Public Law 92-178

AN ACT

December 10, 1971
[H. R. 10947]

To provide a job development investment credit, to reduce individual income taxes, to reduce certain excise taxes, and for other purposes.

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

Revenue Act of 1971.

SECTION 1. SHORT TITLE, ETC.

(a) SHORT TITLE.—This Act may be cited as the "Revenue Act of 1971".

(b) TABLE OF CONTENTS.—

(c) AMENDMENT OF 1954 CODE.—Except as otherwise expressly provided, whenever in this Act an amendment is expressed in terms of an amendment to a section or other provision, the reference is to a section or other provision of the Internal Revenue Code of 1954.

68A Stat. 3.
26 USC 1 *et seq.*

TITLE I—JOB DEVELOPMENT INVESTMENT CREDIT; DEPRECIATION REVISION

SEC. 101. RESTORATION OF INVESTMENT CREDIT.

76 Stat. 963.
26 USC 46.

(a) Subpart B of part IV of subchapter A of chapter 1 (relating to rules for computing credit for investment in certain depreciable property) is amended by adding at the end thereof the following new section:

"SEC. 50. RESTORATION OF CREDIT.

83 Stat. 660.

"(a) GENERAL RULE.—Section 49(a) (relating to termination of credit) shall not apply to property—

"(1) the construction, reconstruction, or erection of which—

"(A) is completed by the taxpayer after August 15, 1971, or

"(B) is begun by the taxpayer after March 31, 1971, or

"(2) which is acquired by the taxpayer—

"(A) after August 15, 1971, or

"(B) after March 31, 1971, and before August 16, 1971, pursuant to an order which the taxpayer establishes was placed after March 31, 1971.

"(b) TRANSITIONAL RULE.—In applying section 46(c)(1)(A) in the case of property described in subsection (a)(1)(A) the construction, reconstruction, or erection of which is begun before April 1, 1971, there shall be taken into account only that portion of the basis which is properly attributable to construction, reconstruction, or erection after August 15, 1971. This subsection shall not apply to pre-termination property (within the meaning of section 49(b))."

(b) CONFORMING AMENDMENTS.—

(1) Section 49(a) (relating to termination of credit) is amended by adding at the end thereof the following new sentence: "This subsection shall not apply to property described in section 50."

(2) Section 49(b) (defining pre-termination property) is amended by striking out "For purposes of this section" and inserting in lieu thereof "For purposes of this subpart". 83 Stat. 660. 26 USC 49.

(3) Section 49(d) (relating to property placed in service after 1975) is hereby repealed. Repeal.

(4) The heading for section 49 is amended to read as follows:

"SEC. 49. TERMINATION FOR PERIOD BEGINNING APRIL 19, 1969, AND ENDING DURING 1971."

(5) The table of sections for subpart B of part IV of subchapter A of chapter 1 is amended by striking out the item relating to section 49 and inserting in lieu thereof the following:

"Sec. 49. Termination for period beginning April 19, 1969, and ending during 1971.
"Sec. 50. Restoration of credit."

(c) ACCOUNTING FOR INVESTMENT CREDIT IN CERTAIN FINANCIAL REPORTS AND REPORTS TO FEDERAL AGENCIES.—

(1) IN GENERAL.—It was the intent of the Congress in enacting, in the Revenue Act of 1962, the investment credit allowed by section 38 of the Internal Revenue Code of 1954, and it is the intent of the Congress in restoring that credit in this Act, to provide an incentive for modernization and growth of private industry. Accordingly, notwithstanding any other provision of law, on and after the date of the enactment of this Act— 76 Stat. 962.

(A) no taxpayer shall be required to use, for purposes of financial reports subject to the jurisdiction of any Federal agency or reports made to any Federal agency, any particular method of accounting for the credit allowed by such section 38,

(B) a taxpayer shall disclose, in any such report, the method of accounting for such credit used by him for purposes of such report, and

(C) a taxpayer shall use the same method of accounting for such credit in all such reports made by him, unless the Secretary of the Treasury or his delegate consents to a change to another method.

(2) EXCEPTIONS.—Paragraph (1) shall not apply to taxpayers who are subject to the provisions of section 46(e) of the Internal Revenue Code of 1954 (as added by section 105(c) of this Act) or to section 203(e) of the Revenue Act of 1964 (as modified by section 105(e) of this Act). *Post*, p. 503. *Post*, p. 506.

SEC. 102. DETERMINATION OF QUALIFIED INVESTMENT.

(a) CHANGE IN USEFUL LIFE BRACKETS.—

(1) Section 46(c)(2) (relating to applicable percentage for purposes of determining qualified investment) is amended— 76 Stat. 963.

(A) by striking out "4 years" and inserting in lieu thereof "3 years",

(B) by striking out "6 years" each place it appears and inserting in lieu thereof "5 years", and

(C) by striking out "8 years" each place it appears and inserting in lieu thereof "7 years".

(2) The second sentence of section 48(a)(1) (defining section 38 property) is amended by striking out "4 years" and inserting in lieu thereof "3 years".

(b) USEFUL LIFE FOR INVESTMENT CREDIT PURPOSES.—The second sentence of section 46(c)(2) is amended to read as follows:

"For purposes of this subpart, the useful life of any property shall be the useful life used in computing the allowance for depreciation under section 167 for the taxable year in which the property is placed in service." *Post*, p. 508.

84 Stat. 2060.
26 USC 47.

(c) TECHNICAL AMENDMENT.—Section 47(a)(6)(A) (relating to aircraft used outside the United States after April 18, 1969) is amended by striking out "4 years" and inserting in lieu thereof "3½ years".

(d) EFFECTIVE DATES.—

(1) The amendments made by subsections (a) and (b) shall apply to property described in section 50 of the Internal Revenue Code of 1954.

Ante, p. 498.

76 Stat. 966;
Post, p. 507.

(2) In redetermining qualified investment for purposes of section 47(a) of the Internal Revenue Code of 1954 in the case of any property which ceases to be section 38 property with respect to the taxpayer after August 15, 1971, or which becomes public utility property after such date, section 46(c)(2) of such Code shall be applied as amended by subsection (a).

Ante, p. 499.

(3) The amendment made by subsection (c) shall apply to leases executed after April 18, 1969.

SEC. 103. LIMITATION OF CREDIT TO DOMESTIC PRODUCTS.

76 Stat. 967;
Post, p. 502.

Section 48(a) (relating to definition of section 38 property) is amended by adding after paragraph (6) the following new paragraph:

"(7) PROPERTY COMPLETED ABROAD OR PREDOMINANTLY OF FOREIGN ORIGIN.—

"(A) IN GENERAL.—Property (other than pre-termination property) shall not be treated as section 38 property if—

"(i) such property was completed outside the United States, or

"(ii) less than 50 percent of the basis of such property is attributable to value added within the United States.

"United States."

For purposes of this subparagraph, the term 'United States' includes the Commonwealth of Puerto Rico and the possessions of the United States.

"(B) PERIOD OF APPLICATION OF PARAGRAPH.—Except as provided in subparagraph (D), subparagraph (A) shall apply only with respect to property described in section 50—

"(i) the construction, reconstruction, or erection of which by the taxpayer is begun after August 15, 1971, and on or before the date of termination of Proclamation 4074, or

Post, p. 925.

"(ii) which is acquired pursuant to an order placed on or before the date of termination of Proclamation 4074, unless acquired pursuant to an order which the taxpayer establishes was placed before August 16, 1971.

"(C) PRESIDENT MAY EXEMPT ARTICLES.—If the President of the United States shall at any time determine that the application of subparagraph (A) to any article or class of articles is not in the public interest, he may by Executive order specify that subparagraph (A) shall not apply to such article or class of articles. Subparagraph (A) shall not apply to an article or class of articles for the period specified in such Executive order. Any period specified under the preceding sentence shall not apply to property ordered before (or to property the construction, reconstruction, or erection of which began before) the date of the Executive order specifying such period, except that, if the President determines it to be in the public interest, such period shall apply to property ordered (or property the construction, reconstruction, or erection of which began) after a date (before the date of the Executive order) specified in the Executive order.

"(D) COUNTRIES MAINTAINING TRADE RESTRICTIONS OR ENGAGING IN DISCRIMINATORY ACTS.—If, on or after the date of the termination of Proclamation 4074, the President determines that a foreign country— Post, p. 925.

"(i) maintains nontariff trade restrictions, including variable import fees, which substantially burden United States commerce in a manner inconsistent with provisions of trade agreements, or

"(ii) engages in discriminatory or other acts (including tolerance of international cartels) or policies unjustifiably restricting United States commerce,

he may provide by Executive order for the application of subparagraph (A) to any article or class of articles manufactured or produced in such foreign country for such period as may be provided by Executive order."

SEC. 104. DEFINITION OF SECTION 38 PROPERTY.

(a) STORAGE FACILITIES.—

(1) IN GENERAL.—Section 48(a)(1)(B) (relating to other tangible property constituting section 38 property) is amended by striking out clause (ii) and inserting in lieu thereof the following: 76 Stat. 967. 26 USC 48.

"(ii) constitutes a research facility used in connection with any of the activities referred to in clause (i), or

"(iii) constitutes a facility used in connection with any of the activities referred to in clause (i) for the bulk storage of fungible commodities (including commodities in a liquid or gaseous state), or".

(2) CONFORMING AMENDMENT.—Section 1245(a)(3)(B) (relating to other property constituting section 1245 property) is amended by striking out "or" at the end of clause (i), and by striking out clause (ii) and inserting in lieu thereof the following: 76 Stat. 1032.

"(ii) constituted a research facility used in connection with any of the activities referred to in clause (i), or

"(iii) constituted a facility used in connection with any of the activities referred to in clause (i) for the bulk storage of fungible commodities (including commodities in a liquid or gaseous state),".

(b) COIN-OPERATED MACHINES IN APARTMENT BUILDINGS.—Section 48(a)(3) (relating to property used for lodging) is amended— 76 Stat. 968.

(1) by striking out "and" at the end of subparagraph (A),

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

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

"(C) coin-operated vending machines and coin-operated washing machines and dryers."

(c) CERTAIN PROPERTY USED IN FURNISHING COMMUNICATION SERVICES.—

(1) Section 48(a)(5) (relating to property used by governmental units) is amended by inserting after "international organization" the following: "(other than the International Telecommunications Satellite Consortium or any successor organization)".

(2) Section 48(a)(2)(B) (relating to exceptions from rule for property used outside the United States) is amended by striking out "and" at the end of clause (vi), by striking out the period at the end of clause (vii) and inserting in lieu thereof a semicolon, and by adding at the end thereof the following new clause: 80 Stat. 1575.

"(viii) any communications satellite (as defined in section 103(3) of the Communications Satellite Act of 1962, 47 U.S.C., sec. 702(3)), or any interest therein, of a United States person;".

76 Stat. 419.

(3) Section 48(a)(2)(B) (relating to exceptions from rule for property used outside the United States) is amended by inserting after clause (viii) (as added by paragraph (2)) the following new clause:

Ante, p. 501.

"(ix) any cable, or any interest therein, of a domestic corporation engaged in furnishing telephone service to which section 46(c)(3)(B)(iii) applies (or of a wholly owned domestic subsidiary of such a corporation), if such cable is part of a submarine cable system which constitutes part of a communication link exclusively between the United States and one or more foreign countries; and".

Post, p. 503.

(d) CERTAIN PROPERTY USED TO EXPLORE FOR, DEVELOP, REMOVE, AND TRANSPORT RESOURCES FROM OCEAN WATERS AND SUBMARINE DEPOSITS.—Section 48(a)(2)(B) (relating to exceptions from rule for property used outside the United States) is amended by inserting after clause (ix) (as added by subsection (c)(3)) the following new clause:

"(x) any property (other than a vessel or an aircraft) of a United States person which is used in international or territorial waters for the purpose of exploring for, developing, removing, or transporting resources from ocean waters or deposits under such waters."

76 Stat. 968.
26 USC 48.

(e) LIVESTOCK.—Section 48(a)(6) (relating to livestock) is amended to read as follows:

"(6) LIVESTOCK.—Livestock (other than horses) acquired by the taxpayer shall be treated as section 38 property, except that if substantially identical livestock is sold or otherwise disposed of by the taxpayer during the one-year period beginning 6 months before the date of such acquisition and if section 47(a) (relating to certain dispositions, etc., of section 38 property) does not apply to such sale or other disposition, then, unless such sale or other disposition constitutes an involuntary conversion (within the meaning of section 1033), the cost of the livestock acquired shall, for purposes of this subpart, be reduced by an amount equal to the amount realized on such sale or other disposition. Horses shall not be treated as section 38 property."

84 Stat. 2060.

68A Stat. 303.

(f) AMORTIZED PROPERTY.—

(1) IN GENERAL.—Section 48(a) (relating to definition of section 38 property) is amended by adding after paragraph (7) (as added by section 103 of this Act) the following new paragraph:

"(8) AMORTIZED PROPERTY.—Any property with respect to which an election under section 167(k), 169, 184, 187, or 188 applies shall not be treated as section 38 property. In the case of any property to which section 169 applies, the preceding sentence shall apply only to so much of the adjusted basis of the property as (after the application of section 169(f)) constitutes the amortizable basis for purposes of section 169."

83 Stat. 649, 667, 670, 674; *Post*, p. 521.

(2) CONFORMING AMENDMENT.—Section 169 (relating to amortization of pollution control facilities) is amended by striking out subsection (h).

(g) RAILROAD TRACK.—Section 48(a) (relating to definition of section 38 property) is amended by inserting after paragraph (8) (as added by subsection (f)) the following new paragraph:

"(9) RAILROAD TRACK.—In the case of a railroad (including a railroad switching or terminal company) which uses the retirement-replacement method of accounting for depreciation of its

railroad track, the term 'section 38 property' includes replacement track material, if— "Section 38 property."

"(A) the replacement is made pursuant to a scheduled program for replacement,

"(B) the replacement is made pursuant to observations by maintenance-of-way personnel of specific track material needing replacement,

"(C) the replacement is made pursuant to the detection by a rail-test car of specific track material needing replacement, or

"(D) the replacement is made as a result of a casualty. Replacements made as a result of a casualty shall be section 38 property only to the extent that, in the case of each casualty, the qualified investment with respect to the replacement track material exceeds $50,000. For purposes of this paragraph, the term 'track material' includes ties, rail, other track material, and ballast." "Track material."

(h) EFFECTIVE DATES.—The amendments made by this section (other than by subsections (c)(1), (c)(2), and (g)) shall apply to property described in section 50 of the Internal Revenue Code of 1954. The amendments made by subsections (c)(1), (c)(2), and (g) shall apply to taxable years ending after December 31, 1961. *Ante*, p. 498.

SEC. 105. REGULATED COMPANIES.

(a) INCREASE IN QUALIFIED INVESTMENT FOR PUBLIC UTILITY PROPERTY.—Section 46(c)(3)(A) (relating to qualified investment in case of public utility property) is amended by striking out "3/7" and inserting in lieu thereof "4/7". 76 Stat. 963. 26 USC 46.

(b) DEFINITION OF PUBLIC UTILITY PROPERTY, ETC.—Section 46(c)(3) (relating to public utility property) is amended—

(1) by inserting "or" at the end of clause (ii) of subparagraph (B), and by striking out clauses (iii) and (iv) of such subparagraph and inserting in lieu thereof the following:

"(iii) telephone service, telegraph service by means of domestic telegraph operations (as defined in section 222(a)(5) of the Communications Act of 1934, as amended; 47 U.S.C., sec. 222(a)(5)), or other communication services (other than international telegraph service),"; 57 Stat. 5.

(2) by adding at the end of subparagraph (B) the following new sentence: "Such term also means communication property of the type used by persons engaged in providing telephone or microwave communication services to which clause (iii) applies, if such property is used predominantly for communication purposes."; and *Supra.*

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

"(C) In the case of any interest in a submarine cable circuit used to furnish telegraph service between the United States and a point outside the United States of a taxpayer engaged in furnishing international telegraph service (if the rates for such furnishing have been established or approved by a governmental unit, agency, instrumentality, commission, or similar body described in subparagraph (B)), the qualified investment shall not exceed the qualified investment attributable to so much of the interest of the taxpayer in the circuit as does not exceed 50 percent of all interests in the circuit."

(c) CREDIT NOT AVAILABLE IN CERTAIN CASES.—Section 46 (relating to amount of credit) is amended by adding at the end thereof the following new subsection: 76 Stat. 963.

"(e) LIMITATION IN CASE OF CERTAIN REGULATED COMPANIES.—

76 Stat. 962.
26 USC 38.
Ante, p. 498.

"(1) GENERAL RULE.—Except as otherwise provided in this subsection, no credit shall be allowed by section 38 with respect to any property described in section 50 which is public utility property (as defined in paragraph (5)) of the taxpayer—

"(A) COST OF SERVICE REDUCTION.—If the taxpayer's cost of service for ratemaking purposes is reduced by reason of any portion of the credit allowable by section 38 (determined without regard to this subsection); or

"(B) RATE BASE REDUCTION.—If the base to which the taxpayer's rate of return for ratemaking purposes is applied is reduced by reason of any portion of the credit allowable by section 38 (determined without regard to this subsection).

Subparagraph (B) shall not apply if the reduction in the rate base is restored not less rapidly than ratably. If the taxpayer makes an election under this sentence within 90 days after the date of the enactment of this paragraph in the manner prescribed by the Secretary or his delegate, the immediately preceding sentence shall not apply to property described in paragraph (5)(B) if any agency or instrumentality of the United States having jurisdiction for ratemaking purposes with respect to such taxpayer's trade or business referred to in paragraph (5)(B) determines that the natural domestic supply of the product furnished by the taxpayer in the course of such trade or business is insufficient to meet the present and future requirements of the domestic economy.

"(2) SPECIAL RULE FOR RATABLE FLOW-THROUGH.—If the taxpayer makes an election under this paragraph within 90 days after the date of the enactment of this paragraph in the manner prescribed by the Secretary or his delegate, paragraph (1) shall not apply, but no credit shall be allowed by section 38 with respect to any property described in section 50 which is public utility property (as defined in paragraph (5)) of the taxpayer—

"(A) COST OF SERVICE REDUCTION.—If the taxpayer's cost of service for ratemaking purposes or in its regulated books of account is reduced by more than a ratable portion of the credit allowable by section 38 (determined without regard to this subsection), or

"(B) RATE BASE REDUCTION.—If the base to which the taxpayer's rate of return for ratemaking purposes is applied is reduced by reason of any portion of the credit allowable by section 38 (determined without regard to this subsection).

83 Stat. 625.

"(3) SPECIAL RULE FOR IMMEDIATE FLOW-THROUGH IN CERTAIN CASES.—In the case of property to which section 167(l)(2)(C) applies, if the taxpayer makes an election under this paragraph within 90 days after the date of the enactment of this paragraph in the manner prescribed by the Secretary or his delegate, paragraphs (1) and (2) shall not apply to such property.

"(4) LIMITATION.—

"(A) IN GENERAL.—The requirements of paragraphs (1) and (2) regarding cost of service and rate base adjustments shall not be applied to public utility property of the taxpayer to disallow the credit with respect to such property before the first final determination which is inconsistent with paragraph (1) or (2) (as the case may be) is put into effect with respect to public utility property (to which this subsection applies) of the taxpayer. Thereupon, paragraph (1) or (2) shall apply to disallow the credit with respect to public utility property (to which this subsection applies) placed in service by the taxpayer—

"(i) before the date that the first final determination, or a subsequent determination, which is inconsistent with paragraph (1) or (2) (as the case may be) is put into effect, and

"(ii) on or after the date that a determination referred to in clause (i) is put into effect and before the date that a subsequent determination thereafter which is consistent with paragraph (1) or (2) (as the case may be) is put into effect.

"(B) DETERMINATIONS.—For purposes of this paragraph, a determination is a determination made with respect to public utility property (to which this subsection applies) by a governmental unit, agency, instrumentality, or commission or similar body described in subsection (c)(3)(B) which determines the effect of the credit allowed by section 38 (determined without regard to this subsection)—

Ante, p. 503.
76 Stat. 962.
26 USC 38.

"(i) on the taxpayer's cost of service or rate base for ratemaking purposes, or

"(ii) in the case of a taxpayer which made an election under paragraph (2), on the taxpayer's cost of service for ratemaking purposes or in its regulated books of account or rate base for ratemaking purposes.

"(C) SPECIAL RULES.—For purposes of this paragraph—

"(i) a determination is final if all rights to appeal or to request a review, a rehearing, or a redetermination, have been exhausted or have lapsed,

"(ii) the first final determination is the first final determination made after the date of the enactment of this subsection, and

"(iii) a subsequent determination is a determination subsequent to a final determination.

"(5) PUBLIC UTILITY PROPERTY.—For purposes of this subsection, the term 'public utility property' means—

"(A) property which is public utility property within the meaning of subsection (c)(3)(B), and

"(B) property used predominantly in the trade or business of the furnishing or sale of (i) steam through a local distribution system or (ii) the transportation of gas or steam by pipeline, if the rates for such furnishing or sale are established or approved by a governmental unit, agency, instrumentality, or commission described in subsection (c)(3)(B).

"(6) RATABLE PORTION.—For purposes of determining ratable restorations to base under paragraph (1) and for purposes of determining ratable portions under paragraph (2)(A), the period of time used in computing depreciation expense for purposes of reflecting operating results in the taxpayer's regulated books of account shall be used.

Ante, p. 504.

"(7) REORGANIZATIONS, ASSETS ACQUISITIONS, ETC.—If by reason of a corporate reorganization, by reason of any other acquisition of the assets of one taxpayer by another taxpayer, by reason of the fact that any trade or business of the taxpayer is subject to ratemaking by more than one body, or by reason of other circumstances, the application of any provisions of this subsection to any public utility property does not carry out the purposes of this subsection, the Secretary or his delegate shall provide by regulations for the application of such provisions in a manner consistent with the purposes of this subsection."

(d) EFFECTIVE DATE.—The amendments made by this section shall apply to property described in section 50 of the Internal Revenue Code of 1954.

Ante, p. 498.

78 Stat. 33.
26 USC 38 note.

(e) APPLICATION OF SECTION 203(e) OF REVENUE ACT OF 1964.—Section 203(e) of the Revenue Act of 1964 shall not apply to public utility property to which section 46(e) of the Internal Revenue Code of 1954 (as added by subsection (c)) applies.

Ante, p. 503.

SEC. 106. INVESTMENT CREDIT CARRYOVERS AND CARRYBACKS.

76 Stat. 963;
81 Stat. 731;
83 Stat. 666.

(a) PRIORITY OF APPLICATION.—Section 46(b) (relating to carryback and carryover of unused credits) is amended by inserting after paragraph (2) the following new paragraph:

"(3) SPECIAL RULES FOR CARRYOVERS FROM PRE-1971 UNUSED CREDIT YEARS.—The extent to which an investment credit carryover from an unused credit year ending before January 1, 1971, may be added under paragraph (1) for a taxable year beginning after December 31, 1970, shall be determined without regard to paragraph (2)(A). In determining the excess under paragraph (1) for any taxable year beginning after December 31, 1970, the limitation provided by subsection (a)(2) for such taxable year shall be reduced by the investment credit carryovers from such unused credit years (to the extent such unused credit may not be added for a prior taxable year)."

80 Stat. 1514.

(b) EXTENSION OF CARRYOVER PERIOD.—Section 46(b)(1) (relating to allowance of carryback and carryover of unused credits) is amended by adding at the end thereof the following new sentence: "In the case of an unused credit for an unused credit year ending before January 1, 1971, which is an investment credit carryover to a taxable year beginning after December 31, 1970 (determined without regard to this sentence), this paragraph shall be applied by substituting '10 taxable years' for '7 taxable years' in subparagraph (B) and by substituting '13 taxable years' for '10 taxable years' and '12 taxable years' for '9 taxable years' in the preceding sentence."

(c) REMOVAL OF 20-PERCENT LIMITATION ON USE OF CARRYOVERS AND CARRYBACKS.—

(1) REMOVAL OF LIMITATION.—Section 46(b)(5) (relating to carryback and carryover of unused credits to taxable years beginning after December 31, 1968, and ending after April 18, 1969) is amended—

(A) by striking out the heading and inserting:

"(5) CERTAIN TAXABLE YEARS ENDING IN 1969, 1970, OR 1971.—", and

(B) by striking out "ending after April 18, 1969," and inserting in lieu thereof "ending after April 18, 1969, and before January 1, 1972,", and

(C) by adding at the end thereof the following new sentence:

"In the case of a taxable year ending after August 15, 1971, and before January 1, 1972, the percentage contained in the preceding sentence shall be increased by 6 percentage points for each month (or portion thereof) in the taxable year after August 15, 1971."

(2) CONFORMING AMENDMENT TO ADDITIONAL 3-YEAR CARRYOVER PROVISION.—Section 46(b)(6) (relating to additional 3-year carryover period in certain cases) is amended—

(A) by striking out "ending after April 18, 1969," and inserting in lieu thereof "ending after April 18, 1969, and before January 1, 1971,", and

(B) by striking out "following the last taxable year for which such portion may be added under paragraph (1)" and inserting in lieu thereof "following the 7th taxable year after the unused credit year".

(d) EFFECTIVE DATES.—The amendments made by subsections (a), (b), and (c)(2) shall apply to taxable years beginning after Decem-

ber 31, 1970. The amendments made by subsection (c)(1) shall apply to taxable years ending after August 15, 1971.

SEC. 107. TREATMENT OF CASUALTIES AND CERTAIN REPLACEMENTS.

(a) CASUALTIES TREATED AS DISPOSITIONS.—

(1) Sections 46(c)(4) (relating to certain replacements of section 38 property) and 47(a)(4) (relating to property destroyed by casualty, etc.) are hereby repealed. Repeals. 76 Stat. 963. 26 USC 46, 47.

(2) The repeals made by paragraph (1) shall apply to casualties and thefts occurring after August 15, 1971. Effective date.

(b) CERTAIN REPLACEMENTS DURING TERMINATION PERIOD.—

(1) Section 47(a)(5) (relating to certain property replaced after April 18, 1969) is hereby repealed. Repeal. 83 Stat. 666.

(2) The repeal made by paragraph (1) shall not apply if replacement property described in subparagraph (B) of such section 47(a)(5) is not property described in section 50 of the Internal Revenue Code of 1954. *Ante*, p. 498.

SEC. 108. AVAILABILITY OF CREDIT TO CERTAIN LESSORS.

(a) IN GENERAL.—Section 46(d) (relating to limitations with respect to certain persons) is amended by adding at the end thereof the following new paragraph: 76 Stat. 963.

"(3) NONCORPORATE LESSORS.—A credit shall be allowed by section 38 to a person which is not a corporation with respect to property of which such person is the lessor only if—

"(A) the property subject to the lease has been manufactured or produced by the lessor, or

"(B) the term of the lease (taking into account options to renew) is less than 50 percent of the useful life of the property, and for the period consisting of the first 12 months after the date on which the property is transferred to the lessee the sum of the deductions with respect to such property which are allowable to the lessor solely by reason of section 162 (other than rents and reimbursed amounts with respect to such property) exceeds 15 percent of the rental income produced by such property. 68A Stat. 45; 83 Stat. 710.

In the case of property of which a partnership is the lessor, the credit otherwise allowable under section 38 with respect to such property to any partner which is a corporation shall be allowed notwithstanding the first sentence of this paragraph. For purposes of this paragraph, an electing small business corporation (as defined in section 1371) shall be treated as a person which is not a corporation." 72 Stat. 1650; 78 Stat. 112.

(b) CREDIT MAY BE USED BY LESSEE.—Section 48(d) (relating to certain leased property) is amended by striking out "section 46(d)" and inserting in lieu thereof "section 46(d)(1)". *Infra.*

(c) CERTAIN PROPERTY LEASED FOR SHORT TERM.—Section 48(d) (relating to investment credit for certain leased property) is amended to read as follows: 76 Stat. 967; 78 Stat. 34.

"(d) CERTAIN LEASED PROPERTY.—

"(1) GENERAL RULE.—A person (other than a person referred to in section 46(d)(1)) who is a lessor of property may (at such time, in such manner, and subject to such conditions as are provided by regulations prescribed by the Secretary or his delegate) elect with respect to any new section 38 property (other than property described in paragraph (4)) to treat the lessee as having acquired such property for an amount equal to—

"(A) except as provided in subparagraph (B), the fair market value of such property, or

"(B) if the property is leased by a corporation which is a component member of a controlled group (within the meaning

83 Stat. 603.
26 USC 46.

of section 46(a)(5)) to another corporation which is a component member of the same controlled group, the basis of such property to the lessor.

"(2) SPECIAL RULE FOR CERTAIN SHORT TERM LEASES.—

"(A) IN GENERAL.—A person (other than a person referred to in section 46(d)(1)) who is a lessor of property described in paragraph (4) may (at such time, in such manner, and subject to such conditions as are provided by regulations prescribed by the Secretary or his delegate) elect with respect to such property to treat the lessee as having acquired a portion of such property for the amount determined under subparagraph (B).

76 Stat. 965.

"(B) DETERMINATION OF LESSEE'S INVESTMENT.—The amount for which a lessee of property described in paragraph (4) shall be treated as having acquired a portion of such property is an amount equal to a fraction, the numerator of which is the term of the lease and the denominator of which is the class life of the property leased (determined under section 167(m)), of the amount for which the lessee would be treated as having acquired the property under paragraph (1).

Infra.

"(C) DETERMINATION OF LESSOR'S QUALIFIED INVESTMENT.—The qualified investment of a lessor of property described in paragraph (4) in any such property with respect to which he has made an election under this paragraph is an amount equal to his qualified investment in such property (as determined under section 46(c)) multiplied by a fraction equal to the excess of one over the fraction used under subparagraph (B) to determine the lessee's investment in such property.

Ante, p. 499, 503, 507.

"(3) LIMITATIONS.—The elections provided by paragraphs (1) and (2) may be made with respect to property which would be new section 38 property if acquired by the lessee. For purposes of the preceding sentence and section 46(c), the useful life of property in the hands of the lessee is the useful life of such property in the hands of the lessor. If a lessor makes the election provided by paragraph (1) with respect to any property, the lessee shall be treated for all purposes of this subpart as having acquired such property. If a lessor makes the election provided by paragraph (2) with respect to any property, the lessee shall be treated for all purposes of this subpart as having acquired a fractional portion of such property equal to the fraction determined under paragraph (2)(B) with respect to such property.

"(4) PROPERTY TO WHICH PARAGRAPH (2) APPLIES.—Paragraph (2) shall apply only to property which—

"(A) is new section 38 property,

"(B) has a class life (determined under section 167(m)) in excess of 14 years,

"(C) is leased for a period which is less than 80 percent of its class life, and

"(D) is not leased subject to a net lease (within the meaning of section 57(c)(2))."

Post, p. 522.

(d) EFFECTIVE DATES.—The amendments made by subsections (a) and (b) shall apply to leases entered into after September 22, 1971. The amendment made by subsection (c) shall apply to leases entered into after November 8, 1971.

SEC. 109. REASONABLE ALLOWANCE FOR DEPRECIATION; REPAIR ALLOWANCE.

68A Stat. 51; 83 Stat. 649.

(a) Section 167 (relating to depreciation) is amended by redesignating subsection (m) as subsection (n) and by inserting after subsection (l) the following new subsection:

"(m) CLASS LIVES.—

"(1) IN GENERAL.—In the case of a taxpayer who has made an election under this subsection for the taxable year, the term 'reasonable allowance' as used in subsection (a) means (with respect to property which is placed in service during the taxable year and which is included in any class for which a class life has been prescribed) only an allowance based on the class life prescribed by the Secretary or his delegate which reasonably reflects the anticipated useful life of that class of property to the industry or other group. The allowance so prescribed may (under regulations prescribed by the Secretary or his delegate) permit a variance from any class life by not more than 20 percent (rounded to the nearest half year) of such life. "Reasonable allowance."

"(2) CERTAIN FIRST-YEAR CONVENTIONS NOT PERMITTED.—No convention with respect to the time at which assets are deemed placed in service shall be permitted under this section which generally would provide greater depreciation allowances during the taxable year in which the assets are placed in service than would be permitted if all assets were placed in service ratably throughout the year and if depreciation allowances were computed without regard to any convention.

"(3) MAKING OF ELECTION.—An election under this subsection for any taxable year shall be made at such time, in such manner, and subject to such conditions as may be prescribed by the Secretary or his delegate by regulations."

(b) REASONABLE REPAIR ALLOWANCE.—Section 263 (relating to capital expenditures) is amended by adding at the end thereof the following new subsection: 68A Stat. 77; 83 Stat. 674. 26 USC 263.

"(f) REASONABLE REPAIR ALLOWANCE.—The Secretary or his delegate may by regulations provide that the taxpayer may make an election under which amounts representing either repair expenses or specified repair, rehabilitation, or improvement expenditures for any class of depreciable property—

"(1) are allowable as a deduction under section 162(a) or 212 (whichever is appropriate) to the extent of the repair allowance for that class, and 68A Stat. 45, 69.

"(2) to the extent such amounts exceed for the taxable year such repair allowance, are chargeable to capital account.

Any allowance prescribed under this subsection shall reasonably reflect the anticipated repair experience of the class of property in the industry or other group."

(c) RAILROAD ROLLING STOCK.—Section 263(e) (relating to expenditures in connection with certain railroad rolling stock) is amended—

(1) by striking out "shall be treated" and inserting in lieu thereof "shall, at the election of the taxpayer, be treated", and

(2) by adding at the end thereof the following new sentences: "An election under this subsection shall be made for any taxable year at such time and in such manner as the Secretary or his delegate prescribes by regulations. An election may not be made under this subsection for any taxable year to which an election under subsection (f) applies to railroad rolling stock (other than locomotives)."

(d) EFFECTIVE DATES.—

(1) The amendments made by subsection (a) shall apply to property placed in service after December 31, 1970.

(2) The amendment made by subsection (b) shall apply to taxable years ending after December 31, 1970.

(3) The amendments made by subsection (c) shall apply to taxable years beginning after December 31, 1969.

(e) TRANSITIONAL RULES.—

(1) REAL PROPERTY.—In the case of buildings and other items of section 1250 property for which a separate guideline life is prescribed in Revenue Procedure 62–21 (as amended and supplemented), the class lives first prescribed by the Secretary of the Treasury or his delegate under section 167(m) of the Internal Revenue Code of 1954 shall be the same as the guideline lives for such property in effect on December 31, 1970. Any such property which is placed in service by the taxpayer during the period beginning on January 1, 1971, and ending on December 31, 1973 (or such earlier date on which a class life subsequently prescribed by the Secretary of the Treasury or his delegate under such section becomes effective for such property) may, in accordance with regulations prescribed by the Secretary of the Treasury or his delegate, be excluded by the taxpayer from an election under such section if a life for such property shorter than the class life prescribed in accordance with the preceding sentence is justified under Revenue Procedure 62–21 (as amended and supplemented).

Ante, p. 508.

(2) SUBSIDIARY ASSETS.—If a significant portion of a class of property first prescribed by the Secretary of the Treasury or his delegate under section 167(m) of the Internal Revenue Code of 1954 consists of subsidiary assets, all such subsidiary assets in such class placed in service by the taxpayer during the period beginning on January 1, 1971, and ending on December 31, 1973 (or such earlier date on which a class which includes such subsidiary assets subsequently prescribed by the Secretary of the Treasury or his delegate under such section becomes effective), may, in accordance with regulations prescribed by the Secretary of the Treasury or his delegate, be excluded by the taxpayer from an election under such section.

TITLE II—CHANGES IN PERSONAL EXEMPTIONS, MINIMUM STANDARD DEDUCTION, WITHHOLDING, ETC.

SEC. 201. INCREASE IN PERSONAL EXEMPTION.

(a) INCREASE IN PERSONAL EXEMPTION TO $675 FOR 1971.—Effective with respect to taxable years beginning after December 31, 1970, and before January 1, 1972—

68A Stat. 42; 83 Stat. 676. 26 USC 151.

(1) section 151 (relating to allowance of deductions for personal exemptions) is amended by striking out "$650" each place it appears and inserting in lieu thereof "$675"; and

(2) section 6013(b)(3)(A) (relating to assessment and collection in case of certain returns of husband and wife) is amended by striking out "$650" each place it appears and inserting in lieu thereof "$675"; and by striking out "$1,300" each place it appears and inserting in lieu thereof "$1,350".

(b) INCREASE IN PERSONAL EXEMPTION TO $750 FOR 1972 AND SUBSEQUENT YEARS.—Effective with respect to taxable years beginning after December 31, 1971—

(1) section 151 (relating to allowance of deductions for personal exemptions) is amended by striking out "$675" each place it appears and inserting in lieu thereof "$750"; and

(2) section 6013(b)(3)(A) (relating to assessment and collection in the case of certain returns of husband and wife) is amended by striking out "$675" each place it appears and inserting in lieu thereof "$750"; and by striking out "$1,350" each place it appears and inserting in lieu thereof "$1,500".

(c) TECHNICAL AMENDMENT.—Subsections (c) and (d) of section 801 of the Tax Reform Act of 1969 are hereby repealed. Repeal. 83 Stat. 675.

SEC. 202. INCREASE IN PERCENTAGE STANDARD DEDUCTION. 26 USC 151, 6013.

Effective with respect to taxable years beginning after December 31, 1971, the last two lines in the table in section 141(b) (relating to percentage standard deduction) are amended to read as follows: 83 Stat. 676.

"1972 and thereafter ..... 15 2,000".

SEC. 203. LOW INCOME ALLOWANCE.

(a) ELIMINATION OF PHASEOUT FOR 1971.—Effective with respect to taxable years beginning after December 31, 1970, and before January 1, 1972, section 141(c) (relating to low income allowance) is amended to read as follows:

"(c) LOW INCOME ALLOWANCE.—The low income allowance is $1,050 ($525 in the case of a married individual filing a separate return)."

(b) INCREASE OF LOW INCOME ALLOWANCE FOR 1972 AND THEREAFTER.—Effective with respect to taxable years beginning after December 31, 1971, section 141(c) (relating to low income allowance) is amended to read as follows:

"(c) LOW INCOME ALLOWANCE.—The low income allowance is $1,300 ($650 in the case of a married individual filing a separate return)."

(c) TECHNICAL AMENDMENT.—Section 802(e) of the Tax Reform Act of 1969 is hereby repealed. Repeal. 26 USC 141.

SEC. 204. FILING REQUIREMENTS.

(a) IN GENERAL.—Effective with respect to taxable years beginning after December 31, 1971, section 6012(a)(1) (relating to persons required to make returns of income) is amended— 83 Stat. 726.

(1) by striking out "$600" each place it appears and inserting in lieu thereof "$750";

(2) by striking out "$1,700" each place it appears and inserting in lieu thereof "$2,050";

(3) by striking out "$2,300" each place it appears and inserting in lieu thereof "$2,800"; and

(4) by inserting after subparagraph (B) the following new subparagraph:

"(C) Every individual having for the taxable year a gross income of $750 or more and to whom section 141(e) (relating to limitations in case of certain dependent taxpayers) applies;". *Post*, p. 520.

(b) TECHNICAL AMENDMENT.—Section 941(d) of the Tax Reform Act of 1969 is hereby repealed. Repeal. 83 Stat. 726. 26 USC 6012 note.

SEC. 205. CERTAIN FISCAL YEAR TAXPAYERS.

Section 21 (relating to effect of changes) is amended by adding at the end thereof the following new subsection: 68A Stat. 12; 83 Stat. 685.

"(e) CHANGES MADE BY REVENUE ACT OF 1971.—In applying subsection (a) to a taxable year of an individual which is not a calendar year, each change made by the Revenue Act of 1971 in section 141 (relating to the standard deduction) and section 151 (relating to personal exemptions) shall be treated as a change in a rate of tax." *Supra; Post*, p. 520. *Ante*, p. 510.

SEC. 206. ELECTION OF STANDARD DEDUCTION.

Effective with respect to taxable years beginning after December 31, 1970, section 144 (relating to election of standard deduction) is amended by striking out "$5,000" each place it appears and inserting in lieu thereof "$10,000". 68A Stat. 41; 78 Stat. 24, 110.

SEC. 207. WAIVER OF PENALTY FOR UNDERPAYMENT OF 1971 ESTIMATED INCOME TAX.

68A Stat. 823. 26 USC 6654.

(a) WAIVER OF PENALTY.—Notwithstanding any other provision of law, section 6654(a) of the Internal Revenue Code of 1954 (relating to addition to tax for failure by individual to pay estimated income tax) shall not apply to any taxable year beginning after December 31, 1970, and ending before January 1, 1972—

(1) if gross income for the taxable year does not exceed $10,000 in the case of—

(A) a single individual other than a head of a household (as defined in section 2(b) of such Code) or a surviving spouse (as defined in section 2(a) of such Code); or

83 Stat. 682.

(B) a married individual not entitled under section 6013 of such Code to file a joint return for the taxable year; or

68A Stat. 733; 84 Stat. 2063.

(2) if gross income for the taxable year does not exceed $20,000 in the case of—

(A) a head of a household (as defined in section 2(b) of such Code); or

(B) a surviving spouse (as defined in section 2(a) of such Code); or

(3) in the case of a married individual entitled under section 6013 of such Code to file a joint return for the taxable year, if the aggregate gross income of such individual and his spouse for the taxable year does not exceed $20,000.

(b) LIMITATION.—Subsection (a) shall not apply if the taxpayer has income from sources other than wages (as defined in section 3401 (a) of such Code) in excess of $200 for the taxable year ($400 in the case of a husband and wife entitled to file a joint return under section 6013 of such Code for the taxable year).

69 Stat. 616; 79 Stat. 383.

SEC. 208. ADJUSTMENT OF WITHHOLDING.

83 Stat. 686.

(a) REQUIREMENT OF WITHHOLDING.—Section 3402(a) (relating to requirement of withholding) is amended by striking out paragraphs (1) through (5) and inserting in lieu thereof the following:

"Table 1.—If the payroll period with respect to an employee is WEEKLY

"(a) Single Person—Including Head of Household:

"If the amount of wages is:	The amount of income tax to be withheld shall be:
Not over $11	0.
Over $11 but not over $35	14% of excess over $11.
Over $35 but not over $73	$3.36 plus 18% of excess over $35.
Over $73 but not over $202	$10.20 plus 21% of excess over $73.
Over $202 but not over $231	$37.29 plus 23% of excess over $202.
Over $231 but not over $269	$43.96 plus 27% of excess over $231.
Over $269 but not over $333	$54.22 plus 31% of excess over $269.
Over $333	$74.06 plus 35% of excess over $333.

"(b) Married Person:

"If the amount of wages is:	The amount of income tax to be withheld shall be:
Not over $11	0.
Over $11 but not over $39	14% of excess over $11.
Over $39 but not over $167	$3.92 plus 16% of excess over $39.
Over $167 but not over $207	$24.40 plus 20% of excess over $167.
Over $207 but not over $324	$32.40 plus 24% of excess over $207.
Over $324 but not over $409	$60.48 plus 28% of excess over $324.
Over $409 but not over $486	$84.28 plus 32% of excess over $409.
Over $486	$108.92 plus 36% of excess over $486.

"Table 2.—If the payroll period with respect to an employee is BIWEEKLY

"(a) Single Person—Including Head of Household:

"If the amount of wages is:	The amount of income tax to be withheld shall be:
Not over $21	0.
Over $21 but not over $69	14% of excess over $21.
Over $69 but not over $146	$6.72 plus 18% of excess over $69.
Over $146 but not over $404	$20.58 plus 21% of excess over $146.
Over $404 but not over $462	$74.76 plus 23% of excess over $404.
Over $462 but not over $538	$88.10 plus 27% of excess over $462.
Over $538 but not over $665	$108.62 plus 31% of excess over $538.
Over $665	$147.99 plus 35% of excess over $665.

"(b) Married Person:

"If the amount of wages is:	The amount of income tax to be withheld shall be:
Not over $21	0.
Over $21 but not over $79	14% of excess over $21.
Over $79 but not over $335	$8.12 plus 16% of excess over $79.
Over $335 but not over $413	$49.08 plus 20% of excess over $335.
Over $413 but not over $648	$64.68 plus 24% of excess over $413.
Over $648 but not over $817	$121.08 plus 28% of excess over $648.
Over $817 but not over $971	$168.40 plus 32% of excess over $817.
Over $971	$217.68 plus 36% of excess over $971.

"Table 3.—If the payroll period with respect to an employee is SEMIMONTHLY

"(a) Single Person—Including Head of Household:

"If the amount of wages is:	The amount of income tax to be withheld shall be:
Not over $23	0.
Over $23 but not over $75	14% of excess over $23.
Over $75 but not over $158	$7.28 plus 18% of excess over $75.
Over $158 but not over $438	$22.22 plus 21% of excess over $158.
Over $438 but not over $500	$81.02 plus 23% of excess over $438.
Over $500 but not over $583	$95.28 plus 27% of excess over $500.
Over $583 but not over $721	$117.69 plus 31% of excess over $583.
Over $721	$160.47 plus 35% of excess over $721.

"(b) Married Person:

"If the amount of wages is:	The amount of income tax to be withheld shall be:
Not over $23	0.
Over $23 but not over $85	14% of excess over $23.
Over $85 but not over $363	$8.68 plus 16% of excess over $85.
Over $363 but not over $448	$53.16 plus 20% of excess over $363.
Over $448 but not over $702	$70.16 plus 24% of excess over $448.
Over $702 but not over $885	$131.12 plus 28% of excess over $702.
Over $885 but not over $1,052	$182.36 plus 32% of excess over $885.
Over $1,052	$235.80 plus 36% of excess over $1,052.

"Table 4.—If the payroll period with respect to an employee is MONTHLY

"(a) Single Person—Including Head of Household:

"If the amount of wages is:	The amount of income tax to be withheld shall be:
Not over $46	0.
Over $46 but not over $150	14% of excess over $46.
Over $150 but not over $317	$14.56 plus 18% of excess over $150.
Over $317 but not over $875	$44.62 plus 21% of excess over $317.
Over $875 but not over $1,000	$161.80 plus 23% of excess over $875.
Over $1,000 but not over $1,167	$190.55 plus 27% of excess over $1,000.
Over $1,167 but not over $1,442	$235.64 plus 31% of excess over $1,167.
Over $1,442	$320.89 plus 35% of excess over $1,442.

"Table 4.—If the payroll period with respect to an employee is MONTHLY—Continued

"(b) Married Person:

"If the amount of wages is:	The amount of income tax to be withheld shall be:
Not over $46	0.
Over $46 but not over $171	14% of excess over $46.
Over $171 but not over $725	$17.50 plus 16% of excess over $171.
Over $725 but not over $896	$106.14 plus 20% of excess over $725.
Over $896 but not over $1,404	$140.34 plus 24% of excess over $896.
Over $1,404 but not over $1,771	$262.26 plus 28% of excess over $1,404.
Over $1,771 but not over $2,104	$365.02 plus 32% of excess over $1,771.
Over $2,104	$471.58 plus 36% of excess over $2,104.

"Table 5.—If the payroll period with respect to an employee is QUARTERLY

"(a) Single Person—Including Head of Household:

"If the amount of wages is:	The amount of income tax to be withheld shall be:
Not over $138	0.
Over $138 but not over $450	14% of excess over $138.
Over $450 but not over $950	$43.68 plus 18% of excess over $450.
Over $950 but not over $2,625	$133.68 plus 21% of excess over $950.
Over $2,625 but not over $3,000	$485.43 plus 23% of excess over $2,625.
Over $3,000 but not over $3,500	$571.68 plus 27% of excess over $3,000.
Over $3,500 but not over $4,325	$706.68 plus 31% of excess over $3,500.
Over $4,325	$962.43 plus 35% of excess over $4,325.

"(b) Married Person:

"If the amount of wages is:	The amount of income tax to be withheld shall be:
Not over $138	0.
Over $138 but not over $513	14% of excess over $138.
Over $513 but not over $2,175	$52.50 plus 16% of excess over $513.
Over $2,175 but not over $2,688	$318.42 plus 20% of excess over $2,175.
Over $2,688 but not over $4,213	$421.02 plus 24% of excess over $2,688.
Over $4,213 but not over $5,313	$787.02 plus 28% of excess over $4,213.
Over $5,313 but not over $6,313	$1,095.02 plus 32% of excess over $5,313.
Over $6,313	$1,415.02 plus 36% of excess over $6,313.

"Table 6.—If the payroll period with respect to an employee is SEMIANNUAL

"(a) Single Person—Including Head of Household:

"If the amount of wages is:	The amount of income tax to be withheld shall be:
Not over $275	0.
Over $275 but not over $900	14% of excess over $275.
Over $900 but not over $1,900	$87.50 plus 18% of excess over $900.
Over $1,900 but not over $5,250	$267.50 plus 21% of excess over $1,900.
Over $5,250 but not over $6,000	$971.00 plus 23% of excess over $5,250.
Over $6,000 but not over $7,000	$1,143.50 plus 27% of excess over $6,000.
Over $7,000 but not over $8,650	$1,413.50 plus 31% of excess over $7,000.
Over $8,650	$1,925.00 plus 35% of excess over $8,650.

"(b) Married Person:

"If the amount of wages is:	The amount of income tax to be withheld shall be:
Not over $275	0.
Over $275 but not over $1,025	14% of excess over $275.
Over $1,025 but not over $4,350	$105.00 plus 16% of excess over $1,025.
Over $4,350 but not over $5,375	$637.00 plus 20% of excess over $4,350.
Over $5,375 but not over $8,425	$842.00 plus 24% of excess over $5,375.
Over $8,425 but not over $10,625	$1,574.00 plus 28% of excess over $8,425.
Over $10,625 but not over $12,625	$2,190.00 plus 32% of excess over $10,625.
Over $12,625	$2,830.00 plus 36% of excess over $12,625.

"Table 7.—If the payroll period with respect to an employee is ANNUAL

"(a) Single Person—Including Head of Household:

"If the amount of wages is:	The amount of income tax to be withheld shall be:
Not over $550	0.
Over $550 but not over $1,800	14% of excess over $550.
Over $1,800 but not over $3,800	$175.00 plus 18% of excess over $1,800.
Over $3,800 but not over $10,500	$535.00 plus 21% of excess over $3,800.
Over $10,500 but not over $12,000	$1,942.00 plus 23% of excess over $10,500.
Over $12,000 but not over $14,000	$2,287.00 plus 27% of excess over $12,000.
Over $14,000 but not over $17,300	$2,827.00 plus 31% of excess over $14,000.
Over $17,300	$3,850.00 plus 35% of excess over $17,300.

"(b) Married Person:

"If the amount of wages is:	The amount of income tax to be withheld shall be:
Not over $550	0.
Over $550 but not over $2,050	14% of excess over $550.
Over $2,050 but not over $8,700	$210.00 plus 16% of excess over $2,050.
Over $8,700 but not over $10,750	$1,274.00 plus 20% of excess over $8,700.
Over $10,750 but not over $16,850	$1,684.00 plus 24% of excess over $10,750.
Over $16,850 but not over $21,250	$3,148.00 plus 28% of excess over $16,850.
Over $21,250 but not over $25,250	$4,380.00 plus 32% of excess over $21,250.
Over $25,250	$5,660.00 plus 36% of excess over $25,250.

"Table 8.—If the payroll period with respect to an employee is a DAILY payroll period or a miscellaneous payroll period

"(a) Single Person—Including Head of Household:

"If the amount of wages divided by the number of days in the payroll period is:	The amount of income tax to be withheld shall be:
Not over $1.50	0.
Over $1.50 but not over $4.90	14% of excess over $1.50.
Over $4.90 but not over $10.40	$0.48 plus 18% of excess over $4.90.
Over $10.40 but not over $28.80	$1.47 plus 21% of excess over $10.40.
Over $28.80 but not over $32.90	$5.33 plus 23% of excess over $28.80.
Over $32.90 but not over $38.40	$6.27 plus 27% of excess over $32.90.
Over $38.40 but not over $47.40	$7.76 plus 31% of excess over $38.40.
Over $47.40	$10.55 plus 35% of excess over $47.40.

"(b) Married Person:

"If the amount of wages divided by the number of days in the payroll period is:	The amount of income tax to be withheld shall be:
Not over $1.50	0.
Over $1.50 but not over $5.60	14% of excess over $1.50.
Over $5.60 but not over $23.80	$0.57 plus 16% of excess over $5.60.
Over $23.80 but not over $29.50	$3.48 plus 20% of excess over $23.80.
Over $29.50 but not over $46.20	$4.62 plus 24% of excess over $29.50.
Over $46.20 but not over $58.20	$8.63 plus 28% of excess over $46.20.
Over $58.20 but not over $69.20	$11.99 plus 32% of excess over $58.20.
Over $69.20	$15.51 plus 36% of excess over $69.20."

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(b) PERCENTAGE METHOD OF WITHHOLDING.—

83 Stat. 704. 26 USC 3402 and note.

(1) Section 3402(b)(1) (relating to percentage method of withholding) is amended to read as follows:

"(1) The table referred to in subsection (a) is as follows:

"Percentage Method Withholding Table

"Payroll period:	Amount of one withholding exemption
Weekly	$14.40
Biweekly	28.80
Semimonthly	31.30
Monthly	62.50
Quarterly	187.50
Semiannual	375.00
Annual	750.00
Daily or miscellaneous (per day of such period)	2.10."

Repeal. 73 Stat. 118.

(2) Paragraphs (3) and (4) of section 805(b) of the Tax Reform Act of 1969 are hereby repealed.

(c) WITHHOLDING ALLOWANCE FOR STANDARD DEDUCTION.—

68A Stat. 466; 80 Stat. 59.

(1) Section 3402(f)(1) (relating to withholding exemptions) is amended—

(A) by striking out "and" at the end of subparagraph (E),

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

(C) by adding at the end thereof the following:

"(G) a standard deduction allowance which shall be an amount equal to one exemption unless (i) he is married (as determined under section 143) and his spouse is an employee receiving wages subject to withholding or (ii) he has withholding exemption certificates in effect with respect to more than one employer.

68A Stat. 41; 83 Stat. 677.

For purposes of this title, any standard deduction allowance under subparagraph (G) shall be treated as if it were denominated a withholding exemption."

(d) WITHHOLDING EXEMPTIONS WHERE EMPLOYEE HAS MORE THAN ONE EMPLOYER.—Section 3402(f) (relating to withholding exemptions) is amended by adding at the end thereof the following new paragraph:

75 Stat. 537.

"(7) EXEMPTION WHERE CERTIFICATE WITH ANOTHER EMPLOYER IS IN EFFECT.—If a withholding exemption certificate is in effect with respect to one employer, an employee shall not be entitled under a certificate in effect with any other employer to any withholding exemption which he has claimed under such first certificate."

(e) DETERMINATION OF AMOUNT OF WITHHOLDING ALLOWANCE.—

83 Stat. 707.

Section 3402(m)(1)(B) (relating to withholding allowances based on itemized deductions) is amended to read as follows:

"(B) an amount equal to the lesser of (i) $2,000 or (ii) 15 percent of his estimated wages."

(f) WITHHOLDING ALLOWANCE BASED ON PRECEDING YEAR IN CERTAIN CASES.—Section 3402(m) is amended—

(1) by striking out in the second sentence of paragraph (2)(A) "for the taxable year preceding the estimation year" and inserting in lieu thereof "for the taxable year preceding the estimation year or (if such a return has not been filed for such preceding taxable year at the time the withholding exemption certificate is furnished the employer) the second taxable year preceding the estimation year",

80 Stat. 59; 83 Stat. 706.

(2) by amending the first sentence of paragraph (2)(D) to read as follows: "In the case of an employee who files his return on the basis of a calendar year, the term 'estimation year' means the calendar year in which the wages are paid.", and

(3) by striking out subparagraphs (B) and (C) of paragraph (3), and redesignating subparagraphs (D) and (E) as subparagraphs (B) and (C), respectively. 80 Stat. 59. 26 USC 3402.

(g) CONFORMING AMENDMENT.—Section 3402(c)(6) (relating to wage bracket withholding) is amended by striking out "paragraph (1), (2), (3), (4), or (5) (whichever is applicable) of". 83 Stat. 705.

(h) FIFTEEN-DAY EXTENSION OF EXISTING WITHHOLDING PROVISIONS.—

(1) Paragraph (3) of section 3402(a) (relating to requirement of withholding) is amended by striking out "January 1, 1972" and inserting in lieu thereof "January 16, 1972". 83 Stat. 693; *Ante*, p. 512.

(2) Paragraph (2) of section 805(b) of the Tax Reform Act of 1969 (relating to percentage method of withholding) is amended by striking out "January 1, 1972" and inserting in lieu thereof "January 16, 1972". 83 Stat. 704.

(i) EFFECTIVE DATE.—

(1) The amendments made by this section (other than subsection (h)) shall apply with respect to wages paid after January 15, 1972.

(2) The amendments made by subsection (h) shall apply with respect to wages paid after December 31, 1971, and before January 16, 1972.

SEC. 209. CHANGES IN REQUIREMENTS OF DECLARATION OF ESTIMATED INCOME TAX BY INDIVIDUALS.

(a) GENERAL RULE.—Section 6015(a) (relating to the requirement of declaration of estimated income tax by individuals) is amended to read as follows: 74 Stat. 1000.

"(a) REQUIREMENT OF DECLARATION.—Except as otherwise provided in this section, every individual shall make a declaration of his estimated tax for the taxable year if—

"(1) the gross income for the taxable year can reasonably be expected to exceed—

"(A) $20,000, in the case of—

"(i) a single individual, including a head of a household (as defined in section 2(b)) or a surviving spouse (as defined in section 2 (a)); or 83 Stat. 682.

"(ii) a married individual entitled under subsection (b) to file a joint declaration with his spouse, but only if his spouse has not received wages (as defined in section 3401(a)) for the taxable year; or 68A Stat. 737. 69 Stat. 616; 79 Stat. 383.

"(B) $10,000, in the case of a married individual entitled under subsection (b) to file a joint declaration with his spouse, but only if both he and his spouse have received wages (as defined in section 3401(a)) for the taxable year; or

"(C) $5,000, in the case of a married individual not entitled under subsection (b) to file a joint declaration with his spouse; or

"(2) the gross income can reasonably be expected to include more than $500 from sources other than wages (as defined in section 3401(a)).

Notwithstanding the provisions of this subsection, no declaration is required if the estimated tax (as defined in subsection (c)) can reasonably be expected to be less than $100." 80 Stat. 62.

(b) EFFECTIVE DATE.—The amendment made by this section shall apply with respect to estimated tax for taxable years beginning after December 31, 1971.

SEC. 210. CERTAIN EXPENSES TO ENABLE INDIVIDUALS TO BE GAINFULLY EMPLOYED.

78 Stat. 49.
26 USC 214.

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

"SEC. 214. EXPENSES FOR HOUSEHOLD AND DEPENDENT CARE SERVICES NECESSARY FOR GAINFUL EMPLOYMENT.

"(a) ALLOWANCE OF DEDUCTION.—In the case of an individual who maintains a household which includes as a member one or more qualifying individuals (as defined in subsection (b)(1)), there shall be allowed as a deduction the employment-related expenses (as defined in subsection (b)(2)) paid by him during the taxable year.

"(b) DEFINITIONS, ETC.—For purposes of this section—

"(1) QUALIFYING INDIVIDUAL.—The term 'qualifying individual' means—

"(A) a dependent of the taxpayer who is under the age of 15 and with respect to whom the taxpayer is entitled to a deduction under section 151(e),

Ante, p. 510.

"(B) a dependent of the taxpayer who is physically or mentally incapable of caring for himself, or

"(C) the spouse of the taxpayer, if he is physically or mentally incapable of caring for himself.

"(2) EMPLOYMENT-RELATED EXPENSES.—The term 'employment-related expenses' means amounts paid for the following expenses, but only if such expenses are incurred to enable the taxpayer to be gainfully employed:

"(A) expenses for household services, and

"(B) expenses for the care of a qualifying individual.

"(3) MAINTAINING A HOUSEHOLD.—An individual shall be treated as maintaining a household for any period only if over half of the cost of maintaining the household during such period is furnished by such individual (or if such individual is married during such period, is furnished by such individual and his spouse).

"(c) LIMITATIONS ON AMOUNTS DEDUCTIBLE.—

"(1) IN GENERAL.—A deduction shall be allowed under subsection (a) for employment-related expenses incurred during any month only to the extent such expenses do not exceed $400.

"(2) EXPENSES MUST BE FOR SERVICES IN THE HOUSEHOLD.—

"(A) IN GENERAL.—Except as provided in subparagraph (B), a deduction shall be allowed under subsection (a) for employment-related expenses only if they are incurred for services in the taxpayer's household.

"(B) EXCEPTION.—Employment-related expenses described in subsection (b)(2)(B) which are incurred for services outside the taxpayer's household shall be taken into account only if incurred for the care of a qualifying individual described in subsection (b)(1)(A) and only to the extent such expenses incurred during any month do not exceed—

"(i) $200, in the case of one such individual,

"(ii) $300, in the case of two such individuals, and

"(iii) $400, in the case of three or more such individuals.

"(d) INCOME LIMITATION.—If the adjusted gross income of the taxpayer exceeds $18,000 for the taxable year during which the expenses are incurred, the amount of the employment-related expenses incurred during any month of such year which may be taken into account under this section shall (after the application of subsections (e)(5) and (c)) be further reduced by that portion of one-half of the excess of the adjusted gross income over $18,000 which is properly allocable to such

month. For purposes of the preceding sentence, if the taxpayer is married during any period of the taxable year, there shall be taken into account the combined adjusted gross income of the taxpayer and his spouse for such period.

"(e) SPECIAL RULES.—For purposes of this section—

"(1) MARRIED COUPLES MUST FILE JOINT RETURN.—If the taxpayer is married at the close of the taxable year, the deduction provided by subsection (a) shall be allowed only if the taxpayer and his spouse file a single return jointly for the taxable year.

"(2) GAINFUL EMPLOYMENT REQUIREMENT.—If the taxpayer is married for any period during the taxable year, there shall be taken into account employment-related expenses incurred during any month of such period only if—

"(A) both spouses are gainfully employed on a substantially full-time basis, or

"(B) the spouse is a qualifying individual described in subsection (b)(1)(C).

"(3) CERTAIN MARRIED INDIVIDUALS LIVING APART.—An individual who for the taxable year would be treated as not married under section 143(b) if paragraph (1) of such section referred to any dependent, shall be treated as not married for such taxable year.

83 Stat. 677.
26 USC 143.

"(4) PAYMENTS TO RELATED INDIVIDUALS.—No deduction shall be allowed under subsection (a) for any amount paid by the taxpayer to an individual bearing a relationship to the taxpayer described in paragraphs (1) through (8) of section 152(a) (relating to definition of dependent) or to a dependent described in paragraph (9) of such section.

68A Stat. 43.
72 Stat. 1607.

"(5) REDUCTION FOR CERTAIN PAYMENTS.—In the case of employment-related expenses incurred during any taxable year solely with respect to a qualifying individual (other than an individual who is also described in subsection (b)(1)(A)), the amount of such expenses which may be taken into account for purposes of this section shall (before the application of subsection (c)) be reduced—

"(A) if such individual is described in subsection (b)(1)(B), by the amount by which the sum of—

"(i) such individual's adjusted gross income for such taxable year, and

"(ii) the disability payments received by such individual during such year,

exceeds $750, or

"(B) in the case of a qualifying individual described in subsection (b)(1)(C), by the amount of disability payments received by such individual during the taxable year.

For purposes of this paragraph, the term 'disability payment' means a payment (other than a gift) which is made on account of the physical or mental condition of an individual and which is not included in gross income.

"Disability payment."

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

(b) CLERICAL AMENDMENT.—The table of sections for part VII of subchapter B of chapter 1 is amended by striking out the item relating to section 214 and inserting in lieu thereof the following:

"Sec. 214. Expenses for household and dependent care services necessary for gainful employment."

(c) EFFECTIVE DATE.—The amendments made by this section shall apply to taxable years beginning after December 31, 1971.

SEC. 211. LEVIES ON SALARIES AND WAGES.

68A Stat. 783. 26 USC 6331.

(a) WRITTEN NOTICE REQUIRED.—Section 6331 (relating to levy and distraint) is amended by redesignating subsection (d) as (e) and by inserting after subsection (c) the following new subsection:

"(d) SALARY AND WAGES.—

"(1) IN GENERAL.—Levy may be made under subsection (a) upon the salary or wages of an individual with respect to any unpaid tax only after the Secretary or his delegate has notified such individual in writing of his intention to make such levy. Such notice shall be given in person, left at the dwelling or usual place of business of such individual, or shall be sent by mail to such individual's last known address, no less than 10 days before the day of levy. No additional notice shall be required in the case of successive levies with respect to such tax.

"(2) JEOPARDY.—Paragraph (1) shall not apply to a levy if the Secretary or his delegate has made a finding under the last sentence of subsection (a) that the collection of tax is in jeopardy."

(b) EFFECTIVE DATE.—The amendments made by this section shall apply with respect to levies made after March 31, 1972.

TITLE III—STRUCTURAL IMPROVEMENTS

SEC. 301. UNEARNED INCOME OF TAXPAYERS WHO ARE DEPENDENTS OF OTHER TAXPAYERS.

78 Stat. 23; 83 Stat. 676.

(a) LIMITATION OF STANDARD DEDUCTION.—Section 141 (relating to the standard deduction) is amended by adding at the end thereof the following new subsection:

"(e) LIMITATIONS IN CASE OF CERTAIN DEPENDENT TAXPAYERS.—In the case of a taxpayer with respect to whom a deduction under section 151(e) is allowable to another taxpayer for the taxable year—

Ante, p. 510.

"(1) the percentage standard deduction shall be computed only with reference to so much of his adjusted gross income as is attributable to his earned income (as defined in section 911(b)), and

76 Stat. 1003.

"(2) the low income allowance shall not exceed his earned income for the taxable year."

68A Stat. 10.

(b) OPTIONAL TAX.—Section 4(d) (relating to taxpayers ineligible for optional tax) is amended—

(1) by striking out "or" at the end of paragraph (3);

(2) by striking out the period at the end of paragraph (4) and inserting in lieu thereof "; or "; and

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

"(5) an individual if the amount of the standard deduction otherwise allowable to such individual is reduced under section 141(e)."

Supra.

(c) ELECTION OF STANDARD DEDUCTION.—Section 144(a) (relating to election of standard deduction) is amended by adding at the end thereof the following new paragraph:

"(4) If the adjusted gross income shown on the return is less than $10,000, and if the taxpayer cannot elect to pay the tax imposed by section 3 by reason of section 4(d)(5), the standard

deduction (after the application of section 141(e)) shall be allowed, notwithstanding paragraph (2), if the taxpayer so elects in his return."

Ante, p. 520.

(d) EFFECTIVE DATE.—The amendments made by this section shall apply to taxable years beginning after December 31, 1971.

SEC. 302. LIMITATION ON CARRYOVERS OF UNUSED CREDITS AND CAPITAL LOSSES.

(a) LIMITATION ON CARRYOVERS.—Part V of subchapter C of chapter 1 (relating to carryovers) is amended by adding at the end thereof the following new section:

68A Stat. 124.
26 USC 381.

"SEC. 383. SPECIAL LIMITATIONS ON CARRYOVERS OF UNUSED INVESTMENT CREDITS, WORK INCENTIVE PROGRAM CREDITS, FOREIGN TAXES, AND CAPITAL LOSSES.

"If—

"(1) the ownership and business of a corporation are changed in the manner described in section 382(a)(1), or

"(2) in the case of a reorganization specified in paragraph (2) of section 381(a), there is a change in ownership described in section 382(b)(1)(B),

then the limitations provided in section 382 in such cases with respect to the carryover of net operating losses shall apply in the same manner, as provided under regulations prescribed by the Secretary or his delegate, with respect to any unused investment credit of the corporation which can otherwise be carried forward under section 46(b), to any unused work incentive program credit of the corporation which can otherwise be carried forward under section 50A(b), to any excess foreign taxes of the corporation which can otherwise be carried forward under section 904(d), and to any net capital loss of the corporation which can otherwise be carried forward under section 1212."

Ante, p. 506.
Post, p. 554.
72 Stat. 1639; 74 Stat. 1011, 78 Stat. 99, 860; 83 Stat. 638, 642.

(b) CLERICAL AMENDMENT.—The table of sections of such part V is amended by adding at the end thereof the following new item:

"Sec. 383. Special limitations on carryovers of unused investment credits, work incentive program credits, foreign taxes, and capital losses."

(c) EFFECTIVE DATE.—The amendments made by this section shall be applicable only with respect to reorganizations and other changes in ownership occurring after the date of enactment of this Act pursuant to a plan of reorganization or contract entered into on or after September 29, 1971.

SEC. 303. AMORTIZATION OF CERTAIN EXPENDITURES FOR ON-THE-JOB TRAINING AND FOR CHILD CARE CENTERS.

(a) AMORTIZATION DEDUCTION.—Part VI of subchapter B of chapter 1 (relating to itemized deductions for individuals and corporations) is amended by adding at the end thereof the following new section:

68A Stat. 45; 83 Stat. 674.

"SEC. 188. AMORTIZATION OF CERTAIN EXPENDITURES FOR ON-THE-JOB TRAINING AND CHILD CARE FACILITIES.

"(a) ALLOWANCE OF DEDUCTION.—At the election of the taxpayer, made in accordance with regulations prescribed by the Secretary or his delegate, any expenditure chargeable to capital account made by an employer to acquire, construct, reconstruct, or rehabilitate section 188 property (as defined in subsection (b)) shall be allowable as a deduction ratably over a period of 60 months, beginning with the month in which the property is placed in service. The deduction provided by this section with respect to such expenditure shall be in lieu of any depreciation deduction otherwise allowable on account of such expenditure.

"(b) SECTION 188 PROPERTY.—For purposes of this section, the term 'section 188 property' means tangible property which qualifies under regulations prescribed by the Secretary or his delegate as a facility for on-the-job training of employees (or prospective employees) of the taxpayer, or as a child care center facility primarily for the children of employees of the taxpayer; except that such term shall not include—

"(1) any property which is not of a character subject to depreciation; or

"(2) property located outside the United States.

Effective date.

"(c) APPLICATION OF SECTION.—This section shall apply only with respect to expenditures made after December 31, 1971, and before January 1, 1977."

83 Stat. 581.
26 USC 57.

(b) MINIMUM TAX.—Section 57(a) (relating to items of tax preference) is amended by inserting after paragraph (9) the following new paragraph:

"(10) AMORTIZATION OF ON-THE-JOB TRAINING AND CHILD CARE FACILITIES.—With respect to each item of section 188 property for which an election is in effect under section 188, the amount by which the deduction allowable for the taxable year under such section exceeds the depreciation deduction which would otherwise be allowable under section 167."

Ante, p. 521.

Ante, p. 508.

(c) TECHNICAL AMENDMENTS.—

83 Stat. 670.

(1) Section 1245(a)(2) is amended by striking out "or 187" each place it appears and inserting in lieu thereof "187, or 188".

(2) Section 1245(a)(3)(D) is amended by striking out "or 185" and inserting in lieu thereof ", 185, or 188".

(3) Section 1250(b)(3) is amended by striking out "or 185" and inserting in lieu thereof ", 185, or 188".

83 Stat. 669.

(4) Section 642(f) is amended by striking out "and 187" and inserting in lieu thereof "187, and 188".

(5) Section 1082(a)(2)(B) is amended by striking out "or 187" and inserting in lieu thereof "187, or 188".

(6) The table of sections for part VI of subchapter B of chapter 1 is amended by adding at the end thereof the following new item:

"Sec. 188. Amortization of certain expenditures for on-the-job training and child care facilities."

(d) EFFECTIVE DATE.—The amendments made by this section shall apply to taxable years ending after December 31, 1971.

SEC. 304. EXCESS INVESTMENT INTEREST.

(a) DEFINITION OF NET LEASE.—

83 Stat. 581.

(1) Section 57(c) (relating to definition of net lease) is amended to read as follows:

"(c) NET LEASES.—

"(1) IN GENERAL.—For purposes of this section, property shall be considered to be subject to a net lease for a taxable year if—

"(A) for such taxable year the sum of the deductions of the lessor with respect to such property which are allowable solely by reason of section 162 (other than rents and reimbursed amounts with respect to such property) is less than 15 percent of the rental income produced by such property, or

Post, p. 525.

"(B) the lessor is either guaranteed a specified return or is guaranteed in whole or in part against loss of income.

"(2) MULTIPLE LEASES OF SINGLE PARCEL OF REAL PROPERTY.—If a parcel of real property of the taxpayer is leased under two or more leases, paragraph (1)(A) shall, at the election of the taxpayer, be applied by treating all leased portions of such property as subject to a single lease.

"(3) ELIMINATION OF 15-PERCENT TEST AFTER 5 YEARS IN CASE OF REAL PROPERTY.—At the election of the taxpayer, paragraph (1)(A) shall not apply with respect to real property of the taxpayer which has been in use for more than 5 years.

"(4) ELECTIONS.—An election under paragraph (2) or (3) shall be made at such time and in such manner as the Secretary or his delegate prescribes by regulations."

(2) Section 163(d) (relating to limitation on interest on investment indebtedness) is amended— 83 Stat. 574. 26 USC 163.

(A) by striking out clause (i) of paragraph (4)(A) and inserting in lieu thereof the following:

"(i) for such taxable year the sum of the deductions of the lessor with respect to such property which are allowable solely by reason of section 162 (other than rents and reimbursed amounts with respect to such property) is less than 15 percent of the rental income produced by such property, or", and *Post*, p. 525.

(B) by adding at the end thereof the following new paragraph:

"(7) REAL PROPERTY LEASES.—For purposes of paragraph (4)(A)—

"(A) if a parcel of real property of the taxpayer is leased under two or more leases, paragraph (4)(A)(i) shall, at the election of the taxpayer, be applied by treating all leased portions of such property as subject to a single lease; and *Supra.*

"(B) at the election of the taxpayer, paragraph (4)(A)(i) shall not apply with respect to real property of the taxpayer which has been in use for more than 5 years.

An election under subparagraph (A) or (B) shall be made at such time and in such manner as the Secretary or his delegate prescribes by regulations."

(b) DEFINITION OF EXCESS INVESTMENT INTEREST.—

(1) Section 57(b)(1) (relating to definition of excess investment interest) is amended by striking out "exceeds the net investment income for the taxable year" and inserting in lieu thereof "exceeds the sum of— 83 Stat. 581.

"(A) the net investment income for the taxable year, and

"(B) the amount (if any) by which the deductions allowable under sections 162, 163, 164(a)(1) or (2), and 212 attributable to property of the taxpayer subject to a net lease exceeds the gross rental income produced by such property for the taxable year". 68A Stat. 45; 78 Stat. 40.

(2) Section 163(d)(1)(B) (relating to limitation on interest on investment indebtedness) is amended to read as follows: 83 Stat. 574.

"(B) the amount of the net investment income (as defined in paragraph (3)(A)), plus the amount (if any) by which the deductions allowable under this section (determined without regard to this subsection) and sections 162, 164(a)(1) or (2), or 212 attributable to property of the taxpayer subject to a net lease exceeds the rental income produced by such property for the taxable year, plus".

(c) ELECTION BY MEMBERS OF PARTNERSHIP.—Section 703(b) (relating to elections of a partnership) is amended by— 68A Stat. 240; 83 Stat. 633.

(1) striking out "or" after "(relating to pre-1970 exploration expenditures)" and inserting in lieu thereof a comma; and

(2) inserting after "(relating to deduction and recapture of certain mining exploration expenditures)" the following: "under section 57(c) (relating to definition of net lease), or under section 163(d) (relating to limitation on interest on investment indebtedness)". *Ante*, p. 522. *Supra.*

83 Stat. 581, 574.
26 USC 57, 163.

(d) ELECTING SMALL BUSINESS CORPORATIONS.—Section 57(b)(2)(C) (relating to items of tax preference) and section 163(d)(3)(C) (relating to interest on investment indebtedness) are each amended by striking out "sections 164(a)(1) or (2)" and inserting in lieu thereof "sections 162, 164(a) (1) or (2)".

(e) EFFECTIVE DATES.—The amendments made by this section to section 57 of the Internal Revenue Code of 1954 shall apply to taxable years beginning after December 31, 1969. The amendments made by this section to section 163 of such Code shall apply to taxable years beginning after December 31, 1971.

SEC. 305. FARM LOSSES OF ELECTING SMALL BUSINESS CORPORATIONS.

83 Stat. 566.

(a) COMPUTATION OF NONFARM ADJUSTED GROSS INCOME.—Section 1251(b)(2)(B) is amended by striking out the last sentence and inserting in lieu thereof the following new sentences:

> "This subparagraph shall not apply to an electing small business corporation for a taxable year if on any day of such year a shareholder of such corporation is an individual who, for his taxable year with which or within which the taxable year of the corporation ends, has a farm net loss or is a shareholder of another electing small business corporation which has a farm net loss for its taxable year ending within such taxable year of the individual. For purposes of clause (i), in the case of an electing small business corporation the nonfarm adjusted gross income of the corporation shall be increased by the amount of the nonfarm adjusted gross income of that shareholder (on any day of the corporation's taxable year) who has the highest amount of all such shareholders of nonfarm adjusted gross income for his taxable year with which or within which the taxable year of the corporation ends."

(b) EFFECTIVE DATE.—The amendment made by this section shall apply to taxable years ending after the date of the enactment of this Act.

SEC. 306. CAPITAL GAIN DISTRIBUTIONS OF CERTAIN TRUSTS.

83 Stat. 592.

(a) AMENDMENT TO SECTION 665(g).—Effective with respect to taxable years beginning after December 31, 1968, subsection (g) of section 665 (relating to definition of capital gain distribution) is amended by striking out "for such taxable year" the first place it appears therein.

83 Stat. 599.
26 USC 665 note.

(b) APPLICATION TO TRUSTS IN EXISTENCE ON DECEMBER 31, 1969.—Section 331(d)(2)(C) of the Tax Reform Act of 1969 is amended by striking out "January 1, 1972" each place it appears therein and inserting in lieu thereof "January 1, 1973".

SEC. 307. APPLICATION OF WESTERN HEMISPHERE TRADE CORPORATION PROVISION UNDER THE VIRGIN ISLANDS TAX LAWS.

For purposes of applying the income tax laws of the United States with respect to the Virgin Islands under the Act of July 12, 1921 (42 Stat. 123; 48 U.S.C. 1397), subpart C of part III of subchapter N of chapter 1 of the Internal Revenue Code of 1954 (relating to Western Hemisphere Trade Corporations) shall be treated as having been repealed effective with respect to taxable years beginning after the date of the enactment of this Act.

68A Stat. 290.
26 USC 921.

SEC. 308. CAPITAL GAINS AND STOCK OPTIONS.

83 Stat. 583.

(a) IN GENERAL.—Section 58(g)(2) (relating to tax preferences attributable to foreign sources) is amended by adding at the end thereof the following new sentence:

> "For purposes of this paragraph, preferential treatment is accorded such items which are attributable to a foreign country or possession of the United States if such country or possession

imposes no significant amount of tax with respect to such items.".

(b) EFFECTIVE DATE.—The amendment made by this section shall apply to taxable years beginning after December 31, 1969.

SEC. 309. CERTAIN TREATY CASES.

(a) IN GENERAL.—The second sentence of section 7422(f)(1) (relating to limitation on right of action for refund) is amended by inserting before the period at the end thereof "and notwithstanding the provisions of section 1502 of such title 28 (relating to certain treaty cases)". 80 Stat. 1108. 26 USC 7422. 62 Stat. 942.

(b) EFFECTIVE DATE.—The amendment made by subsection (a) shall apply to suits or proceedings which are instituted after January 30, 1967.

SEC. 310. BRIBES, KICKBACKS, MEDICAL REFERRAL PAYMENTS, ETC.

(a) AMENDMENTS TO SECTION 162(c).—Section 162(c) (relating to bribes and illegal kickbacks) is amended— 83 Stat. 710.

(1) by striking out paragraphs (2) and (3) and inserting in lieu thereof the following new paragraphs:

"(2) OTHER ILLEGAL PAYMENTS.—No deduction shall be allowed under subsection (a) for any payment (other than a payment described in paragraph (1)) made, directly or indirectly, to any person, if the payment constitutes an illegal bribe, illegal kickback, or other illegal payment under any law of the United States, or under any law of a State (but only if such State law is generally enforced), which subjects the payor to a criminal penalty or the loss of license or privilege to engage in a trade or business. For purposes of this paragraph, a kickback includes a payment in consideration of the referral of a client, patient, or customer. The burden of proof in respect of the issue, for purposes of this paragraph, as to whether a payment constitutes an illegal bribe, illegal kickback, or other illegal payment shall be upon the Secretary or his delegate to the same extent as he bears the burden of proof under section 7454 (concerning the burden of proof when the issue relates to fraud). 68A Stat. 884; 83 Stat. 532.

"(3) KICKBACKS, REBATES, AND BRIBES UNDER MEDICARE AND MEDICAID.—No deduction shall be allowed under subsection (a) for any kickback, rebate, or bribe made by any provider of services, supplier, physician, or other person who furnishes items or services for which payment is or may be made under the Social Security Act, or in whole or in part out of Federal funds under a State plan approved under such Act, if such kickback, rebate, or bribe is made in connection with the furnishing of such items or services or the making or receipt of such payments. For purposes of this paragraph, a kickback includes a payment in consideration of the referral of a client, patient, or customer."; and

(2) by striking out "Bribes and Illegal Kickbacks." in the heading of such section and inserting in lieu thereof "Illegal Bribes, Kickbacks, and Other Payments.".

(b) EFFECTIVE DATE.—The amendments made by subsection (a) shall apply with respect to payments after December 30, 1969, except that section 162(c)(3) of the Internal Revenue Act of 1954 (as added by subsection (a)) shall apply only with respect to kickbacks, rebates, and bribes payment of which is made on or after the date of the enactment of this Act.

SEC. 311. ACTIVITIES NOT ENGAGED IN FOR PROFIT.

(a) APPLICATION OF STATUTORY PRESUMPTION.—Section 183 (relating to activities not engaged in for profit) is amended by adding at the end thereof the following new subsection: 83 Stat. 571.

"(e) SPECIAL RULE.—

"(1) IN GENERAL.—A determination as to whether the presump-

tion provided by subsection (d) applies with respect to any activity shall, if the taxpayer so elects, not be made before the close of the fourth taxable year (sixth taxable year, in the case of an activity described in the last sentence of such subsection) following the taxable year in which the taxpayer first engages in the activity. For purposes of the preceding sentence, a taxpayer shall be treated as not having engaged in an activity during any taxable year beginning before January 1, 1970.

"(2) INITIAL PERIOD.—If the taxpayer makes an election under paragraph (1), the presumption provided by subsection (d) shall apply to each taxable year in the 5-taxable year (or 7-taxable year) period beginning with the taxable year in which the taxpayer first engages in the activity, if the gross income derived from the activity for 2 or more of the taxable years in such period exceeds the deductions attributable to the activity (determined without regard to whether or not the activity is engaged in for profit).

"(3) ELECTION.—An election under paragraph (1) shall be made at such time and manner, and subject to such terms and conditions, as the Secretary or his delegate may prescribe."

(b) EFFECTIVE DATE.—The amendment made by subsection (a) shall apply to taxable years beginning after December 31, 1969.

SEC. 312. CERTAIN DISTRIBUTIONS TO FOREIGN CORPORATIONS.

68A Stat. 84; 76 Stat. 977. 26 USC 301.

(a) IN GENERAL.—Section 301 (relating to corporate distributions of property) is amended by—

(1) inserting in subsection (b)(1)(B), after "corporation" the first time it appears, a comma and "unless subparagraph (D) applies";

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

"(D) FOREIGN CORPORATE DISTRIBUTEES.—In the case of a distribution to a shareholder which is a foreign corporation, if the amount received by the foreign corporation is not effectively connected with the conduct by it of a trade or business within the United States, the amount of the money received, plus the fair market value of the other property received.";

(3) inserting in subsection (d)(2), after "corporation" the first time it appears, a comma and "unless paragraph (3) applies"; and

(4) redesignating paragraph (3) of subsection (d) as (4) and inserting after paragraph (2) thereof the following new paragraph:

"(3) FOREIGN CORPORATE DISTRIBUTEES.—In the case of a distribution of property to a shareholder which is a foreign corporation, if the amount received by the foreign corporation is not effectively connected with the conduct by it of a trade or business within the United States, the fair market value of the property received."

(b) EFFECTIVE DATE.—The amendments made by subsection (a) shall apply with respect to distributions made after November 8, 1971.

SEC. 313. ORIGINAL ISSUE DISCOUNT.

80 Stat. 1547, 1555; 68A Stat. 357.

(a) SEPARATE TREATMENT OF ORIGINAL ISSUE DISCOUNT.—Sections 871(a)(1)(A), 881(a)(1), and 1441(b) (relating to taxation and withholding on noneffectively connected income of nonresident alien individuals and foreign corporations) are each amended by inserting after the word "interest" the following: "(other than original issue discount as defined in section 1232(b))".

83 Stat. 611.

(b) NONRESIDENT ALIENS.—Section 871(a)(1)(C) (relating to tax on noneffectively connected income of nonresident alien individuals) is amended to read as follows: 80 Stat. 1547. 26 USC 871.

"(C) in the case of—

"(i) bonds or other evidences of indebtedness issued after September 28, 1965, and before April 1, 1972, amounts which under section 1232(a)(2)(B) are considered as gain from the sale or exchange of property which is not a capital asset, and, in the case of corporate obligations issued after May 27, 1969, and before April 1, 1972, amounts which would be so considered but for the fact the obligations were issued after May 27, 1969, 83 Stat. 609.

"(ii) bonds or other evidences of indebtedness issued after March 31, 1972, and payable more than 6 months from the date of original issue (without regard to the period held by the taxpayer), amounts which under section 1232(a)(2)(B) would be considered as gain from the sale or exchange of property which is not a capital asset but for the fact such obligations were issued after May 27, 1969, and

"(iii) the payment of interest on an obligation described in clause (ii), an amount equal to the original issue discount (but not in excess of such interest less the tax imposed by subparagraph (A) thereon) accrued on such obligation since the last payment of interest thereon, and".

(c) FOREIGN CORPORATIONS.—Section 881(a)(3) (relating to income of foreign corporations) is amended to read as follows: 80 Stat. 1555.

"(3) in the case of—

"(A) bonds or other evidences of indebtedness issued after September 28, 1965, and before April 1, 1972, amounts which under section 1232(a)(2)(B) are considered as gain from the sale or exchange of property which is not a capital asset, and, in the case of corporate obligations issued after May 27, 1969, and before April 1, 1972, amounts which would be so considered but for the fact the obligations were issued after May 27, 1969,

"(B) bonds or other evidences of indebtedness issued after March 31, 1972, and payable more than 6 months from the date of original issue (without regard to the period held by the taxpayer), amounts which under section 1232(a)(2)(B) would be considered as gain from the sale or exchange of property which is not a capital asset but for the fact such obligations were issued after May 27, 1969, and

"(C) the payment of interest on an obligation described in subparagraph (B), an amount equal to the original issue discount (but not in excess of such interest less the tax imposed by paragraph (1) thereon) accrued on such obligation since the last payment of interest thereon, and".

(d) WITHHOLDING ON NONRESIDENT ALIENS.—Section 1441(c) (relating to withholding of tax on nonresident aliens) is amended by adding at the end thereof the following new paragraph: 68A Stat. 357; 80 Stat. 1553.

"(8) ORIGINAL ISSUE DISCOUNT.—The Secretary or his delegate may prescribe such regulations as may be necessary for the deduction and withholding of the tax on original issue discount subject to tax under section 871(a)(1)(C) including rules for the deduction and withholding of the tax on original issue discount from payments of interest." *Supra.*

80 Stat. 1557.
26 USC 1442.

(e) WITHHOLDING ON FOREIGN CORPORATIONS.—Section 1442(a) (relating to withholding of tax on foreign corporations) is amended—

(1) by striking out "and" the last time it appears, and

(2) by inserting before the period at the end thereof ", and the reference in section 1441(c)(8) to section 871(a)(1)(C) shall be treated as referring to section 881(a)(3)".

Ante, p. 527.

(f) EFFECTIVE DATES.—The amendments to sections 871 and 881 of the Internal Revenue Code of 1954 made by this section shall apply with respect to taxable years beginning after December 31, 1966. The amendments to sections 1441 and 1442 of such Code made by this section shall apply with respect to payments occurring on or after April 1, 1972.

SEC. 314. INCOME FROM CERTAIN AIRCRAFT AND VESSELS.

68A Stat. 275; 80 Stat. 1541.

(a) ELECTION.—Section 861 (relating to income from sources within the United States) is amended by adding at the end thereof the following new subsection:

"(e) ELECTION TO TREAT INCOME FROM CERTAIN AIRCRAFT AND VESSELS AS INCOME FROM SOURCES WITHIN THE UNITED STATES.—

"(1) IN GENERAL.—For purposes of subsection (a) and section 862(a), if a taxpayer owning an aircraft or vessel which is section 38 property (or would be section 38 property but for section 48(a)(5)) leases such aircraft or vessel to a United States person, other than a member of the same controlled group of corporations (as defined in section 1563) as the taxpayer, and if such aircraft or vessel is manufactured or constructed in the United States, the taxpayer may elect, for any taxable year ending after the commencement of such lease, to treat all amounts includible in gross income with respect to such aircraft or vessel (whether during or after the period of any such lease), including gain from sale or other disposition of such aircraft or vessel, as income from sources within the United States.

Ante, p. 501.

78 Stat. 120.

"(2) EFFECT OF ELECTION.—An election under paragraph (1) made with respect to any aircraft or vessel shall apply to the taxable year for which made and to all subsequent taxable years. Such election may not be revoked except with the consent of the Secretary or his delegate.

"(3) MANNER AND TIME OF ELECTION AND REVOCATION.—An election under paragraph (1), and any revocation of such election, shall be made in such manner and at such time as the Secretary or his delegate prescribes by regulations.

"(4) CERTAIN TRANSFERS INVOLVING CARRYOVER BASIS.—If the taxpayer transfers or distributes an aircraft or vessel which is subject to an election under paragraph (1) and the basis of such aircraft or vessel in the hands of the transferee or distributee is determined by reference to its basis in the hands of the transferor or distributor, the transferee or distributee shall, for purposes of paragraph (1), be treated as having made an election with respect to such aircraft or vessel."

68A Stat. 276.

(b) CLERICAL AMENDMENT.—Section 862 (relating to income from sources without the United States) is amended by adding at the end thereof the following new subsection:

"(c) CROSS REFERENCE—

"For source of amounts attributable to certain aircraft and vessels, see section 861(e)."

(c) EFFECTIVE DATE.—The amendments made by this section shall apply to taxable years ending after August 15, 1971, but only with respect to leases entered into after such date.

SEC. 315. INDUSTRIAL DEVELOPMENT BONDS.

(a) ISSUES FOR WATER FACILITIES.—Section 103(c)(4) (relating to certain exempt activities) is amended— 82 Stat. 266. 26 USC 103.

(1) by striking out in subparagraph (E) "energy, gas, or water, or" and by inserting in lieu thereof "energy or gas,";

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

(3) by adding at the end thereof the following:

"(G) facilities for the furnishing of water, if available on reasonable demand to members of the general public."

(b) CERTAIN CAPITAL EXPENDITURES.—Section 103(c)(6)(F)(iii) (relating to exception of certain capital expenditures for purposes of the $5,000,000 limit) is amended by striking out "$250,000" and inserting in lieu thereof "$1,000,000". 82 Stat. 1349.

(c) EFFECTIVE DATES.—The amendments made by subsection (a) shall apply with respect to obligations issued after January 1, 1969. The amendment made by subsection (b) shall apply with respect to expenditures incurred after the date of the enactment of this Act.

SEC. 316. DISCLOSURE OR USE OF INFORMATION BY PREPARERS OF RETURNS.

(a) CRIMINAL PENALTY.—Part I of subchapter A of chapter 75 (relating to crimes) is amended by adding at the end thereof the following new section: 68A Stat. 851. 26 USC 7201.

"SEC. 7216. DISCLOSURE OR USE OF INFORMATION BY PREPARERS OF RETURNS.

"(a) GENERAL RULE.—Any person who is engaged in the business of preparing, or providing services in connection with the preparation of, returns of the tax imposed by chapter 1, or declarations or amended declarations of estimated tax under section 6015, or any person who for compensation prepares any such return or declaration for any other person, and who— Penalty. *Ante*, p. 517.

"(1) discloses any information furnished to him for, or in connection with, the preparation of any such return or declaration, or

"(2) uses any such information for any purpose other than to prepare, or assist in preparing, any such return or declaration,

shall be guilty of a misdemeanor, and, upon conviction thereof, shall be fined not more than $1,000, or imprisoned not more than 1 year, or both, together with the costs of prosecution.

"(b) EXCEPTIONS.—

"(1) DISCLOSURE.—Subsection (a) shall not apply to a disclosure of information if such disclosure is made—

"(A) pursuant to any other provision of this title, or

"(B) pursuant to an order of a court.

"(2) USE.—Subsection (a) shall not apply to the use of information in the preparation of, or in connection with the preparation of, State and local tax returns and declarations of estimated tax of the person to whom the information relates.

"(3) REGULATIONS.—Subsection (a) shall not apply to a disclosure or use of information which is permitted by regulations prescribed by the Secretary or his delegate under this section."

(b) CLERICAL AMENDMENT.—The table of contents for part I of subchapter A of chapter 75 is amended by adding at the end thereof the following new item:

"Sec. 7216. Disclosure or use of information by preparers of returns."

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

TITLE IV—EXCISE TAX

SEC. 401. REPEAL OF MANUFACTURERS EXCISE TAX ON PASSENGER AUTOMOBILES, LIGHT-DUTY TRUCKS, ETC.

(a) REPEAL OF AND EXEMPTIONS FROM TAX.—

68A Stat. 481; 70 Stat. 388; 84 Stat. 1843. 26 USC 4061.

(1) REPEAL.—Section 4061(a) (relating to tax on automobiles, etc.) is amended to read as follows:

"(a) TRUCKS, BUSES, TRACTORS, ETC.—

"(1) TAX IMPOSED.—There is hereby imposed upon the following articles (including in each case parts or accessories therefor sold on or in connection therewith or with the sale thereof) sold by the manufacturer, producer, or importer a tax of 10 percent of the price for which so sold, except that on and after October 1, 1977, the rate shall be 5 percent—

"Automobile truck chassis.
"Automobile truck bodies.
"Automobile bus chassis.
"Automobile bus bodies.
"Truck and bus trailer and semitrailer chassis.
"Truck and bus trailer and semitrailer bodies.
"Tractors of the kind chiefly used for highway transportation in combination with a trailer or semitrailer.

A sale of an automobile truck, bus, truck or bus trailer or semitrailer shall, for the purposes of this subsection, be considered to be a sale of a chassis and of a body enumerated in this subsection.

"(2) EXCLUSION FOR LIGHT-DUTY TRUCKS, ETC.—The tax imposed by paragraph (1) shall not apply to a sale by the manufacturer, producer, or importer of the following articles suitable for use with a vehicle having a gross vehicle weight of 10,000 pounds or less (as determined under regulations prescribed by the Secretary or his delegate)—

"Automobile truck chassis.
"Automobile truck bodies.
"Automobile bus chassis.
"Automobile bus bodies.
"Truck trailer and semitrailer chassis and bodies, suitable for use with a trailer or semitrailer having a gross vehicle weight of 10,000 pounds or less (as so determined)."

79 Stat. 157; 83 Stat. 724; *Post*, p. 533.

(2) EXEMPTIONS FOR LOCAL TRANSIT BUSES, AND FOR TRASH CONTAINERS, ETC.—Section 4063(a) (relating to exemptions for specified articles) is amended by adding at the end thereof the following new paragraphs:

Supra.

"(6) LOCAL TRANSIT BUSES.—The tax imposed under section 4061(a) shall not apply in the case of automobile bus chassis or automobile bus bodies which are to be used predominantly by the purchaser in mass transportation service in urban areas.

"(7) TRASH CONTAINERS, ETC.—The tax imposed under section 4061(a) shall not apply in the case of any box, container, receptacle, bin, or other similar article which is to be used as a trash container and is not designed for the transportation of freight other than trash, and which is not designed to be permanently mounted on or permanently affixed to an automobile truck chassis or body, or in the case of parts or accessories designed primarily for use on, in connection with, or as a component part of any such article."

(3) TECHNICAL AMENDMENTS.—

(A) Section 4221(c) (relating to relief of manufacturer from liability in certain cases) is amended by striking out "section 4063(b)," and inserting in lieu thereof "section 4063 (a) (6) or (7), 4063(b),". 72 Stat. 1282. 26 USC 4221.

(B) Section 4222(d) (relating to registration in the case of certain exemptions) is amended by striking out "sections 4063(b)," and inserting in lieu thereof "sections 4063(a) (6) and (7), 4063(b),". *Ante*, p. 530.

(C) Section 6416(b)(2) (relating to specified uses and resales in case of which tax payments are considered overpayments) is amended— 72 Stat. 1306; 79 Stat. 158.

(i) by striking out "described in section 4221(e)(5)." in subparagraph (R) and inserting in lieu thereof "described in section 4063(a)(6) or 4221(e)(5); or"; and

(ii) by adding at the end thereof the following new subparagraph:

"(S) in the case of a box, container, receptacle, bin, or other similar article taxable under section 4061(a), sold to any person for use as described in section 4063(a)(7)."

(b) FLOOR STOCKS REFUNDS.—

(1) IN GENERAL.—Where, before the day after the date of the enactment of this Act, any tax-repealed article (as defined in subsection (e)) has been sold by the manufacturer, producer, or importer and on such day is held by a dealer and has not been used and is intended for sale, there shall be credited or refunded (without interest) to the manufacturer, producer, or importer an amount equal to the tax paid by such manufacturer, producer, or importer on his sale of the article, if—

(A) claim for such credit or refund is filed with the Secretary of the Treasury or his delegate before the first day of the 10th calendar month beginning after the day after the date of the enactment of this Act based upon a request submitted to the manufacturer, producer, or importer before the first day of the 7th calendar month beginning after the day after the date of the enactment of this Act by the dealer who held the article in respect of which the credit or refund is claimed; and

(B) on or before the first day of such 10th calendar month reimbursement has been made to the dealer by the manufacturer, producer, or importer in an amount equal to the tax paid on the article or written consent has been obtained from the dealer to allowance of the credit or refund.

(2) LIMITATION ON ELIGIBILITY FOR CREDIT OR REFUND.—No manufacturer, producer, or importer shall be entitled to credit or refund under paragraph (1) unless he has in his possession such evidence of the inventories with respect to which the credit or refund is claimed as may be required by regulations prescribed by the Secretary of the Treasury or his delegate under this subsection.

(3) OTHER LAWS APPLICABLE.—All provisions of law, including penalties, applicable with respect to the taxes imposed by section 4061(a) of the Internal Revenue Code of 1954 shall, insofar as applicable and not inconsistent with paragraphs (1) and (2) of this subsection, apply in respect of the credits and refunds provided for in paragraph (1) to the same extent as if the credits or refunds constituted overpayments of the tax. *Ante*, p. 530.

(c) REFUNDS WITH RESPECT TO CERTAIN CONSUMER PURCHASES.—

(1) IN GENERAL.—Except as otherwise provided in paragraph (2), where—

(A) after August 15, 1971, with respect to any article which was subject to the tax imposed by section 4061(a)(2) of the Internal Revenue Code of 1954 (as in effect on the day before the date of the enactment of this Act), or

Ante, p. 530.

(B) after September 22, 1971, with respect to any article which was subject to the tax imposed by section 4061(a)(1) of such Code (as in effect on the day before the date of the enactment of this Act),

and on or before such date of enactment, a tax-repealed article (as defined in subsection (e)) has been sold to an ultimate purchaser, there shall be credited or refunded (without interest) to the manufacturer, producer, or importer of such article an amount equal to the tax paid by such manufacturer, producer, or importer on his sale of the article.

(2) LIMITATION ON ELIGIBILITY FOR CREDIT OR REFUND.—No manufacturer, producer, or importer shall be entitled to a credit or refund under paragraph (1) with respect to an article unless—

(A) he has in his possession such evidence of the sale of the article to an ultimate purchaser, and of the reimbursement of the tax to such purchaser, as may be required by regulations prescribed by the Secretary of the Treasury or his delegate under this subsection;

(B) claim for such credit or refund is filed with the Secretary of the Treasury or his delegate before the first day of the 10th calendar month beginning after the day after the date of the enactment of this Act based upon information submitted to the manufacturer, producer, or importer before the first day of the 7th calendar month beginning after the day after the date of the enactment of this Act by the person who sold the article (in respect of which the credit or refund is claimed) to the ultimate purchaser; and

(C) on or before the first day of such 10th calendar month reimbursement has been made to the ultimate purchaser in an amount equal to the tax paid on the article.

(3) OTHER LAWS APPLICABLE.—All provisions of law, including penalties, applicable with respect to the taxes imposed by section 4061(a) of the Internal Revenue Code of 1954 shall, insofar as applicable and not inconsistent with paragraph (1) or (2) of this subsection, apply in respect of the credits and refunds provided for in paragraph (1) to the same extent as if the credits or refunds constituted overpayments of the tax.

(d) CERTAIN USES BY MANUFACTURER, ETC.—Any tax paid by reason of section 4218(a) of the Internal Revenue Code of 1954 (relating to use by manufacturer or importer considered sale) shall be deemed an overpayment of such tax with respect to—

72 Stat. 1281; 75 Stat. 126. 26 USC 4218.

(1) any article which was subject to the tax imposed by section 4061(a)(2) of such Code as in effect on the day before the date of the enactment of this Act if tax was imposed on such article by reason of such section 4218(a) after August 15, 1971, and

(2) any article which was subject to the tax imposed by section 4061(a)(1) of such Code as in effect on the day before the date of the enactment of this Act and on which such tax is no longer imposed (by reason of subsection (a) of this section) if tax was imposed on such article by reason of such section 4218(a) after September 22, 1971.

(e) DEFINITIONS.—For purposes of this section—

(1) The term "dealer" includes a wholesaler, jobber, distributor, or retailer.

(2) An article shall be considered as "held by a dealer" if title thereto has passed to such dealer (whether or not delivery to him has been made) and if for purposes of consumption title to such article or possession thereof has not at any time been transferred to any person other than a dealer.

(3) The term "tax-repealed article" means an article on which a tax was imposed by section 4061(a) of the Internal Revenue Code of 1954 as in effect on the day before the date of the enactment of this Act and is not imposed (without regard to the amendment made by paragraph (2) of subsection (a) of this section) under such section 4061(a) as in effect on the day after the date of the enactment of this Act. *Ante*, p. 530.

(f) ORIGINAL EQUIPMENT TIRES ON IMPORTED ARTICLES.—Section 4071 (relating to tax on tires and tubes) is amended by adding at the end thereof the following new subsection: 70 Stat. 388; 80 Stat. 331. 26 USC 4071.

"(e) TIRES ON IMPORTED ARTICLES.—For the purposes of subsection (a), if an article imported into the United States is equipped with tires or inner tubes (other than bicycle tires and inner tubes)—

"(1) the importer of the article shall be treated as the importer of the tires and inner tubes with which such article is equipped, and

"(2) the sale of the article by the importer thereof shall be treated as the sale of the tires and inner tubes with which such article is equipped.

This subsection shall not apply with respect to the sale of an article if a tax on such sale is imposed under section 4061."

(g) TECHNICAL AND CONFORMING AMENDMENTS.—

(1) Section 4061(b)(2) (relating to parts and accessories) is amended by striking out "any article enumerated in subsection (a)(2) or a house trailer" and inserting in lieu thereof "any chassis or body for a passenger automobile, any chassis or body for a trailer or semitrailer suitable for use in connection with a passenger automobile, or a house trailer". 79 Stat. 136.

(2)(A) Section 4062 (relating to definitions applicable to tax on motor vehicles) is amended by striking out subsection (b). 80 Stat. 1585.

(B) The heading of section 4062 is amended to read as follows:

"SEC. 4062. ARTICLES CLASSIFIED AS PARTS."

(C) Section 4062 is amended by striking out

"(a) CERTAIN ARTICLES CONSIDERED AS PARTS.—".

(D) The item relating to section 4062 in the table of sections for part I of subchapter A of chapter 32 is amended to read as follows:

"Sec. 4062. Articles classified as parts."

(3) Section 4063(a)(4) (relating to exemptions for specified articles) is amended to read as follows: 79 Stat. 157.

"(4) AMBULANCES, HEARSES, ETC.—The tax imposed by section 4061(a) shall not apply in the case of an ambulance, hearse, or combination ambulance-hearse."

(4) Section 4216 (relating to definition of price) is amended— 76 Stat. 1134; 84 Stat. 1844.

(A) in subsections (b)(2)(C) and (b)(5) by striking out "(relating to automobiles, trucks, etc.)," and inserting in lieu thereof "(relating to trucks, buses, tractors, etc.),"; and

(B) in subsection (g) by inserting "tractors," immediately after "buses,". 79 Stat. 158.

(5) Section 6412(a) (relating to floor stocks refunds) is amended by striking out paragraph (1). 79 Stat. 141; 84 Stat. 1843.

72 Stat. 1311.
26 USC 6416.

(6) The heading of section 6416(g) (relating to certain exports) is amended to read as follows:

"(g) TRUCKS, BUSES, TRACTORS, ETC.—".

Repeal.
84 Stat. 1845.
15 USC 1232a.

(7) (A) Section 304 of the Excise, Estate, and Gift Tax Adjustment Act of 1970, Public Law 91-614 (relating to new car labels), is hereby repealed.

Effective date.

(B) Subparagraph (A) shall apply to acts (or failures to act) after the date of the enactment of this Act.

(h) EFFECTIVE DATE.—

(1) Except as otherwise provided in this section, the amendments made by subsections (a), (f), and (g) of this section shall apply with respect to articles sold on or after the day after the date of the enactment of this Act.

(2) For purposes of paragraph (1), an article shall not be considered sold before the day after the date of the enactment of this Act unless possession or right to possession passes to the purchaser before such day.

(3) In the case of—

(A) a lease,

(B) a contract for the sale of an article where it is provided that the price shall be paid by installments and title to the article sold does not pass until a future date notwithstanding partial payment by installments,

(C) a conditional sale, or

(D) a chattel mortgage arrangement wherein it is provided that the sale price shall be paid in installments,

entered into on or before the date of the enactment of this Act, payments made after such date with respect to the article leased or sold shall, for purposes of this subsection, be considered as payments made with respect to an article sold after such date, if the lessor or vendor establishes that the amount of payments payable after such date with respect to such article has been reduced by an amount equal to that portion of the tax applicable with respect to the lease or sale of such article which is due and payable after such date. If the lessor or vendor does not establish that the payments have been so reduced, they shall be treated as payments made in respect of an article sold before the day after the date of the enactment of this Act.

SEC. 402. CREDIT AGAINST TAX ON COIN-OPERATED GAMING DEVICES.

68A Stat. 531.
26 USC 4461.

(a) ALLOWANCE OF CREDIT FOR STATE TAXES.—Subchapter B of chapter 36 (relating to occupational tax on coin-operated devices) is amended by adding at the end thereof the following new section:

"SEC. 4464. CREDIT FOR STATE-IMPOSED TAXES.

73 Stat. 620;
79 Stat. 148.

"(a) IN GENERAL.—There shall be allowed as a credit against the tax imposed by section 4461 with respect to any coin-operated gaming device for any year an amount equal to the amount of State tax paid for such year with respect to such device by the person liable for the tax imposed by section 4461, if such State tax (1) is paid under a law of the State in which the place or premises on which such device is maintained or used is located, and (2) is similar to the tax imposed by section 4461 (including a tax, other than a general personal property tax, imposed on such device).

"(b) LIMITATIONS.—

"(1) DEVICES MUST BE LEGAL UNDER STATE LAW.—Credit shall be allowed under subsection (a) for a tax imposed by a State only if the maintenance of the coin-operated gaming device by the person liable for the tax imposed by section 4461 on the place or premises occupied by him does not violate any law of such State.

"(2) CREDIT NOT TO EXCEED 80 PERCENT OF TAX.—The credit under subsection (a) with respect to any coin-operated gaming device shall not exceed 80 percent of the tax imposed by section 4461 with respect to such device.

73 Stat. 620; 79 Stat. 148. 26 USC 4461.

"(c) SPECIAL PROVISIONS FOR PAYMENT OF TAX.—Under regulations prescribed by the Secretary or his delegate, a person who believes he will be entitled to a credit under subsection (a) with respect to any coin-operated gaming device for any year shall, for purposes of this subtitle and subtitle F, satisfy his liability for the tax imposed by section 4461 with respect to such device for such year if—

26 USC 4041, 6001.

"(1) on or before the date prescribed by law for payment of the tax imposed by section 4461 with respect to such device for such year, he has paid the amount of such tax reduced by the amount of the credit which he estimates will be allowable under subsection (a) with respect to such device for such year, and

"(2) on or before the last day of such year, pays the amount (if any) by which the credit for such year is less than the credit estimated under paragraph (1)."

(b) CLERICAL AMENDMENT.—The table of sections for subchapter B of chapter 36 is amended by adding at the end thereof the following new item:

"Sec. 4464. Credit for State-imposed taxes."

(c) EFFECTIVE DATE.—The amendments made by subsections (a) and (b) shall apply on and after July 1, 1972.

TITLE V—DOMESTIC INTERNATIONAL SALES CORPORATIONS

SEC. 501. DOMESTIC INTERNATIONAL SALES CORPORATIONS.

Subchapter N of chapter 1 (relating to income from sources without the United States) is amended by adding at the end thereof the following new part:

68A Stat. 275; 76 Stat. 1006; 80 Stat. 1565. 26 USC 861.

"PART IV—DOMESTIC INTERNATIONAL SALES CORPORATIONS

"Subpart A—Treatment of Qualifying Corporations

"SEC. 991. TAXATION OF A DOMESTIC INTERNATIONAL SALES CORPORATION.

"For purposes of the taxes imposed by this subtitle upon a DISC (as defined in section 992(a)), a DISC shall not be subject to the taxes imposed by this subtitle except for the tax imposed by chapter 5.

Infra. 68A Stat. 365. 26 USC 1491.

"SEC. 992. REQUIREMENTS OF A DOMESTIC INTERNATIONAL SALES CORPORATION.

"(a) DEFINITION of 'DISC' and 'FORMER DISC'.—

"(1) DISC.—For purposes of this title, the term 'DISC' means, with respect to any taxable year, a corporation which is incorporated under the laws of any State and satisfies the following conditions for the taxable year:

"(A) 95 percent or more of the gross receipts (as defined

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in section 993(f)) of such corporation consist of qualified export receipts (as defined in section 993(a)),

"(B) the adjusted basis of the qualified export assets (as defined in section 993(b)) of the corporation at the close of of the taxable year equals or exceeds 95 percent of the sum of the adjusted basis of all assets of the corporation at the close of the taxable year,

"(C) such corporation does not have more than one class of stock and the par or stated value of its outstanding stock is at least $2,500 on each day of the taxable year, and

"(D) the corporation has made an election pursuant to subsection (b) to be treated as a DISC and such election is in effect for the taxable year.

"(2) STATUS AS DISC AFTER HAVING FILED A RETURN AS A DISC.—The Secretary or his delegate shall prescribe regulations setting forth the conditions under and the extent to which a corporation which has filed a return as a DISC for a taxable year shall be treated as a DISC for such taxable year for all purposes of this title, notwithstanding the fact that the corporation has failed to satisfy the conditions of paragraph (1).

"(3) 'FORMER DISC'.—For purposes of this title, the term 'former DISC' means, with respect to any taxable year, a corporation which is not a DISC for such year but was a DISC in a preceding taxable year and at the beginning of the taxable year has undistributed previously taxed income or accumulated DISC income.

"(b) ELECTION.—

"(1) ELECTION.—

"(A) An election by a corporation to be treated as a DISC shall be made by such corporation for a taxable year at any time during the 90-day period immediately preceding the beginning of the taxable year, except that the Secretary or his delegate may give his consent to the making of an election at such other times as he may designate.

"(B) Such election shall be made in such manner as the Secretary or his delegate shall prescribe and shall be valid only if all persons who are shareholders in such corporation on the first day of the first taxable year for which such election is effective consent to such election.

"(2) EFFECT OF ELECTION.—If a corporation makes an election under paragraph (1), then the provisions of this part shall apply to such corporation for the taxable year of the corporation for which made and for all succeeding taxable years and shall apply to each person who at any time is a shareholder of such corporation for all periods on or after the first day of the first taxable year of the corporation for which the election is effective.

"(3) TERMINATION OF ELECTION.—

"(A) REVOCATION.—An election under this subsection made by any corporation may be terminated by revocation of such election for any taxable year of the corporation after the first taxable year of the corporation for which the election is effective. A termination under this paragraph shall be effective with respect to such election—

"(i) for the taxable year in which made, if made at any time during the first 90 days of such taxable year, or

"(ii) for the taxable year following the taxable year in which made, if made after the close of such 90 days, and for all succeeding taxable years of the corporation. Such termination shall be made in such manner as the Secretary or his delegate shall prescribe by regulations.

"(B) CONTINUED FAILURE TO BE DISC.—If a corporation is not a DISC for each of any 5 consecutive taxable years of the corporation for which an election under this subsection is effective, the election shall be terminated and not be in effect for any taxable year of the corporation after such 5th year.

"(c) DISTRIBUTIONS TO MEET QUALIFICATION REQUIREMENTS.—

"(1) IN GENERAL.—Subject to the conditions provided by paragraph (2), a corporation which for a taxable year does not satisfy a condition specified in paragraph (1)(A) (relating to gross receipts) or (1)(B) (relating to assets) of subsection (a) shall nevertheless be deemed to satisfy such condition for such year if it makes a pro rata distribution of property after the close of the taxable year to its shareholders (designated at the time of such distribution as a distribution to meet qualification requirements) with respect to their stock in an amount which is equal to—

"(A) if the condition of subsection (a)(1)(A) is not satisfied, the portion of such corporation's taxable income attributable to its gross receipts which are not qualified export receipts for such year,

"(B) if the condition of subsection (a)(1)(B) is not satisfied, the fair market value of those assets which are not qualified export assets on the last day of such taxable year, or

"(C) if neither of such conditions is satisfied, the sum of the amounts required by subparagraphs (A) and (B).

"(2) REASONABLE CAUSE FOR FAILURE.—The conditions under paragraph (1) shall be deemed satisfied in the case of a distribution made under such paragraph—

"(A) if the failure to meet the requirements of subsection (a)(1)(A) or (B), and the failure to make such distribution prior to the date on which made, are due to reasonable cause; and

"(B) the corporation pays, within the 30-day period beginning with the day on which such distribution is made, to the Secretary or his delegate, if such corporation makes such distribution after the 15th day of the 9th month after the close of the taxable year, an amount determined by multiplying (i) the amount equal to 4½ percent of such distribution, by (ii) the number of its taxable years which begin after the taxable year with respect to which such distribution is made and before such distribution is made. For purposes of this title, any payment made pursuant to this paragraph shall be treated as interest.

"(3) CERTAIN DISTRIBUTIONS MADE WITHIN 8½ MONTHS AFTER CLOSE OF TAXABLE YEAR DEEMED FOR REASONABLE CAUSE.—A distribution made on or before the 15th day of the 9th month after the close of the taxable year shall be deemed for reasonable cause for purposes of paragraph (2)(A) if—

"(A) at least 70 percent of the gross receipts of such corporation for such taxable year consist of qualified export receipts, and

"(B) the adjusted basis of the qualified export assets held by the corporation on the last day of each month of the taxable year equals or exceeds 70 percent of the sum of the adjusted basis of all assets held by the corporation on such day.

"(d) INELIGIBLE CORPORATIONS.—The following corporations shall not be eligible to be treated as a DISC—

68A Stat. 163. 26 USC 501. "(1) a corporation exempt from tax by reason of section 501,

"(2) a personal holding company (as defined in section 542),

76 Stat. 977. "(3) a financial institution to which section 581 or 593 applies,

"(4) an insurance company subject to the tax imposed by subchapter L,

73 Stat. 112. 26 USC 801. "(5) a regulated investment company (as defined in section 851(a)),

68A Stat. 268. "(6) a China Trade Act corporation receiving the special deduction provided in section 941(a), or

72 Stat. 1650. "(7) an electing small business corporation (as defined in section 1371(b)).

"(e) COORDINATION WITH PERSONAL HOLDING COMPANY PROVISIONS IN CASE OF CERTAIN PRODUCED FILM RENTS.—If—

"(1) a corporation (hereinafter in this subsection referred to as 'subsidiary') was established to take advantage of the provisions of this part, and

"(2) a second corporation (hereinafter in this subsection referred to as 'parent') throughout the taxable year owns directly at least 80 percent of the stock of the subsidiary,

then, for purposes of applying subsection (d)(2) and section 541 (relating to personal holding company tax) to the subsidiary for the 78 Stat. 81. taxable year, there shall be taken into account under section 543(a)(5) (relating to produced film rents) any interest in a film acquired by the parent and transferred to the subsidiary as if such interest were acquired by the subsidiary at the time it was acquired by the parent.

"SEC. 993. DEFINITIONS.

"(a) QUALIFIED EXPORT RECEIPTS.—

"(1) GENERAL RULE.—For purposes of this part, except as provided by regulations under paragraph (2), the qualified export receipts of a corporation are—

"(A) gross receipts from the sale, exchange, or other disposition of export property,

"(B) gross receipts from the lease or rental of export property, which is used by the lessee of such property outside the United States,

"(C) gross receipts for services which are related and subsidiary to any qualified sale, exchange, lease, rental, or other disposition of export property by such corporation,

"(D) gross receipts from the sale, exchange, or other disposition of qualified export assets (other than export property),

"(E) dividends (or amounts includible in gross income 76 Stat. 1006. under section 951) with respect to stock of a related foreign export corporation (as defined in subsection (e)),

"(F) interest on any obligation which is a qualified export asset,

"(G) gross receipts for engineering or architectural services for construction projects located (or proposed for location) outside the United States, and

"(H) gross receipts for the performance of managerial services in furtherance of the production of other qualified export receipts of a DISC.

"(2) EXCLUDED RECEIPTS.—The Secretary or his delegate may under regulations designate receipts from the sale, exchange, lease, rental, or other disposition of export property, and from services, as not being receipts described in paragraph (1) if he determines

that such sale, exchange, lease, rental, or other disposition, or furnishing of services—

"(A) is for ultimate use in the United States;

"(B) is accomplished by a subsidy granted by the United States or any instrumentality thereof;

"(C) is for use by the United States or any instrumentality thereof where the use of such export property or services is required by law or regulation.

"Qualified export receipts."

For purposes of this part, the term 'qualified export receipts' does not include receipts from a corporation which is a DISC for its taxable year in which the receipts arise and which is a member of a controlled group (as defined in paragraph (3)) which includes the recipient corporation.

"(3) DEFINITION OF CONTROLLED GROUP.—For purposes of this part, the term 'controlled group' has the meaning assigned to such term by section 1563(a), except that the phrase 'more than 50 percent' shall be substituted for the phrase 'at least 80 percent' each place it appears therein, and section 1563(b) shall not apply.

78 Stat. 120. 26 USC 1563.

"(b) QUALIFIED EXPORT ASSETS.—For purposes of this part, the qualified export assets of a corporation are—

"(1) export property (as defined in subsection (c));

"(2) assets used primarily in connection with the sale, lease, rental, storage, handling, transportation, packaging, assembly, or servicing of export property, or the performance of engineering or architectural services described in subparagraph (G) of subsection (a)(1) or managerial services in furtherance of the production of qualified export receipts described in subparagraphs (A), (B), (C), and (G) of subsection (a)(1);

"(3) accounts receivable and evidences of indebtedness which arise by reason of transactions of such corporation described in subparagraph (A), (B), (C), (D), (G), or (H), of subsection (a)(1);

"(4) money, bank deposits, and other similar temporary investments, which are reasonably necessary to meet the working capital requirements of such corporation;

"(5) obligations arising in connection with a producer's loan (as defined in subsection (d));

"(6) stock or securities of a related foreign export corporation (as defined in subsection (e));

"(7) obligations issued, guaranteed, or insured, in whole or in part, by the Export-Import Bank of the United States or the Foreign Credit Insurance Association in those cases where such obligations are acquired from such Bank or Association or from the seller or purchaser of the goods or services with respect to which such obligations arose;

"(8) obligations issued by a domestic corporation organized solely for the purpose of financing sales of export property pursuant to an agreement with the Export-Import Bank of the United States under which such corporation makes export loans guaranteed by such bank; and

"(9) amounts (other than reasonable working capital) on deposit in the United States that are utilized during the period provided for in, and otherwise in accordance with, regulations prescribed by the Secretary or his delegate to acquire other qualified export assets.

"(c) EXPORT PROPERTY.—

"(1) IN GENERAL.—For purposes of this part, the term 'export property' means property—

"(A) manufactured, produced, grown, or extracted in the United States by a person other than a DISC,

"(B) held primarily for sale, lease, or rental, in the ordinary course of trade or business, by, or to, a DISC, for direct use, consumption, or disposition outside the United States, and

"(C) not more than 50 percent of the fair market value of which is attributable to articles imported into the United States.

In applying subparagraph (C), the fair market value of any article imported into the United States shall be its appraised value, as determined by the Secretary or his delegate under section 402 or 402a of the Tariff Act of 1930 (19 U.S.C., sec. 1401a or 1402) in connection with its importation.

46 Stat. 708; 70 Stat. 943.

"(2) EXCLUDED PROPERTY.—For purposes of this part, the term 'export property' does not include—

"(A) property leased or rented by a DISC for use by any member of a controlled group (as defined in subsection (a)(3)) which includes the DISC, or

"(B) patents, inventions, models, designs, formulas, or processes, whether or not patented, copyrights (other than films, tapes, records, or similar reproductions, for commercial or home use), good will, trademarks, trade brands, franchises, or other like property.

"(3) PROPERTY IN SHORT SUPPLY.—If the President determines that the supply of any property described in paragraph (1) is insufficient to meet the requirements of the domestic economy, he may by Executive order designate the property as in short supply. Any property so designated shall be treated as property not described in paragraph (1) during the period beginning with the date specified in the Executive order and ending with the date specified in an Executive order setting forth the President's determination that the property is no longer in short supply.

"(d) PRODUCER'S LOANS.—

"(1) IN GENERAL.—An obligation, subject to the rules provided in paragraphs (2) and (3), shall be treated as arising out of a producer's loan if—

"(A) the loan, when added to the unpaid balance of all other producer's loans made by the DISC, does not exceed the accumulated DISC income at the beginning of the month in which the loan is made;

"(B) the obligation is evidenced by a note (or other evidence of indebtedness) with a stated maturity date not more than 5 years from the date of the loan;

"(C) the loan is made to a person engaged in the United States in the manufacturing, production, growing, or extraction of export property (referred to hereinafter as the 'borrower'); and

"(D) at the time of such loan it is designated as a producer's loan.

"(2) LIMITATION.—An obligation shall be treated as arising out of a producer's loan only to the extent that such loan, when added to the unpaid balance of all other producer's loans to the borrower outstanding at the time such loan is made, does not exceed an amount determined by multiplying the sum of—

"(A) the amount of the borrower's adjusted basis determined at the beginning of the borrower's taxable year in which the loan is made, in plant, machinery, and equipment, and supporting production facilities in the United States;

"(B) the amount of the borrower's property held primarily for sale, lease, or rental, to customers in the ordinary course

of trade or business, at the beginning of such taxable year; and

"(C) the aggregate amount of the borrower's research and experimental expenditures (within the meaning of section 174) in the United States during all preceding taxable years beginning after December 31, 1971,

68A Stat. 66. 26 USC 174.

by the percentage which the borrower's receipts, during the 3 taxable years immediately preceding the taxable year (but not including any taxable year commencing prior to 1972) in which the loan is made, from the sale, lease, or rental outside the United States of property which would be export property if held by a DISC is of the gross receipts during such 3 taxable years from the sale, lease, or rental of property held by such borrower primarily for sale, lease, or rental to customers in the ordinary course of the trade or business of such borrower.

"(3) INCREASED INVESTMENT REQUIREMENT.—An obligation shall be treated as arising out of a producer's loan in a taxable year only to the extent that such loan, when added to the unpaid balance of all other producer's loans to the borrower made during such taxable year, does not exceed an amount equal to—

"(A) the amount by which the sum of the adjusted basis of assets described in paragraph (2)(A) and (B) on the last day of the taxable year in which the loan is made exceeds the sum of the adjusted basis of such assets on the first day of such taxable year; plus

"(B) the aggregate amount of the borrower's research and experimental expenditures (within the meaning of section 174) in the United States during such taxable year.

"(4) SPECIAL LIMITATION IN THE CASE OF DOMESTIC FILM MAKER.—

"(A) IN GENERAL.—In the case of a borrower who is a domestic film maker and who incurs an obligation to a DISC for the making of a film, and such DISC is engaged in the trade or business of selling, leasing, or renting films which are export property, the limitation described in paragraph (2) may be determined (to the extent provided under regulations prescribed by the Secretary or his delegate) on the basis of—

"(i) the sum of the amounts described in subparagraphs (A), (B), and (C) thereof plus reasonable estimates of all such amounts to be incurred at any time by the borrower with respect to films which are commenced within the taxable year in which the loan is made, and

"(ii) the percentage which, based on the experience of producers of similar films, the annual receipts of such producers from the sale, lease, or rental of such films outside the United States is of the annual gross receipts of such producers from the sale, lease, or rental of such films.

"(B) DOMESTIC FILM MAKER.—For purposes of this paragraph, a borrower is a domestic film maker with respect to a film if—

"(i) such borrower is a United States person within the meaning of section 7701(a)(30), except that with respect to a partnership, all of the partners must be United States persons, and with respect to a corporation, all of its officers and at least a majority of its directors must be United States persons;

76 Stat. 988.

"(ii) such borrower is engaged in the trade or business of making the film with respect to which the loan is made;

"(iii) the studio, if any, used or to be used for the taking of photographs and the recording of sound incorporated into such film is located in the United States;

"(iv) the aggregate playing time of portions of such film photographed outside the United States does not or will not exceed 20 percent of the playing time of such film; and

"(v) not less than 80 percent of the total amount paid or to be paid for services performed in the making of such film is paid or to be paid to persons who are United States persons at the time such services are performed or consists of amounts which are fully taxable by the United States.

"(C) SPECIAL RULES FOR APPLICATION OF SUBPARAGRAPH (B) (v).—For purposes of clause (v) of subparagraph (B)—

"(i) there shall not be taken into account any amount which is contingent upon receipts or profits of the film and which is fully taxable by the United States (within the meaning of clause (ii)); and

"(ii) any amount paid or to be paid to a United States person, to a non-resident alien individual, or to a corporation which furnishes the services of an officer or employee to the borrower with respect to the making of a film, shall be treated as fully taxable by the United States only if the total amount received by such person, individual, officer, or employee for services performed in the making of such film is fully included in gross income for purposes of this chapter.

"(e) RELATED FOREIGN EXPORT CORPORATION.—In determining whether a corporation (hereinafter in this subsection referred to as 'the domestic corporation') is a DISC—

"(1) FOREIGN INTERNATIONAL SALES CORPORATION.—A foreign corporation is a related foreign export corporation if—

"(A) stock possessing more than 50 percent of the total combined voting power of all classes of stock entitled to vote is owned directly by the domestic corporation,

"(B) 95 percent or more of such foreign corporation's gross receipts for its taxable year ending with or within the taxable year of the domestic corporation consists of qualified export receipts described in subparagraphs (A), (B), (C), and (D) of subsection (a) (1) and interest on any obligation described in paragraphs (3) and (4) of subsection (b), and

"(C) the adjusted basis of the qualified export assets (described in paragraphs (1), (2), (3), and (4) of subsection (b)) held by such foreign corporation at the close of such taxable year equals or exceeds 95 percent of the sum of the adjusted basis of all assets held by it at the close of such taxable year.

"(2) REAL PROPERTY HOLDING COMPANY.—A foreign corporation is a related foreign export corporation if—

"(A) stock possessing more than 50 percent of the total combined voting power of all classes of stock entitled to vote is owned directly by the domestic corporation, and

"(B) its exclusive function is to hold real property for the exclusive use (under a lease or otherwise) of the domestic corporation.

"(3) ASSOCIATED FOREIGN CORPORATION.—A foreign corporation is a related foreign export corporation if—

"(A) less than 10 percent of the total combined voting power of all classes of stock entitled to vote of such foreign corporation is owned (within the meaning of section 1563 (d) and (e)) by the domestic corporation or by a controlled group of corporations (within the meaning of section 1563) of which the domestic corporation is a member, and

78 Stat. 120.
26 USC 1563.

"(B) the ownership of stock or securities in such foreign corporation by the domestic corporation is determined (under regulations prescribed by the Secretary or his delegate) to be reasonably in furtherance of a transaction or transactions giving rise to qualified export receipts of the domestic corporation.

"(f) GROSS RECEIPTS.—For purposes of this part, the term 'gross receipts' means the total receipts from the sale, lease, or rental of property held primarily for sale, lease, or rental in the ordinary course of trade or business, and gross income from all other sources. In the case of commissions on the sale, lease, or rental of property, the amount taken into account for purposes of this part as gross receipts shall be the gross receipts on the sale, lease, or rental of the property on which such commissions arose.

"(g) UNITED STATES DEFINED.—For purposes of this part, the term 'United States' includes the Commonwealth of Puerto Rico and the possessions of the United States.

"SEC. 994. INTER-COMPANY PRICING RULES.

"(a) IN GENERAL.—In the case of a sale of export property to a DISC by a person described in section 482, the taxable income of such DISC and such person shall be based upon a transfer price which would allow such DISC to derive taxable income attributable to such sale (regardless of the sales price actually charged) in an amount which does not exceed the greatest of—

68A Stat. 162.

"(1) 4 percent of the qualified export receipts on the sale of such property by the DISC plus 10 percent of the export promotion expenses of such DISC attributable to such receipts,

"(2) 50 percent of the combined taxable income of such DISC and such person which is attributable to the qualified export receipts on such property derived as the result of a sale by the DISC plus 10 percent of the export promotion expenses of such DISC attributable to such receipts, or

"(3) taxable income based upon the sale price actually charged (but subject to the rules provided in section 482).

"(b) RULES FOR COMMISSIONS, RENTALS, AND MARGINAL COSTING.—The Secretary or his delegate shall prescribe regulations setting forth—

"(1) rules which are consistent with the rules set forth in subsection (a) for the application of this section in the case of commissions, rentals, and other income, and

"(2) rules for the allocation of expenditures in computing combined taxable income under subsection (a)(2) in those cases where a DISC is seeking to establish or maintain a market for export property.

"(c) EXPORT PROMOTION EXPENSES.—For purposes of this section, the term 'export promotion expenses' means those expenses incurred to advance the distribution or sale of export property for use, consumption, or distribution outside of the United States, but does not include income taxes. Such expenses shall also include freight expenses to the extent of 50 percent of the cost of shipping export property aboard airplanes owned and operated by United States persons or ships documented under the laws of the United States in those cases where law or regulations does not require that such property be shipped aboard such airplanes or ships.

"Subpart B—Treatment of Distributions to Shareholders

"SEC. 995. TAXATION OF DISC INCOME TO SHAREHOLDERS.

"(a) GENERAL RULE.—A shareholder of a DISC or former DISC shall be subject to taxation on the earnings and profits of a DISC as provided in this chapter, but subject to the modifications of this subpart.

"(b) DEEMED DISTRIBUTIONS.—

"(1) DISTRIBUTIONS IN QUALIFIED YEARS.—A shareholder of a DISC shall be treated as having received a distribution taxable as a dividend with respect to his stock in an amount which is equal to his pro rata share of the sum (or, if smaller, the earnings and profits for the taxable year) of—

"(A) the gross interest derived during the taxable year from producer's loans,

"(B) the gain recognized by the DISC during the taxable year on the sale or exchange of property, other than property which in the hands of the DISC is a qualified export asset, previously transferred to it in a transaction in which gain was not recognized in whole or in part, but only to the extent that the transferor's gain on the previous transfer was not recognized,

"(C) the gain (other than the gain described in subparagraph (B)) recognized by the DISC during the taxable year on the sale or exchange of property (other than property which in the hands of the DISC is stock in trade or other property described in section 1221(1)) previously transferred to it in a transaction in which gain was not recognized in whole or in part, but only to the extent that the transferor's gain on the previous transfer was not recognized and would have been treated as gain from the sale or exchange of property which is neither a capital asset nor property described in section 1231 if the property had been sold or exchanged rather than transferred to the DISC,

68A Stat. 321.
26 USC 1221.

68A Stat. 325;
83 Stat. 646.

"(D) one-half of the excess of the taxable income of the DISC for the taxable year, before reduction for any distributions during the year, over the sum of the amounts deemed distributed for the taxable year under subparagraphs (A), (B), and (C), and

"(E) the amount of foreign investment attributable to producer's loans (as defined in subsection (d)) of a DISC for the taxable year.

Distributions described in this paragraph shall be deemed to be received on the last day of the taxable year of the DISC in which the gross income (taxable income in the case of subparagraph (D)) was derived. In the case of a distribution described in subparagraph (E), earnings and profits for the taxable year shall include accumulated earnings and profits.

"(2) DISTRIBUTIONS UPON DISQUALIFICATION.—

"(A) A shareholder of a corporation which revoked its election to be treated as a DISC or failed to satisfy the conditions of section 992(a)(1) for a taxable year shall be deemed to have received (at the time specified in subparagraph (B)) a distribution taxable as a dividend equal to his pro rata share of the DISC income of such corporation accumulated during

Ante, p. 535.

the immediately preceding consecutive taxable years for which the corporation was a DISC.

"(B) Distributions described in subparagraph (A) shall be deemed to be received in equal installments on the last day of each of the 10 taxable years of the corporation following the year of the termination or disqualification described in subparagraph (A) (but in no case over more than the number of immediately preceding consecutive taxable years during which the corporation was a DISC).

"(c) GAIN ON DISPOSITION OF STOCK IN A DISC.—If a shareholder disposes of stock in a DISC or former DISC, any gain recognized on such disposition shall be included in gross income as a dividend to the extent of the accumulated DISC income of such DISC or former DISC which is attributable to such stock and which was accumulated in taxable years of such corporation during the period or periods the stock disposed of was held by such shareholder. If stock of the DISC or former DISC is disposed of in a transaction in which the separate corporate existence of the DISC or former DISC is terminated other than by a mere change in place of organization, however effected, any gain realized on the disposition of such stock in the transaction shall be recognized notwithstanding any other provision of this title to the extent of the accumulated DISC income of such DISC or former DISC which is attributable to such stock and which was accumulated in taxable years of such corporation during the period or periods the stock disposed of was held by the stockholder which disposed of such stock, and such gain shall be included in gross income as a dividend.

"(d) FOREIGN INVESTMENT ATTRIBUTABLE TO DISC EARNINGS.—For the purposes of this part—

"(1) IN GENERAL.—The amount of foreign investment attributable to producer's loans of a DISC for a taxable year shall be the smallest of—

"(A) the net increase in foreign assets by members of the controlled group (as defined in section 993(a)(3)) which includes the DISC, *Ante*, p. 538.

"(B) the actual foreign investment by domestic members of such group, or

"(C) the amount of outstanding producer's loans by such DISC to members of such controlled group.

"(2) NET INCREASE IN FOREIGN ASSETS.—The term 'net increase in foreign assets' of a controlled group means the excess of—

"(A) the amount incurred by such group to acquire assets (described in section 1231(b)) located outside the United States over, 68A Stat. 325; 83 Stat. 571, 643. 26 USC 1231.

"(B) the sum of—

"(i) the depreciation with respect to assets of such group located outside the United States;

"(ii) the outstanding amount of stock or debt obligations of such group issued after December 31, 1971, to persons other than the United States persons or any member of such group;

"(iii) one-half the earnings and profits of foreign members of such group and foreign branches of domestic members of such group;

"(iv) one-half the royalties and fees paid by foreign members of such group to domestic members of such group; and

"(v) the uncommitted transitional funds of the group as determined under paragraph (4).

For purposes of this paragraph, assets which are qualified export assets of a DISC (or would be qualified export assets if owned by a DISC) shall not be taken into account. Amounts described in this paragraph (other than in subparagraphs (B)(ii) and (v)) shall be taken into account only to the extent they are attributable to taxable years beginning after December 31, 1971.

"(3) ACTUAL FOREIGN INVESTMENT.—The term 'actual foreign investment' by domestic members of a controlled group means the sum of—

"(A) contributions to capital of foreign members of the group by domestic members of the group after December 31, 1971,

"(B) the outstanding amount of stock or debt obligations of foreign members of such group (other than normal trade indebtedness) issued after December 31, 1971, to domestic members of such group,

"(C) amounts transferred by domestic members of the group after December 31, 1971, to foreign branches of such members, and

"(D) one-half the earnings and profits of foreign members of such group and foreign branches of domestic members of such group for taxable years beginning after December 31, 1971.

"Domestic member."

As used in this subsection, the term 'domestic member' means a domestic corporation which is a member of a controlled group (as defined in section 993(a)(3)), and the term 'foreign member' means a foreign corporation which is a member of such a controlled group.

Ante, p. 538.
"Foreign member."

"(4) UNCOMMITTED TRANSITIONAL FUNDS.—The uncommitted transitional funds of the group shall be an amount equal to the sum of—

(A) the excess of—

(i) the amount of stock or debt obligations of domestic members of such group outstanding on December 31, 1971, and issued on or after January 1, 1968, to persons other than United States persons or any members of such group, but only to the extent the taxpayer establishes that such amount constitutes a long-term borrowing for purposes of the foreign direct investment program, over

(ii) the net amount of actual foreign investment by domestic members of such group during the period that such stock or debt obligations have been outstanding; and

"(B) the amount of liquid assets to the extent not included in subparagraph (A) held by foreign members of such group and foreign branches of domestic members of such group on October 31, 1971, in excess of their reasonable working capital needs on such date.

"Liquid assets."

For purposes of this paragraph, the term 'liquid assets' means money, bank deposits (not including time deposits), and indebtedness of 2 years or less to maturity on the date of acquisition; and the actual foreign investment shall be determined under paragraph (3) without regard to the date in subparagraph (A) of such paragraph and without regard to subparagraph (D) of such paragraph.

"(5) SPECIAL RULE.—Under regulations prescribed by the Secretary or his delegate the determinations under this subsection shall be made on a cumulative basis with proper adjustments for amounts previously taken into account.

"SEC. 996. RULES FOR ALLOCATION IN THE CASE OF DISTRIBUTIONS AND LOSSES.

"(a) RULES FOR ACTUAL DISTRIBUTIONS AND CERTAIN DEEMED DISTRIBUTIONS.—

"(1) IN GENERAL.—Any actual distribution (other than a distribution described in paragraph (2) or to which section 995(c) applies) to a shareholder by a DISC (or former DISC) which is made out of earnings and profits shall be treated as made— *Ante*, p. 544.

"(A) first, out of previously taxed income, to the extent thereof,

"(B) second, out of accumulated DISC income, to the extent thereof, and

"(C) finally, out of other earnings and profits.

"(2) QUALIFYING DISTRIBUTIONS.—Any actual distribution made pursuant to section 992(c) (relating to distributions to meet qualification requirements), and any deemed distribution pursuant to section 995(b)(1)(E) (relating to foreign investment attributable to producer's loans), shall be treated as made— *Ante*, p. 535.

"(A) first, out of accumulated DISC income, to the extent thereof,

"(B) second, out of the earnings and profits described in paragraph (1)(C), to the extent thereof, and

"(C) finally, out of previously taxed income.

"(3) EXCLUSION FROM GROSS INCOME.—Amounts distributed out of previously taxed income shall be excluded by the distributee from gross income except for gains described in subsection (e)(2), and shall reduce the amount of the previously taxed income.

"(b) ORDERING RULES FOR LOSSES.—If for any taxable year a DISC, or a former DISC, incurs a deficit in earnings and profits, such deficit shall be chargeable—

"(1) first, to earnings and profits described in subsection (a)(1)(C), to the extent thereof,

"(2) second, to accumulated DISC income, to the extent thereof, and

"(3) finally, to previously taxed income, except that a deficit in earnings and profits shall not be applied against accumulated DISC income which has been determined is to be deemed distributed to the shareholders (pursuant to section 995(b)(2)(A)) as a result of a revocation of election or other disqualification.

"(c) PRIORITY OF DISTRIBUTIONS.—Any actual distribution made during a taxable year shall be treated as being made subsequent to any deemed distribution made during such year. Any actual distribution made pursuant to section 992(c) (relating to distributions to meet qualification requirements) shall be treated as being made before any other actual distributions during the taxable year.

"(d) SUBSEQUENT EFFECT OF PREVIOUS DISPOSITION OF DISC STOCK.—

"(1) SHAREHOLDER PREVIOUSLY TAXED INCOME ADJUSTMENT.—If—

"(A) gain with respect to a share of stock of a DISC or former DISC is treated under section 995(c) as a dividend or as gain from the sale or exchange of property which is not a capital asset, and

"(B) any person subsequently receives an actual distribution made out of accumulated DISC income, or a deemed distribution made pursuant to section 995(b)(2), with respect to such share,

such person shall treat such distribution in the same manner as a distribution from previously taxed income to the extent that (i) the gain referred to in subparagraph (A), exceeds (ii) any other amounts with respect to such share which were treated under this paragraph as made from previously taxed income. In applying this paragraph with respect to a share of stock in a DISC or former DISC, gain on the acquisition of such share by the DISC or former DISC or gain on a transaction prior to such acquisition shall not be considered gain referred to in subparagraph (A).

"(2) CORPORATE ADJUSTMENT UPON REDEMPTION.—If section 995(c) applies to a redemption of stock in a DISC or former DISC, the accumulated DISC income shall be reduced by an amount equal to the gain described in section 995(c) with respect to such stock which is (or has been) treated as gain from the sale or exchange of property which is not a capital asset, except to the extent distributions with respect to such stock have been treated under paragraph (1).

Ante, p. 544.

"(e) ADJUSTMENT TO BASIS.—

"(1) ADDITIONS TO BASIS.—Amounts representing deemed distributions as provided in section 995(b) shall increase the basis of the stock with respect to which the distribution is made.

"(2) REDUCTIONS OF BASIS.—The portion of an actual distribution made out of previously taxed income shall reduce the basis of the stock with respect to which it is made, and to the extent that it exceeds the adjusted basis of such stock, shall be treated as gain from the sale or exchange of property. In the case of stock includible in the gross estate of a decedent for which an election is made under section 2032 (relating to alternate valuation), this paragraph shall not apply to any distribution made after the date of the decedent's death and before the alternate valuation date provided by section 2032.

68A Stat. 381; 84 Stat. 1836. 26 USC 2032.

"(f) DEFINITIONS OF DIVISIONS OF EARNINGS AND PROFITS.—For purposes of this part:

"(1) DISC INCOME.—The earnings and profits derived by a corporation during a taxable year in which such corporation is a DISC, before reduction for any distributions during the year, but reduced by amounts deemed distributed under section 995(b)(1), shall constitute the DISC income for such year. The earnings and profits of a DISC for a taxable year include any amounts includible in such DISC's gross income pursuant to section 951(a) for such year. Accumulated DISC income shall be reduced by deemed distributions under section 995(b)(2).

"(2) PREVIOUSLY TAXED INCOME.—Earnings and profits deemed distributed under section 995(b) for a taxable year shall constitute previously taxed income for such year.

"(3) OTHER EARNINGS AND PROFITS.—The earnings and profits for a taxable year which are described in neither paragraph (1) nor (2) shall constitute the other earnings and profits for such year.

"(g) EFFECTIVELY CONNECTED INCOME.—In the case of a shareholder who is a nonresident alien individual or a foreign corporation, trust, or estate, gains referred to in section 995(c) and all distributions out of accumulated DISC income including deemed distributions shall be treated as gains and distributions which are effectively connected with the conduct of a trade or business conducted through a permanent establishment of such shareholder within the United States.

"SEC. 997. SPECIAL SUBCHAPTER C RULES.

"For purposes of applying the provisions of subchapter C of chapter 1, any distribution in property to a corporation by a DISC or former DISC which is made out of previously taxed income or accumulated DISC income shall— 68A Stat. 84. 26 USC 301.

"(1) be treated as a distribution in the same amount as if such distribution of property were made to an individual, and

"(2) have a basis, in the hands of the recipient corporation, equal to the amount determined under paragraph (1)."

SEC. 502. DEDUCTIONS, CREDITS, ETC.

(a) DIVIDENDS RECEIVED DEDUCTION.—Section 246 (relating to rules applying to deductions for dividends received) is amended by redesignating subsection (d) as subsection (e) and by inserting after subsection (c) the following: 68A Stat. 74; 83 Stat. 625.

"(d) DIVIDENDS FROM A DISC OR FORMER DISC.—No deduction shall be allowed under section 243 in respect of a dividend from a corporation which is a DISC or former DISC (as defined in section 992(a)) to the extent such dividend is paid out of the corporation's accumulated DISC income or previously taxed income, or is a deemed distribution pursuant to section 995(b)(1)." *Ante*, p. 535. *Ante*, p. 544.

(b) FOREIGN TAX CREDIT.—

(1) Section 901(d) (relating to corporations treated as foreign corporations) is amended by adding at the end thereof the following: 68A Stat. 285; 80 Stat. 1569.

"For purposes of this subpart, dividends from a DISC or former DISC (as defined in section 992(a)) shall be treated as dividends from a foreign corporation to the extent such dividends are treated under part I as income from sources without the United States."

(2) The heading of section 904(f) and paragraph (1) of section 904(f) (relating to limitation on foreign tax credit) are amended to read as follows: 76 Stat. 1002.

"(f) APPLICATION OF SECTION IN CASE OF CERTAIN INTEREST INCOME AND DIVIDENDS FROM A DISC OR FORMER DISC.—

"(1) IN GENERAL.—The provisions of subsections (a), (c), (d), and (e) of this section shall be applied separately with respect to each of the following items of income—

"(A) the interest income described in paragraph (2),

"(B) dividends from a DISC or former DISC (as defined in section 992(a)) to the extent such dividends are treated as income from sources without the United States, and

"(C) income other than the interest income described in paragraph (2) and dividends described in subparagraph (B)."

(3) Section 904(f)(3) (relating to limitation on foreign tax credit) is amended to read as follows:

"(3) OVERALL LIMITATION NOT TO APPLY.—The limitation provided by subsection (a)(2) shall not apply with respect to the interest income described in paragraph (2) or to dividends described in paragraph (1)(B). The Secretary or his delegate shall by regulations prescribe the manner of application of subsection (e) with respect to cases in which the limitation provided by subsection (a)(2) applies with respect to income described in paragraph (1)(B) and (C)."

(4) Section 904(f) is amended by adding at the end thereof the following new paragraph:

"(5) DISC DIVIDENDS AGGREGATED FOR PURPOSES OF PER-COUNTRY LIMITATION.—In the case of a taxpayer who for the taxable year has dividends described in paragraph (1)(B) from more than

one corporation, the limitation provided by subsection (a)(1) shall be applied with respect to the aggregate of such dividends."

68A Stat. 291. 26 USC 922.

(c) WESTERN HEMISPHERE TRADE CORPORATIONS.—Section 922 (relating to special deduction for Western Hemisphere Trade Corporations) is amended by adding at the end thereof the following: "No deduction shall be allowed under this section to a corporation for a taxable year for which it is a DISC or in which it owns at any time stock in a DISC or former DISC (as defined in section 992(a))."

Ante, p. 535.

(d) INCOME FROM SOURCES WITHIN POSSESSIONS OF THE UNITED STATES.—Section 931(a) (relating to the general rule applicable to income from sources within possessions of the United States) is amended by adding at the end thereof the following: "This section shall not apply in the case of a corporation for a taxable year for which it is a DISC or in which it owns at any time stock in a DISC or former DISC (as defined in section 992(a))."

68A Stat. 370; 74 Stat. 1009.

(e) INCLUDIBLE CORPORATIONS.—Section 1504(b) (relating to definition of "includible corporations") is amended by adding at the end thereof the following new paragraph:

"(7) A DISC or former DISC (as defined in section 992(a))."

(f) BASIS OF DISC STOCK ACQUIRED FROM DECEDENT.—Section 1014 (relating to basis of property acquired from a decedent) is amended by adding at the end thereof the following new subsection:

"(d) SPECIAL RULE WITH RESPECT TO DISC STOCK.—If stock owned by a decedent in a DISC or former DISC (as defined in section 992(a)) acquires a new basis under subsection (a), such basis (determined before the application of this subsection) shall be reduced by the amount (if any) which would have been included in gross income under section 995(c) as a dividend if the decedent had lived and sold the stock at its fair market value on the estate tax valuation date. In computing the gain the decedent would have had if he had lived and sold the stock, his basis shall be determined without regard to the last sentence of section 996(e)(2) (relating to reductions of basis of DISC stock). For purposes of this subsection, the estate tax valuation date is the date of the decedent's death or, in the case of an election under section 2032, the applicable valuation date prescribed by that section."

Ante, p. 544.

Ante, p. 547.

84 Stat. 1836.

SEC. 503. SOURCE OF INCOME.

74 Stat. 998.

Section 861(a)(2) (relating to dividends) is amended—

(1) by deleting the period at the end of subparagraph (C) and inserting in lieu thereof ", or"; and

(2) by inserting the following new subparagraph (D) immediately after subparagraph (C) as amended:

"(D) from a DISC or former DISC (as defined in section 992(a)) except to the extent attributable (as determined under regulations prescribed by the Secretary or his delegate) to qualified export receipts described in section 993(a)(1) (other than interest and gains described in section 995(b)(1))."

Ante, p. 538.

Ante, p. 544.

SEC. 504. PROCEDURE AND ADMINISTRATION.

68A Stat. 732; 78 Stat. 843.

(a) RETURNS.—Section 6011 (relating to general requirement of return, statement, or list) is amended by redesignating subsection (e) as subsection (f) and by adding a new subsection (e) which reads as follows:

"(e) RETURNS, ETC., OF DISCS AND FORMER DISCS.—

"(1) RECORDS AND INFORMATION.—A DISC or former DISC shall for the taxable year—

"(A) furnish such information to persons who were shareholders at any time during such taxable year, and to the Secretary or his delegate, and

"(B) keep such records, as may be required by regulations prescribed by the Secretary or his delegate.

"(2) RETURNS.—A DISC shall file for the taxable year such returns as may be prescribed by the Secretary or his delegate by forms or regulations."

(b) RETURNS OF CORPORATIONS.—Section 6072(b) (relating to returns of corporations) is amended by adding at the end thereof the following: "Returns required for a taxable year by section 6011(e)(2) (relating to returns of a DISC) shall be filed on or before the fifteenth day of the ninth month following the close of the taxable year." 68A Stat. 749. 26 USC 6072. *Ante*, p. 550.

(c) CERTAIN INCOME TAX RETURNS OF DISC.—Section 6501(g) (relating to certain income tax returns of corporations) is amended by adding at the end thereof the following new paragraph: 72 Stat. 1662.

"(3) DISC.—If a corporation determines in good faith that it is a DISC (as defined in section 992(a)) and files a return as such under section 6011(e)(2) and if such corporation is thereafter held to be a corporation which is not a DISC for the taxable year for which the return is filed, such return shall be deemed the return of a corporation which is not a DISC for purposes of this section." *Ante*, p. 535.

(d) FAILURE OF DISC TO FILE RETURNS.—Subchapter B of chapter 68 (relating to assessable penalties) is amended by adding at the end thereof the following new section: 83 Stat. 524. 26 USC 6685.

"SEC. 6686. FAILURE OF DISC TO FILE RETURNS.

"In addition to the penalty imposed by section 7203 (relating to willful failure to file return, supply information, or pay tax) any person required to supply information or to file a return under section 6011(e) who fails to supply such information or file such return at the time prescribed by the Secretary or his delegate, or who files a return which does not show the information required, shall pay a penalty of $100 for each failure to supply information (but the total amount imposed on the delinquent person for all such failures during any calendar year shall not exceed $25,000) or a penalty of $1,000 for each failure to file a return, unless it is shown that such failure is due to reasonable cause." *Ante*, p. 550.

SEC. 505. EXPORT TRADE CORPORATIONS.

(a) USE OF TERMS.—Except as otherwise expressly provided, whenever in this section a reference is made to a section, chapter, or other provision, the reference shall be considered to be made to a section, chapter, or other provision of the Internal Revenue Code of 1954, and terms used in this section shall have the same meaning as when used in such Code. 68A Stat. 3. 26 USC 1 *et seq.*

(b) TRANSFER TO A DISC OF ASSETS OF EXPORT TRADE CORPORATION.—

(1) IN GENERAL.—If a corporation (hereinafter in this section called "parent") owns all of the outstanding stock of an export trade corporation (as defined in section 971), and the export trade corporation, during a taxable year beginning before January 1, 1976, transfers property, without receiving consideration, to a DISC (as defined in section 992(a)) all of whose outstanding stock is owned by the parent, and if the amount transferred by the export trade corporation is not less than the amount of its untaxed subpart F income (as defined in paragraph (2) of this subsection) at the time of such transfer, then— *Post*, p. 553.

(A) notwithstanding section 367 or any other provision of chapter 1, no gain or loss to the export trade corporation, the parent, or the DISC shall be recognized by reason of such transfer; 84 Stat. 2065.

(B) the earnings and profits of the DISC shall be increased by the amount transferred to it by the export trade corporation and such amount shall be included in accumulated DISC income, and for purposes of section 861(a)(2)(D) shall be considered to be qualified export receipts;

Ante, p. 550.

(C) the adjusted basis of the assets transferred to the DISC shall be the same in the hands of the DISC as in the hands of the export trade corporation;

(D) the earnings and profits of the export trade corporation shall be reduced by the amount transferred to the DISC, to the extent thereof, with the reduction being applied first to the untaxed subpart F income and then to the other earnings and profits in the order in which they were most recently accumulated;

(E) the basis of the parent's stock in the export trade corporation shall be decreased by the amount obtained by multiplying its basis in such stock by a fraction the numerator of which is the amount transferred to the DISC and the denominator of which is the aggregate adjusted basis of all the assets of the export trade corporation immediately before such transfer;

(F) the basis of the parent's stock in the DISC shall be increased by the amount of the reduction under subparagraph (E) of its basis in the stock of the export trade corporation;

(G) the property transferred to the DISC shall not be considered to reduce the investments of the export trade corporation in export trade assets for purposes of applying section 970(b); and

76 Stat. 1027.
26 USC 970.

(H) any foreign income taxes which would have been deemed under section 902 to have been paid by the parent if the transfer had been made to the parent shall be treated as foreign income taxes paid by the DISC.

76 Stat. 999; 84 Stat. 2068.

For purposes of this section, the amount transferred by the export trade corporation to the DISC shall be the aggregate of the adjusted basis of the properties transferred, with proper adjustment for any indebtedness secured by such property or assumed by the DISC in connection with the transfer. For purposes of this section, a foreign corporation which qualified as an export trade corporation for any 3 taxable years beginning before November 1, 1971, shall be treated as an export trade corporation.

(2) DEFINITION OF UNTAXED SUBPART F INCOME.—For purposes of this section, the term "untaxed subpart F income" means with respect to an export trade corporation the amount by which—

(A) the sum of the amounts by which the subpart F income of such corporation was reduced for the taxable year and all prior taxable years under section 970(a) and the amounts not included in subpart F income (determined without regard to subpart G of subchapter N of chapter 1) for all prior taxable years by reason of the application of section 972, exceeds

26 USC 970.

76 Stat. 1031.

(B) the sum of the amounts which were included in the gross income of the shareholders of such corporation under section 951(a)(1)(A)(ii) and under the provision of section 970(b) for all prior taxable years,

determined without regard to the transfer of property described in paragraph (1) of this subsection.

(3) SPECIAL CASES.—If the provisions of paragraph (1) of this subsection are not applicable solely because the export trade corporation or the DISC, or both, are not owned in the manner prescribed in such paragraph, the provisions shall nevertheless

be applicable in such cases to the extent, and in accordance with such rules, as may be prescribed by the Secretary or his delegate.

(4) TREATMENT OF EXPORT TRADE ASSETS.—If the provisions of this subsection are applicable, accounts receivable held by an export trade corporation and transferred to a DISC, to the extent such receivables were export trade assets in the hands of the export trade corporation, shall be treated as qualified export assets for purposes of section 993(b).

Ante, p. 538.

(c) LIMITATION OF APPLICATION OF SUBPART G.—Section 971(a) (relating to definition of export trade corporation) is amended by adding at the end thereof the following new paragraph:

76 Stat. 1029.
26 USC 971.

"(3) LIMITATION.—No controlled foreign corporation may qualify as an export trade corporation for any taxable year beginning after October 31, 1971, unless it qualified as an export trade corporation for any taxable year beginning before such date. If a corporation fails to qualify as an export trade corporation for a period of any 3 consecutive taxable years beginning after such date, it may not qualify as an export trade corporation for any taxable year beginning after such period."

SEC. 506. SUBMISSION OF ANNUAL REPORTS TO CONGRESS.

The Secretary of the Treasury shall, commencing for the calendar year 1972, submit an annual report to the Congress within 15½ months following the close of each calendar year setting forth an analysis of the operation and effect of the provisions of this title.

SEC. 507. GENERAL EFFECTIVE DATE OF TITLE.

Except as provided in section 505 of this title, the amendments made by sections 501 through 504 of this title shall apply with respect to taxable years ending after December 31, 1971, except that a corporation may not be a DISC (as defined in section 992(a) of the Internal Revenue Code of 1954, added by section 501 of this title) for any taxable year beginning before January 1, 1972.

TITLE VI—JOB DEVELOPMENT RELATED TO WORK INCENTIVE PROGRAM

SEC. 601. TAX CREDIT FOR CERTAIN EXPENSES INCURRED IN WORK INCENTIVE PROGRAM.

(a) ALLOWANCE OF CREDIT.—Subpart A of part IV of subchapter A of chapter 1 (relating to credits allowable) is amended by renumbering section 40 as section 42, and by inserting after section 39 the following new section:

68A Stat. 12; 79 Stat. 167.

"SEC. 40. EXPENSES OF WORK INCENTIVE PROGRAMS.

"(a) GENERAL RULE.—There shall be allowed, as a credit against the tax imposed by this chapter, the amount determined under subpart C of this part.

Infra.

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

(b) COMPUTATION OF CREDIT.—Part IV of subchapter A of chapter 1 (relating to credits against tax) is amended by adding at the end thereof the following new subpart:

"Subpart C—Rules for Computing Credit for Expenses of Work Incentive Programs

"Sec. 50A. Amount of credit.
"Sec. 50B. Definitions; special rules.

"SEC. 50A. AMOUNT OF CREDIT.

"(a) DETERMINATION OF AMOUNT.—

"(1) GENERAL RULE.—The amount of the credit allowed by section 40 for the taxable year shall be equal to 20 percent of the work incentive program expenses (as defined in section 50B(a)).

Ante, p. 553.
Post, p. 556.

"(2) LIMITATION BASED ON AMOUNT OF TAX.—Notwithstanding paragraph (1), the credit allowed by section 40 for the taxable year shall not exceed—

"(A) so much of the liability for tax for the taxable year as does not exceed $25,000, plus

"(B) 50 percent of so much of the liability for tax for the taxable year as exceeds $25,000.

"(3) LIABILITY FOR TAX.—For purposes of paragraph (2), the liability for tax for the taxable year shall be the tax imposed by this chapter for such year, reduced by the sum of the credits allowable under—

68A Stat. 13.
26 USC 33.

"(A) section 33 (relating to foreign tax credit),

"(B) section 35 (relating to partially tax exempt interest),

78 Stat. 24, 33.

"(C) section 37 (relating to retirement income),

76 Stat. 962.

"(D) section 38 (relating to investment in certain depreciable property), and

Post, p. 560.

"(E) section 41 (relating to contributions to candidates for public office).

For purposes of this paragraph, any tax imposed for the taxable year by section 56 (relating to minimum tax for tax preferences), section 531 (relating to accumulated earnings tax), section 541 (relating to personal holding company tax), or section 1378 (relating to tax on certain capital gains of subchapter S corporations), and any additional tax imposed for the taxable year by section 1351(d)(1) (relating to recoveries of foreign expropriation losses), shall not be considered tax imposed by this chapter for such year.

83 Stat. 580.
68A Stat. 179, 182.
80 Stat. 113.
80 Stat. 99.

"(4) MARRIED INDIVIDUALS.—In the case of a husband or wife who files a separate return, the amount specified under subparagraphs (A) and (B) of paragraph (2) shall be $12,500 in lieu of $25,000. This paragraph shall not apply if the spouse of the taxpayer has no work incentive program expenses for, and no unused credit carryback or carryover to, the taxable year of such spouse which ends within or with the taxpayer's taxable year.

"(5) CONTROLLED GROUPS.—In the case of a controlled group, the $25,000 amount specified under paragraph (2) shall be reduced for each component member of such group by apportioning $25,000 among the component members of such group in such manner as the Secretary or his delegate shall by regulations prescribe. For purposes of the preceding sentence, the term 'controlled group' has the meaning assigned to such term by section 1563(a).

78 Stat. 120; 83 Stat. 602.

"(b) CARRYBACK AND CARRYOVER OF UNUSED CREDIT.—

"(1) ALLOWANCE OF CREDIT.—If the amount of the credit determined under subsection (a)(1) for any taxable year exceeds the limitation provided by subsection (a)(2) for such taxable year (hereinafter in this subsection referred to as 'unused credit year'), such excess shall be—

"(A) a work incentive program credit carryback to each of the 3 taxable years preceding the unused credit year, and

"(B) a work incentive program credit carryover to each of the 7 taxable years following the unused credit year,

and shall be added to the amount allowable as a credit by section 40 for such years, except that such excess may be a carryback only to a taxable year beginning after December 31, 1971. The entire amount of the unused credit for an unused credit year shall be

Ante, p. 553.

carried to the earliest of the 10 taxable years to which (by reason of subparagraphs (A) and (B)) such credit may be carried, and then to each of the other 9 taxable years to the extent that, because of the limitation contained in paragraph (2), such unused credit may not be added for a prior taxable year to which such unused credit may be carried.

"(2) LIMITATION.—The amount of the unused credit which may be added under paragraph (1) for any preceding or succeeding taxable year shall not exceed the amount by which the limitation provided by subsection (a)(2) for such taxable year exceeds the sum of—

"(A) the credit allowable under subsection (a)(1) for such taxable year, and

"(B) the amounts which, by reason of this subsection, are added to the amount allowable for such taxable year and attributable to taxable years preceding the unused credit year.

"(c) EARLY TERMINATION OF EMPLOYMENT BY EMPLOYER, ETC.—

"(1) GENERAL RULE.—Under regulations prescribed by the Secretary or his delegate—

"(A) WORK INCENTIVE PROGRAM EXPENSES.—If the employment of any employee with respect to whom work incentive program expenses are taken into account under subsection (a) is terminated by the taxpayer at any time during the first 12 months of such employment (whether or not consecutive) or before the close of the 12th calendar month after the calendar month in which such employee completes 12 months of employment with the taxpayer, the tax under this chapter for the taxable year in which such employment is terminated shall be increased by an amount (determined under such regulations) equal to the credits allowed under section 40 for such taxable year and all prior taxable years attributable to work incentive program expenses paid or incurred with respect to such employee. *Ante*, p. 553.

"(B) CARRYBACKS AND CARRYOVERS ADJUSTED.—In the case of any termination of employment to which subparagraph (A) applies, the carrybacks and carryovers under subsection (b) shall be properly adjusted.

"(2) SUBSECTION NOT TO APPLY IN CERTAIN CASES.—

"(A) IN GENERAL.—Paragraph (1) shall not apply to—

"(i) a termination of employment of an employee who voluntarily leaves the employment of the taxpayer,

"(ii) a termination of employment of an individual who, before the close of the period referred to in paragraph (1)(A), becomes disabled to perform the services of such employment, unless such disability is removed before the close of such period and the taxpayer fails to offer reemployment to such individual, or

"(iii) a termination of employment of an individual, if it is determined under the applicable State unemployment compensation law that the termination was due to the misconduct of such individual.

"(B) CHANGE IN FORM OF BUSINESS, ETC.—For purposes of paragraph (1), the employment relationship between the taxpayer and an employee shall not be treated as terminated—

"(i) by a transaction to which section 381(a) applies, if the employee continues to be employed by the acquiring corporation, or 68A Stat. 124. 26 USC 381.

"(ii) by reason of a mere change in the form of conducting the trade or business of the taxpayer, if the employee continues to be employed in such trade or busi-

ness and the taxpayer retains a substantial interest in such trade or business.

"(3) SPECIAL RULE.—Any increase in tax under paragraph (1) shall not be treated as tax imposed by this chapter for purposes of determining the amount of any credit allowable under subpart A.

"(d) FAILURE TO PAY COMPARABLE WAGES.—

"(1) GENERAL RULE.—Under regulations prescribed by the Secretary or his delegate, if during the period described in subsection (c)(1)(A), the taxpayer pays wages (as defined in section 50B (b)) to an employee with respect to whom work incentive program expenses are taken into account under subsection (a) which are less than the wages paid to other employees who perform comparable services, the tax under this chapter for the taxable year in which such wages are so paid shall be increased by an amount (determined under such regulations) equal to the credits allowed under section 40 for such taxable year and all prior taxable years attributable to work incentive program expenses paid or incurred with respect to such employee, and the carrybacks and carryovers under subsection (b) shall be properly adjusted.

Infra.

Ante, p. 553.

"(2) SPECIAL RULE.—Any increase in tax under paragraph (1) shall not be treated as tax imposed by this chapter for purposes of determining the amount of any credit allowable under subpart A.

26 USC 31.

"SEC. 50B. DEFINITIONS; SPECIAL RULES.

"(a) WORK INCENTIVE PROGRAM EXPENSES.—For purposes of this subpart, the term 'work incentive program expenses' means the wages paid or incurred by the taxpayer for services rendered during the first 12 months of employment (whether or not consecutive) of employees who are certified by the Secretary of Labor as—

"(1) having been placed in employment under a work incentive program established under section 432(b)(1) of the Social Security Act, and

81 Stat. 884.
42 USC 632.

"(2) not having displaced any individual from employment.

"(b) WAGES.—For purposes of subsection (a), the term 'wages' means only cash remuneration (including amounts deducted and withheld).

"(c) LIMITATIONS.—

"(1) TRADE OR BUSINESS EXPENSES.—No item shall be taken into account under subsection (a) unless such item is incurred in a trade or business of the taxpayer.

"(2) REIMBURSED EXPENSES.—No item shall be taken into account under subsection (a) to the extent that the taxpayer is reimbursed for such item.

"(3) GEOGRAPHICAL LIMITATION.—No item shall be taken into account under subsection (a) with respect to any expense paid or incurred by the taxpayer with respect to employment outside the United States.

"(4) MAXIMUM PERIOD OF TRAINING OR INSTRUCTION.—No item with respect to any employee shall be taken into account under subsection (a) after the end of the 24-month period beginning with the date of initial employment of such employee by the taxpayer.

"(5) INELIGIBLE INDIVIDUALS.—No item shall be taken into account under subsection (a) with respect to an individual who—

"(A) bears any of the relationships described in paragraphs (1) through (8) of section 152(a) to the taxpayer, or, if the taxpayer is a corporation, to an individual who owns, directly or indirectly, more than 50 percent in value of the outstanding stock of the corporation (determined with the application of section 267(c)),

68A Stat. 43.
26 USC 152.

"(B) if the taxpayer is an estate or trust, is a grantor, beneficiary, or fiduciary of the estate or trust, or is an individual who bears any of the relationships described in paragraphs (1) through (8) of section 152(a) to a grantor, beneficiary, or fiduciary of the estate or trust, or 68A Stat. 43. 26 USC 152.

"(C) is a dependent (described in section 152(a)(9)) of the taxpayer, or, if the taxpayer is a corporation, of an individual described in subparagraph (A), or, if the taxpayer is an estate or trust, of a grantor, beneficiary, or fiduciary of the estate or trust. 72 Stat. 1607.

"(d) SUBCHAPTER S CORPORATIONS.—In case of an electing small business corporation (as defined in section 1371)— 72 Stat. 1650; 78 Stat. 112.

"(1) the work incentive program expenses for each taxable year shall be apportioned pro rata among the persons who are shareholders of such corporation on the last day of such taxable year, and

"(2) any person to whom any expenses have been apportioned under paragraph (1) shall be treated (for purposes of this subpart) as the taxpayer with respect to such expenses.

"(e) ESTATES AND TRUSTS.—In the case of an estate or trust—

"(1) the work incentive program expenses for any taxable year shall be apportioned between the estate or trust and the beneficiaries on the basis of the income of the estate or trust allocable to each,

"(2) any beneficiary to whom any expenses have been apportioned under paragraph (1) shall be treated (for purposes of this subpart) as the taxpayer with respect to such expenses, and

"(3) the $25,000 amount specified under subparagraphs (A) and (B) of section 50A(a)(2) applicable to such estate or trust shall be reduced to an amount which bears the same ratio to $25,000 as the amount of the expenses allocated to the trust under paragraph (1) bears to the entire amount of such expenses. *Ante*, p. 554.

"(f) LIMITATIONS WITH RESPECT TO CERTAIN PERSONS.—In the case of—

"(1) an organization to which section 593 applies, 76 Stat. 977; 83 Stat. 620.

"(2) a regulated investment company or a real estate investment trust subject to taxation under subchapter M (section 851 and following), and 68A Stat. 268; 83 Stat. 717.

"(3) a cooperative organization described in section 1381(a), 76 Stat. 1045.

rules similar to the rules provided in section 46(d) shall apply under regulations prescribed by the Secretary or his delegate. *Ante*, p. 507.

"(g) CROSS REFERENCE.—

"For application of this subpart to certain acquiring corporations, see section 381(c)(24)."

(c) TECHNICAL AND CLERICAL AMENDMENTS.—

(1) The table of subparts for part IV of subchapter A of chapter 1 is amended by adding at the end thereof the following:

"Subpart C. Rules for computing credit for expenses of work incentive programs."

(2) The table of sections of subpart A of part IV of subchapter A of chapter 1 is amended by striking out the last item and inserting in lieu thereof the following:

"Sec. 40. Expenses of work incentive programs.
"Sec. 41. Contributions to candidates for public office.
"Sec. 42. Overpayments of tax.

(3) Section 381(c) (relating to items taken into account in certain corporate acquisitions) is amended by adding at the end thereof the following new paragraph: 68A Stat. 124; 76 Stat. 971.

"(24) CREDIT UNDER SECTION 40 FOR WORK INCENTIVE PROGRAM EXPENSES.—The acquiring corporation shall take into account (to the extent proper to carry out the purposes of this section and section 40, and under such regulations as may be prescribed by the Secretary or his delegate) the items required to be taken into account for purposes of section 40 in respect of the distributor or transferor corporation."

Ante, p. 553.

84 Stat. 1846.

(4) Section 56(a)(2) (relating to imposition of minimum tax for tax preferences) is amended—

(A) by striking out "and" at the end of clause (ii),

(B) by striking out "; and" at the end of clause (iii) and inserting in lieu thereof a comma, and

(C) by inserting after clause (iii) the following new clauses:

"(iv) section 40 (relating to expenses of work incentive program), and

Post, p. 560.

"(v) section 41 (relating to contributions to candidates for public office); and".

(5) Section 56(c)(1) (relating to tax carryovers) is amended—

(A) by striking out "and" at the end of subparagraph (B),

(B) by striking out "exceed" at the end of subparagraph (C), and

(C) by inserting after subparagraph (C) the following new subparagraphs:

"(D) section 40 (relating to expenses of work incentive program), and

"(E) section 41 (relating to contributions to candidates for public office), exceed".

(d) STATUTES OF LIMITATIONS AND INTEREST RELATING TO WORK INCENTIVE CREDIT CARRYBACKS.—

68A Stat. 803; 83 Stat. 525.

(1) ASSESSMENT AND COLLECTION.—Section 6501 (relating to limitation on assessment and collection) is amended by adding at the end thereof the following new subsection:

"(o) WORK INCENTIVE PROGRAM CREDIT CARRYBACKS.—In the case of a deficiency attributable to the application to the taxpayer of a work incentive program credit carryback (including deficiencies which may be assessed pursuant to the provisions of section 6213(b)(2)), such deficiency may be assessed at any time before the expiration of the period within which a deficiency for the taxable year of the unused work incentive program credit which results in such carryback may be assessed, or, with respect to any portion of a work incentive program credit carryback from a taxable year attributable to a net operating loss carryback or a capital loss carryback from a subsequent taxable year, at any time before the expiration of the period within which a deficiency for such subsequent taxable year may be assessed."

68A Stat. 771.

78 Stat. 858.

(2) CREDIT OR REFUND.—Section 6511(d) (relating to limitations on credit or refund) is amended by adding at the end thereof the following new paragraph:

"(7) SPECIAL PERIOD OF LIMITATION WITH RESPECT TO WORK INCENTIVE PROGRAM CREDIT CARRYBACKS.—

"(A) PERIOD OF LIMITATION.—If the claim for credit or refund relates to an overpayment attributable to a work incentive program credit carryback, in lieu of the 3-year period of limitation prescribed in subsection (a), the period shall be that period which ends with the expiration of the 15th day of the 40th month (or 39th month, in the case of a corporation) following the end of the taxable year of the unused work incentive program credit which results in such carry-

back (or, with respect to any portion of a work incentive program credit carryback from a taxable year attributable to a net operating loss carryback or a capital loss carryback from a subsequent taxable year, the period shall be that period which ends with the expiration of the 15th day of the 40th month, or 39th month, in the case of a corporation, following the year of such taxable year) or the period prescribed in subsection (c) in respect of such taxable year, whichever expires later. In the case of such a claim, the amount of the credit or refund may exceed the portion of the tax paid within the period provided in subsection (b)(2) or (c), whichever is applicable, to the extent of the amount of the overpayment attributable to such carryback.

"(B) APPLICABLE RULES.—If the allowance of a credit or refund of an overpayment of tax attributable to a work incentive program credit carryback is otherwise prevented by the operation of any law or rule of law other than section 7122, relating to compromises, such credit or refund may be allowed or made, if claim therefor is filed within the period provided in subparagraph (A) of this paragraph. In the case of any such claim for credit or refund, the determination by any court, including the Tax Court, in any proceeding in which the decision of the court has become final, shall not be conclusive with respect to the work incentive program credit, and the effect of such credit, to the extent that such credit is affected by a carryback which was not in issue in such proceeding."

68A Stat. 849.
26 USC 7122.

(3) INTEREST ON UNDERPAYMENTS.—Section 6601(e) (relating to income tax reduced by carryback or adjustment for certain unused deductions) is amended by adding at the end thereof the following new paragraph:

76 Stat. 972;
78 Stat. 858.

"(4) WORK INCENTIVE PROGRAM CREDIT CARRYBACK.—If the credit allowed by section 40 for any taxable year is increased by reason of a work incentive program credit carryback, such increase shall not affect the computation of interest under this section for the period ending with the last day of the taxable year in which the work incentive program credit carryback arises, or, with respect to any portion of a work incentive program carryback from a taxable year attributable to a net operating loss carryback or a capital loss carryback from a subsequent taxable year, such increase shall not affect the computation of interest under this section for the period ending with the last day of such subsequent taxable year."

(4) INTEREST ON OVERPAYMENTS.—Section 6611(f) (relating to refund of income tax caused by carryback or adjustment for certain unused deductions) is amended by adding at the end thereof the following new paragraph:

"(4) WORK INCENTIVE PROGRAM CREDIT CARRYBACK.—For purposes of subsection (a), if any overpayment of tax imposed by subtitle A results from a work incentive program credit carryback, such overpayment shall be deemed not to have been made prior to the close of the taxable year in which such work incentive program credit carryback arises, or, with respect to any portion of a work incentive program credit carryback from a taxable year attributable to a net operating loss carryback or a capital loss carryback from a subsequent taxable year, such overpayment shall be deemed not to have been made prior to the close of such subsequent taxable year."

(e) TENTATIVE CARRYBACK ADJUSTMENTS.—

68A Stat. 794; 83 Stat. 639. 26 USC 6411.

(1) APPLICATION FOR ADJUSTMENT.—Section 6411 (relating to quick refunds in respect of tentative carryback adjustments) is amended—

(A) by striking out "or unused investment credit" each place it appears in such section and inserting in lieu thereof "unused investment credit, or unused work incentive program credit",

(B) by inserting after "section 46(b)," in the first sentence of subsection (a) "by a work incentive program carryback provided in section 50A(b),", and

Ante, p. 554.

(C) by inserting after "investment credit carryback" in the second sentence of subsection (a) "or a work incentive program carryback".

80 Stat. 1151.

(2) TENTATIVE CARRYBACK ADJUSTMENT ASSESSMENT PERIOD.—Section 6501(m) (relating to tentative carryback adjustment period) is amended—

(A) by striking out "or an investment credit carryback" and inserting in lieu thereof "an investment credit carryback, or a work incentive program carryback", and

(B) by striking out "(h) or (j)" each place it appears and inserting in lieu thereof "(h), (j), or (o)".

(f) EFFECTIVE DATE.—The amendments made by this section shall apply to taxable years beginning after December 31, 1971.

TITLE VII—TAX INCENTIVES FOR CONTRIBUTIONS TO CANDIDATES FOR PUBLIC OFFICE

SEC. 701. ALLOWANCE OF CREDIT.

68A Stat. 12; 79 Stat. 167.

(a) Subpart A of part IV of subchapter A of chapter 1 (relating to credits against tax) is amended by inserting after section 40 (as added by section 601 of this Act) the following new section:

"SEC. 41. CONTRIBUTIONS TO CANDIDATES FOR PUBLIC OFFICE.

"(a) GENERAL RULE.—In the case of an individual, there shall be allowed, subject to the limitations of subsection (b), as a credit against the tax imposed by this chapter for the taxable year, an amount equal to one-half of all political contributions, payment of which is made by the taxpayer within the taxable year.

"(b) LIMITATIONS.—

"(1) MAXIMUM CREDIT.—The credit allowed by subsection (a) for a taxable year shall be limited to $12.50 ($25 in the case of a joint return under section 6013).

84 Stat. 2063.

"(2) APPLICATION WITH OTHER CREDITS.—The credit allowed by subsection (a) shall not exceed the amount of the tax imposed by this chapter for the taxable year reduced by the sum of the credits allowable under section 33 (relating to foreign tax credit), section 35 (relating to partially tax-exempt interest), section 37 (relating to retirement income), and section 38 (relating to investment in certain depreciable property).

76 Stat. 962.

"(3) VERIFICATION.—The credit allowed by subsection (a) shall be allowed, with respect to any political contribution, only if such political contribution is verified in such manner as the Secretary or his delegate shall prescribe by regulations.

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

"(1) POLITICAL CONTRIBUTION.—The term 'political contribution' means a contribution or gift of money to—

"(A) an individual who is a candidate for nomination or election to any Federal, State, or local elective public office in any primary, general, or special election, for use by such individual to further his candidacy for nomination or election to such office;

"(B) any committee, association, or organization (whether or not incorporated) organized and operated exclusively for the purpose of influencing, or attempting to influence, the nomination or election of one or more individuals who are candidates for nomination or election to any Federal, State, or local elective public office, for use by such committee, association, or organization to further the candidacy of such individual or individuals for nomination or election to such office;

"(C) the national committee of a national political party;

"(D) the State committee of a national political party as designated by the national committee of such party; or

"(E) a local committee of a national political party as designated by the State committee of such party designated under subparagraph (D).

"(2) CANDIDATE.—The term 'candidate' means, with respect to any Federal, State, or local elective public office, an individual who—

"(A) has publicly announced that he is a candidate for nomination or election to such office; and

"(B) meets the qualifications prescribed by law to hold such office.

"(3) NATIONAL POLITICAL PARTY.—The term 'national political party' means—

"(A) in the case of contributions made during a taxable year of the taxpayer in which the electors of President and Vice President are chosen, a political party presenting candidates or electors for such offices on the official election ballot of ten or more States, or

"(B) in the case of contributions made during any other taxable year of the taxpayer, a political party which met the qualifications described in subparagraph (A) in the last preceding election of a President and Vice President.

"(4) STATE AND LOCAL.—The term 'State' means the various States and the District of Columbia; and the term 'local' means a political subdivision or part thereof, or two or more political subdivisions or parts thereof, of a State.

"(d) CROSS REFERENCES.—

"For disallowance of credits to estates and trusts, see section 642(a)(3)."

(b) Section 642(a) (relating to credits against tax for estates and trusts) is amended by adding at the end thereof the following new paragraph: 68A Stat. 215; 78 Stat. 32. 26 USC 642.

"(3) POLITICAL CONTRIBUTIONS.—An estate or trust shall not be allowed the credit against tax for political contributions provided by section 41." *Ante*, p. 560.

SEC. 702. DEDUCTION IN LIEU OF CREDIT.

(a) Part VII of subchapter B of chapter 1 (relating to additional itemized deductions for individuals) is amended by redesignating section 218 as 219, and by inserting after section 217 the following new section: 68A Stat. 69; 78 Stat. 50.

"SEC. 218. CONTRIBUTIONS TO CANDIDATES FOR PUBLIC OFFICE.

"(a) ALLOWANCE OF DEDUCTION.—In the case of an individual, there shall be allowed as a deduction any political contribution (as defined

Ante, p. 560.

in section 41(c)(1)) payment of which is made by such individual within the taxable year.

"(b) LIMITATIONS.—

68A Stat. 733; 84 Stat. 2063. 26 USC 6013.

"(1) AMOUNT.—The deduction under subsection (a) shall not exceed $50 ($100 in the case of a joint return under section 6013).

"(2) VERIFICATION.—The deduction under subsection (a) shall be allowed, with respect to any political contribution, only if such political contribution is verified in such manner as the Secretary or his delegate shall prescribe by regulations.

"(c) ELECTION TO TAKE CREDIT IN LIEU OF DEDUCTION.—This section shall not apply in the case of any taxpayer who, for the taxable year, elects to take the credit against tax provided by section 41 (relating to credit against tax for contributions to candidates for public office). Such election shall be made in such manner and at such time as the Secretary or his delegate shall prescribe by regulations.

"(d) CROSS REFERENCE.—

"For disallowance of deduction to estates and trusts, see section 642(i)."

78 Stat. 32.

(b) Section 642 (relating to special rules for credits and deductions for estates and trusts) is amended by redesignating subsection (i) as subsection (j), and by inserting after subsection (h) a new subsection as follows:

"(i) POLITICAL CONTRIBUTIONS.—An estate or trust shall not be allowed the deduction for contributions to candidates for public office provided by section 218."

Ante, p. 561.

(c) The table of sections of part VII of subchapter B of chapter 1 is amended by striking out the last item and inserting in lieu thereof the following:

"Sec. 218. Contributions to candidates for public office.
"Sec. 219. Cross references."

SEC. 703. EFFECTIVE DATE.

The amendments made by this title shall apply to taxable years ending after December 31, 1971, but only with respect to political contributions, payment of which is made after such date.

TITLE VIII—FINANCING OF PRESIDENTIAL ELECTION CAMPAIGNS

SEC. 801. PRESIDENTIAL ELECTION CAMPAIGN FUND ACT.

The Internal Revenue Code of 1954 is amended by adding at the end thereof the following new subtitle:

"Subtitle H—Financing of Presidential Election Campaigns

"Chapter 95. Presidential election campaign fund.
"Chapter 96. Presidential election campaign fund advisory board.

"CHAPTER 95—PRESIDENTIAL ELECTION CAMPAIGN FUND

"Sec. 9001. Short title.
"Sec. 9002. Definitions.
"Sec. 9003. Condition for eligibility for payments.
"Sec. 9004. Entitlement of eligible candidates to payments.
"Sec. 9005. Certification by Comptroller General.
"Sec. 9006. Payments to eligible candidates.
"Sec. 9007. Examinations and audits; repayments.
"Sec. 9008. Information on proposed expenses.

"SEC. 9001. SHORT TITLE.

Citation of title.

"This chapter may be cited as the 'Presidential Election Campaign Fund Act'.

"SEC. 9002. DEFINITIONS.

"For purposes of this chapter—

"(1) The term 'authorized committee' means, with respect to the candidates of a political party for President and Vice President of the United States, any political committee which is authorized in writing by such candidates to incur expenses to further the election of such candidates. Such authorization shall be addressed to the chairman of such political committee, and a copy of such authorization shall be filed by such candidates with the Comptroller General. Any withdrawal of any authorization shall also be in writing and shall be addressed and filed in the same manner as the authorization.

"(2) The term 'candidate' means, with respect to any presidential election, an individual who (A) has been nominated for election to the office of President of the United States or the office of Vice President of the United States by a major party, or (B) has qualified to have his name on the election ballot (or to have the names of electors pledged to him on the election ballot) as the candidate of a political party for election to either such office in 10 or more States. For purposes of paragraphs (6) and (7) of this section and purposes of section 9004(a)(2), the term 'candidate' means, with respect to any preceding presidential election, an individual who received popular votes for the office of President in such election.

"(3) The term 'Comptroller General' means the Comptroller General of the United States.

"(4) The term 'eligible candidates' means the candidates of a political party for President and Vice President of the United States who have met all applicable conditions for eligibility to receive payments under this chapter set forth in section 9003.

"(5) The term 'fund' means the Presidential Election Campaign Fund established by section 9006(a).

"(6) The term 'major party' means, with respect to any presidential election, a political party whose candidate for the office of President in the preceding presidential election received, as the candidate of such party, 25 percent or more of the total number of popular votes received by all candidates for such office.

"(7) The term 'minor party' means, with respect to any presidential election, a political party whose candidate for the office of President in the preceding presidential election received, as the candidate of such party, 5 percent or more but less than 25 percent of the total number of popular votes received by all candidates for such office.

"(8) The term 'new party' means, with respect to any presidential election, a political party which is neither a major party nor a minor party.

"(9) The term 'political committee' means any committee, association, or organization (whether or not incorporated) which accepts contributions or makes expenditures for the purpose of influencing, or attempting to influence, the nomination or election of one or more individuals to Federal, State, or local elective public office.

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"(10) The term 'presidential election' means the election of presidential and vice-presidential electors.

"(11) The term 'qualified campaign expense' means an expense—

"(A) incurred (i) by the candidate of a political party for the office of President to further his election to such office or to further the election of the candidate of such political party for the office of Vice President, or both (ii) by the candidate of a political party for the office of Vice President to further his election to such office or to further the election of the candidate of such political party for the office of President, or both, or (iii) by an authorized committee of the candidates of a political party for the offices of President and Vice President to further the election of either or both of such candidates to such offices,

"(B) incurred within the expenditure report period (as defined in paragraph (12)), or incurred before the beginning of such period to the extent such expense is for property, services, or facilities used during such period, and

"(C) neither the incurring nor payment of which constitutes a violation of any law of the United States or of the State in which such expense is incurred or paid.

An expense shall be considered as incurred by a candidate or an authorized committee if it is incurred by a person authorized by such candidate or such committee, as the case may be, to incur such expense on behalf of such candidate or such committee. If an authorized committee of the candidates of a political party for President and Vice President of the United States also incurs expenses to further the election of one or more other individuals to Federal, State, or local elective public office, expenses incurred by such committee which are not specifically to further the election of such other individual or individuals shall be considered as incurred to further the election of such candidates for President and Vice President in such proportion as the Comptroller General prescribes by rules or regulations.

"(12) The term 'expenditure report period' with respect to any presidential election means—

"(A) in the case of a major party, the period beginning with the first day of September before the election, or, if earlier, with the date on which such major party at its national convention nominated its candidate for election to the office of President of the United States, and ending 30 days after the date of the presidential election; and

"(B) in the case of a party which is not a major party, the same period as the expenditure report period of the major party which has the shortest expenditure report period for such presidential election under subparagraph (A).

"SEC. 9003. CONDITION FOR ELIGIBILITY FOR PAYMENTS.

"(a) IN GENERAL.—In order to be eligible to receive any payments under section 9006, the candidates of a political party in a presidential election shall, in writing—

"(1) agree to obtain and furnish to the Comptroller General such evidence as he may request of the qualified campaign expenses with respect to which payment is sought,

"(2) agree to keep and furnish to the Comptroller General such records, books, and other information as he may request,

"(3) agree to an audit and examination by the Comptroller General under section 9007 and to pay any amounts required to be paid under such section, and

"(4) agree to furnish statements of qualified campaign expenses and proposed qualified campaign expenses required under section 9008.

"(b) MAJOR PARTIES.—In order to be eligible to receive any payments under section 9006, the candidates of a major party in a presidential election shall certify to the Comptroller General, under penalty of perjury, that—

"(1) such candidates and their authorized committees will not incur qualified campaign expenses in excess of the aggregate payments to which they will be entitled under section 9004, and

"(2) no contributions to defray qualified campaign expenses have been or will be accepted by such candidates or any of their authorized committees except to the extent necessary to make up any deficiency in payments received out of the fund on account of the application of section 9006(c), and no contributions to defray expenses which would be qualified campaign expenses but for subparagraph (C) of section 9002(11) have been or will be accepted by such candidates or any of their authorized committees.

Such certification shall be made within such time prior to the day of the presidential election as the Comptroller General shall prescribe by rules or regulations.

"(c) MINOR AND NEW PARTIES.—In order to be eligible to receive any payments under section 9006, the candidates of a minor or new party in a presidential election shall certify to the Comptroller General, under penalty of perjury, that—

"(1) such candidates and their authorized committees will not incur qualified campaign expenses in excess of the aggregate payments to which the eligible candidates of a major party are entitled under section 9004, and

"(2) such candidates and their authorized committees will accept and expend or retain contributions to defray qualified campaign expenses only to the extent that the qualified campaign expenses incurred by such candidates and their authorized committees certified to under paragraph (1) exceed the aggregate payments received by such candidates out of the fund pursuant to section 9006.

Such certification shall be made within such time prior to the day of the presidential election as the Comptroller General shall prescribe by rules or regulations.

"SEC. 9004. ENTITLEMENT OF ELIGIBLE CANDIDATES TO PAYMENTS.

"(a) IN GENERAL.—Subject to the provisions of this chapter—

"(1) The eligible candidates of a major party in a presidential election shall be entitled to payments under section 9006 equal in the aggregate to 15 cents multiplied by the total number of residents within the United States who have attained the age of 18, as determined by the Bureau of the Census, as of the first day of June of the year preceding the year of the presidential election.

"(2)(A) The eligible candidates of a minor party in a presidential election shall be entitled to payments under section 9006 equal in the aggregate to an amount which bears the same ratio to the amount computed under paragraph (1) for a major party as the number of popular votes received by the candidate for President of the minor party, as such candidate, in the preceding presidential election bears to the average number of popular votes received by the candidates for President of the major parties in the preceding presidential election.

"(B) If the candidate of one or more political parties (not including a major party) for the office of President was a candidate for such office in the preceding presidential election and

received 5 percent or more but less than 25 percent of the total number of popular votes received by all candidates for such office, such candidate and his running mate for the office of Vice President, upon compliance with the provisions of section 9003 (a) and (c), shall be treated as eligible candidates entitled to payments under section 9006 in an amount computed as provided in subparagraph (A) by taking into account all the popular votes received by such candidate for the office of President in the preceding presidential election. If eligible candidates of a minor party are entitled to payments under this subparagraph, such entitlement shall be reduced by the amount of the entitlement allowed under subparagraph (A).

"(3) The eligible candidates of a minor party or a new party in a presidential election whose candidate for President in such election receives, as such candidate, 5 percent or more of the total number of popular votes cast for the office of President in such election shall be entitled to payments under section 9006 equal in the aggregate to an amount which bears the same ratio to the amount computed under paragraph (1) for a major party as the number of popular votes received by such candidate in such election bears to the average number of popular votes received in such election by the candidates for President of the major parties. In the case of eligible candidates entitled to payments under paragraph (2), the amount allowable under this paragraph shall be limited to the amount, if any, by which the entitlement under the preceding sentence exceeds the amount of the entitlement under paragraph (2).

"(b) LIMITATIONS.—The aggregate payments to which the eligible candidates of a political party shall be entitled under subsections (a) (2) and (3) with respect to a presidential election shall not exceed an amount equal to the lower of—

"(1) the amount of qualified campaign expenses incurred by such eligible candidates and their authorized committees, reduced by the amount of contributions to defray qualified campaign expenses received and expended or retained by such eligible candidates and such committees, or

"(2) the aggregate payments to which the eligible candidates of a major party are entitled under subsection (a) (1), reduced by the amount of contributions described in paragraph (1) of this subsection.

"(c) RESTRICTIONS.—The eligible candidates of a political party shall be entitled to payments under subsection (a) only—

"(1) to defray qualified campaign expenses incurred by such eligible candidates or their authorized committees, or

"(2) to repay loans the proceeds of which were used to defray such qualified campaign expenses, or otherwise to restore funds (other than contributions to defray qualified campaign expenses received and expended by such candidates or such committees) used to defray such qualified campaign expenses.

"SEC. 9005. CERTIFICATION BY COMPTROLLER GENERAL.

"(a) INITIAL CERTIFICATIONS.—On the basis of the evidence, books, records, and information furnished by the eligible candidates of a political party and prior to examination and audit under section 9007, the Comptroller General shall certify from time to time to the Secretary for payment to such candidates under section 9006 the payments to which such candidates are entitled under section 9004.

"(b) FINALITY OF CERTIFICATIONS AND DETERMINATIONS.—Initial certifications by the Comptroller General under subsection (a), and all determinations made by him under this chapter, shall be final and con-

clusive, except to the extent that they are subject to examination and audit by the Comptroller General under section 9007 and judicial review under section 9011.

"SEC. 9006. PAYMENTS TO ELIGIBLE CANDIDATES.

"(a) ESTABLISHMENT OF CAMPAIGN FUND.—There is hereby established on the books of the Treasury of the United States a special fund to be known as the 'Presidential Election Campaign Fund'. The Secretary shall maintain in the fund (1) a separate account for the candidates of each major party, each minor party, and each new party for which a specific designation is made under section 6096 for payment into an account in the fund and (2) a general account for which no specific designation is made. The Secretary shall, as provided by appropriation Acts, transfer to each account in the fund an amount not in excess of the sum of the amounts designated (subsequent to the previous presidential election) to such account by individuals under section 6096 for payment into such account of the fund.

Post, p. 573.

"(b) TRANSFER TO THE GENERAL FUND.—If, after a presidential election and after all eligible candidates have been paid the amount which they are entitled to receive under this chapter, there are moneys remaining in any account in the fund, the Secretary shall transfer the moneys so remaining to the general fund of the Treasury.

"(c) PAYMENTS FROM THE FUND.—Upon receipt of a certification from the Comptroller General under section 9005 for payment to the eligible candidates of a political party, the Secretary shall pay to such candidates out of the specific account in the fund for such candidates the amount certified by the Comptroller General. Payments to eligible candidates from the account designated for them shall be limited to the amounts in such account at the time of payment. Amounts paid to any such candidates shall be under the control of such candidates.

"(d) TRANSFERS FROM GENERAL ACCOUNT TO SEPARATE ACCOUNTS.—

"(1) If, on the 60th day prior to the presidential election, the moneys in any separate account in the fund are less than the aggregate entitlement under section 9004(a)(1) or (2) of the eligible candidates to which such account relates, 80 percent of the amount in the general account shall be transferred to the separate accounts (whether or not all the candidates to which such separate accounts relate are eligible candidates) in the ratio of the entitlement under section 9004(a)(1) or (2) of the candidates to which such accounts relate. No amount shall be transferred to any separate account under the preceding sentence which, when added to the moneys in that separate account prior to any payment out of that account during the calendar year, would be in excess of the aggregate entitlement under section 9004(a)(1) or (2) of the candidates to whom such account relates.

"(2) If, at the close of the expenditure report period, the moneys in any separate account in the fund are not sufficient to satisfy any unpaid entitlement of the eligible candidates to which such account relates, the balance in the general account shall be transferred to the separate accounts in the following manner:

"(A) For the separate account of the candidates of a major party, compute the percentage which the average number of popular votes received by the candidates for President of the major parties is of the total number of popular votes cast for the office of President in the election.

"(B) For the separate account of the candidates of a minor or new party, compute the percentage which the popular votes received for President by the candidate to which such account relates is of the total number of popular votes cast for the office of President in the election.

"(C) In the case of each separate account, multiply the applicable percentage obtained under subparagraph (A) or (B) for such account by the amount of the money in the general account prior to any distribution made under paragraph (1), and transfer to such separate account an amount equal to the excess of the product of such multiplication over the amount of any distribution made under such paragraph to such account.

"SEC. 9007. EXAMINATIONS AND AUDITS; REPAYMENTS.

"(a) EXAMINATIONS AND AUDITS.—After each presidential election, the Comptroller General shall conduct a thorough examination and audit of the qualified campaign expenses of the candidates of each political party for President and Vice President.

"(b) REPAYMENTS.—

"(1) If the Comptroller General determines that any portion of the payments made to the eligible candidates of a political party under section 9006 was in excess of the aggregate payments to which candidates were entitled under section 9004, he shall so notify such candidates, and such candidates shall pay to the Secretary an amount equal to such portion.

"(2) If the Comptroller General determines that the eligible candidates of a political party and their authorized committees incurred qualified campaign expenses in excess of the aggregate payments to which the eligible candidates of a major party were entitled under section 9004, he shall notify such candidates of the amount of such excess and such candidates shall pay to the Secretary an amount equal to such amount.

"(3) If the Comptroller General determines that the eligible candidates of a major party or any authorized committee of such candidates accepted contributions (other than contributions to make up deficiencies in payments out of the fund on account of the application of section 9006(c)) to defray qualified campaign expenses (other than qualified campaign expenses with respect to which payment is required under paragraph (2)), he shall notify such candidates of the amount of the contributions so accepted, and such candidates shall pay to the Secretary an amount equal to such amount.

"(4) If the Comptroller General determines that any amount of any payment made to the eligible candidates of a political party under section 9006 was used for any purpose other than—

"(A) to defray the qualified campaign expenses with respect to which such payment was made, or

"(B) to repay loans the proceeds of which were used, or otherwise to restore funds (other than contributions to defray qualified campaign expenses which were received and expended) which were used, to defray such qualified campaign expenses,

he shall notify such candidates of the amount so used, and such candidates shall pay to the Secretary an amount equal to such amount.

"(5) No payment shall be required from the eligible candidates of a political party under this subsection to the extent that such payment, when added to other payments required from such candidates under this subsection, exceeds the amount of payments received by such candidates under section 9006.

Time limitation.

"(c) NOTIFICATION.—No notification shall be made by the Comptroller General under subsection (b) with respect to a presidential election more than 3 years after the day of such election.

"(d) DEPOSIT OF REPAYMENTS.—All payments received by the Secretary under subsection (b) shall be deposited by him in the general fund of the Treasury.

"SEC. 9008. INFORMATION ON PROPOSED EXPENSES.

"(a) REPORTS BY CANDIDATES.—The candidates of a political party for President and Vice President in a presidential election shall, from time to time as the Comptroller General may require, furnish to the Comptroller General a detailed statement, in such form as the Comptroller General may prescribe, of—

"(1) the qualified campaign expenses incurred by them and their authorized committees prior to the date of such statement (whether or not evidence of such expenses has been furnished for purposes of section 9005), and

"(2) the qualified campaign expenses which they and their authorized committees propose to incur on or after the date of such statement.

The Comptroller General shall require a statement under this subsection from such candidates of each political party at least once each week during the second, third, and fourth weeks preceding the day of the presidential election and at least twice during the week preceding such day.

"(b) PUBLICATION.—The Comptroller General shall, as soon as possible after he receives each statement under subsection (a), prepare and publish a summary of such statement, together with any other data or information which he deems advisable, in the Federal Register. Such summary shall not include any information which identifies any individual who made a designation under section 6096.

Publication in Federal Register.

Post, p. 573.

"SEC. 9009. REPORTS TO CONGRESS; REGULATIONS.

"(a) REPORTS.—The Comptroller General shall, as soon as practicable after each presidential election, submit a full report to the Senate and House of Representatives setting forth—

"(1) the qualified campaign expenses (shown in such detail as the Comptroller General determines necessary) incurred by the candidates of each political party and their authorized committees;

"(2) the amounts certified by him under section 9005 for payment to the eligible candidates of each political party; and

"(3) the amount of payments, if any, required from such candidates under section 9007, and the reasons for each payment required.

Each report submitted pursuant to this section shall be printed as a Senate document.

"(b) REGULATIONS, ETC.—The Comptroller General is authorized to prescribe such rules and regulations, to conduct such examinations and audits (in addition to the examinations and audits required by section 9007(a)), to conduct such investigations, and to require the keeping and submission of such books, records, and information, as he deems necessary to carry out the functions and duties imposed on him by this chapter.

"SEC. 9010. PARTICIPATION BY COMPTROLLER GENERAL IN JUDICIAL PROCEEDINGS.

"(a) APPEARANCE BY COUNSEL.—The Comptroller General is authorized to appear in and defend against any action filed under section 9011, either by attorneys employed in his office or by counsel whom he may appoint without regard to the provisions of title 5, United States Code, governing appointments in the competitive service, and whose compensation he may fix without regard to the provisions of chapter 51 and subchapter III of chapter 53 of such title.

5 USC 101 *et seq.*

5 USC 5101, 5331.

"(b) RECOVERY OF CERTAIN PAYMENTS.—The Comptroller General is authorized through attorneys and counsel described in subsection (a) to appear in the district courts of the United States to seek recovery of any amounts determined to be payable to the Secretary as a result of examination and audit made pursuant to section 9007.

"(c) DECLARATORY AND INJUNCTIVE RELIEF.—The Comptroller General is authorized through attorneys and counsel described in subsection (a) to petition the courts of the United States for declaratory or injunctive relief concerning any civil matter covered by the provisions of this subtitle or section 6096. Upon application of the Comptroller General, an action brought pursuant to this subsection shall be heard and determined by a court of three judges in accordance with the provisions of section 2284 of title 28, United States Code, and any appeal shall lie to the Supreme Court. It shall be the duty of the judges designated to hear the case to assign the case for hearing at the earliest practicable date, to participate in the hearing and determination thereof, and to cause the case to be in every way expedited.

Post, p. 573.

62 Stat. 968; 74 Stat. 201.

"(d) APPEAL.—The Comptroller General is authorized on behalf of the United States to appeal from, and to petition the Supreme Court for certiorari to review, judgments or decrees entered with respect to actions in which he appears pursuant to the authority provided in this section.

"SEC. 9011. JUDICIAL REVIEW.

"(a) REVIEW OF CERTIFICATION, DETERMINATION, OR OTHER ACTION BY THE COMPTROLLER GENERAL.—Any certification, determination, or other action by the Comptroller General made or taken pursuant to the provisions of this chapter shall be subject to review by the United States Court of Appeals for the District of Columbia upon petition filed in such Court by any interested person. Any petition filed pursuant to this section shall be filed within thirty days after the certification, determination, or other action by the Comptroller General for which review is sought.

"(b) SUITS TO IMPLEMENT CHAPTER.—

"(1) The Comptroller General, the national committee of any political party, and individuals eligible to vote for President are authorized to institute such actions, including actions for declaratory judgment or injunctive relief, as may be appropriate to implement or contrue any provision of this chapter.

"(2) The district courts of the United States shall have jurisdiction of proceedings instituted pursuant to this subsection and shall exercise the same without regard to whether a person asserting rights under provisions of this subsection shall have exhausted any administrative or other remedies that may be provided at law. Such proceedings shall be heard and determined by a court of three judges in accordance with the provisions of section 2284 of title 28, United States Code, and any appeal shall lie to the Supreme Court. It shall be the duty of the judges designated to hear the case to assign the case for hearing at the earliest practicable date, to participate in the hearing and determination thereof, and to cause the case to be in every way expedited.

"SEC. 9012. CRIMINAL PENALTIES.

"(a) EXCESS CAMPAIGN EXPENSES.—

"(1) It shall be unlawful for an eligible candidate of a political party for President and Vice President in a presidential election or any of his authorized committees knowingly and willfully to incur qualified campaign expenses in excess of the aggregate payments to which the eligible candidates of a major party are entitled under section 9004 with respect to such election.

"(2) Any person who violates paragraph (1) shall be fined not more than $5,000, or imprisoned not more than one year or both. In the case of a violation by an authorized committee, any officer or member of such committee who knowingly and willfully consents to such violation shall be fined not more than $5,000, or imprisoned not more than one year, or both.

"(b) CONTRIBUTIONS.—

"(1) It shall be unlawful for an eligible candidate of a major party in a presidential election or any of his authorized committees knowingly and willfully to accept any contribution to defray qualified campaign expenses, except to the extent necessary to make up any deficiency in payments received out of the fund on account of the application of section 9006(c), or to defray expenses which would be qualified campaign expenses but for subparagraph (C) of section 9002(11).

"(2) It shall be unlawful for an eligible candidate of a political party (other than a major party) in a presidential election or any of his authorized committees knowingly and willfully to accept and expend or retain contributions to defray qualified campaign expenses in an amount which exceeds the qualified campaign expenses incurred with respect to such election by such eligible candidate and his authorized committees.

"(3) Any person who violates paragraph (1) or (2) shall be fined not more than $5,000, or imprisoned not more than one year, or both. In the case of a violation by an authorized committee, any officer or member of such committee who knowingly and willfully consents to such violation shall be fined not more than $5,000, or imprisoned not more than one year, or both.

"(c) UNLAWFUL USE OF PAYMENTS.—

"(1) It shall be unlawful for any person who receives any payment under section 9006, or to whom any portion of any payment received under such section is transferred, knowingly and willfully to use, or authorize the use of, such payment or such portion for any purpose other than—

"(A) to defray the qualified campaign expenses with respect to which such payment was made, or

"(B) to repay loans the proceeds of which were used, or otherwise to restore funds (other than contributions to defray qualified campaign expenses which were received and expended) which were used, to defray such qualified campaign expenses.

"(2) Any person who violates paragraph (1) shall be fined not more than $10,000, or imprisoned not more than five years, or both.

"(d) FALSE STATEMENTS, ETC.—

"(1) It shall be unlawful for any person knowingly and willfully—

"(A) to furnish any false, fictitious, or fraudulent evidence, books, or information to the Comptroller General under this subtitle, or to include in any evidence, books, or information so furnished any misrepresentation of a material fact, or to falsify or conceal any evidence, books, or information relevant to a certification by the Comptroller General or an examination and audit by the Comptroller General under this chapter; or

"(B) to fail to furnish to the Comptroller General any records, books, or information requested by him for purposes of this chapter.

"(2) Any person who violates paragraph (1) shall be fined not more than $10,000, or imprisoned not more than five years, or both.

"(e) KICKBACKS AND ILLEGAL PAYMENTS.—

"(1) It shall be unlawful for any person knowingly and willfully to give or accept any kickback or any illegal payment in connection with any qualified campaign expense of eligible candidates or their authorized committees.

"(2) Any person who violates paragraph (1) shall be fined not more than $10,000, or imprisoned not more than five years, or both.

"(3) In addition to the penalty provided by paragraph (2), any person who accepts any kickback or illegal payment in connection with any qualified campaign expense of eligible candidates or their authorized committees shall pay to the Secretary, for deposit in the general fund of the Treasury, an amount equal to 125 percent of the kickback or payment received.

"(f) UNAUTHORIZED EXPENDITURES AND CONTRIBUTIONS.—

"(1) Except as provided in paragraph (2), it shall be unlawful for any political committee which is not an authorized committee with respect to the eligible candidates of a political party for President and Vice President in a presidential election knowingly and willfully to incur expenditures to further the election of such candidates, which would constitute qualified campaign expenses if incurred by an authorized committee of such candidates, in an aggregate amount exceeding $1,000.

"(2) This subsection shall not apply to (A) expenditures by a broadcaster regulated by the Federal Communications Commission, or by a periodical publication, in reporting the news or in taking editorial positions, or (B) expenditures by any organization described in section 501(c) which is exempt from tax under section 501(a) in communicating to its members the views of that organization.

68A Stat. 163.
26 USC 501.

Penalty.

"(3) Any political committee which violates paragraph (1) shall be fined not more than $5,000, and any officer or member of such committee who knowingly and willfully consents to such violation and any other individual who knowingly and willfully violates paragraph (1) shall be fined not more than $5,000, or imprisoned not more than one year, or both.

"(g) UNAUTHORIZED DISCLOSURE OF INFORMATION.—

"(1) It shall be unlawful for any individual to disclose any information obtained under the provisions of this chapter except as may be required by law.

Penalty.

"(2) Any person who violates paragraph (1) shall be fined not more than $5,000, or imprisoned not more than one year, or both.

"SEC. 9013. EFFECTIVE DATE OF CHAPTER.

"The provisions of this chapter shall take effect on January 1, 1973.

"CHAPTER 96. PRESIDENTIAL ELECTION CAMPAIGN FUND ADVISORY BOARD

"SEC. 9021. ESTABLISHMENT OF ADVISORY BOARD.

"(a) ESTABLISHMENT OF BOARD.—There is hereby established an advisory board to be known as the Presidential Election Campaign Fund Advisory Board (hereinafter in this section referred to as the 'Board'). It shall be the duty and function of the Board to counsel and assist the Comptroller General of the United States in the performance of the duties and functions imposed on him under the Presidential Election Campaign Fund Act.

Ante, p. 563.

"(b) COMPOSITION OF BOARD.—The Board shall be composed of the following members:

"(1) the majority leader and minority leader of the Senate and the Speaker and minority leader of the House of Representatives, who shall serve ex officio;

"(2) two members representing each political party which is a major party (as defined in section 9002(6)), which members shall be appointed by the Comptroller General from recommendations submitted by such political party; and

Ante, p. 563.

"(3) three members representing the general public, which members shall be selected by the members described in paragraphs (1) and (2).

The terms of the first members of the Board described in paragraphs (2) and (3) shall expire on the sixtieth day after the date of the first presidential election following January 1, 1973, and the terms of subsequent members described in paragraphs (2) and (3) shall begin on the sixty-first day after the date of a presidential election and expire on the sixtieth day following the date of the subsequent presidential election. The Board shall elect a Chairman from its members.

"(c) COMPENSATION.—Members of the Board (other than members described in subsection (b)(1) shall receive compensation at the rate of $75 a day for each day they are engaged in performing duties and functions as such members, including traveltime, and, while away from their homes or regular places of business, shall be allowed travel expenses, including per diem in lieu of subsistence, as authorized by law for persons in the Government service employed intermittently.

"(d) STATUS.—Service by an individual as a member of the Board shall not, for purposes of any other law of the United States be considered as service as an officer or employee of the United States."

SEC. 802. MISCELLANEOUS AMENDMENTS.

(a) DESIGNATION OF INCOME TAX PAYMENTS TO PRESIDENTIAL ELECTION CAMPAIGN FUND.—Effective with respect to taxable years ending on or after December 31, 1972, section 6096(a) (relating to designation of income tax payments to the presidential election campaign fund) is amended to read as follows:

80 Stat. 1587.
26 USC 6096.

"(a) IN GENERAL.—Every individual (other than a nonresident alien) whose income tax liability for any taxable year is $1 or more may designate that $1 shall be paid over to the Presidential Election Campaign Fund for the account of the candidates of any specified political party for President and Vice President of the United States, or if no specific account is designated by such individual, for a general account for all candidates for election to the offices of President and Vice President of the United States, in accordance with the provisions of section 9006(a)(1). In the case of a joint return of husband and wife having an income tax liability of $2 or more, each spouse may designate that $1 shall be paid to any such account in the fund."

Ante, p. 567.

(b) REPEAL OF CERTAIN PROVISIONS.—

(1) Sections 303, 304, and 305 of the Presidential Election Campaign Fund Act of 1966 (80 Stat. 1587) are repealed.

31 USC 971-973.

(2) The enactment of subtitle H of the Internal Revenue Code of 1954 by section 801 of this Act is intended to comply with the provisions of section 5 (relating to the Presidential Election Campaign Fund Act of 1966) of the Act entitled "An Act to restore the investment credit and allowance of accelerated depreciation

Ante, p. 562.

31 USC 971 note.
Ante, p. 573.

in the case of certain real property", approved June 13, 1967 (Public Law 90–26, 81 Stat. 58). The provisions of section 6096 of the Internal Revenue Code of 1954, together with the amendments of such section made by subsection (a), shall be applicable only to taxable years ending on or after December 31, 1972.

Approved December 10, 1971.

Public Law 92-179

December 10, 1971
[H. R. 6283]

AN ACT

To extend the period within which the President may transmit to the Congress plans for the reorganization of agencies of the executive branch of the Government, and for other purposes.

Executive reorganization.
Presidential authority, extension.
80 Stat. 394.

Be it enacted by the Senate and House of Representatives of the United States of America in Congress assembled, That (a) section 901(a) of title 5, United States Code, is amended to read as follows:

"(a) The Congress declares that it is the policy of the United States—

"(1) to promote better execution of the laws, more effective management of the executive branch and of its agencies and functions, and expeditious administration of the public business;

"(2) to reduce expenditures and promote economy to the fullest extent consistent with the efficient operation of the Government;

"(3) to increase the efficiency of the operations of the Government to the fullest extent practicable;

"(4) to group, coordinate, and consolidate agencies and functions of the Government, as nearly as may be, according to major purposes;

"(5) to reduce the number of agencies by consolidating those having similar functions under a single head, and to abolish such agencies or functions as may not be necessary for the efficient conduct of the Government; and

"(6) to eliminate overlapping and duplication of effort."

(b) Section 901 of such title is amended by adding at the end thereof the following new subsection:

"(c) The President shall from time to time examine the organization of all agencies and shall determine what changes in such organization are necessary to carry out any policy set forth in subsection (a) of this section."

Reorganization plans.

SEC. 2. (a) Section 903(a) of title 5, United States Code, is amended to read as follows:

"(a) Whenever the President, after investigation, finds that changes in the organization of agencies are necessary to carry out any policy set forth in section 901(a) of this title, he shall prepare a reorganization plan specifying the reorganizations he finds are necessary. Any plan may provide for—

"(1) the transfer of the whole or a part of an agency, or of the whole or a part of the functions thereof, to the jurisdiction and control of another agency;

"(2) the abolition of all or a part of the functions of an agency;

"(3) the consolidation or coordination of the whole or a part of an agency, or of the whole or a part of the functions thereof, with the whole or a part of another agency or the functions thereof;

"(4) the consolidation or coordination of a part of an agency or the functions thereof with another part of the same agency or the functions thereof;

"(5) the authorization of an officer to delegate any of his functions; or