION**  
 13 **TAXABLE.**—*Section 3481 (a) (relating to imposition of*  
 14 *transfer tax) is amended by striking out: "Provided further,*  
 15 *That the tax shall not be imposed on deliveries or transfers of*  
 16 *bonds in connection with a reorganization (as defined in section*  
 17 *112 of the Revenue Act of 1932, 47 Stat. 196) if any of the*  
 18 *gain or loss from the exchange or distribution involved in the*  
 19 *delivery or transfer is not recognized under the income tax*  
 20 *law applicable to the year in which the delivery or transfer*  
 21 *is made:".*

22 **(448)(h) TRANSFERS, ETC., WITH RESPECT TO WHICH**  
 23 **AMENDMENTS APPLICABLE.—**

24 (1) *The amendment of section 1801 by subsection*

1        *(a) of this section shall be applicable to obligations issued*  
2        *after the date of the enactment of this Act.*

3            *(2) Section 1802 (c) and section 3481 (b) added*  
4        *by subsection (b) of this section shall be applicable to*  
5        *deliveries and transfers on or after the thirtieth day*  
6        *after the date of the enactment of this Act.*

7            *(3) The amendment of section 1808 (c) made by*  
8        *subsection (c) of this section shall be applicable to stocks*  
9        *and bonds issued or transferred after the date of the enact-*  
10       *ment of this Act.*

11           *(4) The amendment of section 1808 (e) and (f)*  
12       *made by subsection (d) of this section shall be applicable*  
13       *to the issuance, transfer, or exchange of securities,*  
14       *or the making, delivery, or filing of conveyances, after*  
15       *December 31, 1941, in the case of the amendment*  
16       *of section 1808 (e), and after the date of the enact-*  
17       *ment of this Act, in the case of the amendment of*  
18       *section 1808 (f). Section 267 of the National Bank-*  
19       *ruptcy Act (U. S. C. Title 11, section 667) and*  
20       *any other provision of Federal law insofar as it con-*  
21       *fers exemption from stamp tax with respect to the issuance,*  
22       *transfer, or exchange of securities, or the making, deliv-*  
23       *ery, or filing of conveyances, after five years from the date*  
24       *of confirmation or approval of the plan of reorganization*

1 or adjustment, shall be inapplicable to the issuance, trans-  
 2 fer, or exchange of securities, or the making, delivery, or  
 3 filing of conveyances, after December 31, 1941.

4 (5) (A) Section 1808 (f) added by subsection (e)  
 5 of this section shall be applicable to the issuance, transfer,  
 6 or exchange of securities, or the making or delivery of  
 7 conveyances, after the date of the enactment of this Act.

8 (B) Section 1808 (g) as added by subsection (e)  
 9 of this section shall be applicable to shares and certificates  
 10 issued after the date of the enactment of this Act.

11 (6) The amendment of section 1809 (a) made by  
 12 subsection (f) of this section shall be applicable to instru-  
 13 ments to which the United States or any agency or instru-  
 14 mentality thereof becomes a party after the date of the  
 15 enactment of this Act.

16 (7) The amendment of section 3481 (a) made by  
 17 subsection (g) of this section shall be applicable to deliv-  
 18 eries or transfers after the date of the enactment of this  
 19 Act.

20 **SEC. (449)<sup>508</sup> 506. TIME FOR PERFORMING CERTAIN ACTS**

21 **POSTPONED BY REASON OF WAR.**

22 (a) AMENDMENTS TO THE INTERNAL <sup>inserting</sup>

23 CODE.—The Internal Revenue Code is ame

24 after section 3803 the following new



1 "SEC. 3804. TIME FOR PERFORMING CERTAIN ACTS POST-  
2 PONENT BY REASON OF WAR.

3 (450)"(a) INDIVIDUALS.—The period of time after Decem-  
4 ber 6, 1941, during which an individual is outside the  
5 Americas (if outside for more than 90 days continuously), or  
6 is within any locality in the Americas which the Commis-  
7 sioner determines is besieged or occupied by any foreign  
8 government with which the United States is at war, and the  
9 next 90 days thereafter, shall be disregarded in determining,  
10 under the internal revenue laws, in respect of any tax (includ-  
11 ing any interest, penalty, additional amount, or addition to  
12 the tax):

13 "(1) the amount of any interest required to be paid,  
14 whether in respect of taxes, credits, or refunds;

15 "(2) the application of penalties, additional amounts,  
16 and additions to tax;

17 "(3) the amount of any credit or refund; and

18 "(4) whether any of the following acts was per-  
19 formed within the time prescribed therefor:

20 "(A) filing any income, estate, or gift tax re-  
21 turn;

22 "(B) payment of any income, estate, or gift  
23 tax or any installment thereof or of any other lia-  
24 bility to the United States in respect of any such  
25 tax:

1           ~~“(C) allowance of a credit or refund of any~~  
2           ~~tax;~~

3           ~~“(D) filing a petition with the Board of Tax~~  
4           ~~Appeals for redetermination of a deficiency, or for~~  
5           ~~review of a decision rendered by the Board;~~

6           ~~“(E) filing a claim for credit or refund of any~~  
7           ~~tax;~~

8           ~~“(F) bringing a suit upon any such claim for~~  
9           ~~credit or refund;~~

10           ~~“(G) assessment of any tax;~~

11           ~~“(H) giving or making any notice or demand,~~  
12           ~~for the payment of any tax, or with respect to any~~  
13           ~~liability to the United States in respect of any tax;~~

14           ~~“(I) collection, by the Commissioner or the~~  
15           ~~collector, by distraint or otherwise of the amount of~~  
16           ~~any liability in respect of any tax;~~

17           ~~“(J) bringing suit (civil or criminal), by the~~  
18           ~~United States or any officer on its behalf, in respect~~  
19           ~~of any liability in respect of any tax; and~~

20           ~~“(K) any other act required or permitted under~~  
21           ~~the internal revenue laws specified in regulations~~  
22           ~~prescribed under this section by the Commissioner~~  
23           ~~with the approval of the Secretary.~~

24           ~~“(b) OTHER TAXPAYERS AND OTHER CIRCUM-~~  
25           ~~STANCES.—In cases to which subsection (a) does not apply,~~

1 the Commissioner may under such regulations as he pre-  
 2 scribes, with the approval of the Secretary, apply such provi-  
 3 sions to persons in such circumstances that,

4       “(1) By reason of any individual being outside  
 5 the Americas or by reason of any locality (within or  
 6 without the Americas) being besieged or occupied, as  
 7 determined by the Commissioner, by any foreign gov-  
 8 ernment with which the United States is at war, or

9       “(2) By reason of an individual in the military or  
 10 naval forces of the United States being outside the States  
 11 of the Union and the District of Columbia,

12 it is impossible or impracticable to perform any act specified  
 13 under paragraph (4) of such subsection.

14       “(a) *INDIVIDUALS.*—The period of time after Decem-  
 15 ber 6, 1941, during which an individual is continuously out-  
 16 side the Americas (if such period is longer than ninety days),  
 17 and the next ninety days thereafter, shall be disregarded in de-  
 18 termining, under the internal revenue laws, in respect of any  
 19 tax liability (including any interest, penalty, additional  
 20 amount, or addition to the tax) of such individual—

21       “(1) Whether any of the following acts was per-  
 22 formed within the time prescribed therefor:

23               “(A) filing any return of income, estate, or gift  
 24 tax (except income tax withheld at source and income

1           *tax imposed by Chapter 9 or any law superseded*  
2           *thereby);*

3           “(B) *payment of any income, estate, or gift*  
4           *tax (except income tax withheld at source and income*  
5           *tax imposed by Chapter 9 or any law superseded*  
6           *thereby) or any installment thereof or of any other*  
7           *liability to the United States in respect thereof;*

8           “(C) *filing a petition with the Board of Tax*  
9           *Appeals for redetermination of a deficiency, or for*  
10           *review of a decision rendered by the Board;*

11           “(D) *allowance of a credit or refund of any*  
12           *tax;*

13           “(E) *filing a claim for credit or refund of*  
14           *any tax;*

15           “(F) *bringing a suit upon any such claim for*  
16           *credit or refund;*

17           “(G) *assessment of any tax;*

18           “(H) *giving or making any notice or demand,*  
19           *for the payment of any tax, or with respect to any*  
20           *liability to the United States in respect of any tax;*

21           “(I) *collection, by the Commissioner or the col-*  
22           *lector, by distraint or otherwise, of the amount of*  
23           *any liability in respect of any tax;*

24           “(J) *bringing suit by the United States, or as*

1           officer on its behalf, in respect of any liability in  
2           respect of any tax; and

3           “(K) any other act required or permitted under  
4           the internal revenue laws specified in regulations  
5           prescribed under this section by the Commissioner  
6           with the approval of the Secretary;

7           “(2) The amount of any credit or refund (includ-  
8           ing interest).

9           “(b) OTHER TAXPAYERS AND OTHER CIRCUM-  
10          STANCES.—In any case to which subsection (a) does not  
11          apply in which it is determined by the Commissioner, under  
12          regulations prescribed by him with the approval of the Secre-  
13          tary, that—

14           “(1) By reason of an individual being outside the  
15          Americas, or

16           “(2) By reason of any locality (within or without  
17          the Americas) being an area of enemy action or being an  
18          area under the control of the enemy, as determined by  
19          the Commissioner, or

20           “(3) By reason of an individual in the military or  
21          naval forces of the United States being outside the States  
22          of the Union and the District of Columbia,

23          it is           impossible or impracticable to perform any one or more  
24          of the acts specified in subsection (a), then in determining,  
25          under the internal-revenue laws whether such act was per-

1 *formed within the time prescribed therefor, in respect of any*  
 2 *tax liability (including any interest, penalty, additional*  
 3 *amount, or addition to tax) affected by the failure to perform*  
 4 *such act within such time, and in determining the amount of*  
 5 *any credit or refund (including interest) affected by such*  
 6 *failure, there shall be disregarded such period after Decem-*  
 7 *ber 6, 1941, as may be prescribed by such regulations.*

8       “(c) **LIMITATION ON TIME TO BE DISREGARDED.—**

9 The period of time disregarded under this section shall not  
 10 (451) include or extend beyond whichever of the following  
 11 dates is the earlier:

12           “(1) the fifteenth day of the third month following  
 13 the month in which the present war with Germany,  
 14 Italy, and Japan is terminated, as proclaimed by the  
 15 President; or

16           “(2) in the case of an individual (452) entitled to  
 17 the benefits of subsection (a) or (b) with respect to whom  
 18 a period of time is disregarded under this section, the  
 19 fifteenth day of the third month following the month in  
 20 which an executor, administrator, or a conservator of  
 21 the estate of such individual qualifies.

22       “(d) **EXCEPTIONS.—**

23           “(1) **TAX IN JEOPARDY; BANKRUPTCY; RECEIVERSHIPS; AND TRANSFERRED ASSETS.—**Notwith-  
 24 standing the provisions of subsection (a) or (b):  
 25

1 any action or proceeding authorized by section 146  
2 (regardless of the taxable year for which the tax arose),  
3 273, 274, 311, 872, 900, 1013, 1015, 1025, or 3660,  
4 as well as any other action or proceeding authorized  
5 by law in connection therewith, may be taken, begun,  
6 or prosecuted. In any other case in which the Com-  
7 missioner determines that collection of the amount  
8 of any assessment would be jeopardized by delay, the  
9 provisions of subsections (a) and (b) shall not oper-  
10 ate to stay collection of such amount by distraint or other-  
11 wise as authorized by law. There shall be excluded  
12 from any amount assessed or collected pursuant to this  
13 paragraph the amount of interest, penalty, additional  
14 amount, and addition to the tax, if any, in respect of the  
15 period disregarded under subsection (a) or (b). In  
16 any case to which this paragraph relates, if the Com-  
17 missioner or collector is required to give any notice to or  
18 make any demand upon any person, such requirement  
19 shall be deemed to be satisfied if the notice or demand  
20 is prepared and signed, in any case in which the address  
21 of such person last known to the Commissioner or col-  
22 lector is in an area for which United States post offices  
23 under instructions of the Postmaster General are not,  
24 by reason of the war, accepting mail for delivery at  
25 the time the notice or demand is signed. In such

1 case the notice or demand shall be deemed to have been  
2 given or made upon the date it is signed.

3 “(2) ~~(453) WHEREABOUTS OF INDIVIDUAL UN-~~  
4 ~~KNOWN ACTION TAKEN BEFORE ASCERTAINMENT OF~~  
5 ~~RIGHT TO BENEFITS.~~—The assessment or collection of  
6 any internal revenue tax or of any liability to the United  
7 States in respect of any internal revenue tax, or any  
8 action or proceeding by or on behalf of the United States  
9 in connection therewith, may be made, taken, begun, or  
10 prosecuted in accordance with law, without regard to the  
11 provisions of subsection (a) or (b), unless prior to such  
12 assessment, collection, action, or proceeding it is ascer-  
13 tained that the person concerned is entitled to the bene-  
14 fits of subsection (a) or (b).

15 “(3) EXPIRATION OF PERIOD OF LIMITATIONS  
16 PRIOR TO ENACTMENT OF THIS SECTION.—This section  
17 shall not operate to extend the time for performing any  
18 act specified in subsection (a) ~~(454)(4)~~ (1) (G),  
19 (H), (I), or (J) if such time under the law in force  
20 prior to the date of enactment of this section expired prior  
21 to such date.

22 “(e) DEFINITIONS.—For purposes of this section

23 “(1) AMERICAS.—The term ‘Americas’ means  
24 North, Central, and South America (including the West



1 Indies but not Greenland), and the Hawaiian Islands.  
 2 (455)“(2) ~~WHEN INDIVIDUAL CEASES TO BE OUTSIDE~~  
 3 ~~AMERICAS OR WITHIN A LOCALITY BESIEGED OR OCCU-~~  
 4 ~~PIED.~~—In the case of any act specified in subsection (a)  
 5 (4) (G), (H), (I), or (J), any individual outside  
 6 the Americas or within a locality in the Americas be-  
 7 sieged or occupied by a foreign government with which  
 8 the United States is at war shall not, if he returns to the  
 9 Americas or leaves such locality after the date of enact-  
 10 ment of this section, be deemed to have returned to the  
 11 Americas or ceased to be within such locality before the  
 12 date upon which the Commissioner receives from such  
 13 individual a notice thereof in such form as the Commis-  
 14 sioner with the approval of the Secretary, shall by regu-  
 15 lations prescribe. A similar rule shall be applied in  
 16 the case of a member of the military or naval forces of  
 17 the United States who is entitled to the benefits of this  
 18 section by reason of being outside the States of the Union  
 19 and the District of Columbia.

20 “(2) *WHEN INDIVIDUAL CEASES TO BE OUTSIDE*  
 21 *AMERICAS OR WITHIN AN AREA OF ENEMY ACTION.*—

22 *For the purpose of determining whether any act specified*  
 23 *in subsection (a) (1) (G), (H), (I), or (J) was*  
 24 *performed within the time prescribed therefor, if any*  
 25 *period of time is allowed under this section by reason*

1 of any individual being outside the Americas or within  
2 an area of enemy action or control, such individual shall  
3 not, if he returns to the Americas or leaves such area after  
4 the date of enactment of this section, be deemed to have  
5 returned to the Americas or ceased to be within such area  
6 before the date upon which the Commissioner receives  
7 from such individual a notice thereof in such form as the  
8 Commissioner, with the approval of the Secretary, shall  
9 by regulations prescribe. A similar rule shall be applied  
10 in the case of a member of the military or naval forces  
11 of the United States with respect to whom a period of  
12 time is disregarded under this section by reason of being  
13 outside the States of the Union and the District of  
14 Columbia.

15       “(3) WHEN EXECUTOR, ADMINISTRATOR, OR CON-  
16 SERVATOR QUALIFIES.—(456)In the case of any act  
17 specified in subsection (a) (4) (G), (H), (I), or (J)  
18 For the purpose of determining whether any act specified  
19 in subsection (a) (1) (G), (H), (I), or (J) was per-  
20 formed within the time prescribed therefor, the month  
21 in which an executor, administrator, or conservator  
22 qualifies, if he qualifies after the date of enactment  
23 of this section, shall be deemed to be the month in which  
24 the Commissioner receives from him a notice thereof

1 in such form as the Commissioner, with the approval of  
2 the Secretary, shall by regulations prescribe.

3 **"SEC. 3805. INCOME TAX DUE DATES POSTPONED IN CASE**  
4 **OF CHINA TRADE ACT CORPORATIONS.**

5 "In the case of any taxable year beginning after Decem-  
6 ber 31, 1940, no Federal income tax return of, or payment of  
7 any Federal income tax by, any corporation organized under  
8 the China Trade Act, 1922 (42 Stat. 849, U. S. C., Title  
9 15, ch. 4), shall become due until the fifteenth day of the  
10 sixth month following the month in which the present war  
11 with Germany, Italy, and Japan is terminated, as proclaimed  
12 by the President. Such due date is prescribed subject to the  
13 power of the Commissioner to extend the time for filing such  
14 return or paying such tax, as in other cases."

15 (b) **EFFECT OF AMENDMENTS UPON PERIODS FIXED**  
16 **UNDER LAWS OTHER THAN INTERNAL REVENUE CODE.—**

17 ~~(457) The amendments made by this section shall not be con-~~  
18 ~~strued to shorten any period fixed under the provisions of sec-~~  
19 ~~tion 13 or 14 of the Act approved March 7, 1942 (Public~~  
20 ~~Law 490—77th Congress), or section 513 of the Soldiers' and~~  
21 ~~Sailors' Civil Relief Act of 1940 (54 Stat. 1190, U. S. C.,~~  
22 ~~Title 50, Appendix, sec. 573) within which any act may be~~  
23 ~~done, except that any action or proceeding authorized under~~  
24 ~~section 3804 (d), (1) of the Internal Revenue Code, as~~  
25 ~~well as any other action or proceeding authorized by law in~~

1 connection therewith, may be taken, begun, or prosecuted  
2 without regard to the period so fixed.

3 (458)(1) PUBLIC LAW 490, SEVENTY-SEVENTH CON-  
4 GRESS.—The amendments made by this section shall not  
5 be construed to shorten any period fixed under the pro-  
6 visions of section 13 or 14 of the Act approved March  
7 7, 1942 (Public Law 490—77th Congress), within  
8 which any act may be done, except that any action or  
9 proceeding authorized under section 3804 (d) (1) of  
10 the Internal Revenue Code, as well as any other action  
11 or proceeding authorized by law in connection therewith,  
12 may be taken, begun, or prosecuted without regard to the  
13 period so fixed.

14 (2) SOLDIERS' AND SAILORS' CIVIL RELIEF ACT  
15 OF 1940.—

16 (A) The amendments made by this section shall  
17 not be construed to shorten any period fixed under the  
18 provisions of section 513 of the Soldiers' and Sailors'  
19 Civil Relief Act of 1940 within which any act may  
20 be done, except that any action or proceeding author-  
21 ized under section 3804 (d) (1) of the Internal  
22 Revenue Code, as well as any other action or pro-  
23 ceeding authorized by law in connection therewith,  
24 may be taken, begun, or prosecuted without regard  
25 to the period so fixed.



1 "SEC. 3805. MITIGATION OF EFFECT OF DISALLOWANCE OF RE-  
2 IMBURSEMENT ON CONTRACTS WITH THE UNITED  
3 STATES.

4 "(a) REDUCTION OF REIMBURSEMENT FOR PRIOR  
5 TAXABLE YEAR.—In the case of a cost-plus-a-fixed-fee con-  
6 tract between the United States or any agency thereof and  
7 the taxpayer, if an item for which the taxpayer has been  
8 reimbursed is disallowed as an item of cost chargeable to such  
9 contract and, in a taxable year beginning after December 31,  
10 1941, the taxpayer is required to repay the United States or  
11 any agency thereof the amount disallowed or the amount dis-  
12 allowed is applied as an offset against other amounts due the  
13 taxpayer, the amount of the reimbursement of the taxpayer  
14 under the contract for the taxable year in which the reimburse-  
15 ment for such item was received or was accrued (hereinafter  
16 referred to as 'prior taxable year') shall be reduced by the  
17 amount disallowed. The amount of the repayment or offset  
18 shall not constitute a deduction for the year in which paid or  
19 incurred. The foregoing provisions of this subsection shall  
20 not apply in respect of any contract if the taxpayer shows to  
21 the satisfaction of the Commissioner that a different method of  
22 accounting for the amount of the repayment or disallowance  
23 clearly reflects income, and in such case the repayment or  
24 disallowance shall be accounted for with respect to the taxable  
25 year provided for under such method, which for the purposes

1 of subsections (b) and (c) shall be considered a prior tax-  
2 able year.

3       “(b) CREDIT AGAINST REPAYMENT ON ACCOUNT OF  
4 DISALLOWANCE.—

5           “(1) GENERAL RULE.—There shall be credited  
6 against the amount disallowed the amount by which  
7 the tax for the prior taxable year under Chapter 1,  
8 Chapter 2A, Chapter 2D, and Chapter 2E, is de-  
9 creased by reason of the application of subsection (a).

10          “(2) CREDIT FOR BARRED YEAR.—If at the time  
11 of the repayment or offset described in subsection (a),  
12 refund or credit of tax under Chapter 1, Chapter 2A,  
13 Chapter 2D, or Chapter 2E, for the prior taxable year,  
14 is prevented (except for the provisions of section  
15 3801) by any provision of the internal-revenue laws  
16 other than section 3761, or by rule of law, the  
17 amount by which the tax for such year under such chap-  
18 ters is decreased by the application of subsection (a)  
19 shall be computed under this paragraph. There shall  
20 first be ascertained the tax previously determined for the  
21 prior taxable year. The amount of the tax previously  
22 determined shall be (A) the tax shown by the taxpayer  
23 upon his return for such taxable year, increased by the  
24 amounts previously assessed (or collected without assess-  
25 ment) as deficiencies, and decreased by the amounts

1 *previously abated, credited, refunded, or otherwise repaid*  
2 *in respect of such tax; or (B) if no amount was shown*  
3 *as the tax by such taxpayer upon his return, or if no*  
4 *return was made by such taxpayer, then the amounts*  
5 *previously assessed (or collected without assessment) as*  
6 *deficiencies, but such amounts previously assessed, or*  
7 *collected without assessment, shall be decreased by the*  
8 *amounts previously abated, credited, refunded, or other-*  
9 *wise repaid in respect of such tax. There shall then*  
10 *be ascertained the decrease in tax previously determined*  
11 *which results solely from the application of subsection*  
12 *(a) to the prior taxable year. The amount so ascer-*  
13 *tained, together with any amounts collected as additions*  
14 *to the tax or interest, as a result of subsection (a) not*  
15 *having been applied to the prior taxable year shall be*  
16 *the amount by which such tax is decreased.*

17 *“(3) INTEREST.—In determining the amount of the*  
18 *credit under this subsection no interest shall be allowed*  
19 *with respect to the amount ascertained under paragraph*  
20 *(1) or paragraph (2); except that if interest is charged*  
21 *by the United States or the agency thereof on account of*  
22 *the disallowance for any period before the date of the*  
23 *repayment or offset, the credit shall be increased by an*  
24 *amount equal to interest on the amount ascertained under*  
25 *either such paragraph at the same rate and for the period*



1       *(prior to the date of the repayment or offset) as interest*  
2       *is so charged.*

3       “(c) **CREDIT IN LIEU OF OTHER CREDIT OR RE-**  
4 **FUND.**—*If a credit is allowed under subsection (b) with*  
5 *respect to a prior taxable year no other credit or refund under*  
6 *the internal-revenue laws founded on the application of sub-*  
7 *section (a) shall be made on account of the amount allowed*  
8 *with respect to such taxable year. If the amount allowable*  
9 *as a credit under subsection (b) exceeds the amount allowed*  
10 *under such subsection, the excess shall, for the purposes of*  
11 *the internal revenue laws relating to credit or refund of tax,*  
12 *be treated as an overpayment for the prior taxable year which*  
13 *was made at the time the repayment or offset was made.”*

14 **(460)SEC. 508. AMENDMENT TO THE PUBLIC SALARY TAX ACT**  
15 **OF 1939.**

16       **(a) EXEMPTION OF CERTAIN COMPENSATION FOR**  
17 **PERIOD BEFORE 1939.**—*Section 203 of the Public Salary*  
18 *Tax Act of 1939 is amended by designating the present*  
19 *language contained therein as subsection (a) and by adding at*  
20 *the end thereof a new subsection to read as follows:*

21       “(b) *Any amount of income tax (including interest, addi-*  
22 *tions to tax, and additional amounts) for taxable years be-*  
23 *ginning after December 31, 1938, to the extent attributable*  
24 *to compensation for personal service rendered in a taxable*  
25 *year beginning prior to January 1, 1939 (other than com-*

1 *pensation received as a pension, retirement pay, or similar*  
2 *allowance), as an officer or employee of a State, or any politi-*  
3 *cal subdivision thereof, or any agency or instrumentality of*  
4 *any one or more of the foregoing—*

5           “(1) *shall not be assessed; and*

6           “(2) *if assessed, the assessment shall be abated and*  
7 *any amount collected in pursuance of such assessment*  
8 *shall be credited or refunded in the same manner as in the*  
9 *case of an income tax erroneously collected,*

10 *if the Commissioner of Internal Revenue, under regulations*  
11 *prescribed by him with the approval of the Secretary of the*  
12 *Treasury, finds that assessment of such tax, or disallowance*  
13 *of a claim for credit or refund, except for Title I of this Act,*  
14 *would result in the application of the doctrines in the cases of*  
15 *Helvering against Therrell (303 U. S. 218), Helvering*  
16 *against Gerhardt (304 U. S. 405), and Graves et al. against*  
17 *New York ex rel. O’Keefe (306 U. S. 466), extending the*  
18 *classes of officers and employees subject to Federal taxation.”*

19           **(b) EFFECTIVE DATE OF AMENDMENT.**—*The amend-*  
20 *ment made by this section shall be effective as of the date of*  
21 *enactment of the Public Salary Tax Act of 1939.*

22 **(461)SEC. 509. JOINT COMMITTEE ON COMPULSORY SAVING.**

23           **(a)** *There is hereby established a committee to study*  
24 *methods of financing the war, to be composed of (1) five*  
25 *members of the Committee on Finance of the Senate, to be*

1 appointed by the President of the Senate; (2) five members  
2 of the Committee on Ways and Means of the House of Repre-  
3 sentatives, to be appointed by the Speaker of the House of  
4 Representatives; and (3) the Secretary of the Treasury. A  
5 vacancy in the committee shall not affect the power of the re-  
6 maining members to execute the functions of the committee,  
7 and shall be filled in the same manner as the original selec-  
8 tion. A majority of the committee shall constitute a quorum,  
9 and the powers conferred upon them by this section may be  
10 exercised by a majority vote.

11 (b) It shall be the duty of the committee to make a full  
12 and complete study and investigation of all plans for com-  
13 pulsory savings, and other plans, by which money may be  
14 raised to assist in the conduct of the war and the avoidance  
15 of inflation and plans for payment currently of taxes. The  
16 committee shall report to the President and to the Congress  
17 the results of its study, together with its recommendations,  
18 on or before December 1, 1942.

19 (c) The committee, or any duly authorized subcom-  
20 mittee thereof, is authorized to hold such hearings, to sit and  
21 act at such times and places, to employ such experts and  
22 such clerical and other assistants, to require by subpoena or  
23 otherwise the attendance of such witnesses and the produc-  
24 tion of such books, papers, and documents, to administer  
25 such oaths, to take such testimony, and to make such ex-

1 *penditures, as it deems advisable. The provisions of sections*  
 2 *102 to 104, inclusive, of the Revised Statutes shall apply*  
 3 *in case of any failure of any witness to comply with any*  
 4 *subpena, or to testify when summoned under the authority*  
 5 *of this section.*

6 *(d) The committee is authorized to utilize the services,*  
 7 *information, facilities, and personnel of the departments and*  
 8 *agencies of the Government.*

9 *(e) There is hereby authorized to be appropriated the*  
 10 *sum of \$10,000, or so much thereof as may be necessary,*  
 11 *to carry out the provisions of this section.*

12 *(f) All authority conferred by this section shall termi-*  
 13 *nate upon the submission of the committee's final report.*

14 **(462)SEC. 510. ABOLITION OF BOARD OF REVIEW AND TRANS-**  
 15 **FER OF JURISDICTION TO BOARD OF TAX**  
 16 **APPEALS.**

17 *(a) Effective as of the close of business on December*  
 18 *31, 1942, the Board of Review, established under section 906*

19 *(b) of the Revenue Act of 1936, is hereby abolished and*  
 20 *the jurisdiction vested in said Board of Review is hereby*  
 21 *transferred to and vested in the Board of Tax Appeals.*

22 *(b) Section 906 (b) of the Revenue Act of 1936 is*  
 23 *amended to read as follows:*

24 *"(b) The Board shall have jurisdiction in proceed-*  
 25 *ings under this section to review the allowance or dis-*

1 allowance of the Commissioner of a claim for refund,  
2 and to determine the amount of refund due any claimant  
3 with respect to such claim. The Commissioner shall  
4 make refund of any such amount determined by a deci-  
5 sion of the Board which has become final.”

6 (c) All proceedings pending in the said Board of Review  
7 on December 31, 1942, shall be deemed pending in and be  
8 transferred forthwith to the Board of Tax Appeals, and shall  
9 be proceeded with and disposed of by the Board of Tax  
10 Appeals as if originally begun therein.

11 (d) All journals, dockets, books, files, records, and prop-  
12 erty, including office equipment of the said Board of Review,  
13 shall be transferred to the Board of Tax Appeals.

14 (e) Section 902 of the Revenue Act of 1936 (relating  
15 to conditions on allowance of refunds) is amended by strik-  
16 ing out “Board of Review” and inserting in lieu thereof  
17 “Board of Tax Appeals (hereinafter referred to as the  
18 ‘Board’)”.

19 (f) (1) Section 906 (c) (relating to allowance of claim  
20 for refund and nature of hearing) is amended to read as  
21 follows:

22 “(c) The allowance or disallowance of the Com-  
23 missioner of a claim for refund under this section shall  
24 be final, unless within ninety days (not counting Sunday  
25 or a legal holiday in the District of Columbia as the

1      *ninetieth day) after the date of mailing by registered*  
2      *mail by the Commissioner of notice that a claim for*  
3      *refund of any such amount has been disallowed, in whole*  
4      *or in part, the claimant files a petition with the Board*  
5      *requesting a hearing on the merits of his claim, in whole*  
6      *or in part. Upon the filing of any such petition the*  
7      *claimant shall be entitled to a hearing as provided herein.*  
8      *Notice and opportunity to be heard shall be given to the*  
9      *claimant and the Commissioner. If the notice is ad-*  
10     *ressed to a person outside the States of the Union and*  
11     *the District of Columbia, the period specified in this*  
12     *subsection shall be one hundred and fifty days in lieu of*  
13     *ninety days."*

14     *(2) The amendment made by this subsection, insofar*  
15     *as applicable to the date for filing the petition, shall not*  
16     *apply if the Commissioner has prior to January 1, 1943,*  
17     *mailed notice by registered mail that the claim for refund*  
18     *has been disallowed in whole or in part.*

19     *(g) Section 906 (d) (relating to conduct of hearing)*  
20     *is amended to read as follows:*

21             *"(d) Each such hearing shall be conducted by a*  
22             *division of the Board and shall be open to the public.*  
23             *The proceedings in such hearings shall be conducted in*  
24             *accordance with such rules of practice and procedure*  
25             *(other than rules of evidence) as the Board may pre-*

1     *scribe, and in accordance with the rules of evidence*  
2     *applicable in courts of equity of the District of Columbia.*  
3     *The claimant and the Commissioner shall be entitled*  
4     *to be represented by counsel, to have witnesses sub-*  
5     *penaed, and to examine and cross-examine witnesses.*  
6     *The division shall have authority to administer oaths,*  
7     *examine witnesses, rule on questions of procedure and*  
8     *the admissibility of evidence, and to require by subpoena,*  
9     *signed by any member of the Board, the attendance and*  
10    *testimony of witnesses, and the production of all neces-*  
11    *sary returns, books, papers, records, correspondence,*  
12    *memoranda, and other evidence, from any place in the*  
13    *United States at any designated place of hearing, and*  
14    *to require the taking of a deposition by any designated*  
15    *individual competent to administer oaths. Any witness*  
16    *summoned or whose deposition is taken pursuant to this*  
17    *section shall receive the same fees and mileage as wit-*  
18    *nesses in the courts of the United States. Such fees*  
19    *and mileage and the expenses of taking any such deposti-*  
20    *tion shall be paid as follows:*

21            “(1) *Witnesses for Commissioner.—In the case*  
22            *of witnesses for the Commissioner such payments*  
23            *shall be made by the Secretary out of any moneys*  
24            *appropriated for the collection of internal-revenue*

1           “(2) *Other Witnesses.*—*In the case of any*  
2           *other witnesses, such payments shall be made, sub-*  
3           *ject to rules prescribed by the Board, by the party*  
4           *at whose instance the witness appears or the depo-*  
5           *sition is taken.”*

6           *(h) Section 906 (e) (relating to findings of fact and*  
7           *decision) is amended to read as follows:*

8           “(e) *After the conclusion of the hearing a report*  
9           *and a decision thereon shall be made as quickly as prac-*  
10           *ticable by the division conducting such hearing. The*  
11           *report of the division shall become the report of the*  
12           *Board within thirty days after such report by the divi-*  
13           *sion, unless within such period the chairman has directed*  
14           *that such report shall be reviewed by the Board. Any*  
15           *preliminary action by a division which does not form*  
16           *the basis for the entry of the final decision shall not be*  
17           *subject to review by the Board except in accordance with*  
18           *such rules as the Board may prescribe. The report of*  
19           *a division shall not be a part of the record in any case*  
20           *in which the chairman directs that such report shall be*  
21           *reviewed by the Board. It shall be the duty of the*  
22           *Board and of each division to include in its report upon*  
23           *any proceeding its findings of fact or opinion or memo-*  
24           *randum opinion. The Board shall report in writing*



1        *all its findings of fact, opinions, and memorandum opin-*  
2        *ions. A decision of the Board (except a decision dis-*  
3        *missing a proceeding for lack of jurisdiction) shall be*  
4        *held to be rendered upon the date that an order speci-*  
5        *fying the amount of the refund, or that no refund is*  
6        *due, is entered in the records of the Board. If the*  
7        *Board dismisses a proceeding for lack of jurisdiction,*  
8        *an order to that effect shall be entered in the records of*  
9        *the Board and the decision of the Board shall be held*  
10       *to have been rendered upon the date of such entry."*

11       *(i) Section 906 (f) (relating to costs and fees) is*  
12       *amended to read as follows:*

13       *"(f) The Board is authorized to fix a fee, not in excess*  
14       *of the fee fixed by law to be charged and collected therefor*  
15       *by the clerks of the district courts, for comparing, or for*  
16       *preparing and comparing, a transcript of the record, or for*  
17       *copying any record, entry, or other paper and the comparison*  
18       *and certification thereof."*

19       *(j) Section 906 (g) (relating to appeals) is amended*  
20       *to read as follows:*

21       *"(g) A decision of the Board rendered after Jan-*  
22       *uary 1, 1943, may be reviewed by a circuit court of*  
23       *appeals or the United States Court of Appeals for the*  
24       *District of Columbia, if a petition for such review is*  
25       *filed by either the claimant or the Commissioner within*

1     *three months after the decision is rendered. Such deci-*  
2     *sion may be reviewed by the circuit court of appeals*  
3     *for the circuit in which the claimant resides, or has*  
4     *his principal place of business, or, if none, by the United*  
5     *States Court of Appeals for the District of Columbia:*  
6     *Provided, however, That in any event such decision may*  
7     *be reviewed by any circuit court of appeals or the United*  
8     *States Court of Appeals for the District of Columbia*  
9     *which may be designated by the Commissioner and the*  
10    *claimant by stipulation in writing. Such courts shall*  
11    *have exclusive jurisdiction to affirm the decision of the*  
12    *Board, or to modify or reverse such decision, if it is not*  
13    *in accordance with law, with or without demanding the*  
14    *cause for a rehearing as justice may require. The judg-*  
15    *ments of such courts shall be final, subject to review by*  
16    *the Supreme Court of the United States upon certifica-*  
17    *tion or certiorari as provided in sections 239 and 240 of*  
18    *the Judicial Code as amended. Such courts are author-*  
19    *ized to adopt rules for the filing of petitions for review,*  
20    *preparation of the record for review, and the conduct of*  
21    *the proceedings on review. A decision of the Board ren-*  
22    *dered after January 1, 1943 shall become final in the*  
23    *same manner that decisions of the Board become final*  
24    *under section 1140 of the Internal Revenue Code."*

25    **(k) SAVING PROVISIONS.**—Section 906 (g) of the

1 *Revenue Act of 1936, as in effect prior to the date of enact-*  
 2 *ment of the Revenue Act of 1942, shall remain in effect as*  
 3 *to petitions to review decisions of the Board of Review ren-*  
 4 *dered prior to January 1, 1943, but shall not, if any case*  
 5 *involving any such petition is remanded for further proceed-*  
 6 *ings in the Board of Tax Appeals, remain in effect with*  
 7 *respect to any further proceedings in such case.*

8 (l) *This section shall take effect January 1, 1943.*

9 (463) **SEC. 511. DEFINITION OF MILITARY OR NAVAL FORCES**  
 10 **OF THE UNITED STATES.**

11 *Section 3797 (a) (15) is amended to read as follows:*

12 *“(15) MILITARY OR NAVAL FORCES OF THE*  
 13 *UNITED STATES.—The term ‘military or naval forces*  
 14 *of the United States’ includes the Marine Corps, the*  
 15 *Coast Guard, the Army Nurse Corps, Female, the*  
 16 *Women’s Army Auxiliary Corps, the Navy Nurse*  
 17 *Corps, Female, and the Women’s Reserve branch of the*  
 18 *Naval Reserve.”*

19 (464) **SEC. 512. JOINT COMMITTEE ON INTERNAL REVENUE**  
 20 **TAXATION—POWER TO OBTAIN DATA.**

21 *Chapter 48 (relating to joint committee) is amended by*  
 22 *adding at the end thereof the following new section:*

23 **“SEC. 5012. ADDITIONAL POWERS TO OBTAIN DATA.**

24 *“(a) The Joint Committee on Internal Revenue Taxa-*  
 25 *tion or the Chief of Staff of such Joint Committee, upon*

1 approval of the Chairman or Vice-Chairman, is authorized  
 2 to secure directly from the Bureau of Internal Revenue  
 3 (including the Assistant General Counsel for the Bureau of  
 4 Internal Revenue), or directly from any executive depart-  
 5 ment, board, bureau, agency, independent establishment or  
 6 instrumentality of the Government, information, suggestions,  
 7 data, estimates and statistics, for the purpose of making  
 8 investigations, reports and studies relating to internal revenue  
 9 taxation.

10 “(b) The Bureau of Internal Revenue (including the  
 11 Assistant General Counsel for the Bureau of Internal Revenue), executive departments, boards, bureaus, agencies, inde-  
 12 pendent establishments and instrumentalities are authorized  
 13 and directed to furnish such information, suggestions, data,  
 14 estimates and statistics directly to the Joint Committee on  
 15 Internal Revenue Taxation or to the Chief of Staff of such  
 16 Joint Committee, upon request made pursuant to this section.”

## 18 TITLE VI—EXCISE TAXES .

### 19 SEC. 601. EFFECTIVE DATE OF THIS TITLE.

20 This title shall take effect on the first day of the first  
 21 month which begins more than 10 days after the date of the  
 22 enactment of this Act.

### 23 SEC. 602. DISTILLED SPIRITS.

24 (a) RATE ON DISTILLED SPIRITS.—Section 2800 (a)

1 (1) is amended by striking out "\$4" and inserting in lieu  
2 thereof "\$6".

3 (b) RATE ON IMPORTED PERFUMES CONTAINING  
4 ALCOHOL.—Section 2800 (a) (3) is amended by striking  
5 out "\$4" and inserting in lieu thereof "\$6".

6 (c) DRAWBACK ON DISTILLED SPIRITS.—The third  
7 paragraph of section 2887 is amended by striking out "\$4"  
8 and inserting in lieu thereof "\$6".

9 (d) FLOOR STOCKS TAX.—Section 2800 is amended  
10 by inserting at the end thereof the following new subsection:

11 "(j) 1942 FLOOR STOCKS TAX.—

12 "(1) TAX.—Upon all distilled spirits upon which  
13 the internal-revenue tax imposed by law has been paid,  
14 and which on the effective date of Title VI of the  
15 Revenue Act of 1942, are held and intended for sale  
16 or for use in the manufacture or production of any article  
17 intended for sale, there shall be levied, assessed, collected,  
18 and paid a floor stocks tax of \$2 on each proof-gallon,  
19 and a proportionate tax at a like rate on all fractional  
20 parts of such proof-gallon.

21 ~~(465)“(2) RETURNS.—Every person required by this~~  
22 ~~subsection to pay any floor stocks tax shall, on or before~~  
23 ~~the first day of the third month following the effective~~  
24 ~~date of Title VI of the Revenue Act of 1942, under~~  
25 ~~such regulations as the Commissioner, with the approval~~

1 of the Secretary, shall prescribe, make a return and  
2 pay such tax.

3       “(2) RETURNS.—Under such regulations as the  
4 Commissioner with the approval of the Secretary shall  
5 prescribe, every person required by paragraph (1) to  
6 pay any floor stocks tax shall, on or before the end  
7 of the thirtieth day following the effective date of Title  
8 VI of the Revenue Act of 1942 make a return and  
9 shall, on or before the first day of the third month  
10 following such effective date, pay such tax. Payment  
11 of the tax shown to be due may be extended to a date  
12 not later than the first day of the tenth month fol-  
13 lowing the effective date of Title VI of the Revenue  
14 Act of 1942, upon the filing of a bond for payment  
15 thereof in such form and amount and with such surety  
16 or sureties as the Commissioner, with the approval of  
17 the Secretary, may prescribe.

18       “(3) LAWS APPLICABLE.—All provisions of law,  
19 including penalties, applicable in respect of internal-  
20 revenue taxes on distilled spirits shall, insofar as applica-  
21 ble and not inconsistent with this subsection, be applica-  
22 ble in respect of the floor stocks tax imposed hereunder.  
23 For the purposes of this subsection the term ‘distilled  
24 spirits’ shall include products produced in such manner

1 that the person producing them is a rectifier within the  
2 meaning of section 3254 (g).”

3 **(466)(e) EXEMPTION OF IMPORTED ALCOHOL FOR IN-**  
4 **INDUSTRIAL PURPOSES.—**

5 **(1) AMENDMENT TO INTERNAL REVENUE CODE.—**

6 *Part II of Subchapter C of Chapter 26 (relating to*  
7 *industrial alcohol) is amended by inserting at the end*  
8 *thereof the following new section:*

9 **“SEC. 3125. IMPORTATION OF ALCOHOL FOR INDUSTRIAL**  
10 **PURPOSES.**

11 **“(a) IMPORTATION WITHOUT PAYMENT OF INTER-**  
12 **NAL REVENUE TAX.—***Under regulations to be prescribed*  
13 *by the Commissioner, with the approval of the Secretary,*  
14 *and subject from the time of its withdrawal from customs*  
15 *custody to all the applicable provisions of this part, alcohol*  
16 *of 160 proof, or greater, may be imported into the United*  
17 *States and be withdrawn, in bond, from customs custody,*  
18 *without payment of the internal-revenue tax imposed by*  
19 *section 2800 upon the act of importing such alcohol, for*  
20 *transfer to industrial alcohol plants, alcohol bonded ware-*  
21 *houses, and denaturing plants for redistillation or denatura-*  
22 *tion and withdrawal, or withdrawal without redistillation or*  
23 *denaturation, tax free or tax paid, as the case may be, for*  
24 *all the purposes authorized by this part. If such alcohol*  
25 *is withdrawn from the said industrial alcohol plants, alcohol*

1 bonded warehouses, or denaturing plants for beverage pur-  
2 poses, there shall be paid upon such withdrawal an addi-  
3 tional tax equal to the duty which would have been paid  
4 had such spirits been imported for beverage purposes, less  
5 the duty already paid thereon.

6       “(b) **WITHDRAWAL TAX FREE FOR USE OF UNITED**  
7 **STATES.**—Alcohol may be withdrawn from customs custody  
8 by the United States or any governmental agency thereof for  
9 its own use, free of internal-revenue tax, under such regu-  
10 lations as may be prescribed.”

11       (2) **EFFECTIVE DATE OF SUBSECTION.**—Notwith-  
12 standing section 601, this subsection shall take effect on  
13 the day following the date of enactment of this Act.

14 (467)(f) **DRAWBACK IF DISTILLED SPIRITS USED FOR**  
15 **CERTAIN PURPOSES.**—Section 3250 (relating to taxation of  
16 distilled spirits) is amended by inserting at the end thereof  
17 the following new subsection:

18       “(l) **MANUFACTURERS OR PRODUCERS OF DESIG-**  
19 **NATED NONBEVERAGE PRODUCTS.**—

20       “(1) **IN GENERAL.**—Any person using distilled  
21 spirits produced in a domestic registered distillery or  
22 industrial alcohol plant and fully tax-paid in the manu-  
23 facture or production of medicines, medicinal prepara-  
24 tions, food products, flavors, or flavoring extracts which  
25 are unfit for beverage purposes and are sold or other-



1        *wise transferred for use for other than beverage pur-*  
2        *poses upon payment of a special tax per annum, shall*  
3        *be eligible for drawback as hereinafter provided for.*

4            *(2) Such special tax per annum shall be graduated*  
5        *in amount as follows: (a) for total annual withdrawals*  
6        *not exceeding 25 proof gallons, \$25 per annum; (b) for*  
7        *total annual withdrawals not exceeding 50 proof gallons,*  
8        *\$50 per annum; (c) for total annual withdrawals of 50*  
9        *proof gallons or more, \$100 per annum.*

10            *“(3) REQUIREMENTS.—Such person shall register*  
11        *annually with the Commissioner; keep such books and*  
12        *records as may be necessary to establish the fact that dis-*  
13        *tilled spirits purchased by him and fully tax-paid were*  
14        *used in the manufacture or production of medicines,*  
15        *medicinal preparations, food products, flavors, or flavor-*  
16        *ing extracts which were unfit for use for beverage pur-*  
17        *poses; and shall be subject to such rules and regulations*  
18        *in relation thereto as the Commissioner, with the approval*  
19        *of the Secretary, shall prescribe to secure the Treasury*  
20        *of the United States against frauds.*

21            *“(4) INVESTIGATIVE POWERS OF COMMIS-*  
22        *SIONER.—The Commissioner, for the purpose of ascer-*  
23        *taining the correctness of any claim filed under this*  
24        *subsection is authorized, by any officer or employee of*  
25        *the Bureau of Internal Revenue, including the field*

1 service, designated by him for that purpose, to examine  
 2 any books, papers, records, or memoranda bearing upon  
 3 the matters required to be alleged in the claim, and may  
 4 require the attendance of the person filing the claim or  
 5 of any officer or employee of such person, or the attend-  
 6 ance of any other person having knowledge in the  
 7 premises, and may take his testimony with reference to  
 8 any matter covered by the claim, with power to admin-  
 9 ister oaths to such person or persons.

10       “(5) *DRAWBACK.*—A drawback at the rate of  
 11 \$3.75 on each proof gallon shall be allowed on distilled  
 12 spirits tax-paid and used as provided in this subsection  
 13 and be due and payable quarterly upon filing of a proper  
 14 claim with the Commissioner. No claim under this sub-  
 15 section shall be allowed unless filed with the Commissioner  
 16 within the three months next succeeding the quarter for  
 17 which the drawback is claimed.”

18 **SEC. 603. FERMENTED MALT LIQUORS.**

19       (a) **RATE ON FERMENTED MALT LIQUORS.**—Section  
 20 3150 (a) is amended by striking out “\$6” and inserting in  
 21 lieu thereof “\$7”.

22       (b) **FLOOR STOCKS TAX.**—Section 3150 is amended by  
 23 inserting at the end thereof the following new subsection:

24       “(c) **1942 FLOOR STOCKS TAX.**—

25       “(1) **TAX.**—Upon all fermented malt liquors upon

1        which the internal-revenue tax imposed by law has been  
2        paid, and which on the effective date of Title VI of  
3        the Revenue Act of 1942 are held by any person and  
4        intended for sale there shall be levied, assessed, collected,  
5        and paid a floor stocks tax at a rate of \$1 per barrel of  
6        31 gallons. (468)The tax imposed by this subsection  
7        shall not apply to the retail stocks of fermented malt  
8        liquors held by a person on premises as to which such  
9        person has incurred occupational tax as a retail dealer in  
10       liquors or a retail dealer in malt liquors for the period  
11       beginning on July 1, 1942, and as to which no other  
12       occupational tax with respect to dealing in distilled spirits,  
13       wines, or malt liquors, has been incurred by such person  
14       for a period beginning on such date.

15        ~~“(2) RETURNS.—Every person required by para-~~  
16        ~~graph (1) to pay any floor stocks tax shall, on or before~~  
17        ~~the first day of the third month following the effective~~  
18        ~~date of Title VI of the Revenue Act of 1942, under~~  
19        ~~such regulations as the Commissioner with the approval~~  
20        ~~of the Secretary shall prescribe, make a return and pay~~  
21        ~~such tax.~~

22        *“(2) RETURNS.—Under such regulations as the*  
23        *Commissioner with the approval of the Secretary shall*  
24        *prescribe, every person required by paragraph (1) to pay*  
25        *any floor stocks tax shall, on or before the end of the thir-*

1        *tieth day following the effective date of Title VI of the*  
2        *Revenue Act of 1942 make a return and shall, on or*  
3        *before the first day of the third month following such*  
4        *effective date, pay such tax. Payment of the tax shown*  
5        *to be due may be extended to a date not later than the*  
6        *first day of the tenth month following the effective date*  
7        *of Title VI of the Revenue Act of 1942, upon the filing*  
8        *of a bond for payment thereof in such form and amount*  
9        *and with such surety or sureties as the Commissioner,*  
10       *with the approval of the Secretary, may prescribe.*

11        “(3) **LAWS APPLICABLE.**—All provisions of law,  
12        including penalties, applicable in respect of the taxes  
13        imposed by subsection (a) shall, insofar as applicable  
14        and not inconsistent with this subsection, be applicable  
15        with respect to the floor stocks tax imposed by this  
16        subsection.”

17       **SEC. 604. WINES.**

18        (a) **RATE ON STILL WINES.**—Section 3030 (a) (1)  
19        (A) is amended by striking out “8 cents” and inserting in  
20        lieu thereof “10 cents”; by striking out “30 cents” and in-  
21        serting in lieu thereof “40 cents”; and by striking out “65  
22        cents” and inserting in lieu thereof “\$1.00”.

23        (b) **RATE ON SPARKLING WINES, LIQUEURS, COB-**  
24        **DIALS, ETC.**—Section 3030 (a) (2) is amended by striking  
25        out “7 cents” and inserting in lieu thereof “10 cents”; and

1 by striking out "3½ cents" and inserting in lieu thereof "5  
2 cents".

3 (c) FLOOR STOCKS.—Subchapter F of Chapter 26 is  
4 amended by inserting at the end thereof the following new  
5 section:

6 "SEC. 3193. 1942 FLOOR STOCKS TAX ON WINES.

7 " (a) FLOOR STOCKS TAX.—Upon all wines upon which  
8 the internal-revenue tax imposed by law has been paid, and  
9 which on the effective date of Title VI of the Revenue  
10 Act of 1942 are held and intended for sale or for use in  
11 the manufacture or production of an article intended for  
12 sale, there shall be levied, assessed, collected, and paid a  
13 floor stocks tax at rates equal to the increases in rates of tax  
14 (469) ~~(over the defense tax rates)~~ made applicable to such  
15 articles by section 604 of the Revenue Act of 1942.

16 (470) ~~"(b) RETURNS.—Every person required by subsection~~  
17 ~~(a) to pay any floor stocks tax shall, on or before the first~~  
18 ~~day of the third month following the effective date of Title~~  
19 ~~VI of the Revenue Act of 1942, under such regulations as~~  
20 ~~the Commissioner, with the approval of the Secretary, shall~~  
21 ~~prescribe, make a return and pay such tax.~~

22 " (b) RETURNS.—Under such regulations as the Com-  
23 missioner with the approval of the Secretary shall prescribe,  
24 every person required by subsection (a) to pay any floor  
25 stocks tax shall, on or before the end of the thirtieth day

1 following the effective date of Title VI of the Revenue Act  
 2 of 1942 make a return and shall, on or before the first day  
 3 of the third month following such effective date, pay such tax.  
 4 Payment of the tax shown to be due may be extended to  
 5 a date not later than the first day of the tenth month follow-  
 6 ing the effective date of Title VI of the Revenue Act of  
 7 1942, upon the filing of a bond for payment thereof in such  
 8 form and amount and with such surety or sureties as the  
 9 Commissioner, with the approval of the Secretary, may  
 10 prescribe.

11 “(c) LAWS APPLICABLE.—All provisions of law, in-  
 12 cluding penalties, applicable in respect of the taxes imposed  
 13 by section 3030 (a) shall, insofar as applicable and not in-  
 14 consistent with this subsection, be applicable with respect  
 15 to the floor stocks tax imposed by subsection (a).”

16 **SEC. 605. (471) TOBACCO, CIGARS, CIGARETTES, AND CIG-**  
 17 **ARETTE PAPERS AND TUBES CIGARS AND**  
 18 **CIGARETTES.**

19 **(472)(a) RATE ON SMOKING TOBACCO.**—Section 2000 (a)  
 20 ~~(2)~~ is amended by striking out “18 cents per pound” and  
 21 inserting in lieu thereof “18 cents per pound on chewing  
 22 tobacco, and 24 cents per pound on smoking tobacco”.

23 **(473)(b) (a) RATES ON CIGARS.**—Section 2000 (c) (1) is  
 24 amended to read as follows:

25 “(c) CIGARS AND CIGARETTES.—Upon cigars and ciga-

1 rettes manufactured in or imported into the United States,  
2 which are sold by the manufacturer or importer, or removed  
3 for consumption or sale, there shall be levied, collected, and  
4 paid the following taxes:

5 (474)“(1) CIGARS.—On cigars of all descriptions made  
6 of tobacco, or any substitute therefor, and weighing not  
7 more than three pounds per thousand, 75 cents per  
8 thousand;

9 “On cigars made of tobacco, or any substitute there-  
0 for, and weighing more than three pounds per thousand,  
1 if manufactured or imported to retail at not more than  
2  $2\frac{1}{2}$  cents each, \$2.50 per thousand;

3 “If manufactured or imported to retail at more than  
4  $2\frac{1}{2}$  cents each and not more than 4 cents each, \$3.50 per  
5 thousand;

6 “If manufactured or imported to retail at more than  
7 4 cents each and not more than 6 cents each, \$5.00 per  
8 thousand;

9 “If manufactured or imported to retail at more than  
0 6 cents each and not more than 8 cents each, \$7.00 per  
1 thousand;

2 “If manufactured or imported to retail at more than  
3 8 cents each and not more than 11 cents each, \$10.00  
4 per thousand;

5 “If manufactured or imported to retail at more than

1 11 cents each and not more than 15 cents each, \$13.50  
2 per thousand;

3 "If manufactured or imported to retail at more than  
4 15 cents each and not more than 20 cents each, \$18.00  
5 per thousand;

6 "If manufactured or imported to retail at more than  
7 20 cents each and not more than 30 cents each, \$25.00  
8 per thousand;

9 "If manufactured or imported to retail at more  
10 than 30 cents each, \$35.00 per thousand;

11 "(1) CIGARS.—*On cigars of all descriptions made*  
12 *of tobacco, or any substitute therefor, and weighing not*  
13 *more than three pounds per thousand, 75 cents per*  
14 *thousand;*

15 "On cigars made of tobacco, or any substitute there-  
16 for, and weighing more than three pounds per thousand,  
17 if manufactured or imported to retail at not more than  
18  $2\frac{1}{2}$  cents each, \$2.00 per thousand;

19 "If manufactured or imported to retail at more than  
20  $2\frac{1}{2}$  cents each and not more than 4 cents each, \$3.00  
21 per thousand;

22 "If manufactured or imported to retail at more than  
23 4 cents each and not more than 6 cents each, \$4.00 per  
24 thousand;



1           *"If manufactured or imported to retail at more than*  
 2           *6 cents each and not more than 8 cents each, \$7.00 per*  
 3           *thousand;*

4           *"If manufactured or imported to retail at more than*  
 5           *8 cents each and not more than 15 cents each, \$10.00*  
 6           *per thousand;*

7           *"If manufactured or imported to retail at more than*  
 8           *15 cents each and not more than 20 cents each, \$15.00*  
 9           *per thousand;*

10           *"If manufactured or imported to retail at more*  
 11           *than 20 cents each, \$20.00 per thousand.*

12           *"Whenever in this subsection reference is made to*  
 13           *cigars manufactured or imported to retail at not over*  
 14           *a certain price each, then in determining the tax to be*  
 15           *paid regard shall be had to the ordinary retail price*  
 16           *of a single cigar in its principal market."*

17 **(475)(e) (b) RATES ON CIGARETTES.**—Section 2000 (c)  
 18 (2) is amended by striking out "\$3.25" and inserting in lieu  
 19 thereof "\$3.50" and by striking out "\$7.80" and inserting  
 20 ~~in~~ in lieu thereof "\$8.40".

21 **(476)(d) RATES ON CIGARETTE PAPERS AND TUBES.**—  
 22 Section 2000 (d) is amended to read as follows:

23           ~~"(d) CIGARETTE PAPER.~~—There shall be levied, col-  
 24 lected, and paid upon cigarette paper made up into packages;  
 25 books, sets or tubes, made up in or imported into the United

1 States and sold or delivered by the manufacturer or im-  
 2 porter to any person (other than to a manufacturer of eiga-  
 3 rettes for use by him in the manufacture of cigarettes intended  
 4 for sale or consumption); the following taxes:

5 "On each package, book, or set containing not  
 6 more than 25 papers or tubes,  $\frac{1}{2}$  cent;

7 "Containing more than 25 papers or tubes,  $\frac{1}{2}$  cent  
 8 for each 25 papers or tubes or fractional part thereof."

9 **(477)(e) (c) FLOOR STOCKS TAX.**—Section 2000 is  
 10 amended by inserting at the end thereof the following new  
 11 subsection:

12 " (e) 1942 FLOOR STOCKS TAX.—

13 " (1) TAX.—Upon **(478)**smoking tobacco, large  
 14 cigars (weighing more than three pounds per thousand)  
 15 and all cigarettes subject to tax under this section, which  
 16 on the effective date of Title VI of the Revenue Act of  
 17 1942 are held by any person for sale, there shall be  
 18 levied, assessed, collected, and paid a floor stocks tax at a  
 19 rate equal to the increase in rate of tax made applicable to  
 20 such articles by the Revenue Act of 1942.

21 " (2) RETURN.—Every person required by this sub-  
 22 section to pay any floor stocks tax shall, on or before  
 23 the end of the month next following the month in which  
 24 Title VI of the Revenue Act of 1942 takes effect, under  
 25 such regulations as the Commissioner with the approval

1 of the Secretary shall prescribe, make a return and pay  
 2 such tax, except that in the case of such articles held by  
 3 manufacturers and importers, the Commissioner may col-  
 4 lect the tax with respect to all or part of such articles by  
 5 means of stamps rather than return, and in such case  
 6 may make an assessment against such manufacturer or  
 7 importer having (479) ~~tobacco~~, cigar and cigarette tax  
 8 stamps on hand on the effective date of Title VI of the  
 9 Revenue Act of 1942, for the difference between the  
 10 amount paid for such stamps and the increased rates  
 11 imposed by the Revenue Act of 1942.

12 “(3) LAWS APPLICABLE.—All provisions of law,  
 13 including penalties, applicable in respect of the taxes im-  
 14 posed by section 2000, shall, insofar as applicable and  
 15 not inconsistent with this subsection, be applicable with  
 16 respect to the floor stocks tax imposed by this subsec-  
 17 tion.”

18 (480) ~~(f)~~ (d) ONE-EIGHTH OUNCE DIFFERENCES ABOVE  
 19 TWO OUNCES AND NOT ABOVE THREE OUNCES PERMITTED  
 20 IN PACKAGING OF TOBACCO AND SNUFF.—Section 2100

21 (a) (1) (relating to permissible packages for tobacco and  
 22 snuff) is amended by striking out “with a difference between  
 23 each package and the one next smaller of one-eighth of an  
 24 ounce up to and including two ounces” and inserting in lieu  
 25 thereof “with a difference between each package and the

1 one next smaller of one-eighth of an ounce up to and in-  
2 cluding three ounces”.

3 **(481)(e) EXPORTATION OF CIGARETTE PAPERS AND**  
4 **TUBES FREE OF INTERNAL REVENUE TAX.—Section 2197**  
5 **(b) (relating to tax-free exportation of tobacco) is amended**  
6 **by striking out “or cigarettes” and inserting in lieu thereof**  
7 **“cigarettes, or cigarette papers or tubes”.**

8 **SEC. 606. TELEPHONE, TELEGRAPH, ETC.**

9 (a) **RATES OF TAX.—Section 3465 is amended to read**  
10 **as follows:**

11 **“SEC. 3465. IMPOSITION AND RATE OF TAX.**

12 **“(a) There shall be imposed:**

13 **“(1) TELEPHONE AND TELEGRAPH, ETC.—**

14 **“(A) On the amount paid within the United**  
15 **States for each telephone or radio telephone message**  
16 **or conversation for which the toll charge is more**  
17 **than 24 cents, a tax equal to 20 per centum of the**  
18 **amount so paid. If a bill is rendered the taxpayer**  
19 **for the services described in this subparagraph, the**  
20 **amount upon which the tax shall be based shall be**  
21 **the sum of all such charges included in the bill, and**  
22 **the tax shall not be based upon the charge for each**  
23 **item, separately, included in the bill.**

24 **“(B) On the amount paid within the United**  
25 **States for each telegraph, cable, or radio dispatch or**

1 message a tax equal to 15 per centum of the amount  
2 so paid(482), *except that in the case of each inter-*  
3 *national telegraph, cable, or radio dispatch or mes-*  
4 *sage the rate shall be 10 per centum.* If a bill is  
5 rendered the taxpayer for the services described in  
6 this subparagraph, the amount upon which the tax  
7 (483) shall be based shall be the sum of all such  
8 charges at each of the rates in this subparagraph  
9 shall be based shall be the sum of all such charges at  
10 that rate included in the bill, and the tax shall not be  
11 based upon the charge for each item, separately,  
12 included in the bill.

13 “If the tax under subparagraph (A) or (B) is paid  
14 by inserting coins in coin-operated telephones, the tax  
15 shall be computed to the nearest multiple of 5 cents,  
16 except that where the tax is midway between multiples  
17 of 5 cents, the next higher multiple shall apply. Only  
18 one payment of a tax imposed by subparagraph (A)  
19 or (B) shall be required notwithstanding the lines  
20 or stations of one or more persons are used in the trans-  
21 mission of such dispatch, message, or conversation.

22 “(2) LEASED WIRES, ETC.—

23 “(A) A tax equivalent to 15 per centum of  
24 the amount paid for leased wire, teletypewriter, or

1 talking circuit special service, but not including an  
2 amount paid for leased wire, teletypewriter, or talk-  
3 ing circuit special service used exclusively in render-  
4 ing a service taxable under subparagraph (B).

5 " (B) A tax equivalent to 5 per centum of the  
6 amount paid for any wire and equipment service (in-  
7 cluding stock quotation and information services,  
8 burglar alarm or fire alarm service, and all other  
9 similar services, but not including service described  
10 in subparagraph (A) ).

11 "The tax shall apply under this paragraph whether or  
12 not the wires or services are within a local exchange  
13 area.

14 " (3) LOCAL TELEPHONE SERVICE.—A tax equivalent  
15 to 10 per centum of the amount paid by subscribers  
16 for local telephone service and for any other  
17 telephone service in respect of which a tax is not payable  
18 under paragraph (1) or (2). Amounts paid for the  
19 installation of instruments, wires, poles, switchboards,  
20 apparatus, and equipment shall not be considered  
21 amounts paid for service. Service paid for by inserting  
22 coins in coin-operated telephones available to the public  
23 shall not be subject to the tax imposed by this paragraph,  
24 except that where such coin-operated telephone service

1 is furnished for a guaranteed amount, the amounts paid  
2 under such guarantee plus any fixed monthly or other  
3 periodic charge shall be subject to the tax.

4 “(b) This section shall not apply to the amount paid  
5 for so much of the service described in paragraph (2) of  
6 subsection (a) as is utilized in the conduct, by a common  
7 carrier or telephone or telegraph company or a radio broad-  
8 casting station or network, of its business as such.”

9 (b) EFFECTIVE DATE OF AMENDMENTS.—

10 (1) The amendments to section 3465 (a) (1)  
11 made by subsection (a) shall be applicable only with  
12 respect to the period beginning with the effective date  
13 of this title.

14 (2) The amendments to section 3465 (a) (2) and  
15 (3) made by subsection (a) shall apply only to amounts  
16 paid pursuant to bills rendered after the effective date  
17 of this title for service for which no previous bill was  
18 rendered. Where bills rendered after the effective date  
19 of this title include charges for services previously ren-  
20 dered, the amendments shall not apply to such service  
21 as was rendered more than two months before the effec-  
22 tive date of this title, and the provisions of section 3465  
23 in effect at the time such prior service was rendered  
24 shall be applicable to the amounts paid for such service.

## 1 SEC. 607. PHOTOGRAPHIC APPARATUS.

2 Section 3406 (a) (4) is amended to read as follows:

3 ~~(484)~~“(4) PHOTOGRAPHIC APPARATUS.—Cameras  
4 ~~(except cameras weighing more than four pounds ex-~~  
5 ~~clusive of lens and accessories)~~ and lenses, photographic  
6 apparatus and equipment, and any apparatus or equip-  
7 ment designed especially for use in the taking of photo-  
8 graphs or motion pictures or in developing, printing, or  
9 enlarging photographs or motion pictures, 25 per  
10 centum; unexposed photographic films (including mo-  
11 tion picture films but not including X-ray film); photo-  
12 graphic plates and sensitized paper, 15 per centum.”

13 “(4) PHOTOGRAPHIC APPARATUS.—Cameras and  
14 lenses, photographic apparatus and equipment, and any  
15 apparatus or equipment designed especially for use in the  
16 taking of photographs or motion pictures or in develop-  
17 ing printing, or enlarging photographs or motion pic-  
18 tures, 10 per centum; unexposed photographic films (in-  
19 cluding motion picture films but not including X-ray  
20 film), photographic plates and sensitized paper, 15 per  
21 centum. No tax shall apply under this subparagraph  
22 with respect to film or sensitized paper for use in the re-  
23 production of drawings, records, and other documents  
24 for industrial or commercial purposes.”



## 1 SEC. 608. LUBRICATING OILS.

2 Section 3413 (relating to tax on lubricating oils) is  
3 amended by striking out "4½ cents" and inserting in lieu  
4 thereof "6 cents".

## 5 SEC. 609. TRANSPORTATION OF PERSONS.

6 **(485)(a) INCREASE IN RATE.**—Section 3469 (a) (relating  
7 to tax on transportation of persons) and section 3469 (c)  
8 (relating to tax on seats or berths) and amended by striking  
9 out "5 per centum" and inserting in lieu thereof "10 per  
10 centum".

11 **(486)(b) EXEMPTION OF MEMBERS OF ARMED FORCES**  
12 **OF UNITED NATIONS FROM TAX ON TRANSPORTATION OF**  
13 **PERSONS, ETC.**—Section 3469 (f) (2) (relating to exemp-  
14 tions from the tax on transportation of persons) is amended  
15 by inserting after the words "uniform of the United States"  
16 a comma and the following: "or to members of the military  
17 or naval forces of any of the other United Nations traveling  
18 in uniform of such nation,".

## 19 SEC. 610. ORGANS UNDER CONTRACT BEFORE OCTOBER 1,

20 1941.

21 The tax under section 3404 (d) of the Internal Revenue  
22 Code shall not apply to the sale of an organ sold under a  
23 bona fide written contract entered into before October 1,  
24 1941, and tax paid with respect to the sale of an organ under

1 such a contract may be refunded, subject to the provisions  
2 of section 3443 (d) of the Internal Revenue Code.

3 **SEC. 611. TERMINATION OF CERTAIN EXCISE TAXES.**

4 The taxes imposed by the following provisions shall not  
5 apply to the sale, by the manufacturer, producer, or importer,  
6 after the effective date of this Title, of the articles taxable  
7 under such provisions:

8 (a) Section 3406 (a) (5) of the Internal Revenue  
9 Code (relating to tax on electric signs).

10 (b) Section 3406 (a) (7) of the Internal Revenue  
11 Code (relating to tax on rubber articles).

12 (c) Section 3406 (a) (8) of the Internal Revenue  
13 Code (relating to tax on washing machines).

14 (d) Section 3406 (a) (9) of the Internal Revenue  
15 Code (relating to tax on optical equipment).

16 **SEC. 612. AFFIXING OF CIGARETTE STAMPS IN FOREIGN**  
17 **COUNTRIES.**

18 Section 2112 (c) (relating to requirement of affixing  
19 cigarette stamps) is amended by inserting at the end thereof  
20 the following new sentence: "If the government of a foreign  
21 country permits the revenue stamps of such country to be  
22 affixed in the United States to cigarettes manufactured in the  
23 United States and imported into such foreign country, then, if  
24 cigarettes manufactured in such foreign country are imported

1 into the United States from such foreign country, the importer  
 2 may, under such rules and regulations as the Commissioner  
 3 with the approval of the Secretary of the Treasury may pre-  
 4 scribe, have the United States revenue stamps attached to  
 5 such cigarettes in such foreign country.”

6 **SEC. 613. EXEMPTION OF INSIGNIA, ETC., USED IN CONNEC-**  
 7 **TION WITH UNIFORMS OF THE ARMED FORCES**  
 8 **FROM JEWELRY TAX.**

9 The second sentence of section 2400 (relating to exemp-  
 10 tion from jewelry tax) is amended to read as follows: “The  
 11 tax imposed by this section shall not apply to any article  
 12 used for religious purposes, to surgical instruments, (487)to  
 13 *watches designed especially for use by the blind*, to frames or  
 14 mountings for spectacles or eye-glasses, to a fountain pen or  
 15 smoker’s pipe if the only parts of the pen or the pipe which  
 16 consists of precious metals are essential parts not used for or-  
 17 namental purposes, or to buttons, insignia, cap devices, chin  
 18 straps, and other devices prescribed for use in connection with  
 19 the uniforms of the armed forces of the United States.”

20 **(488)SEC. 614. EXEMPT LEASES OF WATER COOLERS.**

21 Section 2405 (a) (relating to sales, etc., of cooling,  
 22 etc., units) is amended by inserting at the end thereof the  
 23 following new sentence: “The term ‘sale’ as defined in sec-  
 24 tion 2440 shall not include the lease or renewal of a lease

1 of a water cooler leased by a manufacturer, producer, or  
2 importer prior to October 1, 1941."

3 **SEC. 614. REFRIGERATORS, REFRIGERATING APPARATUS, AND**  
4 **AIR-CONDITIONERS.**

5 *Section 3405 is amended to read as follows:*

6 **"SEC. 3405. TAX ON MECHANICAL REFRIGERATORS AND SELF-**  
7 **CONTAINED AIR-CONDITIONING UNITS.**

8 *"There shall be imposed on the following articles (in-*  
9 *cluding in each case parts or accessories therefor sold on or*  
10 *in connection with the sale thereof) sold by the manufacturer,*  
11 *producer, or importer a tax equivalent to 10 per centum of*  
12 *the price for which sold:*

13 *"(a) REFRIGERATORS.—Household type refrigerators*  
14 *(for single or multiple cabinet installations) having, or being*  
15 *primarily designed for use with, a mechanical refrigerating*  
16 *unit operated by electricity, gas, kerosene, or gasoline.*

17 *"(b) REFRIGERATING APPARATUS.—Cabinets, com-*  
18 *pressors, condensers, evaporators, expansion units, absorbers,*  
19 *and controls for, or suitable for use as parts of or with,*  
20 *household type refrigerators of the kind described in sub-*  
21 *section (a) except when sold as component parts of complete*  
22 *refrigerators or refrigerating or cooling apparatus.*

23 *"(c) AIR-CONDITIONERS.—Self-contained air-condi-*  
24 *tioning units."*

1 **SEC. 615. EXEMPTION OF CERTAIN CASH REGISTERS.**

2 Section 3406 (a) (6) (relating to tax on business and  
3 store machines) is amended by inserting after "cash registers"  
4 the following: ", except cash registers of the type used in  
5 registering over-the-counter retail sales".

6 **SEC. 616. EXEMPT TRANSPORTATION OF OIL BY PIPE LINE.**

7 Section 3460 (relating to tax on transportation of oil  
8 by pipe line) is amended by adding at the end thereof the  
9 following new subsection:

10 "(c) **EXEMPT TRANSPORTATION.**—For the purposes of  
11 this section, the term 'transportation' shall not include any  
12 movement through lines of pipe within the premises of a  
13 refinery, a bulk plant, a terminal, or a gasoline plant, if such  
14 movement is not a continuation of a taxable transportation.  
15 The crossing of rights-of-way, streets, highways, railroads,  
16 levees, or narrow bodies of water, in connection with such a  
17 movement, shall not of itself constitute such movement as  
18 being 'transportation'."

19 **SEC. 617. COIN-OPERATED AMUSEMENT AND GAMING DE-**  
20 **VICES.**

21 **(489)(a) INCREASE IN RATE ON GAMBLING DEVICES.**—  
22 Section 3267 (a) (2) and (3) (relating to rate of tax on  
23 gambling devices) is amended by striking out "\$50" and  
24 inserting in lieu thereof "\$100".

1 **(490)**~~(a)~~ *(b)* DEFINITION.—Section 3267 (b) is amended  
2 to read as follows:

3 “(b) DEFINITION.—As used in this Part, the term  
4 ‘coin-operated amusement and gaming devices’ means (1)  
5 any amusement or music machine operated by means of the  
6 insertion of a coin, token, or similar object, and (2) so-called  
7 ‘slot’ machines which operate by means of insertion of a coin,  
8 token, or similar object and which, by application of the  
9 element of chance, may deliver, or entitle the person play-  
10 ing or operating the machine to receive, cash, premium,  
11 merchandise, or tokens. The term does not include bona  
12 fide vending machines in which are not incorporated gaming  
13 or amusement features. For the purposes of this section, a  
14 vending machine operated by means of the insertion of a 1  
15 cent coin, which, when it dispenses a prize, never dispenses  
16 a prize of a retail value of, or entitles a person to receive a  
17 prize of a retail value of, more than 5 cents **(491)**, *and if the*  
18 *only prize dispensed is merchandise and not cash or tokens*  
19 *shall be classified under clause (1) and not under clause (2).*  
20 **(492)***Trade stimulator machines shall not be construed as*  
21 *gaming devices.”*

22 **(493)**~~(b)~~ LIST OF SPECIAL TAXPAYERS.—Section 3267 is  
23 amended by adding at the end thereof the following new  
24 subsection:

1       "~~(e) LIST OF SPECIAL TAXPAYERS.~~—With respect to  
 2 the year beginning July 1, 1942, the provisions of section  
 3 3275 (relating to a list of special taxpayers) shall not be  
 4 applicable to persons who have paid special tax with respect  
 5 to coin-operated gaming devices as defined in clause (2) of  
 6 subsection (b)."

7       ~~(c) EFFECTIVE DATE OF AMENDMENTS.~~—The amend-  
 8 ments made by this section shall be applicable to the year  
 9 beginning July 1, 1942, except that no tax shall be pay-  
 10 able with respect to an article, not taxable under section 3267  
 11 of the Internal Revenue Code before its amendment by this  
 12 section for any period before the effective date of this title.

13       (c) *EFFECTIVE DATE OF AMENDMENTS.*—The  
 14 amendments made by this section shall be first applicable as  
 15 follows:

16           (1) *In the case of machines the rate of tax on which*  
 17 *is increased, to the year beginning July 1, 1943.*

18           (2) *In the case of machines not subject to tax prior*  
 19 *to such amendments, no tax shall be payable with respect*  
 20 *to any period before the effective date of this title.*

21           (3) *In the case of machines if the limitation on the*  
 22 *amount of the prize dispensed is 5 cents, to the year*  
 23 *beginning July 1, 1942.*

1 **(494) SEC. 618. TAX ON PARI-MUTUEL WAGERING.**

2 Chapter 10 is amended by inserting at the end thereof  
3 the following new subchapter:

4 **"Subchapter D—Tax on Pari-Mutuel Wagering**

5 **"SEC. 1730. TAX.**

6 "There shall be levied, assessed, collected, and paid on  
7 the conducting of pari-mutuel or totalizator wagering on any  
8 racing or other sporting event a tax in an amount equal to  
9 5 per centum of the total amount wagered and received  
10 into, on and after the effective date of this title, the pari-  
11 mutuel or totalizator pool, to be paid by the person con-  
12 ducting or having control of such pari-mutuel or totalizator  
13 pool.

14 **"SEC. 1731. RETURNS AND PAYMENT OF TAX.**

15 "Every person liable to tax under section 1730 shall  
16 make returns under oath in duplicate and pay the tax  
17 to the collector for the district in which is located his  
18 principal place of business or, if he has no principal place  
19 of business in the United States, then to the Collector at  
20 Baltimore, Maryland. Such returns shall contain such in-  
21 formation and be made at such times and in such manner  
22 as the Commissioner, with the approval of the Secretary,  
23 may by regulations prescribe. The tax shall, without assess-



1 ment by the Commissioner or notice from the collector, to  
2 due and payable at the time so fixed for filing the return.

3 **“SEC. 1732 OTHER LAWS APPLICABLE.**

4 “All provisions of law, including penalties, applicable in  
5 respect of the taxes imposed by section 1700 shall, insofar  
6 as applicable and not inconsistent with the provisions of this  
7 subchapter, be applicable in respect to the tax imposed by  
8 section 1730.”

9 **SEC. (495)§19 618. SALE UNDER CHATTEL MORTGAGE.**

10 (a) **RETAIL SALES TAXES.**—Section 2405 (relating to  
11 tax where article sold under instalment or conditional sale  
12 contract) is amended by striking out “or (c) a conditional  
13 sale” and inserting in lieu thereof the following: “(c) a  
14 conditional sale, or (d) a chattel mortgage arrangement  
15 wherein it is provided that the sales price shall be paid in  
16 instalments”.

17 (b) **MANUFACTURERS’ SALES TAXES GENERALLY.**—  
18 Section 3441 (c) (1) (relating to tax where articles are  
19 sold under instalment or conditional sales contracts) is  
20 amended by striking out “or (C) a conditional sale” and in-  
21 serting in lieu thereof “(C) a conditional sale, or (D) a  
22 chattel mortgage arrangement wherein it is provided that  
23 the sales price shall be paid in instalments”.

1 SEC. (496)~~620~~ 619. REPEAL OF CERTAIN PROVISIONS RE-  
2 LATING TO MIXED FLOUR.

3 Chapter 18 and Part IV of Subchapter A of Chapter 27  
4 are repealed:

5 (497)SEC. 621. TRANSPORTATION OF PROPERTY.

6 (a) Chapter 30 is amended by inserting at the end  
7 thereof the following new subchapter:

8 "Subchapter E—Transportation of Property

9 "SEC. 3475. TRANSPORTATION OF PROPERTY.

10 "(a) ~~TAX.~~—There shall be imposed upon the amount  
11 paid within the United States after the effective date of this  
12 section for the transportation, on or after such effective date,  
13 of property by rail, motor vehicle, water, or air from one point  
14 in the United States to another, a tax equal to 5 per centum  
15 of the amount so paid, except that, in the case of coal, the  
16 rate of tax shall be 5 cents per long ton. Such tax shall apply  
17 only to amounts paid to a person engaged in the business of  
18 transporting property for hire, including amounts paid to a  
19 freight forwarder, express company, or similar person, but not  
20 including amounts paid by a freight forwarder, express com-  
21 pany, or similar person for transportation with respect to  
22 which a tax has previously been paid under this section. In  
23 the case of property transported from a point without the

1 United States to a point within the United States the tax shall  
2 apply to the amount paid within the United States for that  
3 part of the transportation which takes place within the United  
4 States. The tax on the transportation of coal shall not apply  
5 to the transportation of coal with respect to which there has  
6 been a previous taxable transportation.

7 ~~“(b) EXEMPTION OF GOVERNMENT TRANSPORTA-~~  
8 ~~TION.—~~The tax imposed under this section shall not apply  
9 to amounts paid by or to the United States or any agency  
10 or instrumentality of the United States for the transportation  
11 of property.

12 ~~“(c) RETURNS AND PAYMENT.—~~The tax imposed by  
13 this section shall be paid by the person making the payment  
14 subject to the tax. Each person receiving any payment  
15 specified in subsection ~~(a)~~ shall collect the amount of the  
16 tax imposed from the person making such payment, and  
17 shall, on or before the last day of each month, make a return,  
18 under oath, for the preceding month, and pay the taxes so  
19 collected to the collector in the district in which his principal  
20 place of business is located, or if he has no principal place of  
21 business in the United States, to the collector at Baltimore,  
22 Maryland. Such returns shall contain such information and  
23 be made in such manner as the Commissioner with the ap-  
24 proval of the Secretary may by regulations prescribe.

1       “(d) **EXTENSIONS OF TIME.**—The Commissioner may  
2 extend the time for making returns and paying the taxes  
3 collected, under such rules and regulations as he shall pre-  
4 scribe with the approval of the Secretary, but no such exten-  
5 sion shall be for more than ninety days.

6       “(e) **REGISTRATION.**—Every person engaged in the  
7 business of transporting property for hire, including freight  
8 forwarders, express companies, and similar persons, shall, on  
9 or before the sixtieth day after the effective date of this sec-  
10 tion, or within sixty days after first engaging in the business  
11 of transportation of property for hire, register his name and  
12 his place or places of business with the collector in the dis-  
13 trict in which is located the principal place of business of such  
14 person. Every such person who fails to register within the  
15 period specified shall be guilty of a misdemeanor and upon  
16 conviction thereof shall be fined not more than \$50.”

17       “(b) **TECHNICAL AMENDMENT.**—Section 3471 (a) and  
18 (b) are amended by striking out “or Subchapter C” wher-  
19 ever occurring therein and inserting in lieu thereof “Sub-  
20 chapter C, or Subchapter E”.

21       “(c) **EFFECTIVE DATE OF SECTION.**—The amendments  
22 made by this section shall take effect on the first day of the  
23 first month which begins more than thirty days after the date  
24 of the enactment of this Act.

1 (498)SEC. 620. EXEMPTION FROM PROCESSING TAX OF PALM  
2 OIL USED IN MANUFACTURE OF IRON OR  
3 STEEL PRODUCTS.

4 Section 2477 (relating to definition of first domestic  
5 processing) is amended to read as follows:

6 "SEC. 2477. FIRST DOMESTIC PROCESSING DEFINED.

7 "For the purposes of this chapter, the term 'first domestic  
8 processing' means the first use in the United States, in the  
9 manufacture or production of an article intended for sale,  
10 of the article with respect to which the tax is imposed, but  
11 does not include the use of palm oil in the manufacture of  
12 iron or steel products, or tin plate or terne plate, or any  
13 subsequent use of palm oil residue resulting from the manu-  
14 facture of iron or steel products, or tin plate or terne plate."

15 (499)SEC. 621. CABARET TAX.

16 Section 1700 (e) (1) (relating to rate of cabaret tax)  
17 is amended to read as follows:

18 "(1) RATE.—A tax equivalent to 5 per centum of all  
19 amounts paid for admission, refreshment, service, or mer-  
20 chandise, at any roof garden, cabaret, or other similar place  
21 furnishing a public performance for profit, by or for any  
22 patron or guest who is entitled to be present during any portion  
23 of such performance. The term 'roof garden, cabaret, or other  
24 similar place' shall include any room in any hotel, restau-  
25 rant, hall, or other public place where music and dancing

1 *privileges or any other entertainment, except instrumental*  
2 *or mechanical music alone, are afforded the patrons in con-*  
3 *nection with the serving or selling of food, refreshment, or*  
4 *merchandise. A performance shall be regarded as being fur-*  
5 *nished for profit for purposes of this section even though the*  
6 *charge made for admission, refreshment, service, or merchan-*  
7 *dise is not increased by reason of the furnishing of such per-*  
8 *formance. No tax shall be applicable under subsection (a)*  
9 *(1) on account of an amount paid with respect to which*  
10 *tax is imposed under this subsection."*

11 **(500)SEC. 622. SALE AND USE OF TOILET PREPARATIONS BY**  
12 **BEAUTY PARLORS, ETC.**

13 *Section 2402 (b) is amended to read as follows:*

14 *"(b) BEAUTY PARLORS, ETC.—For the purposes of*  
15 *subsection (a), the sale of any article described in such sub-*  
16 *section to any person operating a barber shop, beauty parlor,*  
17 *or similar establishment for use in the operation thereof and*  
18 *not for resale, shall be considered a sale at retail. The use*  
19 *in such operation of any article described in subsection (a)*  
20 *purchased by such person on or after the effective date of*  
21 *section 622 of the Revenue Act of 1942 for resale, shall be*  
22 *considered a sale at retail by such person at the time the*  
23 *article is first set apart for such use and at a price equiva-*  
24 *lent to the amount paid by him for the article."*

1 **(501)SEC. 623. TAX-FREE RETAIL SALES AT POST EXCHANGES**  
 2 **AND SHIPS' SERVICE STORES.**

3 *Section 2406 (relating to tax-free sales of furs, jewelry,*  
 4 *and cosmetics) is amended by changing the period at the end*  
 5 *thereof to a semicolon, and adding thereto the following:*

6 *“(c) by a Post Exchange or Ship’s Service Store, op-*  
 7 *erated under regulations of the War or Navy Department,*  
 8 *to a member of the military or naval forces of the United*  
 9 *States or to a member of the military or naval forces of any*  
 10 *of the other United Nations, when in uniform, and delivered*  
 11 *to him on the premises of the Post Exchange or Ship’s Service*  
 12 *Store for his exclusive use.”*

13 **(502)TITLE VII—SOCIAL SECURITY TAXES**

14 **SEC. 701. AUTOMATIC INCREASE IN 1943 RATE NOT TO APPLY.**

15 *(a) Clauses (1) and (2) of section 1400 of the Federal*  
 16 *Insurance Contributions Act (Internal Revenue Code, sec.*  
 17 *1400) are amended to read as follows:*

18 *“(1) With respect to wages received during the cal-*  
 19 *endar years 1939, 1940, 1941, 1942, and 1943, the rate*  
 20 *shall be 1 per centum.*

21 *“(2) With respect to wages received during the cal-*  
 22 *endar years 1944 and 1945, the rate shall be 2 per*  
 23 *centum.”*

24 *(b) Clauses (1) and (2) of section 1410 of such Act*

1 *(Internal Revenue Code, sec. 1410) are amended to read as*  
2 *follows:*

3           “(1) *With respect to wages paid during the calendar*  
4 *years 1939, 1940, 1941, 1942, and 1943, the rate shall*  
5 *be 1 per centum.*

6           “(2) *With respect to wages paid during the calen-*  
7 *dar years 1944 and 1945, the rate shall be 2 per centum.”*

8 **(503) TITLE VIII—RENEGOTIATION OF CONTRACTS**

9 **SEC. 801. RENEGOTIATION OF WAR CONTRACTS.**

10       *(a) Subsections (a), (b) and (c) of section 403 of*  
11 *the Sixth Supplemental National Defense Appropriation Act*  
12 *(Public 528, 77th Cong., 2d Sess.), is amended to read as*  
13 *follows:*

14       “**SEC. 403. (a)** *For the purposes of this section —*

15           “(1) *The term ‘Department’ means the War De-*  
16 *partment, the Navy Department, the Treasury Depart-*  
17 *ment, and the Maritime Commission, respectively.*

18           “(2) *In the case of the Maritime Commission, the*  
19 *term ‘Secretary’ means the Chairman of such Commis-*  
20 *sion.*

21           “(3) *The terms ‘renegotiate’ and ‘renegotiation’*  
22 *include the refixing by the Secretary of the Department*  
23 *of the contract price.*

24           “(4) *The term ‘excessive profits’ means any amount*



1 of a contract or subcontract price which is found as a  
2 result of renegotiation to represent excessive profits.

3 “(5) The term ‘subcontract’ means any purchase  
4 order or agreement to perform all or any part of the work,  
5 or to make or furnish any article, required for the per-  
6 formance of another contract or subcontract. The term  
7 ‘article’ includes any material, part, assembly, machinery,  
8 equipment or other personal property.

9 “For the purposes of subsections (d) and (e) of  
10 this section, the term ‘contract’ includes a subcontract and  
11 the term ‘contractor’ includes a subcontractor.

12 “(b) Subject to subsection (i), the Secretary of each  
13 Department is authorized and directed to insert in any con-  
14 tract for an amount in excess of \$100,000 hereafter made by  
15 such Department—

16 “(1) a provision of the renegotiation of the contract  
17 price at a period or periods when, in the judgment of the  
18 Secretary, the profits can be determined with reasonable  
19 certainty;

20 “(2) a provision for the retention by the United  
21 States from amounts otherwise due the contractor, or for  
22 the repayment by him to the United States, if paid to  
23 him, of any excessive profits not eliminated through re-  
24 ductions in the contract price, or otherwise, as the Secre-  
25 tary may direct;

1           “(3) a provision requiring the contractor to insert  
2           in each subcontract for an amount in excess of \$100,000  
3           made by him under such contract (i) a provision for the  
4           renegotiation by such Secretary and the subcontractor of  
5           the contract price of the subcontract at a period or  
6           periods when, in the judgment of the Secretary, the  
7           profits can be determined with reasonable certainty, (ii)  
8           a provision for the retention by the contractor for the  
9           United States of the amount of any reduction in the  
10          contract price of any subcontract pursuant to its renegoti-  
11          tiation hereunder, or for the repayment by the subcon-  
12          tractor to the United States of any excessive profits  
13          from such subcontract paid to him and not eliminated  
14          through reductions in the contract price or otherwise, as  
15          the Secretary may direct, and (iii) a provision for re-  
16          lieving the contractor from any liability to the sub-  
17          contractor on account of any amount so retained by the  
18          contractor or repaid by the subcontractor to the United  
19          States, and (iv) in the discretion of the Secretary, a pro-  
20          vision requiring any subcontractor to insert in any sub-  
21          contract made by him under such subcontract, provisions  
22          corresponding to those of subparagraphs (3) and (4)  
23          of this subsection (b); and

24               “(4) a provision for the retention by the United  
25          States from amounts otherwise due the contractor, or for

1        *repayment by him to the United States, as the Secretary*  
2        *may direct, of the amount of any reduction in the contract*  
3        *price of any subcontract under such contract, which the*  
4        *contractor is directed, pursuant to clause (3) of this sub-*  
5        *section, to withhold from payments otherwise due the*  
6        *subcontractor and actually unpaid at the time the con-*  
7        *tractor receives such direction.*

8        *“The provision for the renegotiation of the contract price,*  
9        *in the discretion of the Secretary, (i) may fix the period or*  
10       *periods when or within which renegotiation shall be had;*  
11       *and (ii) if in the opinion of the Secretary the provisions of*  
12       *the contract or subcontract are otherwise adequate to prevent*  
13       *excessive profits, may provide that renegotiation shall apply*  
14       *only to a portion of the contract or subcontract or shall not*  
15       *apply to performance during a specified period or periods and*  
16       *may also provide that the contract price in effect during any*  
17       *such period or periods shall not be subject to renegotiation.*

18       *“(c) (1) Whenever, in the opinion of the Secretary*  
19       *of a Department, the profits realized or likely to be realized*  
20       *from any contract with such Department, or from any sub-*  
21       *contract thereunder whether or not made by the contractor,*  
22       *may be excessive, the Secretary is authorized and directed*  
23       *to require the contractor or subcontractor to renegotiate*  
24       *the contract price. When the contractor or subcontractor*  
25       *holds two or more such contracts or subcontracts the Secre-*

1 tary in his discretion, may renegotiate to eliminate excessive  
2 profits on some or all of such contracts or subcontracts as a  
3 group without separately renegotiating the contract price  
4 of each contract or subcontract.

5       “(2) Upon renegotiation, the Secretary is authorized  
6 and directed to eliminate any excessive profits under such  
7 contract or subcontract (i) by reductions in the contract  
8 price of the contract or subcontract, or by other revision in  
9 its terms; or (ii) by withholding, from amounts otherwise  
10 due to the contractor or subcontractor, any amount of such  
11 excessive profits; or (iii) by directing a contractor to with-  
12 hold for the account of the United States, from amounts  
13 otherwise due to the subcontractor, any amount of such  
14 excessive profits under the subcontract; or (iv) by recovery  
15 from the contractor or subcontractor, through repayment,  
16 credit or suit, of any amount of such excessive profits  
17 actually paid to him; or (v) by any combination of these  
18 methods, as the Secretary deems desirable. The Secre-  
19 tary may bring actions on behalf of the United States in  
20 the appropriate courts of the United States to recover  
21 from such contractor or subcontractor, any amount of  
22 such excessive profits actually paid to him and not with-  
23 held or eliminated by some other method under this sub-  
24 section. The surety under a contract or subcontract shall  
25 not be liable for the repayment of any excessive profits

1        *thereon. All money recovered by way of repayment or*  
2        *suit under this subsection shall be covered into the Treas-*  
3        *ury as miscellaneous receipts.*

4            *“(3) In determining the excessiveness of profits real-*  
5        *ized or likely to be realized from any contract or subcon-*  
6        *tract, the Secretary shall recognize the properly applicable*  
7        *exclusions and deductions which the contractor or sub-*  
8        *contractor is allowed under Chapter 1 and Chapter 2E*  
9        *of the Internal Revenue Code. In determining the*  
10       *amount of any excessive profits to be eliminated hereunder*  
11       *the Secretary shall allow the contractor or subcontractor*  
12       *credit for the amount of Federal income and excess profits*  
13       *taxes paid or payable with respect to such excessive profits*  
14       *and not subject to adjustment as exceeds the amount of*  
15       *Federal income and excess profits taxes which would have*  
16       *been paid or payable by such contractor or subcontractor*  
17       *had there been excluded from his gross income the amount*  
18       *of excessive profits to be eliminated hereunder. For the*  
19       *purpose of the allowance of such credit the Secretary may*  
20       *require such evidence, including a closing agreement*  
21       *with the Commissioner of Internal Revenue, as he deems*  
22       *necessary.*

23            *“(4) Upon renegotiation pursuant to this section,*  
24        *the Secretary may make such final or other agreements*  
25        *with a contractor or subcontractor for the elimination of*

1        *excessive profits and for the discharge of any liability for*  
2        *excessive profits under this section, as the Secretary deems*  
3        *desirable. Such agreements may cover such past and*  
4        *future period or periods, may apply to such contract or*  
5        *contracts of the contractor or subcontractor, and may*  
6        *contain such terms and conditions, as the Secretary deems*  
7        *advisable. Such agreements shall be final and conclu-*  
8        *sive, and, except upon a showing of fraud or malfeasance,*  
9        *or misrepresentation of a material fact (i) shall not be*  
10       *reopened as to the matters agreed upon, or the agreement*  
11       *modified, by any officer, employee or agent of the United*  
12       *States; and (ii) in any suit, action, or proceeding, such*  
13       *agreement or any determination made in accordance*  
14       *therewith shall not be annulled, modified, set aside, or*  
15       *disregarded.*

16        *“(5) Any contractor or subcontractor who holds con-*  
17        *tracts or subcontracts, to which the provisions of this sec-*  
18        *tion are applicable, may file with the Secretaries of all the*  
19        *Departments concerned statements of actual costs of pro-*  
20        *duction and such other financial statements for any prior*  
21        *fiscal year or years of such contractor or subcontractor,*  
22        *in such form and detail, as the Secretaries shall prescribe*  
23        *by joint regulation. Within one year after the filing of*  
24        *such statements, or within such shorter period as may be*  
25        *prescribed by such joint regulation, the Secretary of a*

1 Department may give the contractor or subcontractor  
2 written notice, in form and manner to be prescribed in  
3 such joint regulation, that the Secretary is of the  
4 opinion that the profits realized from some or all  
5 of such contracts or subcontracts may be excessive, and  
6 fixing a date and place for an initial conference to be held  
7 within sixty days thereafter. If such notice is not given  
8 and renegotiation commenced within such sixty days the  
9 contractor or subcontractor shall not thereafter be re-  
10 quired to renegotiate to eliminate excessive profits realized  
11 from any such contract or subcontract during such fiscal  
12 year or years and any liabilities of the contractor or sub-  
13 contractor for excessive profits realized during such  
14 period shall be thereby discharged.

15 “(6) This subsection (c) shall be applicable to all  
16 contracts and subcontracts hereafter made and to all con-  
17 tracts and subcontracts heretofore made, whether or not  
18 such contracts or subcontracts contain a renegotiation or  
19 recapture clause, unless (i) final payment pursuant to  
20 such contract or subcontract was made prior to April  
21 28, 1942, or (ii) the contract or subcontract provided  
22 otherwise pursuant to subsections (b) or (i), or is  
23 exempted under subsection (i), of this section 403, or  
24 (iii) the aggregate sales by the contractor or subcon-

1     *tractor, and by all persons under the control of or con-*  
2     *trolling or under common control with the contractor*  
3     *or subcontractor, under contracts with the Departments*  
4     *and subcontracts thereunder do not exceed, or in the*  
5     *opinion of the Secretary concerned will not exceed,*  
6     *\$100,000 for the fiscal year of such contractor or*  
7     *subcontractor.*

8             *"No renegotiation of the contract price pursuant to*  
9     *any provision therefor, or otherwise, shall be commenced*  
10    *more than one year after the close of the fiscal year of*  
11    *the contractor or subcontractor within which completion*  
12    *or termination of the contract or subcontract, as deter-*  
13    *mined by the Secretary, occurs."*

14    *(b) Section 403 of the Sixth Supplemental National De-*  
15    *fense Appropriation Act (Public 528, Seventy-seventh Con-*  
16    *gress, second session), is amended by adding at the end*  
17    *thereof the following subsections:*

18             *"(i) (1) The provisions of this section shall not apply*  
19    *to—*

20             *"(i) any contract by a Department with any other*  
21    *department, bureau, agency, or governmental corporation*  
22    *of the United States or with any Territory, possession,*  
23    *or State or any agency thereof or with any foreign gov-*  
24    *ernment or any agency thereof; or*

25             *"(ii) any contract or subcontract for the product of*



1 a mine, oil or gas well, or other mineral or natural  
2 deposit, or timber, which has not been processed, refined,  
3 or treated beyond the first form or state suitable for in-  
4 dustrial use; and the Secretaries are authorized by joint  
5 regulation, to define, interpret, and apply this exemption.

6 “(2) The Secretary of a Department is authorized,  
7 in his discretion, to exempt from some or all of the pro-  
8 visions of this section—

9 “(i) any contract or subcontract to be performed  
10 outside of the territorial limits of the continental  
11 United States or in Alaska;

12 “(ii) any contracts or subcontracts under  
13 which, in the opinion of the Secretary, the profits  
14 can be determined with reasonable certainty when  
15 the contract price is established, such as certain  
16 classes of agreements for personal services, for the  
17 purchase of real property, perishable goods, or com-  
18 modities the minimum price for the sale of which has  
19 been fixed by a public regulatory body, of leases  
20 and license agreements, and of agreements where  
21 the period of performance under such contract or  
22 subcontract will not be in excess of thirty days; and

23 “(iii) a portion of any contract or subcontract  
24 or performance thereunder during a specified period  
25 or periods, if in the opinion of the Secretary, the

1 provisions of the contract are otherwise adequate  
 2 to prevent excessive profits.

3 “(j) Nothing in sections 109 and 113 of the Criminal  
 4 Code (U. S. C., title 18, secs. 198 and 203) or in section  
 5 190 of the Revised Statutes (U. S. C., title 5, sec. 99)  
 6 shall be deemed to prevent any person appointed by the  
 7 Secretary of a Department for intermittent and temporary  
 8 employment in such Department, from acting as counsel,  
 9 agent, or attorney for prosecuting any claim against the  
 10 United States: Provided, That such person shall not prose-  
 11 cute any claim against the United States (1) which arises  
 12 from any matter directly connected with which such person  
 13 is employed, or (2) during the period such person is  
 14 engaged in intermittent and temporary employment in a  
 15 Department.”

16 (c) The amendments made by this section shall be  
 17 effective as of April 28, 1942.

18 (504) Amend the Table of Contents appearing on pages 2  
 19 to 5, inclusive, to read as follows:

**TITLE I—INDIVIDUAL AND CORPORATION INCOME TAXES**

**PART I—AMENDMENTS TO CHAPTER 1**

*Sec. 101. Taxable years to which amendments applicable.*

*Sec. 102. Normal tax on individuals (sec. 11).*

*Sec. 103. Surtax on individuals (sec. 12 (b)).*

*Sec. 104. Optional tax on individuals with gross income from certain sources of \$3,000 or less (sec. 400).*

*Sec. 105. Tax on corporations (sec. 15).*

*Sec. 106. Tax on nonresident alien individuals (sec. 211).*

*Sec. 107. Tax on foreign corporations (sec. 231 (a)).*

- Sec. 108. Withholding of tax at source (secs. 143 and 144).*
- Sec. 109. Treaty obligations.*
- Sec. 110. Transfers of life insurance contracts, etc. (sec. 22 (b) (2)).*
- Sec. 111. Income received from estates, etc., under gifts, bequests, etc. (sec. 22 (b) (3)).*
- Sec. 112. Exemption of interest on public obligations (sec. 22 (b) (4)).*
- Sec. 113. Exclusion of pensions, annuities, etc., for disability resulting from military service (sec. 22 (b) (5)).*
- Sec. 114. Exclusion of income from discharge of indebtedness (sec. 22 (b) (9)).*
- Sec. 115. Improvements by lessee (sec. 22 (b)).*
- Sec. 116. Recovery of bad debts, prior taxes, and delinquency amounts (sec. 22 (b)).*
- Sec. 117. Additional allowance for military and naval personnel (sec. 22 (b)).*
- Sec. 118. Report requirement in connection with inventory methods (sec. 22 (d) (2)).*
- Sec. 119. Last-in first-out inventory (sec. 22 (d)).*
- Sec. 120. Alimony and separate maintenance payments (sec. 22).*
- Sec. 121. Non-trade or non-business deductions (sec. 23 (a)).*
- Sec. 122. Deduction allowable to purchasers for State and local retail sales taxes (sec. 23 (c)).*
- Sec. 123. Deduction for stock and bond losses on securities in affiliated corporations (sec. 23 (g)).*
- Sec. 124. Deduction for bad debts, etc. (sec. 23 (k)).*
- Sec. 125. Corporate contributions to United States, etc., or for charitable use outside United States deductible (sec. 23 (q)).*
- Sec. 126. Amortizable bond premium (sec. 23).*
- Sec. 127. Deduction for medical, dental, etc., expenses (sec. 23).*
- Sec. 128. Losses of mining corporations for 1938 and 1939 (sec. 23).*
- Sec. 129. Deduction of certain amounts paid to cooperative apartment corporation (sec. 23).*
- Sec. 130. Deduction denied if proceeds used to pay for insurance (sec. 24 (a)).*
- Sec. 131. Taxes and other charges chargeable to capital account not deductible but treated as capital items (sec. 24 (a)).*
- Sec. 132. Reduction of personal exemption and credit for dependents—requirement for return (sec. 25 (b) (1)).*
- Sec. 133. Computation of net operating loss credit and dividends paid credit (sec. 26 (c) (1)).*
- Sec. 134. Credit for dividends paid on certain preferred stock (sec. 26).*
- Sec. 135. Income in respect of decedents (sec. 42 (a)).*
- Sec. 136. Returns for a period of less than twelve months (sec. 47).*
- Sec. 137. Declaration that return made under penalties for perjury in lieu of oath (sec. 51).*
- Sec. 138. Exempt corporations (sec. 101).*
- Sec. 139. Denial of capital loss carry-over to section 102 companies (sec. 102 (d) (1)).*
- Sec. 140. Compensation for services rendered for a period of thirty-six months or more (sec. 107).*
- Sec. 141. Certain fiscal year taxpayers (sec. 108).*
- Sec. 142. Western Hemisphere trade corporations (sec. 109).*

- Sec. 143. Nonrecognition of loss and determination of basis in case of certain railroad reorganizations (sec. 112 (b)).*
- Sec. 144. Liquidation of personal holding companies in December 143 (sec. 112 (b)).*
- Sec. 145. Basis of gifts (sec. 113 (a)).*
- Sec. 146. Basis of property in case of optional value for estate tax purposes (sec. 113 (a) (5)).*
- Sec. 147. Percentage depletion for coal, fluorspar, ball and sagger clay, rock asphalt, and metal mines and sulphur (sec. 114 (b) (4)).*
- Sec. 148. Effect on earnings and profits of wash sale losses (sec. 115 (l)).*
- Sec. 149. Distributions in liquidation (sec. 115 (c)).*
- Sec. 150. Income from sources without United States in certain cases (sec. 116 (a)).*
- Sec. 151. Reciprocal exemption of compensation of employees of the Commonwealth of the Philippines (sec. 116 (h)).*
- Sec. 152. Capital gains and losses (sec. 117).*
- Sec. 153. Real property improvements; involuntary conversions; etc. (sec. 117).*
- Sec. 154. Holding period of stock acquired through exercise of rights (sec. 117 (h)).*
- Sec. 155. Two-year carry-back of net operating losses (sec. 122 (b)).*
- Sec. 156. Commodity credit loans (sec. 123).*
- Sec. 157. Extension of deduction for amortization of emergency facilities (sec. 124).*
- Sec. 158. War losses.*
- Sec. 159. Recovery of unconstitutional Federal taxes.*
- Sec. 160. Foreign tax credit (sec. 131).*
- Sec. 161. Extension of consolidated returns privilege to certain corporations (sec. 141).*
- Sec. 162. Aliens and foreign corporations treated as nonresidents (secs. 143 and 144).*
- Sec. 163. Deductions for estate tax and income tax of estate (sec. 162).*
- Sec. 164. Pension trusts (sec. 165).*
- Sec. 165. Life insurance companies (sec. 201).*
- Sec. 166. Insurance companies other than life or mutual (sec. 204).*
- Sec. 167. Mutual insurance companies other than life or marine (sec. 207).*
- Sec. 168. Technical amendment to definition of "dividend" (sec. 115 (a)).*
- Sec. 169. Transactions in stocks, securities, and commodities not considered engaging in trade or business in certain cases (sec. 211 (b)).*
- Sec. 170. Period for filing petition extended in certain cases (sec. 272 (a)).*
- Sec. 171. Statute of limitations on refunds and credits (sec. 322).*
- Sec. 172. Regulated investment companies (Supplement Q).*
- Sec. 173. Amendments to Supplement R (sec. 371).*
- Sec. 174. Temporary income tax on individuals.*
- Sec. 175. Net income of individuals.*

## PART II—PERSONAL HOLDING COMPANIES

- Sec. 181. Rates of personal holding company tax (sec. 500).*  
*Sec. 182. Exemption of certain corporations from personal holding company tax (sec. 501 (b)).*  
*Sec. 183. Consolidated income (sec. 501 (c)).*  
*Sec. 184. Computation of undistributed Subchapter A net income (sec. 504).*  
*Sec. 185. Deficiency dividends of personal holding companies (sec. 506).*  
*Sec. 186. Distributions by personal holding companies (sec. 115 (a)).*

## TITLE II—EXCESS PROFITS TAX

## PART I—EXCESS PROFITS TAX AMENDMENTS

- Sec. 201. Taxable years to which amendments applicable.*  
*Sec. 202. Rate of excess profits tax (sec. 710 (a)).*  
*Sec. 203. Certain fiscal year taxpayers (sec. 710 (a)).*  
*Sec. 204. Two-year carry-back of unused excess profits credit (sec. 710 (c)).*  
*Sec. 205. Computation of excess profits and invested capital of insurance companies (sec. 711 (a)).*  
*Sec. 206. Technical amendments made necessary by change in base for corporation tax (sec. 711 (a)).*  
*Sec. 207. Capital gains and losses in the computation of excess profits net income (sec. 711 (a)).*  
*Sec. 208. Retroactive treatment of involuntary conversions as capital transactions (sec. 711 (a) (1)).*  
*Sec. 209. Nontaxable income from exempt excess output of mining and from bonus income of mines, etc. (sec. 711 (a) (1)).*  
*Sec. 210. Net operating loss deduction adjustment (sec. 711 (a) (1)).*  
*Sec. 211. Credit for dividends received in computation of excess profits net income in connection with invested capital credit (sec. 711 (a) (2)).*  
*Sec. 212. Application of excess profits tax to certain foreign corporations (sec. 712 (b)).*  
*Sec. 213. Excess profits net income placed on annual basis (sec. 711 (a) (3)).*  
*Sec. 214. Interest on certain Federal obligations (sec. 713 (c)).*  
*Sec. 215. Base period net income of lowest year in base period (sec. 713 (e) (1)).*  
*Sec. 216. Capital reduction in case of members of controlled group (sec. 713 (g)).*  
*Sec. 217. Invested capital credit (sec. 714).*  
*Sec. 218. Basis of property paid in (sec. 718 (a) (2)).*  
*Sec. 219. Deficit in earnings and profits of another corporation (sec. 718).*  
*Sec. 220. Amortizable bond premium on certain Government obligations (sec. 720 (d)).*  
*Sec. 221. Abnormalities in income in taxable period (sec. 721).*  
*Sec. 222. Relief provisions (sec. 722).*

- Sec. 223. Exempt corporations (sec. 737).*  
*Sec. 224. Excess profits tax returns (sec. 729 (b)).*  
*Sec. 225. Consolidated returns (sec. 730).*  
*Sec. 226. Exemption from tax of mining of certain strategic minerals (sec. 731).*  
*Sec. 227. Amendments to section 734.*  
*Sec. 228. Rules for income credit in connection with certain exchanges (Supplement A).*  
*Sec. 229. Termination of Supplement B.*  
*Sec. 236. Invested capital in connection with certain exchanges and liquidations (Chapter 2E).*

**PART II—POST-WAR REFUND OF EXCESS PROFITS TAX**

- Sec. 250. Post-war refund of excess profits tax.*

**TITLE III—TERMINATION OF CAPITAL STOCK AND DECLARED VALUE EXCESS PROFITS TAXES**

- Sec. 301. Capital stock tax terminated (sec. 1200).*  
*Sec. 302. Declared value excess profits tax terminated (sec. 600).*  
*Sec. 303. Declared value excess profits tax for taxable years of less than twelve months (sec. 601).*

**TITLE IV—ESTATE AND GIFT TAXES**

**PART I—ESTATE TAX**

- Sec. 401. Estates to which amendments applicable.*  
*Sec. 402. Community interests (sec. 811 (e)).*  
*Sec. 403. Powers of appointment (sec. 811 (f)).*  
*Sec. 404. Proceeds of life insurance (sec. 811 (g)).*  
*Sec. 405. Deductions not allowable in excess of certain property of estate (sec. 812 (b)).*  
*Sec. 406. Charitable pledges (sec. 812 (b)).*  
*Sec. 407. Deduction on account of property previously taxed (sec. 812 (c)).*  
*Sec. 408. Deduction for disclaimed legacies passing to charities (sec. 812 (d)).*  
*Sec. 409. Denial of deduction on bequest to certain propaganda organizations (sec. 812 (d)).*  
*Sec. 410. Priority of credit for local death taxes (sec. 813 (a)).*  
*Sec. 411. Liability of certain transferees (sec. 827 (b)).*  
*Sec. 412. Exemption of estates of nonresidents not citizens (sec. 851 (a)).*  
*Sec. 413. Period for filing petition extended in certain cases (sec. 871 (a)).*  
*Sec. 414. Overpayment found by Board (sec. 912).*  
*Sec. 415. Deduction of foreign estate succession, legacy, and inheritance taxes, etc. (sec. 812).*

**PART II—GIFT TAX**

- Sec. 451. Gifts to which amendments applicable.*  
*Sec. 452. Powers of appointment (sec. 1000).*  
*Sec. 453. Gifts of community property (sec. 1000).*  
*Sec. 454. Exclusion from net gifts reduced (sec. 1003 (b)).*  
*Sec. 455. Specific exemption of gifts reduced (sec. 1004).*

*Sec. 456. Period for filing petition extended in certain cases (sec. 1012 (a)).*

*Sec. 457. Overpayment found by Board (sec. 1027 (d)).*

*Sec. 458. Definition of property in United States (sec. 1030 (b)).*

**TITLE V—AMENDMENTS TO PRIOR REVENUE ACTS AND MISCELLANEOUS PROVISIONS**

*Sec. 501. Additional credits for undistributed profits tax.*

*Sec. 502. Stamp tax on certain insurance policies (sec. 1804).*

*Sec. 503. Suit against collector bar in other suits (sec. 3772).*

*Sec. 504. Requirement of filing notice of lien (sec. 3672).*

*Sec. 505. Miscellaneous amendments to stamp tax provisions (sec. 1801, etc.).*

*Sec. 506. Time for performing certain acts postponed by reason of war.*

*Sec. 507. Mitigation of effect of disallowance of reimbursement on contracts with the United States.*

*Sec. 508. Amendment to the Public Salary Tax Act of 1939.*

*Sec. 509. Joint Committee on Compulsory Saving.*

*Sec. 510. Abolition of Board of Review and transfer of jurisdiction to Board of Tax Appeals.*

*Sec. 511. Definition of military or naval forces of the United States (sec. 3797 (a)).*

*Sec. 512. Joint Committee on Internal Revenue Taxation—Power to obtain data (Chap. 48).*

**TITLE VI—EXCISE TAXES**

*Sec. 601. Effective date of this title.*

*Sec. 602. Distilled spirits (sec. 2800).*

*Sec. 603. Fermented malt liquors (sec. 3150).*

*Sec. 604. Wines (sec. 3030).*

*Sec. 605. Cigars and cigarettes (sec. 2000).*

*Sec. 606. Telephone, telegraph, etc. (sec. 3465).*

*Sec. 607. Photographic apparatus (sec. 3406 (a) (4)).*

*Sec. 608. Lubricating oils (sec. 3413).*

*Sec. 609. Transportation of persons (sec. 3469).*

*Sec. 610. Organs under contract before October 1, 1941.*

*Sec. 611. Termination of certain excise taxes (sec. 3406 (a) (5), (7), (8), and (9)).*

*Sec. 612. Affixing of cigarette stamps in foreign countries (sec. 2112 (c)).*

*Sec. 613. Exemption of insignia, etc., used in connection with uniforms of the armed forces from jewelry tax (sec. 2400).*

*Sec. 614. Refrigerators, refrigerating apparatus, and air-conditioners (sec. 3405).*

*Sec. 615. Exemption of certain cash registers (sec. 3406 (a) (6)).*

*Sec. 616. Exempt transportation of oil by pipe line (sec. 3460).*

*Sec. 617. Coin-operated amusement and gaming devices (sec. 3267).*

*Sec. 618. Sale under chattel mortgage (sec. 2405 and sec. 3441).*

*Sec. 619. Repeal of certain provisions relating to mixed flour (Chapter 18, Chapter 27).*

*Sec. 620. Exemption from processing tax of palm oil used in manufacture of iron or steel products (sec. 2477).*

*Sec. 621. Cabaret tax (sec. 1700 (e)).*

*Sec. 622. Sale and use of toilet preparations by beauty parlors, etc. (sec. 2402 (b)).*

*Sec. 623. Tax-free retail sales at Post Exchanges and Ship's Service Stores (sec. 2406).*

**TITLE VII—SOCIAL SECURITY TAXES**

*Sec. 701. Automatic increase in 1943 rate not to apply (secs. 1400 and 1410).*

**TITLE VIII—RENEGOTIATION OF CONTRACTS**

*Sec. 801. Renegotiation of war contracts.*

Passed the House of Representatives July 20, 1942.

Attest: **SOUTH TRIMBLE,**  
*Clerk.*

Passed the Senate with amendments October 10 (legislative day, October 5), 1942.

Attest: **EDWIN A. HALSEY,**  
*Secretary.*