

## [CHAPTER 419]

## AN ACT

June 25, 1940  
[H. R. 10039]  
[Public, No. 656]

To provide for the expenses of national preparedness by raising revenue and issuing bonds, to provide a method for paying for such bonds, and for other purposes.

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

## TITLE I

## SEC. 1. SHORT TITLE.

Revenue Act of  
1940.

This Act may be cited as the Revenue Act of 1940.

## SEC. 2. SURTAX ON INDIVIDUALS.

53 Stat. 5.  
26 U. S. C., Supp.  
V, § 12 (b).  
Rates of surtax.

Section 12 (b) of the Internal Revenue Code is amended to read as follows:

“(b) **RATES OF SURTAX.**—There shall be levied, collected, and paid for each taxable year upon the surtax net income of every individual a surtax as follows:

“Upon a surtax net income of \$4,000 there shall be no surtax; upon surtax net incomes in excess of \$4,000 and not in excess of \$6,000, 4 per centum of such excess.

“\$80 upon surtax net incomes of \$6,000; and upon surtax net incomes in excess of \$6,000 and not in excess of \$8,000, 6 per centum in addition of such excess.

“\$200 upon surtax net incomes of \$8,000; and upon surtax net incomes in excess of \$8,000 and not in excess of \$10,000, 8 per centum in addition of such excess.

“\$360 upon surtax net incomes of \$10,000; and upon surtax net incomes in excess of \$10,000 and not in excess of \$12,000, 10 per centum in addition of such excess.

“\$560 upon surtax net incomes of \$12,000; and upon surtax net incomes in excess of \$12,000 and not in excess of \$14,000, 12 per centum in addition of such excess.

“\$800 upon surtax net incomes of \$14,000; and upon surtax net incomes in excess of \$14,000 and not in excess of \$16,000, 15 per centum in addition of such excess.

“\$1,100 upon surtax net incomes of \$16,000; and upon surtax net incomes in excess of \$16,000 and not in excess of \$18,000, 18 per centum in addition of such excess.

“\$1,460 upon surtax net incomes of \$18,000; and upon surtax net incomes in excess of \$18,000 and not in excess of \$20,000, 21 per centum in addition of such excess.

“\$1,880 upon surtax net incomes of \$20,000; and upon surtax net incomes in excess of \$20,000 and not in excess of \$22,000, 24 per centum in addition of such excess.

“\$2,360 upon surtax net incomes of \$22,000; and upon surtax net incomes in excess of \$22,000 and not in excess of \$26,000, 27 per centum in addition of such excess.

“\$3,440 upon surtax net incomes of \$26,000; and upon surtax net incomes in excess of \$26,000 and not in excess of \$32,000, 30 per centum in addition of such excess.

“\$5,240 upon surtax net incomes of \$32,000; and upon surtax net incomes in excess of \$32,000 and not in excess of \$38,000, 33 per centum in addition of such excess.

“\$7,220 upon surtax net incomes of \$38,000; and upon surtax net incomes in excess of \$38,000 and not in excess of \$44,000, 36 per centum in addition of such excess.

"\$9,380 upon surtax net incomes of \$44,000; and upon surtax net incomes in excess of \$44,000 and not in excess of \$50,000, 40 per centum in addition of such excess.

"\$11,780 upon surtax net incomes of \$50,000; and upon surtax net incomes in excess of \$50,000 and not in excess of \$60,000, 44 per centum in addition of such excess.

"\$16,180 upon surtax net incomes of \$60,000; and upon surtax net incomes in excess of \$60,000 and not in excess of \$70,000, 47 per centum in addition of such excess.

"\$20,880 upon surtax net incomes of \$70,000; and upon surtax net incomes in excess of \$70,000 and not in excess of \$80,000, 50 per centum in addition of such excess.

"\$25,880 upon surtax net incomes of \$80,000; and upon surtax net incomes in excess of \$80,000 and not in excess of \$90,000, 53 per centum in addition of such excess.

"\$31,180 upon surtax net incomes of \$90,000; and upon surtax net incomes in excess of \$90,000 and not in excess of \$100,000, 56 per centum in addition of such excess.

"\$36,780 upon surtax net incomes of \$100,000; and upon surtax net incomes in excess of \$100,000 and not in excess of \$150,000, 58 per centum in addition of such excess.

"\$65,780 upon surtax net incomes of \$150,000; and upon surtax net incomes in excess of \$150,000 and not in excess of \$200,000, 60 per centum in addition of such excess.

"\$95,780 upon surtax net incomes of \$200,000; and upon surtax net incomes in excess of \$200,000 and not in excess of \$250,000, 62 per centum in addition of such excess.

"\$126,780 upon surtax net incomes of \$250,000; and upon surtax net incomes in excess of \$250,000 and not in excess of \$300,000, 64 per centum in addition of such excess.

"\$158,780 upon surtax net incomes of \$300,000; and upon surtax net incomes in excess of \$300,000 and not in excess of \$400,000, 66 per centum in addition of such excess.

"\$224,780 upon surtax net incomes of \$400,000; and upon surtax net incomes in excess of \$400,000 and not in excess of \$500,000, 68 per centum in addition of such excess.

"\$292,780 upon surtax net incomes of \$500,000; and upon surtax net incomes in excess of \$500,000 and not in excess of \$750,000, 70 per centum in addition of such excess.

"\$467,780 upon surtax net incomes of \$750,000; and upon surtax net incomes in excess of \$750,000 and not in excess of \$1,000,000, 72 per centum in addition of such excess.

"\$647,780 upon surtax net incomes of \$1,000,000; and upon surtax net incomes in excess of \$1,000,000 and not in excess of \$2,000,000, 73 per centum in addition of such excess.

"\$1,377,780 upon surtax net incomes of \$2,000,000; and upon surtax net incomes in excess of \$2,000,000 and not in excess of \$5,000,000, 74 per centum in addition of such excess.

"\$3,597,780 upon surtax net incomes of \$5,000,000; and upon surtax net incomes in excess of \$5,000,000, 75 per centum in addition of such excess."

### SEC. 3. CORPORATION TAX.

(a) TAX ON CORPORATIONS IN GENERAL.—Section 13 (b) of the Internal Revenue Code is amended to read as follows:

"(b) IMPOSITION OF TAX.—There shall be levied, collected, and paid for each taxable year upon the normal-tax net income of every corporation the normal-tax net income of which is more than \$25,000

53 Stat. 7, 863.  
26 U. S. C., Supp.  
V. § 13 (b).  
Post, p. 374.  
Imposition of tax.

26 U. S. C., Supp. V, §§ 14, 231 (a), 201, 361.

General rule.

Alternative tax.

53 Stat. 864.  
26 U. S. C., Supp. V, § 14 (note).

Corporations with normal-tax net incomes of not more than \$25,000.

Foreign corporations.  
*Post*, p. 974.

Nonresident foreign corporations.  
53 Stat. 78.  
26 U. S. C., Supp. V, § 231 (a).

Mutual investment companies.  
53 Stat. 99.  
26 U. S. C., Supp. V, § 362 (b).  
Imposition of tax.  
*Post*, p. 974.

Tax in general.  
53 Stat. 75.  
26 U. S. C., Supp. V, § 211 (a) (1) (A).

Aggregate receipts more than \$24,000.  
53 Stat. 75.  
26 U. S. C., Supp. V, § 211 (a) (2).

Gross income of more than \$24,000.  
53 Stat. 76.  
26 U. S. C., Supp. V, § 211 (c).

(except a corporation subject to the tax imposed by section 14, section 231 (a), Supplement G, or Supplement Q) whichever of the following taxes is the lesser:

“(1) GENERAL RULE.—A tax of 19 per centum of the normal-tax net income; or

“(2) ALTERNATIVE TAX (CORPORATIONS WITH NORMAL-TAX NET INCOME SLIGHTLY MORE THAN \$25,000).—A tax of \$3,775, plus 33 per centum of the amount of the normal-tax net income in excess of \$25,000.”

(b) TAX ON SPECIAL CLASSES OF CORPORATIONS.—Sections 14 (b) and (c) (1) of the Internal Revenue Code are amended to read as follows:

“(b) CORPORATIONS WITH NORMAL-TAX NET INCOMES OF NOT MORE THAN \$25,000.—If the normal-tax net income of the corporation is not more than \$25,000, and if the corporation does not come within one of the classes specified in subsection (c), (d), or (e) of this section, the tax shall be as follows:

“Upon normal-tax net incomes not in excess of \$5,000, 13½ per centum.

“\$675 upon normal-tax net incomes of \$5,000, and upon normal-tax net incomes in excess of \$5,000 and not in excess of \$20,000, 15 per centum in addition of such excess.

“\$2,925 upon normal-tax net incomes of \$20,000, and upon normal-tax net incomes in excess of \$20,000, 17 per centum in addition of such excess.

“(c) FOREIGN CORPORATIONS.—

“(1) In the case of a foreign corporation engaged in trade or business within the United States or having an office or place of business therein, the tax shall be an amount equal to 19 per centum of the normal-tax net income, regardless of the amount thereof.”

(c) TAX ON NONRESIDENT FOREIGN CORPORATIONS.—Section 231 (a) (1) of the Internal Revenue Code is amended by striking out “except that in the case of dividends the rate shall be 10 per centum, and” and by striking out “of 10 per centum”.

(d) TAX ON MUTUAL INVESTMENT COMPANIES.—Section 362 (b) of the Internal Revenue Code is amended to read as follows:

“(b) IMPOSITION OF TAX.—There shall be levied, collected, and paid for each taxable year upon the Supplement Q net income of every mutual investment company a tax equal to 19 per centum of the amount thereof.”

#### SEC. 4. TAX ON NONRESIDENT ALIEN INDIVIDUALS.

(a) TAX IN GENERAL.—Section 211 (a) (1) (A) of the Internal Revenue Code (relating to tax on nonresident alien individuals not engaged in trade or business within the United States and not having an office or place of business therein) is amended by striking out “10 per centum” and inserting in lieu thereof “15 per centum”.

(b) AGGREGATE RECEIPTS MORE THAN \$24,000.—Section 211 (a) (2) of the Internal Revenue Code is amended to read as follows:

“(2) AGGREGATE MORE THAN \$24,000.—The tax imposed by paragraph (1) shall not apply to any individual if the aggregate amount received during the taxable year from the sources therein specified is more than \$24,000.”

(c) TAX WHERE GROSS INCOME OF MORE THAN \$24,000.—Section 211 (c) of the Internal Revenue Code (relating to tax on certain nonresident alien individuals) is amended by striking out “\$21,600” wherever occurring therein and inserting in lieu thereof “\$24,000”; and by striking out “10 per centum” and inserting in lieu thereof “15 per centum”.

**SEC. 5. WITHHOLDING OF TAX AT SOURCE.**

(a) Section 143 of the Internal Revenue Code is amended by striking out "10 per centum" wherever occurring therein and inserting in lieu thereof "15 per centum".

Withholding of tax at source.  
53 Stat. 60, 62.  
26 U. S. C., Supp. V, §§ 143, 144.

(b) Section 144 of the Internal Revenue Code is amended by striking out "except that in the case of dividends the rate shall be 10 per centum, and" and by striking out "of 10 per centum".

(c) The amendments made by this section shall take effect on June 26, 1940.

**SEC. 6. PERSONAL EXEMPTION.**

(a) Section 25 (b) (1) of the Internal Revenue Code is amended to read as follows:

Personalexemption.

"(1) **PERSONAL EXEMPTION.**—In the case of a single person or a married person not living with husband or wife, a personal exemption of \$800; or in the case of the head of a family or a married person living with husband or wife, a personal exemption of \$2,000. A husband and wife living together shall receive but one personal exemption. The amount of such personal exemption shall be \$2,000. If such husband and wife make separate returns, the personal exemption may be taken by either or divided between them."

53 Stat. 18.  
26 U. S. C., Supp. V, § 25 (b) (1).

(b) Section 214 of the Internal Revenue Code (relating to personal exemption of nonresident alien individuals) is amended by striking out "\$1,000" and inserting in lieu thereof "\$800".

53 Stat. 77.  
26 U. S. C., Supp. V, § 214.

(c) Section 251 (f) of the Internal Revenue Code (relating to personal exemption of citizens entitled to benefits of section 251) is amended by striking out "\$1,000" and inserting in lieu thereof "\$800".

53 Stat. 80.  
26 U. S. C., Supp. V, § 251 (f).

**SEC. 7. RETURNS OF INCOME TAX.**

(a) **INDIVIDUAL RETURNS.**—Section 51 (a) of the Internal Revenue Code is amended to read as follows:

Individual returns.  
53 Stat. 27.  
26 U. S. C., Supp. V, § 51 (a).  
Requirement.

"(a) **REQUIREMENT.**—The following individuals shall each make under oath a return stating specifically the items of his gross income and the deductions and credits allowed under this chapter and such other information for the purpose of carrying out the provisions of this chapter as the Commissioner with the approval of the Secretary may by regulations prescribe—

"(1) Every individual who is single or who is married but not living with husband or wife, if having a gross income for the taxable year of \$800 or over.

"(2) Every individual who is married and living with husband or wife, if no joint return is made under subsection (b) and if—

"(A) Such individual has for the taxable year a gross income of \$2,000 or over, and the other spouse has no gross income; or

"(B) Such individual and his spouse each has for the taxable year a gross income and the aggregate gross income is \$2,000 or over."

(b) **FIDUCIARY RETURNS.**—Section 142 (a) of the Internal Revenue Code is amended to read as follows:

Fiduciary returns.  
53 Stat. 60.  
26 U. S. C., Supp. V, § 142 (a).  
Requirement.

"(a) **REQUIREMENT OF RETURN.**—Every fiduciary (except a receiver appointed by authority of law in possession of part only of the property of an individual) shall make under oath a return for any of the following individuals, estates, or trusts for which he acts, stating specifically the items of gross income thereof and the deductions and credits allowed under this chapter and such other information for the purpose of carrying out the provisions of this chapter as the Commis-

sioner with the approval of the Secretary may by regulations prescribe—

“(1) Every individual having a gross income for the taxable year of \$800 or over, if single, or if married and not living with husband or wife;

“(2) Every individual having a gross income for the taxable year of \$2,000 or over, if married and living with husband or wife;

“(3) Every estate the gross income of which for the taxable year is \$800 or over;

“(4) Every trust the net income of which for the taxable year is \$100 or over, or the gross income of which for the taxable year is \$800 or over, regardless of the amount of the net income; and

“(5) Every estate or trust of which any beneficiary is a nonresident alien.”

Information re-  
turns.

53 Stat. 64.  
26 U. S. C., Supp.  
V, § 147 (a).

(c) **INFORMATION RETURNS.**—Section 147 (a) of the Internal Revenue Code (relating to information at the source) is amended by striking out “\$1,000” wherever occurring therein and inserting in lieu thereof “\$800”.

#### SEC. 8. TREATY OBLIGATIONS.

Treaty obligations.

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

#### SEC. 9. TAXABLE YEARS TO WHICH APPLICABLE.

Taxable years to  
which applicable.

The amendments made by this title, except the amendments made by section 5, shall be applicable only with respect to taxable years beginning after December 31, 1939.

## TITLE II

### SEC. 201. INCOME TAX.

53 Stat. 8.  
26 U. S. C., Supp.  
V, § 14.

Chapter 1 of the Internal Revenue Code is amended by inserting after section 14 the following new section:

#### “SEC. 15. DEFENSE TAX FOR FIVE YEARS.

Defense tax.  
Post, p. 974.

“In the case of any taxpayer, the amount of tax under this chapter for any taxable year beginning after December 31, 1939, and before January 1, 1945, shall be 10 per centum greater than the amount of tax computed without regard to this section. In no case shall the effect of this section be to increase the tax computed without regard to this section by more than 10 per centum of the amount by which the net income exceeds such tax. For the purposes of this section, the tax computed without regard to this section shall be such tax before the application of the credit provided in section 31 (‘foreign tax credit’), and the credit provided in section 32 (taxes withheld at the source).”

### SEC. 202. RATES OF WITHHOLDING.

53 Stat. 60.  
26 U. S. C., Supp.  
V, § 143.  
Rates until January  
1945.

Section 143 of the Internal Revenue Code is amended by inserting at the end thereof the following new subsection:

“(h) **RATES UNTIL JANUARY 1945.**—For the period after June 25, 1940, and before January 1, 1945, the rate provided in this section and section 144, of 15 per centum shall be 16½ per centum. This subsection or section 15 shall not apply in any case where its operation would be contrary to any treaty obligation of the United States,

nor to a resident of, or a corporation organized under the laws of, a contiguous country so long as there is in effect with such country a treaty, ratified prior to August 26, 1937, relating to rates of income tax."

#### SEC. 203. PERSONAL HOLDING COMPANIES.

Section 500 of the Internal Revenue Code is amended by inserting "(a) GENERAL RULE.—" before the first paragraph and inserting at the end thereof the following new subsection:

"(b) DEFENSE TAX FOR FIVE YEARS.—In the case of every personal holding company, the amount of surtax under this subchapter for any taxable year beginning after December 31, 1939, and before January 1, 1945, shall be 10 per centum greater than the amount of surtax computed without regard to this subsection."

53 Stat. 104.  
26 U. S. C., Supp.  
V, § 500.  
General rule.

Defense tax.

#### SEC. 204. EXCESS-PROFITS TAX.

Section 600 of the Internal Revenue Code is amended by inserting "(a) GENERAL RULE.—" before the first paragraph and by inserting at the end of such section the following new subsection:

"(b) DEFENSE TAX FOR FIVE YEARS.—In the case of any taxpayer, the amount of tax payable under this section for any income-tax taxable year ending after June 30, 1940, and before July 1, 1945, shall be 10 per centum greater than the amount of tax which would be payable if computed without regard to this subsection."

53 Stat. 111.  
26 U. S. C., Supp.  
V, § 600.  
General rule.

Defense tax.

#### SEC. 205. CAPITAL STOCK TAX.

Section 1200 of the Internal Revenue Code is amended by inserting at the end thereof the following new subsection:

"(c) DEFENSE TAX FOR FIVE YEARS.—For the year ending June 30, 1940, and for the four succeeding years ending June 30, the rates provided in subsections (a) and (b) shall be \$1.10 in lieu of \$1."

53 Stat. 169.  
26 U. S. C., Supp.  
V, § 1200.  
Defense tax.

#### SEC. 206. ESTATE TAX.

Chapter 3 of the Internal Revenue Code is amended by inserting at the end thereof the following new subchapter:

#### "Subchapter C—Defense Tax for Five Years

##### "SEC. 951. DEFENSE TAX FOR FIVE YEARS.

"In the case of a decedent dying after the date of the enactment of the Revenue Act of 1940 and before the expiration of five years after such date, the total amount of tax payable under this chapter shall be 10 per centum greater than the amount of tax which would be payable if computed without regard to this section. For the purposes of this section, the tax computed without regard to this section shall be such tax after the application of the credits provided for in section 813 and section 936."

Defense tax.

#### SEC. 207. GIFT TAX.

Section 1001 of the Internal Revenue Code is amended by adding at the end thereof the following new subsection:

"(d) DEFENSE TAX FOR 1940-1945.—Despite the provisions of subsection (a)—

"(1) The tax for each of the calendar years 1941 to 1945, both inclusive, shall be an amount equal to the excess of—

"(A) 110 per centum of a tax, computed in accordance with the Rate Schedule hereinbefore set forth, on the aggregate sum

53 Stat. 144.  
26 U. S. C., Supp.  
V, § 1001.  
Defense tax for 1940-1945.

Calendar years 1941-1945.

of the net gifts for such calendar year and for each of the preceding calendar years, over

“(B) 110 per centum of a tax, computed in accordance with the said Rate Schedule, on the aggregate sum of the net gifts for each of the preceding calendar years.

Calendar year 1940.

“(2) The tax for the calendar year 1940 shall be the sum of (A) the tax computed under subsection (a), plus (B) an amount which bears the same ratio to 10 per centum of the tax so computed as the amount of gifts made after the date of the enactment of the Revenue Act of 1940 bears to the total amount of gifts made during the year. For the purposes of this paragraph, the term ‘gifts’ does not include gifts which, under section 1003 (b) (2), are not to be included in computing the total amount of gifts made during the calendar year 1940, or gifts which, in the case of a citizen or resident, are allowed as a deduction by section 1004 (a) (2), or gifts which, in the case of a nonresident not a citizen of the United States, are allowed as a deduction by section 1004 (b).”

#### SEC. 208. TAX ON TRANSFERS TO AVOID INCOME TAX.

53 Stat. 172.  
26 U. S. C., Supp.  
V, § 1250.  
General rule.  
Defense tax.

Section 1250 of the Internal Revenue Code is amended by inserting “(a) GENERAL RULE.—” before the first paragraph and inserting at the end thereof the following new subsection:

“(b) DEFENSE TAX FOR FIVE YEARS.—In the case of any transfer during the period after the date of the enactment of the Revenue Act of 1940 and before July 1, 1945, the rate provided in subsection (a) shall be 27½ per centum in lieu of 25 per centum.”

#### SEC. 209. CONTINUATION OF EXCISE TAXES.

Continuation of ex-  
cise taxes.  
53 Stat. 195, 196, 411,  
420, 421, 422, 425.  
26 U. S. C., Supp. V.

Sections 1801, 1802, 3403 (f) (1), 3452, 3460 (a), 3465, 3481 (b), and 3482 of the Internal Revenue Code are amended by striking out “1941” wherever appearing therein and inserting in lieu thereof “1945”.

#### SEC. 210. MISCELLANEOUS EXCISES.

53 Stat. 175.  
26 U. S. C., Supp. V,  
§ 1400.

The Internal Revenue Code is amended by inserting at the end of chapter 9 the following new chapter:

### “CHAPTER 9A—DEFENSE TAX FOR FIVE YEARS

#### “SEC. 1650. DEFENSE TAX FOR FIVE YEARS.

Defense tax.

“(a) In lieu of the rates of tax specified in such of the sections of this title as are set forth in the following table, the rates applicable with respect to the period after June 30, 1940, and before July 1, 1945, shall be the rates set forth under the heading ‘Defense-Tax Rate’:

"Section	Description of tax	Old rate	Defense-tax rate
1700 (b)	Box seats	10 percent	11 percent.
1700 (c)	Sales outside box office	10 percent	11 percent.
1700 (e)	Cabaret	1½ cents	2 cents.
1710 (a) (1)	Dues	10 percent	11 percent.
1710 (a) (2)	Initiation fees	10 percent	11 percent.
1801	Corporate securities	10 cents	11 cents.
1802 (a)	Capital stock issues	10 cents	11 cents.
1802 (a)	Capital stock issues	2 cents	3 cents.
1802 (b)	Capital stock transfers	4 cents	5 cents.
1802 (b)	Capital stock transfers	5 cents	6 cents.
1804	Insurance policies	3 cents	4 cents.
1806	Passage tickets	\$1	\$1.10.
1806	Passage tickets	\$3	\$3.30.
1806	Passage tickets	\$5	\$5.50.
1850 (a)	Safe-deposit boxes	10 percent	11 percent.
2700 (a)	Pistols and revolvers	10 percent	11 percent.
3250 (a) (1)	Wholesalers in liquor	\$100	\$110.
3250 (b)	Retailers in liquor	\$25	\$27.50.
3250 (c)	Brewers	\$100	\$110.
3250 (c)	Brewers	\$50	\$55.
3250 (d)	Wholesalers in malt liquors	\$50	\$55.
3250 (e)	Retailers	\$20	\$22.
3250 (e) (3)	Special cases	\$2	\$2.20.
3250 (f) (1)	Rectifiers	\$200	\$220.
3250 (f) (1)	Rectifiers	\$100	\$110.
3250 (j)	Stills	\$50	\$55.
3250 (j)	Stills	\$20	\$22.
3400 (1)	Tires	2¼ cents	2½ cents.
3400 (2)	Tubes	4 cents	4½ cents.
3401	Toilet preparations	10 percent	11 percent.
3403 (a)	Automobile truck chassis, etc	2 percent	2½ percent.
3403 (b)	Automobiles, etc	3 percent	3½ percent.
3403 (c)	Parts	2 percent	2½ percent.
3404	Radios	5 percent	5½ percent.
3405	Mechanical refrigerators	5 percent	5½ percent.
3407	Firearms	10 percent	11 percent.
3409	Matches	5 cents	5½ cents.
3411	Electrical energy	3 percent	3½ percent.
3412	Gasoline	1 cent	1½ cents.
3413	Lubricating oils	4 cents	4½ cents.
3460 (a) (1), (2), and (3).	Transportation of oil	4 percent	4½ percent.
3481 (a)	Transfer of bonds	4 cents	5 cents.
3482	Conveyances	50 cents	55 cents.

"(b) In the application of section 3441 (c) to the articles with respect to which the rate of tax is increased by this section, where the lease, contract of sale, or conditional sale, and delivery thereunder, was made before July 1, 1940, the total tax referred to in such section shall be the tax at the rate in force on June 30, 1940, and not at the increased rate."

#### SEC. 211. ADMISSIONS TAX.

Section 1700 (a) (1) of the Internal Revenue Code is amended by striking out "until July 1, 1941, is less than 41 cents" and inserting in lieu thereof "until July 1, 1940, is less than 41 cents, and after June 30, 1940, and before July 1, 1945, is less than 21 cents" and by striking out "is less than 41 cents, until July 1, 1941" and inserting in lieu thereof "is less than 41 cents until July 1, 1940, and is less than 21 cents after June 30, 1940, and before July 1, 1945".

53 Stat. 416.  
26 U. S. C., Supp.  
V, § 3441 (c).

Admissions tax.  
53 Stat. 189.  
26 U. S. C., Supp.  
V, § 1700 (a) (1).

## SEC. 212. CIGARETTES.

Cigarettes.  
53 Stat. 219.  
26 U. S. C., Supp.  
V, § 2000.

Subchapter A of chapter 15 of the Internal Revenue Code is amended by inserting at the end thereof the following new sections:

## "SEC. 2004. DEFENSE TAX FOR FIVE YEARS.

Defense tax.

"In lieu of the rates of tax specified in section 2000 (c) (2), the rates of tax for the period after June 30, 1940, and before July 1, 1945, shall be \$3.25 and \$7.80, respectively.

## "SEC. 2005. FLOOR STOCKS TAX.

Floor stocks tax.

"(a) FLOOR STOCKS TAX.—Upon cigarettes subject to tax under section 2000 (c) (2) which on July 1, 1940, are held by any person for sale, there shall be levied, assessed, collected, and paid a floor stocks tax at a rate equal to the increase in rate of tax made applicable to such articles by section 2004.

Returns.

"(b) RETURNS.—Every person required by this section to pay any floor stocks tax shall, on or before August 1, 1940, under such regulations as the Commissioner with the approval of the Secretary shall prescribe, make a return and pay such tax, except that in the case of articles held by manufacturers and importers the Commissioner may collect the tax with respect to all or part of such articles by means of stamp rather than return, and in such case may make an assessment against such manufacturer or importer having tobacco tax stamps on hand July 1, 1940, for the difference between the amount paid for such stamps and the increased rates specified in section 2004.

Laws applicable.

"(c) LAWS APPLICABLE.—All provisions of law, including penalties, applicable in respect of the taxes imposed by section 2000 shall, insofar as applicable and not inconsistent with this section, be applicable with respect to the floor stocks tax imposed by subsection (a)."

## SEC. 213. DISTILLED SPIRITS.

53 Stat. 298.  
26 U. S. C., Supp.  
V, § 2800.

Defense tax.

(a) Section 2800 of the Internal Revenue Code is amended by inserting at the end thereof the following new subsections:

"(g) DEFENSE TAX FOR FIVE YEARS.—In lieu of the rates of tax specified in such of the sections of this title as are set forth in the following table, the rates applicable with respect to the period after June 30, 1940, and before July 1, 1945, shall be the rates set forth under the heading 'Defense-Tax Rate':

"Section	Description of tax	Old rate	Defense-tax rate
2800 (a) (1)-----	Distilled spirits generally-----	\$2.25-----	\$3.
2800 (a) (1)-----	Brandy-----	\$2-----	\$2.75.
2800 (a) (3)-----	Imported perfumes-----	\$2.25-----	\$3.

Floor stocks tax.

## "(h) FLOOR STOCKS TAX.

"(1) Upon all distilled spirits produced in or imported into the United States upon which the internal-revenue tax imposed by law has been paid, and which on July 1, 1940, are held and intended for sale or for use in the manufacture or production of any article intended for sale, there shall be levied, assessed, collected, and paid a floor stocks tax of 75 cents on each proof-gallon, and a proportionate tax at a like rate on all fractional parts of such proof-gallon. The tax imposed by this subsection shall not apply to one hundred wine gallons of the retail stocks of distilled spirits held by a person on premises as to which such person has incurred occupational tax as a retail dealer in liquors for the period begin-

Limited exemp-  
tion of retailer.

ning on July 1, 1940, and as to which no other occupational tax with respect to dealing in distilled spirits has been incurred by such person for a period beginning on such date.

“(2) Every person required by this subsection to pay any floor stocks tax shall, on or before August 1, 1940, under such regulations as the Commissioner, with the approval of the Secretary, shall prescribe, make a return and pay such tax. Payment of the tax shown to be due may be extended to a date not later than February 1, 1941, upon the filing of a bond for payment thereof in such form and amount and with such surety or sureties as the Commissioner, with the approval of the Secretary, may prescribe. Every retail dealer in liquors (even though not liable to pay such tax) shall make the return required by this paragraph.

“(3) All provisions of law, including penalties, applicable in respect of internal-revenue taxes on distilled spirits shall, insofar as applicable and not inconsistent with this subsection, be applicable in respect of the floor stocks tax imposed hereunder.”

(b) The third paragraph of section 2887 of the Internal Revenue Code (relating to drawback on distilled spirits) is amended by striking out “but shall not exceed a rate of \$2.25 (or, in the case of brandy, \$2)” and inserting in lieu thereof “but shall not exceed a rate of \$3 (or, in the case of brandy, \$2.75)”.

Returns.

Extension of payment; bond.

Laws applicable.

Drawback on distilled spirits.  
53 Stat. 339.  
26 U. S. C., Supp. V, § 2887.

**SEC. 214. WINES AND FERMENTED MALT LIQUORS.**

Chapter 26 of the Internal Revenue Code is amended by inserting at the end thereof the following new subchapter:

53 Stat. 298.  
26 U. S. C., Supp. V, § 2800.

**“Subchapter F—Defense Tax for Five Years**

**“SEC. 3190. DEFENSE TAX FOR FIVE YEARS.**

“In lieu of the rates of tax specified in such of the sections of this title as are set forth in the following table, the rates applicable with respect to the period after June 30, 1940, and before July 1, 1945, shall be the rates set forth under the heading ‘Defense-tax Rate’:

Defense tax.  
Ante, pp. 513, 514.

“Section	Description of tax	Old rate	Defense-tax rate
3030 (a) (1) (A)---	Still wines-----	5 cents-----	6 cents.
3030 (a) (1) (A)---	Still wines-----	15 cents-----	18 cents.
3030 (a) (1) (A)---	Still wines-----	25 cents-----	30 cents.
3030 (a) (2)-----	Sparkling wines-----	2½ cents-----	3 cents.
3030 (a) (2)-----	Sparkling wines-----	1¼ cents-----	1½ cents.
3030 (a) (2)-----	Liqueurs, cordials, etc-----	1¼ cents-----	1½ cents.
3150 (a)-----	Fermented malt liquors-----	\$5-----	\$6.

**“SEC. 3191. FLOOR STOCKS TAX ON FERMENTED MALT LIQUORS.**

“(a) FLOOR STOCKS TAX.—Upon all fermented malt liquors upon which the internal-revenue tax imposed by law has been paid, and which on July 1, 1940, are held by any person and intended for sale there shall be levied, assessed, collected, and paid a floor stocks tax at a rate equal to the increase in rate of tax made applicable to such articles by section 3190. The tax imposed by this subsection shall not apply to the retail stocks of fermented malt liquors held by a person on premises as to which such person has incurred occupational tax as a retail dealer in liquors or a retail dealer in malt liquors for the period beginning on July 1, 1940, and as to which no other occupational tax with respect to dealing in distilled spirits, wines, or malt liquors, has been incurred by such person for a period beginning on such date.

Floor stocks tax.

Exemption of certain retail stocks.

## Returns.

“(b) RETURNS.—Every person required by subsection (a) to pay any floor stocks tax shall, on or before August 1, 1940, under such regulations as the Commissioner with the approval of the Secretary shall prescribe, make a return and pay such tax. Payment of the tax shown to be due may be extended to a date not later than February 1, 1941, upon the filing of a bond for payment thereof in such form and amount and with such surety or sureties as the Commissioner, with the approval of the Secretary, may prescribe.

## Extension of payment; bond.

Laws applicable.  
53 Stat. 365.  
26 U. S. C., Supp.  
V, § 3150.

“(c) LAWS APPLICABLE.—All provisions of law, including penalties, applicable in respect of the taxes imposed by section 3150 (a) shall, insofar as applicable and not inconsistent with this subsection, be applicable with respect to the floor stocks tax imposed by subsection (a).”

## SEC. 215. PLAYING CARDS.

53 Stat. 199.  
26 U. S. C., Supp.  
V, § 1807.  
General rule.

Section 1807 of the Internal Revenue Code is amended by inserting “(a) GENERAL RULE.—” before the first paragraph and inserting at the end thereof the following new subsection:

## Defense tax.

“(b) DEFENSE TAX FOR FIVE YEARS.—In lieu of the rate of tax specified in subsection (a), the rate of tax for the period after June 30, 1940, and before July 1, 1945, shall be 11 cents.”

## SEC. 216. CREDITS ON TAX ON AUTOMOBILES, ETC.

Credits on tax on automobiles, etc.  
53 Stat. 410.  
26 U. S. C., Supp.  
V, § 3403 (e).

Section 3403 (e) of the Internal Revenue Code is amended by adding at the end thereof the following new sentence: “With respect to the period after June 30, 1940, and before July 1, 1945, the rates of the credits above provided shall, in lieu of 2 per centum and 3 per centum, be 2½ per centum and 3½ per centum, respectively.”

## TITLE III

## Special fund for retirement of certain obligations.

53 Stat. 189.  
26 U. S. C., Supp.  
V, § 1700 (a) (1).

SEC. 301. The Secretary of the Treasury shall, as soon as practicable after the end of each quarter, determine the additional amount of taxes collected attributable to the increases in taxes made, and to the floor stocks taxes imposed, by the amendments to the Internal Revenue Code in title II of this Act (not including the amount of taxes attributable solely to section 209 and not including any amount collected under section 1700 (a) (1) of the Internal Revenue Code attributable to a basic admission charge of more than 40 cents), and the amounts so determined shall be set aside as a special fund which shall be available only for the retirement of any of the obligations issued pursuant to the authority contained in section 21 (b) of the Second Liberty Bond Act, as amended. If at any time the amounts in the fund are not sufficient for such purpose, the Secretary of the Treasury is authorized and directed to transfer to the fund moneys out of the general fund of the Treasury. Any amounts in the special fund not necessary for the retirement of such obligations shall be deposited in the general fund of the Treasury.

## Infra.

52 Stat. 447.  
31 U. S. C., Supp.  
V, § 757b.

## Issuance of additional obligations for national defense expenditures.

SEC. 302. Section 21 of the Second Liberty Bond Act, as amended, is hereby further amended by inserting “(a)” after “21.” and by adding at the end of such section a new paragraph as follows:

## “National Defense Series.”

“(b) In addition to the amount authorized by the preceding paragraph of this section, any obligations authorized by sections 5 and 18 of this Act, as amended, not to exceed in the aggregate \$4,000,000,000 outstanding at any one time, less any retirements made from the special fund made available under section 301 of the Revenue Act of 1940, may be issued under said sections to provide the Treasury with funds to meet any expenditures made, after June 30, 1940, for the national defense, or to reimburse the general fund of the Treasury therefor. Any such obligations so issued shall be designated ‘National Defense Series.’”

TITLE IV

SEC. 401. Section 205 of the Public Salary Tax Act of 1939 is amended by adding at the end thereof a new sentence to read as follows: "If the amount of the deficiency in income tax for any taxable year beginning before January 1, 1939, attributable to compensation paid indirectly by the United States, or any agency or instrumentality thereof, for personal service as an officer or employee of a State, or any political subdivision thereof, or any agency or instrumentality of any of the foregoing, is paid on or before March 15, 1941, then with respect to failure to pay such amount or make return of such compensation: (a) No criminal penalty shall apply; and (b) the additions to tax provided in sections 291 and 293 of the Internal Revenue Code shall not apply."

Deficiency in income tax.  
53 Stat. 576.  
26 U. S. C., Supp. V, § 22 (note).

53 Stat. 88.  
26 U. S. C., Supp. V, §§ 291, 293.

Approved, June 25, 1940, 11:45 a. m., E. S. T.

[CHAPTER 420]

AN ACT

To transfer the active list of the Construction Corps to the line of the Navy; and for other purposes.

June 25, 1940  
[S. 4027]

[Public, No. 657]

Be it enacted by the Senate and House of Representatives of the United States of America in Congress assembled, That the Construction Corps of the Navy is hereby abolished, but nothing herein shall affect the status, rights, or obligations of any officer now on the retired list of the Construction Corps.

Construction Corps of the Navy, abolishment.  
Retired officers not affected.

NAVAL CONSTRUCTORS TRANSFERRED TO THE LINE: STATUS UPON TRANSFER

SEC. 2. Officers now on the active list of the Construction Corps are hereby transferred to the line of the Navy, and shall be commissioned accordingly. Each officer so transferred shall—

Transfer of officers on active list to the line

Designation, rank, etc.

- (a) Be designated for engineering duty only.
- (b) Occupy the rank and grade corresponding to those held by him in the Construction Corps.
- (c) Continue amenable to disciplinary action to the same extent in all respects as if not transferred.
- (d) Be an additional number in the grade to which transferred and in any grade to which he may thereafter be promoted.
- (e) Have the lineal position and precedence in the line which a board of naval officers finds that he would have had if he had remained in the line or if his original appointment had been in the line, and the finding of such board when approved by the Secretary of the Navy shall be conclusive for all purposes: *Provided*, That the existing relative rank, precedence, or seniority among themselves of officers transferred by this Act shall not be altered by such transfer.
- (f) Except as herein otherwise provided, be governed by the provisions of existing laws and of laws hereafter enacted relating to line officers assigned to engineering duty only.

ADJUSTMENT OF STATUS

SEC. 3. For the purpose of adjusting the status in the line of the officers transferred thereto by this Act, the following shall govern with respect to such officers:

Adjustment of status in the line.

- (a) Each officer shall become eligible for consideration by a line selection board as of the date the next junior line officer becomes eligible therefor, subject to the provisions of section 7 (a) of this Act, and the same eligibility rule shall apply to all other officers designated for engineering duty only.

Eligibility for consideration by line selection board.