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AUTOMATIC EXTENSION OF SERIES E SAVINGS BONDS

February 5, 1951.—Committed to the Committee of the Whole House on the State of the Union and ordered to be printed

Mr. Doughton, from the Committee on Ways and Means, submitted the following

REPORT

[To accompany H. R. 2268]

The Committee on Ways and Means, to whom was referred the bill (H. R. 2268) to authorize the payment of interest on series E savings bonds retained after maturity, and for other purposes, having considered the same, report favorably thereon without amendment and recommend that the bill do pass.

PURPOSE

The purpose of this bill is to authorize the Secretary of the Treasury to provide a convenient method whereby the owners of matured series E United States savings bonds who do not desire to cash them may, at their option, retain their investment without cashing their bonds and reinvesting the proceeds.

Essential to the foregoing is an amendment of the Internal Revenue Code dealing with the income tax treatment of the interest on the bonds affected.

GENERAL STATEMENT

Your committee is of the opinion that the continuance of the largest possible holding of the securities of the Federal Government in the hands of nonbank investors is an important anti-inflationary measure. Today there are over $58,000,000,000 of savings bonds outstanding, which is nearly $10,000,000,000 more than at the end of World War II financing. Of these bonds approximately $35,000,000,000 are in E bonds alone.

On May 1, 1951, the popular series E bonds bought during the defense and war years will begin to mature. According to the Secretary of the Treasury, during 1951 the maturities will amount to 1.1 billion dollars. Although the holders of these bonds will be free to cash them upon maturity, it is believed that a great many holders will desire to continue their investment in United States savings bonds.

The Secretary of the Treasury outlined to your committee the plan which he proposes for handling these maturing series E bonds. Under this plan the bondholder would be given his choice of—

(1) Accepting cash, according to the original terms of the contract;

(2) Continuing to hold the present bond and earn interest on the maturity value without any action on his part; or

(3) Exchanging his bond for a current income savings bond of series G in authorized denominations.

Under option (1) the owner of any series E bond may receive, if he wishes, full cash payment for his bond at maturity. This is, as stated, in accordance with the original terms of his contract. The Treasury proposals with respect to maturing bonds would not abrogate in any way this right of the investor. Nor would the bondholder's choice of options (2) or (3) preclude the subsequent cashing of his bond.

Your committee is informed that the Treasury proposal with respect to the refunding of savings bonds and their future place in the Government securities structure was formulated after long deliberation and extensive consultation. Many groups and individuals met with Treasury officials and gave time and thought to the refunding measures which would be in the best interests of both the Government and the bondholders. The program which the Treasury has presented to your committee is the result of this cooperative effort.

DETAILED ANALYSIS

Section 1 of the bill would enable the Secretary of the Treasury, with the approval of the President, to offer holders of maturing series E bonds the option of retaining them and earning interest on the maturity values. It would limit the period during which such interest could be earned to 10 years.

Section 2 of the bill provides for an amendment to the Internal Revenue Code relating to tax treatment of interest on maturing series E United States savings bonds. Under existing law a cash-basis taxpayer, generally, is taxable on the interest on savings bonds either in the year of redemption of the bonds or in the year of maturity, whichever first occurs. Inasmuch as the bill, in effect, extends the maturity date of series E savings bonds for those bondholders electing to retain their bonds, it appears appropriate, for tax purposes, to disregard the original maturity date. Accordingly, section 2 of the bill contains an amendment to the Internal Revenue Code providing that, if a taxpayer elects to hold his investment in savings bonds in the manner provided by regulations, interest on the bond will not be taxable in the year of original maturity but the entire amount of interest on the investment will be taxable at redemption or final maturity, whichever is earlier. This provision is not applicable to corporations or to taxpayers who accrue interest on savings bonds annually for tax purposes. The postponement of tax liability is not available where the owner exercises an option which provides for the current payment of interest, as for example where the owner of a series E bond exercises the third option outlined by the Secretary of the Treasury providing for an exchange of the matured series E bond for a series G bond. An amendment is also made to section 42 (b) of the code, which permits taxpayers to elect to accrue interest annually on bonds issued at a discount. The amendment provides that, if a taxpayer retains his investment in a series E bond after the date of original maturity, the increase in redemption price occurring in the taxable year will be subject to the same election under section 42 (b) as the increase in redemption price occurring prior to such date of original maturity. It is also provided that, in the event a taxpayer makes an election under section 42 (b) after the original maturity date of the bond, the amount includible in income in the year of the election will include all prior interest accrued on the bond.

CONCLUSION

Your committee is of the opinion that the savings-bond program has played, and will continue to play, an important part in assuring the financial health of our Nation. It believes that the proposed legislation will aid in the Government's anti-inflationary program and do so in a manner which best serves the convenience of the bondholder.

CHANGES IN EXISTING LAW

In compliance with paragraph 2a of rule XIII of the Rules of the House of Representatives, changes in existing law made by the bill, as introduced, are shown as follows (existing law proposed to be omitted is enclosed in black brackets, new matter is printed in italics, existing law in which no change is proposed is shown in roman).

SUBSECTION (B) OF SECTION 22 OF THE SECOND LIBERTY BOND ACT, AS AMENDED (31 U. S. C. 757c (B))

(b) *(1)* Savings bonds and savings certificates may be issued on an interest-bearing basis, on a discount basis, or on a combination interest-bearing and discount basis and shall mature, in the case of bonds, not more than twenty years, and in the case of certificates, not more than ten years, from the date as of which issued. Such bonds and certificates may be sold at such price or prices, and redeemed before maturity upon such terms and conditions as the Secretary of the Treasury may prescribe: *Provided*, That the interest rate on, and the issue price of, savings bonds and savings certificates and the terms upon which they may be redeemed shall be such as to afford an investment yield not in excess of 3 per centum per annum, compounded semiannually. The denominations of savings bonds and of savings certificates shall be such as the Secretary of the Treasury may from time to time determine and shall be expressed in terms of their maturity values. The Secretary of the Treasury is authorized by regulation to fix the amount of savings bonds and savings certificates issued in any one year that may be held by any one person at any one time.

(2) The Secretary of the Treasury, with the approval of the President, is authorized to provide by regulation that owners of series E savings bonds thereafter maturing may, at their option, retain the matured bonds and earn interest upon the maturity values thereof for not more than ten years at rates consistent with the provisions of paragraph (1).

SECTION 42 OF THE INTERNAL REVENUE CODE

SEC. 42. PERIOD IN WHICH ITEMS OF GROSS INCOME INCLUDED.

(a) GENERAL RULE.—The amount of all items of gross income shall be included in the gross income for the taxable year in which received by the taxpayer, unless, under methods of accounting permitted under section 41, any such amounts are to be properly accounted for as of a different period. In the case of the death of a taxpayer whose net income is computed upon the basis of the accrual method of accounting, amounts (except amounts includible in computing a partner's net income under section 182) accrued only by reason of the death of the taxpayer shall not be included in computing net income for the period in which falls the date of the taxpayer's death.

(b) NON-INTEREST-BEARING OBLIGATIONS ISSUED AT DISCOUNT.—If, in the case of a taxpayer owning any non-interest-bearing obligation issued at a discount and redeemable for fixed amounts increasing at stated intervals *or owning an obligation described in paragraph (2) of subsection (d)*, the increase in the redemption price of such obligation occurring in the taxable year does not (under the method of accounting used in computing his net income) constitute income to him in such year, such taxpayer may, at his election made in his return for any taxable year beginning after December 31, 1940, treat such increase as income received in such taxable year. If any such election is made with respect to any such obligation, it shall apply also to all such obligations owned by the taxpayer at the beginning of the first taxable year to which it applies and to all such obligations thereafter acquired by him and shall be binding for all subsequent taxable years, unless upon application by the taxpayer the Commissioner permits him, subject to such conditions as the Commissioner deems necessary, to change to a different method. In the case of any such obligations owned by the taxpayer at the beginning of the first taxable year to which his election applies, the increase in the redemption price of such obligations occurring between the date of acquisition (*or, in the case of an obligation described in paragraph (2) of subsection (d), the date of acquisition of the series E bond involved*) and the first day of such taxable year shall also be treated as income received in such taxable year.

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(d) MATURED UNITED STATES SAVINGS BONDS.—In the case of a taxpayer who—

(1) holds a series E United States savings bond at the date of maturity, and

(2) pursuant to regulations prescribed under the Second Liberty Bond Act retains his investment in the maturity value of such series E bond in an obligation, other than a current income obligation, which matures not more than ten years from the date of maturity of such series E bond,

the increase in redemption value (to the extent not previously includible in gross income) in excess of the amount paid for such series E bond shall be includible in gross income in the taxable year in which the obligation is finally redeemed or in the taxable year of final maturity, whichever is earlier. The provisions of this subsection shall not apply to a corporation, and shall not apply in the case of any taxable year for which the taxpayer's net income is computed upon the basis of the accrual method of accounting or for which an election made by the taxpayer under subsection (b) is applicable.

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