Public Law 88-272

AN ACT

February 26, 1964
[H. R. 8363]

To amend the Internal Revenue Code of 1954 to reduce individual and corporate income taxes, to make certain structural changes with respect to the income tax, 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 1964.

SECTION 1. DECLARATION BY CONGRESS.

It is the sense of Congress that the tax reduction provided by this Act through stimulation of the economy, will, after a brief transitional period, raise (rather than lower) revenues and that such revenue increases should first be used to eliminate the deficits in the administrative budgets and then to reduce the public debt. To further the objective of obtaining balanced budgets in the near future, Congress by this action, recognizes the importance of taking all reasonable means to restrain Government spending and urges the President to declare his accord with this objective.

SEC. 2. SHORT TITLE, ETC.

(a) SHORT TITLE.—This Act may be cited as the "Revenue Act of 1964".

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

68A Stat. 3.

Title I—Reduction Of Income Tax Rates And Related Amendments

PART I—INDIVIDUALS

SEC. 111. REDUCTION OF TAX ON INDIVIDUALS.

(a) INDIVIDUALS OTHER THAN HEADS OF HOUSEHOLDS.—Subsection (a) of section 1 (relating to rates of tax on individuals other than heads of households) is amended to read as follows:

26 USC 1.

"(a) RATES OF TAX ON INDIVIDUALS.—

"(1) TAXABLE YEARS BEGINNING IN 1964.—In the case of a taxable year beginning on or after January 1, 1964, and before January 1, 1965, there is hereby imposed on the taxable income of every individual (other than a head of a household to whom subsection (b) applies) a tax determined in accordance with the following table:

"If the taxable income is:	The tax is:
Not over $500	16% of the taxable income.
Over $500 but not over $1,000	$80, plus 16.5% of excess over $500.
Over $1,000 but not over $1,500	$162.50, plus 17.5% of excess over $1,000.
Over $1,500 but not over $2,000	$250, plus 18% of excess over $1,500.
Over $2,000 but not over $4,000	$340, plus 20% of excess over $2,000.
Over $4,000 but not over $6,000	$740, plus 23.5% of excess over $4,000.
Over $6,000 but not over $8,000	$1,210, plus 27% of excess over $6,000.
Over $8,000 but not over $10,000	$1,750, plus 30.5% of excess over $8,000.
Over $10,000 but not over $12,000	$2,360, plus 34% of excess over $10,000.
Over $12,000 but not over $14,000	$3,040, plus 37.5% of excess over $12,000.

"If the taxable income is:	The tax is:
Over $14,000 but not over $16,000	$3,790, plus 41% of excess over $14,000.
Over $16,000 but not over $18,000	$4,610, plus 44.5% of excess over $16,000.
Over $18,000 but not over $20,000	$5,500, plus 47.5% of excess over $18,000.
Over $20,000 but not over $22,000	$6,450, plus 50.5% of excess over $20,000.
Over $22,000 but not over $26,000	$7,460, plus 53.5% of excess over $22,000.
Over $26,000 but not over $32,000	$9,600, plus 56% of excess over $26,000.
Over $32,000 but not over $38,000	$12,960, plus 58.5% of excess over $32,000.
Over $38,000 but not over $44,000	$16,470, plus 61% of excess over $38,000.
Over $44,000 but not over $50,000	$20,130, plus 63.5% of excess over $44,000.
Over $50,000 but not over $60,000	$23,940, plus 66% of excess over $50,000.
Over $60,000 but not over $70,000	$30,540, plus 68.5% of excess over $60,000.
Over $70,000 but not over $80,000	$37,390, plus 71% of excess over $70,000.
Over $80,000 but not over $90,000	$44,490, plus 73.5% of excess over $80,000.
Over $90,000 but not over $100,000	$51,840, plus 75% of excess over $90,000.
Over $100,000 but not over $200,000	$59,340, plus 76.5% of excess over $100,000.
Over $200,000	$135,840, plus 77% of excess over $200,000.

"(2) TAXABLE YEARS BEGINNING AFTER DECEMBER 31, 1964.—In the case of a taxable year beginning after December 31, 1964, there is hereby imposed on the taxable income of every individual (other than a head of a household to whom subsection (b) applies) a tax determined in accordance with the following table:

"If the taxable income is:	The tax is:
Not over $500	14% of the taxable income.
Over $500 but not over $1,000	$70, plus 15% of excess over $500.
Over $1,000 but not over $1,500	$145, plus 16% of excess over $1,000.
Over $1,500 but not over $2,000	$225, plus 17% of excess over $1,500.
Over $2,000 but not over $4,000	$310, plus 19% of excess over $2,000.
Over $4,000 but not over $6,000	$690, plus 22% of excess over $4,000.
Over $6,000 but not over $8,000	$1,130, plus 25% of excess over $6,000.
Over $8,000 but not over $10,000	$1,630, plus 28% of excess over $8,000.
Over $10,000 but not over $12,000	$2,190, plus 32% of excess over $10,000.
Over $12,000 but not over $14,000	$2,830, plus 36% of excess over $12,000.
Over $14,000 but not over $16,000	$3,550, plus 39% of excess over $14,000.
Over $16,000 but not over $18,000	$4,330, plus 42% of excess over $16,000.
Over $18,000 but not over $20,000	$5,170, plus 45% of excess over $18,000.
Over $20,000 but not over $22,000	$6,070, plus 48% of excess over $20,000.
Over $22,000 but not over $26,000	$7,030, plus 50% of excess over $22,000.
Over $26,000 but not over $32,000	$9,030, plus 53% of excess over $26,000.
Over $32,000 but not over $38,000	$12,210, plus 55% of excess over $32,000.
Over $38,000 but not over $44,000	$15,510, plus 58% of excess over $38,000.

"If the taxable income is:	The tax is:
Over $44,000 but not over $50,000	$18,990, plus 60% of excess over $44,000.
Over $50,000 but not over $60,000	$22,590, plus 62% of excess over $50,000.
Over $60,000 but not over $70,000	$28,790, plus 64% of excess over $60,000.
Over $70,000 but not over $80,000	$35,190, plus 66% of excess over $70,000.
Over $80,000 but not over $90,000	$41,790, plus 68% of excess over $80,000.
Over $90,000 but not over $100,000	$48,590, plus 69% of excess over $90,000.
Over $100,000	$55,490, plus 70% of excess over $100,000."

(b) HEADS OF HOUSEHOLDS.—Paragraph (1) of section 1(b) (relating to rates of tax on heads of households) is amended to read as follows: 68A Stat. 6. 26 USC 1.

"(1) RATES OF TAX.—

"(A) TAXABLE YEARS BEGINNING IN 1964.—In the case of a taxable year beginning on or after January 1, 1964, and before January 1, 1965, there is hereby imposed on the taxable income of every individual who is the head of a household a tax determined in accordance with the following table:

"If the taxable income is:	The tax is:
Not over $1,000	16% of the taxable income.
Over $1,000 but not over $2,000	$160, plus 17.5% of excess over $1,000.
Over $2,000 but not over $4,000	$335, plus 19% of excess over $2,000.
Over $4,000 but not over $6,000	$715, plus 22% of excess over $4,000.
Over $6,000 but not over $8,000	$1,155, plus 23% of excess over $6,000.
Over $8,000 but not over $10,000	$1,615, plus 27% of excess over $8,000.
Over $10,000 but not over $12,000	$2,155, plus 29% of excess over $10,000.
Over $12,000 but not over $14,000	$2,735, plus 32% of excess over $12,000.
Over $14,000 but not over $16,000	$3,375, plus 34% of excess over $14,000.
Over $16,000 but not over $18,000	$4,055, plus 37.5% of excess over $16,000.
Over $18,000 but not over $20,000	$4,805, plus 39% of excess over $18,000.
Over $20,000 but not over $22,000	$5,585, plus 42.5% of excess over $20,000.
Over $22,000 but not over $24,000	$6,435, plus 43.5% of excess over $22,000.
Over $24,000 but not over $26,000	$7,305, plus 45.5% of excess over $24,000.
Over $26,000 but not over $28,000	$8,215, plus 47% of excess over $26,000.
Over $28,000 but not over $32,000	$9,155, plus 48.5% of excess over $28,000.
Over $32,000 but not over $36,000	$11,095, plus 51.5% of excess over $32,000.
Over $36,000 but not over $38,000	$13,155, plus 53% of excess over $36,000.
Over $38,000 but not over $40,000	$14,215, plus 54% of excess over $38,000.
Over $40,000 but not over $44,000	$15,295, plus 56% of excess over $40,000.
Over $44,000 but not over $50,000	$17,535, plus 58.5% of excess over $44,000.
Over $50,000 but not over $52,000	$21,045, plus 59.5% of excess over $50,000.
Over $52,000 but not over $60,000	$22,235, plus 61% of excess over $52,000.

"If the taxable income is:	The tax is:
Over $60,000 but not over $64,000	$27,115, plus 62% of excess over $60,000.
Over $64,000 but not over $70,000	$29,595, plus 63.5% of excess over $64,000.
Over $70,000 but not over $76,000	$33,405, plus 65% of excess over $70,000.
Over $76,000 but not over $80,000	$37,305, plus 66% of excess over $76,000.
Over $80,000 but not over $88,000	$39,945, plus 67% of excess over $80,000.
Over $88,000 but not over $90,000	$45,305, plus 69% of excess over $88,000.
Over $90,000 but not over $100,000	$46,685, plus 69.5% of excess over $90,000.
Over $100,000 but not over $120,000	$53,635, plus 71% of excess over $100,000.
Over $120,000 but not over $140,000	$67,835, plus 72.5% of excess over $120,000.
Over $140,000 but not over $160,000	$82,335, plus 74% of excess over $140,000.
Over $160,000 but not over $180,000	$97,135, plus 75% of excess over $160,000.
Over $180,000 but not over $200,000	$112,135, plus 75.5% of excess over $180,000.
Over $200,000	$127,235, plus 77% of excess over $200,000.

"(B) TAXABLE YEARS BEGINNING AFTER DECEMBER 31, 1964.—In the case of a taxable year beginning after December 31, 1964, there is hereby imposed on the taxable income of every individual who is the head of a household a tax determined in accordance with the following table:

"If the taxable income is:	The tax is:
Not over $1,000	14% of the taxable income.
Over $1,000 but not over $2,000	$140, plus 16% of excess over $1,000.
Over $2,000 but not over $4,000	$300, plus 18% of excess over $2,000.
Over $4,000 but not over $6,000	$660, plus 20% of excess over $4,000.
Over $6,000 but not over $8,000	$1,060, plus 22% of excess over $6,000.
Over $8,000 but not over $10,000	$1,500, plus 25% of excess over $8,000.
Over $10,000 but not over $12,000	$2,000, plus 27% of excess over $10,000.
Over $12,000 but not over $14,000	$2,540, plus 31% of excess over $12,000.
Over $14,000 but not over $16,000	$3,160, plus 32% of excess over $14,000.
Over $16,000 but not over $18,000	$3,800, plus 35% of excess over $16,000.
Over $18,000 but not over $20,000	$4,500, plus 36% of excess over $18,000.
Over $20,000 but not over $22,000	$5,220, plus 40% of excess over $20,000.
Over $22,000 but not over $24,000	$6,020, plus 41% of excess over $22,000.
Over $24,000 but not over $26,000	$6,840, plus 43% of excess over $24,000.
Over $26,000 but not over $28,000	$7,700, plus 45% of excess over $26,000.
Over $28,000 but not over $32,000	$8,600, plus 46% of excess over $28,000.
Over $32,000 but not over $36,000	$10,440, plus 48% of excess over $32,000.
Over $36,000 but not over $38,000	$12,360, plus 50% of excess over $36,000.
Over $38,000 but not over $40,000	$13,360, plus 52% of excess over $38,000.
Over $40,000 but not over $44,000	$14,400, plus 53% of excess over $40,000.
Over $44,000 but not over $50,000	$16,520, plus 55% of excess over $44,000.

"If the taxable income is:	The tax is:
Over $50,000 but not over $52,000	$19,820, plus 56% of excess over $50,000.
Over $52,000 but not over $64,000	$20,940, plus 58% of excess over $52,000.
Over $64,000 but not over $70,000	$27,900, plus 59% of excess over $64,000.
Over $70,000 but not over $76,000	$31,440, plus 61% of excess over $70,000.
Over $76,000 but not over $80,000	$35,100, plus 62% of excess over $76,000.
Over $80,000 but not over $88,000	$37,580, plus 63% of excess over $80,000.
Over $88,000 but not over $100,000	$42,620, plus 64% of excess over $88,000.
Over $100,000 but not over $120,000	$50,300, plus 66% of excess over $100,000.
Over $120,000 but not over $140,000	$63,500, plus 67% of excess over $120,000.
Over $140,000 but not over $160,000	$76,900, plus 68% of excess over $140,000.
Over $160,000 but not over $180,000	$90,500, plus 69% of excess over $160,000.
Over $180,000	$104,300, plus 70% of excess over $180,000."

SEC. 112. MINIMUM STANDARD DEDUCTION.

(a) GENERAL RULE.—Section 141 (relating to standard deduction) is amended to read as follows: 68A Stat. 40. 26 USC 141.

"SEC. 141. STANDARD DEDUCTION.

"(a) STANDARD DEDUCTION.—Except as otherwise provided in this section, the standard deduction referred to in this title is the larger of the 10-percent standard deduction or the minimum standard deduction. The standard deduction shall not exceed $1,000, except that in the case of a separate return by a married individual the standard deduction shall not exceed $500.

"(b) TEN-PERCENT STANDARD DEDUCTION.—The 10-percent standard deduction is an amount equal to 10 percent of the adjusted gross income.

"(c) MINIMUM STANDARD DEDUCTION.—The minimum standard deduction is an amount equal to the sum of—

"(1) $100, multiplied by the number of exemptions allowed for the taxable year as a deduction under section 151, plus 26 USC 151.

"(2)(A) $200, in the case of a joint return of a husband and wife under section 6013, 26 USC 6013.

"(B) $200, in the case of a return of an individual who is not married, or

"(C) $100, in the case of a separate return by a married individual.

"(d) MARRIED INDIVIDUALS FILING SEPARATE RETURNS.—Notwithstanding subsection (a)—

"(1) The minimum standard deduction shall not apply in the case of a separate return by a married individual if the tax of the other spouse is determined with regard to the 10-percent standard deduction.

"(2) A married individual filing a separate return may, if the minimum standard deduction is less than the 10-percent standard deduction, and if the minimum standard deduction of his spouse is greater than the 10-percent standard deduction of such spouse, elect (under regulations prescribed by the Secretary or his delegate) to have his tax determined with regard to the minimum standard deduction in lieu of being determined with regard to the 10-percent standard deduction."

68A Stat. 8. 26 USC 2. Post, p. 129; Ante, p. 23. 26 USC 3, 141. Post, p. 110. 26 USC 144.

(b) AMENDMENT OF SECTION 2.—The second sentence of section 2(a) (relating to tax in case of joint return or return of surviving spouse) is amended by striking out "and section 3" and inserting in lieu thereof ", section 3, and section 141".

(c) AMENDMENTS OF SECTION 144.—

(1) The first sentence of section 144(b) (relating to change of election of standard deduction) is amended to read as follows: "Under regulations prescribed by the Secretary or his delegate, a change of election with respect to the standard deduction for any taxable year may be made after the filing of the return for such year."

(2) Section 144 is amended by adding at the end thereof the following new subsection:

"(c) CHANGE OF ELECTION DEFINED.—For purposes of this title, the term 'change of election with respect to the standard deduction' means—

"(1) a change of an election to take (or not to take) the standard deduction;

"(2) a change of an election to pay (or not to pay) the tax under section 3; or

"(3) a change of an election under section 141(d)(2)."

(d) CONFORMING AMENDMENTS.—

26 USC 6212.

(1) Subparagraph (A) of section 6212(c)(2) (relating to cross references) is amended by striking out **"to take"** and inserting in lieu thereof **"with respect to the"**.

26 USC 6504.

(2) Paragraph (3) of section 6504 (relating to cross references) is amended by striking out **"to take"** and inserting in lieu thereof **"with respect to the"**.

SEC. 113. RELATED AMENDMENTS.

Post, p. 32. 26 USC 37.

(a) RETIREMENT INCOME CREDIT.—Section 37(a) (relating to credit against tax for retirement income) is amended by striking out "an amount equal to the amount received by such individual as retirement income (as defined in subsection (c) and as limited by subsection (d)), multiplied by the rate provided in section 1 for the first $2,000 of taxable income;" and inserting in lieu thereof "an amount equal to 17 percent, in the case of a taxable year beginning in 1964, or 15 percent, in the case of a taxable year beginning after December 31, 1964, of the amount received by such individual as retirement income (as defined in subsection (c) and as limited by subsection (d));".

Ante, p. 19. 26 USC 1.

26 USC 871.

(b) TAX ON NONRESIDENT ALIEN INDIVIDUALS.—Section 871 (relating to tax on nonresident alien individuals) is amended—

(1) By striking out "is more than $15,400, except that—" in subsection (b) and inserting in lieu thereof "is more than $19,000 in the case of a taxable year beginning in 1964 or more than $21,200 in the case of a taxable year beginning after 1964, except that—".

(2) By striking out the heading to subsection (a) and inserting in lieu thereof the following:

"(a) NO UNITED STATES BUSINESS—30 PERCENT TAX.—".

(3) By striking out the heading to subsection (b) and inserting in lieu thereof the following:

"(b) NO UNITED STATES BUSINESS—REGULAR TAX.—".

SEC. 114. CROSS REFERENCES TO TAX TABLES, ETC.

(1) For optional tax if adjusted gross income is less than $5,000, see section 301 of this Act.

(2) For income tax collected at source, see section 302 of this Act.

PART II—CORPORATIONS

SEC. 121. REDUCTION OF TAX ON CORPORATIONS.

Section 11 (relating to tax on corporations) is amended to read as follows: 68A Stat. 11. 26 USC 11.

"SEC. 11. TAX IMPOSED.

"(a) CORPORATIONS IN GENERAL.—A tax is hereby imposed for each taxable year on the taxable income of every corporation. The tax shall consist of a normal tax computed under subsection (b) and a surtax computed under subsection (c).

"(b) NORMAL TAX.—The normal tax is equal to the following percentage of the taxable income:

"(1) 30 percent, in the case of a taxable year beginning before January 1, 1964, and

"(2) 22 percent, in the case of a taxable year beginning after December 31, 1963.

"(c) SURTAX.—The surtax is equal to the following percentage of the amount by which the taxable income exceeds the surtax exemption for the taxable year:

"(1) 22 percent, in the case of a taxable year beginning before January 1, 1964,

"(2) 28 percent, in the case of a taxable year beginning after December 31, 1963, and before January 1, 1965, and

"(3) 26 percent, in the case of a taxable year beginning after December 31, 1964.

"(d) SURTAX EXEMPTION.—For purposes of this subtitle, the surtax exemption for any taxable year is $25,000, except that, with respect to a corporation to which section 1561 (relating to surtax exemptions in case of certain controlled corporations) applies for the taxable year, the surtax exemption for the taxable year is the amount determined under such section. Post, p. 116.

"(e) EXCEPTIONS.—Subsection (a) shall not apply to a corporation subject to a tax imposed by—

"(1) section 594 (relating to mutual savings banks conducting life insurance business), 26 USC 594.

"(2) subchapter L (sec. 801 and following, relating to insurance companies), 26 USC 801 *et seq.*

"(3) subchapter M (sec. 851 and following, relating to regulated investment companies and real estate investment trusts), or 26 USC 851 *et seq.*

"(4) section 881(a) (relating to foreign corporations not engaged in business in United States)." 26 USC 881.

SEC. 122. CURRENT TAX PAYMENTS BY CORPORATIONS.

(a) INSTALLMENT PAYMENTS OF ESTIMATED INCOME TAX BY CORPORATIONS.—Section 6154 (relating to installment payments of estimated income tax by corporations) is amended to read as follows: 26 USC 6154.

"SEC. 6154. INSTALLMENT PAYMENTS OF ESTIMATED INCOME TAX BY CORPORATIONS.

"(a) AMOUNT AND TIME FOR PAYMENT OF EACH INSTALLMENT.—The amount of estimated tax (as defined in section 6016(b)) with respect to which a declaration is required under section 6016 shall be paid as follows: 26 USC 6016.

"(1) PAYMENT IN 4 INSTALLMENTS.—If the declaration is filed on or before the 15th day of the 4th month of the taxable year, the estimated tax shall be paid in 4 installments. The amount

and time for payment of each installment shall be determined in accordance with the following table:

"If the taxable year begins in—	The following percentages of the estimated tax shall be paid on the 15th day of the—			
	4th month	6th month	9th month	12th month
1964	1	1	25	25
1965	4	4	25	25
1966	9	9	25	25
1967	14	14	25	25
1968	19	19	25	25
1969	22	22	25	25
1970 or any subsequent year	25	25	25	25

"(2) PAYMENT IN 3 INSTALLMENTS.—If the declaration is filed after the 15th day of the 4th month and not after the 15th day of the 6th month of the taxable year, and is not required by section 6074(a) to be filed on or before the 15th day of such 4th month, the estimated tax shall be paid in 3 installments. The amount and time for payment of each installment shall be determined in accordance with the following table:

Post, p. 28.
26 USC 6074.

"If the taxable year begins in—	The following percentages of the estimated tax shall be paid on the 15th day of the—		
	6th month	9th month	12th month
1964	1⅓	25⅓	25⅓
1965	5⅓	26⅓	26⅓
1966	12	28	28
1967	18⅔	29⅔	29⅔
1968	25⅓	31⅓	31⅓
1969	29⅓	32⅓	32⅓
1970 or any subsequent year	33⅓	33⅓	33⅓

"(3) PAYMENT IN 2 INSTALLMENTS.—If the declaration of estimated tax is filed after the 15th day of the 6th month and not after the 15th day of the 9th month of the taxable year, and is not required by section 6074(a) to be filed on or before the 15th day of such 6th month, the estimated tax shall be paid in 2 installments. The amount and time for payment of each installment shall be determined in accordance with the following table:

"If the taxable year begins in—	The following percentages of the estimated tax shall be paid on the 15th day of the—	
	9th month	12th month
1964	26	26
1965	29	29
1966	34	34
1967	39	39
1968	44	44
1969	47	47
1970 or any subsequent year	50	50

"(4) PAYMENT IN 1 INSTALLMENT.—If the declaration of estimated tax is filed after the 15th day of the 9th month of the taxable year, and is not required by section 6074(a) to be filed on or before the 15th day of such 9th month, the estimated tax shall be paid in 1 installment. The amount and time for payment of the installment shall be determined in accordance with the following table:

Post, p. 28.
26 USC 6074.

"If the taxable year begins in—	The following percentages of the estimated tax shall be paid on the 15th day of the 12th month
1964	52
1965	58
1966	68
1967	78
1968	88
1969	94
1970 or any subsequent year	100

"(5) LATE FILING.—If the declaration is filed after the time prescribed in section 6074(a) (determined without regard to any extension of time for filing the declaration under section 6081), paragraphs (2), (3), and (4) of this subsection shall not apply, and there shall be paid at the time of such filing all installments of estimated tax which would have been payable on or before such time if the declaration had been filed within the time prescribed in section 6074(a), and the remaining installments shall be paid at the times at which, and in the amounts in which, they would have been payable if the declaration had been so filed.

68A Stat. 751.
26 USC 6081.

"(b) AMENDMENT OF DECLARATION.—If any amendment of a declaration is filed, the amount of each remaining installment (if any) shall be the amount which would have been payable if the new estimate had been made when the first estimate for the taxable year was made, increased or decreased (as the case may be), by the amount computed by dividing—

"(1) the difference between (A) the amount of estimated tax required to be paid before the date on which the amendment is made, and (B) the amount of estimated tax which would have been required to be paid before such date if the new estimate had been made when the first estimate was made, by

"(2) the number of installments remaining to be paid on or after the date on which the amendment is made.

"(c) APPLICATION TO SHORT TAXABLE YEAR.—The application of this section to taxable years of less than 12 months shall be in accordance with regulations prescribed by the Secretary or his delegate.

"(d) INSTALLMENTS PAID IN ADVANCE.—At the election of the corporation, any installment of the estimated tax may be paid before the date prescribed for its payment."

(b) TIME FOR FILING DECLARATIONS OF ESTIMATED INCOME TAX BY CORPORATIONS.—Section 6074 (relating to time for filing declarations of estimated income tax by corporations) is amended to read as follows:

"SEC. 6074. TIME FOR FILING DECLARATIONS OF ESTIMATED INCOME TAX BY CORPORATIONS.

"(a) GENERAL RULE.—The declaration of estimated tax required of corporations by section 6016 shall be filed as follows:

26 USC 6016.

"If the requirements of section 6016 are first met—	The declaration shall be filed on or before—
before the 1st day of the 4th month of the taxable year	the 15th day of the 4th month of the taxable year
after the last day of the 3d month and before the 1st day of the 6th month of the taxable year	the 15th day of the 6th month of the taxable year
after the last day of the 5th month and before the 1st day of the 9th month of the taxable year	the 15th day of the 9th month of the taxable year
after the last day of the 8th month and before the 1st day of the 12th month of the taxable year	the 15th day of the 12th month of the taxable year

"(b) AMENDMENT.—An amendment of a declaration may be filed in any interval between installment dates prescribed for the taxable year, but only one amendment may be filed in each such interval.

"(c) SHORT TAXABLE YEAR.—The application of this section to taxable years of less than 12 months shall be in accordance with regulations prescribed by the Secretary or his delegate."

(c) FAILURE BY CORPORATIONS TO PAY ESTIMATED INCOME TAX.—

68A Stat. 825.
26 USC 6655.

(1) The last sentence of section 6655(c)(2) (relating to period of underpayment) is amended to read as follows: "For purposes of this paragraph, a payment of estimated tax on any installment date shall be considered a payment of any previous underpayment only to the extent such payment exceeds the amount of the installment determined under subsection (b)(1) for such installment date."

(2) Paragraph (3) of section 6655(d) (relating to exception) is amended to read as follows:

"(3)(A) An amount equal to 70 percent of the tax for the taxable year computed by placing on an annualized basis the taxable income:

"(i) for the first 3 months of the taxable year, in the case of the installment required to be paid in the 4th month,

"(ii) for the first 3 months or for the first 5 months of the taxable year, in the case of the installment required to be paid in the 6th month,

"(iii) for the first 6 months or for the first 8 months of the taxable year in the case of the installment required to be paid in the 9th month, and

"(iv) for the first 9 months or for the first 11 months of the taxable year, in the case of the installment required to be paid in the 12th month of the taxable year.

"(B) For purposes of this paragraph, the taxable income shall be placed on an annualized basis by—

"(i) multiplying by 12 the taxable income referred to in subparagraph (A), and

"(ii) dividing the resulting amount by the number of months in the taxable year (3, 5, 6, 8, 9, or 11, as the case may be) referred to in subparagraph (A)."

(d) TECHNICAL AMENDMENT.—Section 6016(f) (relating to declarations of estimated income tax by corporations) is amended to read as follows:

68A Stat. 738.
26 USC 6016.

"(f) CROSS REFERENCE.—

"For provisions relating to the number of amendments which may be filed, see section 6074(b)."

Ante, p. 28.
26 USC 6074.

SEC. 123. RELATED AMENDMENTS.

(a) TAX ON MUTUAL INSURANCE COMPANIES (OTHER THAN LIFE, ETC.)—

(1) Subsection (a) of section 821 (relating to imposition of tax) is amended to read as follows:

76 Stat. 989.
26 USC 821.

"(a) IMPOSITION OF TAX.—A tax is hereby imposed for each taxable year beginning after December 31, 1963, on the mutual insurance company taxable income of every mutual insurance company (other than a life insurance company and other than a fire, flood, or marine insurance company subject to the tax imposed by section 831). Such tax shall consist of—

26 USC 831.

"(1) NORMAL TAX.—A normal tax of 22 percent of the mutual insurance company taxable income, or 44 percent of the amount by which such taxable income exceeds $6,000, whichever is the lesser; plus

"(2) SURTAX.—A surtax on the mutual insurance company taxable income computed as provided in section 11(c) as though the mutual insurance company taxable income were the taxable income referred to in section 11(c)."

Ante, p. 25.
26 USC 11.

(2) Paragraph (1) of section 821(c) (relating to alternative tax for certain small companies) is amended to read as follows:

"(1) IMPOSITION OF TAX.—In the case of taxable years beginning after December 31, 1963, there is hereby imposed for each taxable year on the income of each mutual insurance company to which this subsection applies a tax (which shall be in lieu of the tax imposed by subsection (a)) computed as follows:

"(A) NORMAL TAX.—A normal tax of 22 percent of the taxable investment income, or 44 percent of the amount by which such taxable income exceeds $3,000, whichever is the lesser; plus

"(B) SURTAX.—A surtax on the taxable investment income computed as provided in section 11(c) as though the taxable investment income were the taxable income referred to in section 11(c)."

(b) RECEIPT OF MINIMUM DISTRIBUTIONS BY DOMESTIC CORPORATIONS.—Subsection (b) of section 963 (relating to receipt of minimum distributions by domestic corporations) is amended to read as follows:

76 Stat. 1023.
26 USC 963.

"(b) MINIMUM DISTRIBUTION.—For purposes of this section, a minimum distribution with respect to the earnings and profits for the taxable year of any controlled foreign corporation or corporations shall, in the case of any United States shareholder, be its

pro rata share of an amount determined in accordance with whichever of the following tables applies to the taxable year:

"(1) TAXABLE YEARS BEGINNING IN 1963.—

"If the effective foreign tax rate is (percentage)—	The required minimum distribution of earnings and profits is (percentage)—
Under 10	90
10 or over but less than 20	86
20 or over but less than 28	82
28 or over but less than 34	75
34 or over but less than 39	68
39 or over but less than 42	55
42 or over but less than 44	40
44 or over but less than 46	27
46 or over but less than 47	14
47 or over	0

"(2) TAXABLE YEARS BEGINNING IN 1964.—

"If the effective foreign tax rate is (percentage)—	The required minimum distribution of earnings and profits is (percentage)—
Under 10	87
10 or over but less than 19	83
19 or over but less than 27	79
27 or over but less than 33	72
33 or over but less than 37	65
37 or over but less than 40	53
40 or over but less than 42	38
42 or over but less than 44	26
44 or over but less than 45	13
45 or over	0

"(3) TAXABLE YEARS BEGINNING AFTER DECEMBER 31, 1964.—

"If the effective foreign tax rate is (percentage)—	The required minimum distribution of earnings and profits is (percentage)—
Under 9	83
9 or over but less than 18	79
18 or over but less than 26	76
26 or over but less than 32	69
32 or over but less than 36	63
36 or over but less than 39	51
39 or over but less than 41	37
41 or over but less than 42	25
42 or over but less than 43	13
43 or over	0"

68A Stat. 72.
26 USC 242.

(c) AMENDMENT OF SECTION 242.—Section 242(a) (relating to deduction for partially tax-exempt interest) is amended by adding at the end thereof the following new sentence: "No deduction shall be allowed under this section for purposes of any surtax imposed by this subtitle."

PART III—EFFECTIVE DATES

SEC. 131. GENERAL RULE.

26 USC 21.

Except for purposes of section 21 of the Internal Revenue Code of 1954 (relating to effect of changes in rates during a taxable year), the amendments made by parts I and II of this title shall apply with respect to taxable years beginning after December 31, 1963.

SEC. 132. FISCAL YEAR TAXPAYERS.

Effective with respect to taxable years ending after December 31, 1963, subsection (d) of section 21 (relating to effect of changes in rates during a taxable year) is amended to read as follows:

"(d) CHANGES MADE BY REVENUE ACT OF 1964.—

"(1) INDIVIDUALS.—In applying subsection (a) to the taxable year of an individual beginning in 1963 and ending in 1964—

"(A) the rate of tax for the period on and after January 1, 1964, shall be applied to the taxable income determined as if part IV of subchapter B (relating to standard deduction for individuals), as amended by the Revenue Act of 1964, applied to taxable years ending after December 31, 1963, and

"(B) section 4 (relating to rules for optional tax), as amended by such Act, shall be applied to taxable years ending after December 31, 1963.

68A Stat. 10; post, pp. 111, 140. 26 USC 4.

In applying subsection (a) to a taxable year of an individual beginning in 1963 and ending in 1964, or beginning in 1964 and ending in 1965, the change in the tax imposed under section 3 shall be treated as a change in a rate of tax.

Post, p. 129. 26 USC 3.

"(2) CORPORATIONS.—In applying subsection (a) to a taxable year of a corporation beginning in 1963 and ending in 1964, if—

"(A) the surtax exemption of such corporation for such taxable year is less than $25,000 by reason of the application of section 1561 (relating to surtax exemptions in case of certain controlled corporations), or

Post, p. 116.

"(B) an additional tax is imposed on the taxable income of such corporation for such taxable year by section 1562(b) (relating to additional tax in case of component members of controlled groups which elect multiple surtax exemptions),

Post, p. 117.

the change in the surtax exemption, or the imposition of such additional tax, shall be treated as a change in a rate of tax taking effect on January 1, 1964."

Title II—Structural Changes

SEC. 201. DIVIDENDS RECEIVED BY INDIVIDUALS.

(a) REDUCTION OF 4 PERCENT CREDIT TO 2 PERCENT CREDIT FOR CALENDAR YEAR 1964.—

(1) GENERAL RULE.—Section 34(a) (relating to general rule for credit for dividends received) is amended by striking out "an amount equal to 4 percent of the dividends which are received after July 31, 1954, from domestic corporations and are included in gross income" and inserting in lieu thereof:

26 USC 34.

"an amount equal to the following percentage of the dividends which are received from domestic corporations and are included in gross income:

"(1) 4 percent of the amount of such dividends which are received before January 1, 1964, and

"(2) 2 percent of the amount of such dividends which are received during the calendar year 1964."

(2) LIMITATIONS.—Section 34(b)(2) (relating to limitations on amount of credit) is amended—

(A) by inserting ", or beginning after December 31, 1963" after "1955" at the end of subparagraph (A), and

(B) by inserting ", and beginning before January 1, 1964" after "1954" at the end of subparagraph (B).

(b) REPEAL OF CREDIT FOR DIVIDENDS RECEIVED BY INDIVIDUALS.—Effective with respect to dividends received after December 31, 1964,

section 34 (relating to dividends received by individuals) is hereby repealed.

68A Stat. 37. 26 USC 116.

(c) DOUBLING OF AMOUNT OF PARTIAL EXCLUSION FROM GROSS INCOME OF DIVIDENDS RECEIVED BY INDIVIDUALS.—Section 116(a) (relating to partial exclusion from gross income of dividends received by individuals) is amended by striking out "$50" each place it appears and inserting in lieu thereof "$100".

(d) CONFORMING AMENDMENTS.—

(1) The table of sections for subpart A of part IV of subchapter A of chapter 1 is amended by striking out

"Sec. 34. Dividends received by individuals."

26 USC 35.

(2) Section 35(b)(1) is amended by striking out "the sum of the credits allowable under sections 33 and 34" and inserting in lieu thereof "the credit allowable under section 33".

Ante, p. 24. 26 USC 37.

(3) Section 37(a) is amended by striking out "section 34 (relating to credit for dividends received by individuals),".

76 Stat. 963. 26 USC 46.

(4) Section 46(a)(3) is amended by striking out subparagraph (B), and by redesignating subparagraphs (C) and (D) as "(B)" and "(C)", respectively.

26 USC 584.

(5) Section 584(c)(2) is amended by striking out "section 34 or".

26 USC 642.

(6)(A) Section 642(a) is amended by striking out paragraph (3);

(B) Section 642(i) is amended to read as follows:

"(i) CROSS REFERENCES.—

"(1) For disallowance of standard deduction in case of estates and trusts, see section 142(b)(4).

26 USC 142.

"(2) For special rule for determining the time of receipt of dividends by a beneficiary under section 652 or 662, see section 116(c)(3)."

26 USC 652, 662.

(C) Section 116(c) is amended by adding at the end thereof the following new paragraph:

"(3) The amount of dividends properly allocable to a beneficiary under section 652 or 662 shall be deemed to have been received by the beneficiary ratably on the same date that the dividends were received by the estate or trust."

26 USC 702.

(7) Section 702(a)(5) is amended by striking out "a credit under section 34," and the comma after "section 116".

26 USC 854.

(8) Section 854(a) is amended by striking out "section 34(a) (relating to credit for dividends received by individuals)," and the comma after "section 116 (relating to an exclusion for dividends received by individuals)".

(9) Section 854(b)(1) is amended by striking out "the credit under section 34(a)," and the comma after "section 116".

(10) Section 854(b)(2) is amended by striking out "the credit under section 34," and the comma after "section 116".

74 Stat. 1008. 26 USC 857.

(11) Section 857(c) is amended by striking out "section 34(a) (relating to credit for dividends received by individuals)," and the comma after "section 116 (relating to an exclusion for dividends received by individuals)".

72 Stat. 1639. 26 USC 871.

(12) Section 871(b) is amended by striking out "the sum of the credits under sections 34 and 35" and inserting in lieu thereof "the credit under section 35".

26 USC 1375.

(13) Section 1375(b) is amended by striking out "section 34," and the comma after "section 37".

26 USC 6014.

(14) Section 6014(a) is amended by striking out "34 or".

(e) EFFECTIVE DATES.—The amendments made by subsection (a) shall apply with respect to taxable years ending after December 31, 1963. The amendment made by subsection (b) shall apply with

respect to taxable years ending after December 31, 1964. The amendment made by subsection (c) shall apply with respect to taxable years beginning after December 31, 1963. The amendments made by subsection (d) shall apply with respect to dividends received after December 31, 1964, in taxable years ending after such date.

SEC. 202. RETIREMENT INCOME CREDIT OF CERTAIN MARRIED INDIVIDUALS.

(a) DETERMINATION OF RETIREMENT INCOME.—Section 37 (relating to retirement income) is amended by redesignating subsection (i) as subsection (j) and by inserting after subsection (h) the following new subsection: 68A Stat. 15. 26 USC 37.

"(i) SPECIAL RULES FOR CERTAIN MARRIED COUPLES.—

"(1) ELECTION.—A husband and wife who make a joint return for the taxable year and both of whom have attained the age of 65 before the close of the taxable year may elect (at such time and in such manner as the Secretary or his delegate by regulations prescribes) to determine the amount of the credit allowed by subsection (a) by applying the provisions of paragraph (2).

"(2) SPECIAL RULES.—If an election is made under paragraph (1) for the taxable year, for purposes of subsection (a)—

"(A) if either spouse is an individual who has received earned income within the meaning of subsection (b), the other spouse shall be considered to be an individual who has received earned income within the meaning of such subsection; and

"(B) subsection (d) shall be considered as providing that the amount of the combined retirement income of both spouses shall not exceed $2,286, less the sum of the amounts specified in paragraphs (1) and (2) of subsection (d) for each spouse."

(b) EFFECTIVE DATE.—The amendments made by subsection (a) shall apply to taxable years beginning after December 31, 1963.

SEC. 203. REPEAL OF REQUIREMENT THAT BASIS OF SECTION 38 PROPERTY BE REDUCED BY 7 PERCENT; OTHER PROVISIONS RELATING TO INVESTMENT CREDIT.

(a) REPEAL OF REQUIREMENT THAT BASIS BE REDUCED.—

(1) IN GENERAL.—Subsection (g) of section 48 (requiring that the basis of section 38 property be reduced by 7 percent of the qualified investment) is hereby repealed. 76 Stat. 967. 26 USC 48. 26 USC 38.

(2) INCREASE IN BASIS OF PROPERTY PLACED IN SERVICE BEFORE JANUARY 1, 1964.—

(A) The basis of any section 38 property (as defined in section 48(a) of the Internal Revenue Code of 1954) placed in service before January 1, 1964, shall be increased, under regulations prescribed by the Secretary of the Treasury or his delegate, by an amount equal to 7 percent of the qualified investment with respect to such property under section 46(c) of the Internal Revenue Code of 1954. If there has been any increase with respect to such property under section 48(g)(2) of such Code, the increase under the preceding sentence shall be appropriately reduced therefor. 26 USC 46.

(B) If a lessor made the election provided by section 48(d) of the Internal Revenue Code of 1954 with respect to property placed in service before January 1, 1964—

(i) subparagraph (A) shall not apply with respect to such property, but

(ii) under regulations prescribed by the Secretary of the Treasury or his delegate, the deductions otherwise allowable under section 162 of such Code to the lessee for amounts paid to the lessor under the lease (or, if such lessee has purchased such property, the basis of such property) shall be adjusted in a manner consistent with subparagraph (A).

68A Stat. 45.
26 USC 162.

(C) The adjustments under this paragraph shall be made as of the first day of the taxpayer's first taxable year which begins after December 31, 1963.

(3) CONFORMING AMENDMENTS.—

(A) The last sentence of section 48(d) (relating to certain leased property) is hereby repealed.

76 Stat. 967.
26 USC 48.

(B) Section 181 (relating to deduction for certain unused investment credit) is hereby repealed.

26 USC 181.

(C) Section 1016(a)(19) (relating to adjustments to basis) is amended to read as follows:

26 USC 1016.

"(19) to the extent provided in section 48(g) and in section 203(a)(2) of the Revenue Act of 1964, in the case of property which is or has been section 38 property (as defined in section 48(a));"

(D) The table of sections for part VI of subchapter B of chapter 1 is amended by striking out the following:

"Sec. 181. Deduction for certain unused investment credit."

(4) EFFECTIVE DATE.—Paragraphs (1) and (3) of this subsection shall apply—

(A) in the case of property placed in service after December 31, 1963, with respect to taxable years ending after such date, and

(B) in the case of property placed in service before January 1, 1964, with respect to taxable years beginning after December 31, 1963.

(b) BASIS OF CERTAIN LEASED PROPERTY TO LESSEE.—Paragraphs (1) and (2) of section 48(d) (relating to certain leased property) are amended to read as follows:

"(1) except as provided in paragraph (2), the fair market value of such property, or

"(2) if such property is leased by a corporation which is a member of an affiliated group (within the meaning of section 46(a)(5)) to another corporation which is a member of the same affiliated group, the basis of such property to the lessor."

26 USC 46.

(c) TREATMENT OF ELEVATORS AND ESCALATORS FOR PURPOSES OF THE INVESTMENT CREDIT.—Section 48(a)(1) (relating to section 38 property) is amended—

26 USC 48, 38.

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

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

"(C) elevators and escalators, but only if—

"(i) the construction, reconstruction, or erection of the elevator or escalator is completed by the taxpayer after June 30, 1963, or

"(ii) the elevator or escalator is acquired after June 30, 1963, and the original use of such elevator or escalator commences with the taxpayer and commences after such date."

(d) TREATMENT OF ELEVATORS AND ESCALATORS FOR PURPOSES OF SECTION 1245.—Section 1245(a) (relating to gain from dispositions of certain depreciable property) is amended— 76 Stat. 1032. 26 USC 1245.

(1) by striking out so much of paragraph (2) as precedes the second sentence thereof and inserting in lieu thereof the following:

"(2) RECOMPUTED BASIS.—For purposes of this section, the term 'recomputed basis' means—

"(A) with respect to any property referred to in paragraph (3) (A) or (B), its adjusted basis recomputed by adding thereto all adjustments, attributable to periods after December 31, 1961, or

"(B) with respect to any property referred to in paragraph (3)(C), its adjusted basis recomputed by adding thereto all adjustments, attributable to periods after June 30, 1963,

reflected in such adjusted basis on account of deductions (whether in respect of the same or other property) allowed or allowable to the taxpayer or to any other person for depreciation, or for amortization under section 168."; 68A Stat. 52. 26 USC 168.

(2) by striking out the period at the end of paragraph (3) (B) and inserting in lieu thereof ", or"; and

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

"(C) an elevator or an escalator."

(e) TREATMENT OF INVESTMENT CREDIT BY FEDERAL REGULATORY AGENCIES.—It was the intent of the Congress in providing an investment credit under section 38 of the Internal Revenue Code of 1954, and it is the intent of the Congress in repealing the reduction in basis required by section 48(g) of such Code, to provide an incentive for modernization and growth of private industry (including that portion thereof which is regulated). Accordingly, Congress does not intend that any agency or instrumentality of the United States having jurisdiction with respect to a taxpayer shall, without the consent of the taxpayer, use— 76 Stat. 962. 26 USC 38. *Ante*, p. 33.

(1) in the case of public utility property (as defined in section 46(c)(3)(B) of the Internal Revenue Code of 1954), more than a proportionate part (determined with reference to the average useful life of the property with respect to which the credit was allowed) of the credit against tax allowed for any taxable year by section 38 of such Code, or 26 USC 46.

(2) in the case of any other property, any credit against tax allowed by section 38 of such Code,

to reduce such taxpayer's Federal income taxes for the purpose of establishing the cost of service of the taxpayer or to accomplish a similar result by any other method.

(f) EFFECTIVE DATES.—

(1) The amendments made by subsection (b) shall apply with respect to property possession of which is transferred to a lessee on or after the date of enactment of this Act.

(2) The amendments made by subsection (c) shall apply with respect to taxable years ending after June 30, 1963.

(3) The amendments made by subsection (d) shall apply with respect to dispositions after December 31, 1963, in taxable years ending after such date.

SEC. 204. GROUP-TERM LIFE INSURANCE PURCHASED FOR EMPLOYEES.

(a) INCLUSION IN INCOME.—

68A Stat. 19; 76 Stat. 1001. 26 USC 71-78.

(1) Part II of subchapter B of chapter 1 (relating to items specifically included in gross income) is amended by adding at the end thereof the following new section:

"SEC. 79. GROUP-TERM LIFE INSURANCE PURCHASED FOR EMPLOYEES.

"(a) GENERAL RULE.—There shall be included in the gross income of an employee for the taxable year an amount equal to the cost of group-term life insurance on his life provided for part or all of such year under a policy (or policies) carried directly or indirectly by his employer (or employers); but only to the extent that such cost exceeds the sum of—

"(1) the cost of $50,000 of such insurance, and

"(2) the amount (if any) paid by the employee toward the purchase of such insurance.

"(b) EXCEPTIONS.—Subsection (a) shall not apply to—

"(1) the cost of group-term life insurance on the life of an individual which is provided under a policy carried directly or indirectly by an employer after such individual has terminated his employment with such employer and either has reached the retirement age with respect to such employer or is disabled (within the meaning of paragraph (3) of section 213(g), determined without regard to paragraph (4) thereof),

72 Stat. 1613. 26 USC 213.

"(2) the cost of any portion of the group-term life insurance on the life of an employee provided during part or all of the taxable year of the employee under which—

"(A) the employer is directly or indirectly the beneficiary, or

26 USC 170.

"(B) a person described in section 170(c) is the sole beneficiary,

for the entire period during such taxable year for which the employee receives such insurance, and

"(3) the cost of any group-term life insurance which is provided under a contract to which section 72(m)(3) applies.

76 Stat. 821. 26 USC 72.

"(c) DETERMINATION OF COST OF INSURANCE.—For purposes of this section and section 6052, the cost of group-term insurance on the life of an employee provided during any period shall be determined on the basis of uniform premiums (computed on the basis of 5-year age brackets) prescribed by regulations by the Secretary or his delegate. In the case of an employee who has attained age 64, the cost prescribed shall not exceed the cost with respect to such individual if he were age 63."

Post, p. 37.

(2) The table of sections for part II of subchapter B of chapter 1 is amended by adding at the end thereof the following:

"Sec. 79. Group-term life insurance purchased for employees."

26 USC 7701.

(3) Section 7701(a)(20) (defining employee) is amended by striking out "For the purpose of applying the provisions of sections 104" and inserting in lieu thereof "For the purpose of applying the provisions of section 79 with respect to group-term life insurance purchased for employees, for the purpose of applying the provisions of sections 104".

26 USC 104.

Post, p. 52; 69 Stat. 616; 75 Stat. 626. 26 USC 3401.

(b) WITHHOLDING.—Section 3401(a) (relating to definition of wages) is amended by striking out the period at the end of paragraph (13) and inserting in lieu thereof "; or", and by adding at the end thereof the following new paragraph:

"(14) in the form of group-term life insurance on the life of an employee; or".

(c) INFORMATION REPORTING.—

(1) REQUIREMENT.—Subpart C of part III of subchapter A of chapter 61 (relating to information and returns) is amended by adding at the end thereof the following new section: 68A Stat. 747. 26 USC 6051.

"SEC. 6052. RETURNS REGARDING PAYMENT OF WAGES IN THE FORM OF GROUP-TERM LIFE INSURANCE.

"(a) REQUIREMENT OF REPORTING.—Every employer who during any calendar year provides group-term life insurance on the life of an employee during part or all of such calendar year under a policy (or policies) carried directly or indirectly by such employer shall make a return according to the forms or regulations prescribed by the Secretary or his delegate, setting forth the cost of such insurance and the name and address of the employee on whose life such insurance is provided, but only to the extent that the cost of such insurance is includible in the employee's gross income under section 79(a). For purposes of this section, the extent to which the cost of group-term life insurance is includible in the employee's gross income under section 79(a) shall be determined as if the employer were the only employer paying such employee remuneration in the form of such insurance. *Ante*, p. 36.

"(b) STATEMENTS TO BE FURNISHED TO EMPLOYEES WITH RESPECT TO WHOM INFORMATION IS FURNISHED.—Every employer making a return under subsection (a) shall furnish to each employee whose name is set forth in such return a written statement showing the cost of the group-term life insurance shown on such return. The written statement required under the preceding sentence shall be furnished to the employee on or before January 31 of the year following the calendar year for which the return under subsection (a) was made."

(2) PENALTIES FOR FAILURE TO FURNISH STATEMENTS TO PERSONS WITH RESPECT TO WHOM RETURNS ARE FILED.—Section 6678 (relating to failure to furnish certain statements) is amended— 76 Stat. 1058; *post*, p. 75. 26 USC 6678.

(A) by striking out "or 6049(c)" and inserting in lieu thereof "6049(c), or 6052(b)"; and

(B) by striking out "or 6049(a)(1)," and inserting in lieu thereof "6049(a)(1), or 6052(a),". 26 USC 6049.

(3) CLERICAL AMENDMENT.—The table of sections for subpart C of part III of subchapter A of chapter 61 is amended by adding at the end thereof the following:

"Sec. 6052. Returns regarding payment of wages in the form of group-term life insurance."

(4) CROSS REFERENCE.—

For penalty for failure to file information returns required by section 6052(a) of the Internal Revenue Code of 1954 (added by paragraph (1) of this subsection), see section 6652(a)(3) of such Code (as amended by section 221(b)(2) of this Act).

(d) EFFECTIVE DATES.—The amendments made by subsections (a) and (c), and paragraph (3) of section 6652(a) of the Internal Revenue Code of 1954 (as amended by section 221(b)(2) of this Act), shall apply with respect to group-term life insurance provided after December 31, 1963, in taxable years ending after such date. The amendments made by subsection (b) shall apply with respect to remuneration paid after December 31, 1963, in the form of group-term life insurance provided after such date. In applying section 79(b) of the Internal Revenue Code of 1954 (as added by subsection (a)(1) of this section) to a taxable year beginning before May 1, 1964, if paragraph (2)(B) of such section applies with respect to an employee for the period beginning May 1, 1964, and ending with the close of his first taxable year ending after April 30, 1964, such paragraph (2)(B) shall be treated as applying with respect to such *Post*, p. 74. *Ante*, p. 36.

employee for the period beginning January 1, 1964, and ending April 30, 1964.

SEC. 205. AMOUNTS RECEIVED UNDER WAGE CONTINUATION PLANS.

68A Stat. 30. 26 USC 105.

(a) WAGE CONTINUATION PLANS.—The second sentence of section 105(d) (relating to wage continuation plans) is amended to read as follows: "The preceding sentence shall not apply to amounts attributable to the first 30 calendar days in such period, if such amounts are at a rate which exceeds 75 percent of the regular weekly rate of wages of the employee (as determined under regulations prescribed by the Secretary or his delegate). If amounts attributable to the first 30 calendar days in such period are at a rate which does not exceed 75 percent of the regular weekly rate of wages of the employee, the first sentence of this subsection (1) shall not apply to the extent that such amounts exceed a weekly rate of $75, and (2) shall not apply to amounts attributable to the first 7 calendar days in such period unless the employee is hospitalized on account of personal injuries or sickness for at least one day during such period."

(b) EFFECTIVE DATE.—The amendment made by subsection (a) shall apply to amounts attributable to periods of absence commencing after December 31, 1963.

SEC. 206. EXCLUSION FROM GROSS INCOME OF GAIN ON SALE OR EXCHANGE OF RESIDENCE OF INDIVIDUAL WHO HAS ATTAINED AGE 65.

26 USC 101-121.

(a) IN GENERAL.—Part III of subchapter B of chapter 1 (relating to items specifically excluded from gross income) is amended by redesignating section 121 as section 122 and by inserting before such section the following new section:

"SEC. 121. GAIN FROM SALE OR EXCHANGE OF RESIDENCE OF INDIVIDUAL WHO HAS ATTAINED AGE 65.

"(a) GENERAL RULE.—At the election of the taxpayer, gross income does not include gain from the sale or exchange of property if—

"(1) the taxpayer has attained the age of 65 before the date of such sale or exchange, and

"(2) during the 8-year period ending on the date of the sale or exchange, such property has been owned and used by the taxpayer as his principal residence for periods aggregating 5 years or more.

"(b) LIMITATIONS.—

"(1) WHERE ADJUSTED SALES PRICE EXCEEDS $20,000.—If the adjusted sales price of the property sold or exchanged exceeds $20,000, subsection (a) shall apply to that portion of the gain which bears the same ratio to the total amount of such gain as $20,000 bears to such adjusted sales price. For purposes of the preceding sentence, the term 'adjusted sales price' has the meaning assigned to such term by section 1034(b)(1) (determined without regard to subsection (d)(7) of this section).

26 USC 1034.

"(2) APPLICATION TO ONLY ONE SALE OR EXCHANGE.—Subsection (a) shall not apply to any sale or exchange by the taxpayer if an election by the taxpayer or his spouse under subsection (a) with respect to any other sale or exchange is in effect.

"(c) ELECTION.—An election under subsection (a) may be made or revoked at any time before the expiration of the period for making a claim for credit or refund of the tax imposed by this chapter for the taxable year in which the sale or exchange occurred, and shall be made or revoked in such manner as the Secretary or his delegate shall by regulations prescribe. In the case of a taxpayer who is married, an election under subsection (a) or a revocation thereof may be made only if his spouse joins in such election or revocation.

"(d) SPECIAL RULES.—

"(1) PROPERTY HELD JOINTLY BY HUSBAND AND WIFE.—For purposes of this section, if—

"(A) property is held by a husband and wife as joint tenants, tenants by the entirety, or community property,

"(B) such husband and wife make a joint return under section 6013 for the taxable year of the sale or exchange, and

"(C) one spouse satisfies the age, holding, and use requirements of subsection (a) with respect to such property,

then both husband and wife shall be treated as satisfying the age, holding, and use requirements of subsection (a) with respect to such property.

68A Stat. 733.
26 USC 6013.

"(2) PROPERTY OF DECEASED SPOUSE.—For purposes of this section, in the case of an unmarried individual whose spouse is deceased on the date of the sale or exchange of property, if—

"(A) the deceased spouse (during the 8-year period ending on the date of the sale or exchange) satisfied the holding and use requirements of subsection (a)(2) with respect to such property, and

"(B) no election by the deceased spouse under subsection (a) is in effect with respect to a prior sale or exchange,

then such individual shall be treated as satisfying the holding and use requirements of subsection (a)(2) with respect to such property.

"(3) TENANT-STOCKHOLDER IN COOPERATIVE HOUSING CORPORATION.—For purposes of this section, if the taxpayer holds stock as a tenant-stockholder (as defined in section 216) in a cooperative housing corporation (as defined in such section), then—

26 USC 216.

"(A) the holding requirements of subsection (a)(2) shall be applied to the holding of such stock, and

"(B) the use requirements of subsection (a)(2) shall be applied to the house or apartment which the taxpayer was entitled to occupy as such stockholder.

"(4) INVOLUNTARY CONVERSIONS.—For purposes of this section, the destruction, theft, seizure, requisition, or condemnation of property shall be treated as the sale of such property.

"(5) PROPERTY USED IN PART AS PRINCIPAL RESIDENCE.—In the case of property only a portion of which, during the 8-year period ending on the date of the sale or exchange, has been owned and used by the taxpayer as his principal residence for periods aggregating 5 years or more, this section shall apply with respect to so much of the gain from the sale or exchange of such property as is determined, under regulations prescribed by the Secretary or his delegate, to be attributable to the portion of the property so owned and used by the taxpayer.

"(6) DETERMINATION OF MARITAL STATUS.—In the case of any sale or exchange, for purposes of this section—

"(A) the determination of whether an individual is married shall be made as of the date of the sale or exchange; and

"(B) an individual legally separated from his spouse under a decree of divorce or of separate maintenance shall not be considered as married.

"(7) APPLICATION OF SECTIONS 1033 AND 1034.—In applying sections 1033 (relating to involuntary conversions) and 1034 (relating to sale or exchange of residence), the amount realized from the sale or exchange of property shall be treated as being the amount determined without regard to this section, reduced by

26 USC 1033, 1034.

the amount of gain not included in gross income pursuant to an election under this section."

(b) TECHNICAL AND CLERICAL AMENDMENTS.—

72 Stat. 1660. 26 USC 6012.

(1) Section 6012(c) (relating to persons required to make returns of income) is amended to read as follows:

"(c) CERTAIN INCOME EARNED ABROAD OR FROM SALE OF RESIDENCE.—For purposes of this section, gross income shall be computed without regard to the exclusion provided for in section 121 (relating to sale of residence by individual who has attained age 65) and without regard to the exclusion provided for in section 911 (relating to earned income from sources without the United States)."

Ante, p. 38.

76 Stat. 1003. 26 USC 911.

(2) The table of sections for part III of subchapter B of chapter 1 is amended by striking out

"Sec. 121. Cross references to other Acts."

and inserting in lieu thereof

"Sec. 121. Gain from sale or exchange of residence of individual who has attained age 65.
"Sec. 122. Cross references to other Acts."

26 USC 1033.

(3) Section 1033(h) (relating to involuntary conversions) is amended by adding at the end thereof the following new paragraph:

"(3) For exclusion from gross income of certain gain from involuntary conversion of residence of taxpayer who has attained age 65, see section 121."

26 USC 1034.

(4) Section 1034 (relating to sale or exchange of residence) is amended by adding at the end thereof the following new subsection:

"(k) CROSS REFERENCE.—

"For exclusion from gross income of certain gain from sale or exchange of residence of taxpayer who has attained age 65, see section 121."

(c) EFFECTIVE DATE.—The amendments made by this section shall apply to dispositions after December 31, 1963, in taxable years ending after such date.

SEC. 207. DENIAL OF DEDUCTION FOR CERTAIN STATE, LOCAL, ANI FOREIGN TAXES.

68A Stat. 47. 26 USC 164.

(a) IN GENERAL.—Subsections (a), (b), and (c) of section 164 (relating to deduction for taxes) are amended to read as follows:

"(a) GENERAL RULE.—Except as otherwise provided in this section, the following taxes shall be allowed as a deduction for the taxable year within which paid or accrued:

"(1) State and local, and foreign, real property taxes.

"(2) State and local personal property taxes.

"(3) State and local, and foreign, income, war profits, and excess profits taxes.

"(4) State and local general sales taxes.

"(5) State and local taxes on the sale of gasoline, diesel fuel, and other motor fuels.

In addition, there shall be allowed as a deduction State and local, and foreign, taxes not described in the preceding sentence which are paid or accrued within the taxable year in carrying on a trade or business or an activity described in section 212 (relating to expenses for production of income).

26 USC 212.

"(b) DEFINITIONS AND SPECIAL RULES.—For purposes of this section—

"(1) PERSONAL PROPERTY TAXES.—The term 'personal property tax' means an ad valorem tax which is imposed on an annual basis in respect of personal property.

"(2) GENERAL SALES TAXES.—

"(A) IN GENERAL.—The term 'general sales tax' means a tax imposed at one rate in respect of the sale at retail of a broad range of classes of items.

"(B) SPECIAL RULES FOR FOOD, ETC.—In the case of items of food, clothing, medical supplies, and motor vehicles—

"(i) the fact that the tax does not apply in respect of some or all of such items shall not be taken into account in determining whether the tax applies in respect of a broad range of classes of items, and

"(ii) the fact that the rate of tax applicable in respect of some or all of such items is lower than the general rate of tax shall not be taken into account in determining whether the tax is imposed at one rate.

"(C) ITEMS TAXED AT DIFFERENT RATES.—Except in the case of a lower rate of tax applicable in respect of an item described in subparagraph (B), no deduction shall be allowed under this section for any general sales tax imposed in respect of an item at a rate other than the general rate of tax.

"(D) COMPENSATING USE TAXES.—A compensating use tax in respect of an item shall be treated as a general sales tax. For purposes of the preceding sentence, the term 'compensating use tax' means, in respect of any item, a tax which—

"(i) is imposed on the use, storage, or consumption of such item, and

"(ii) is complementary to a general sales tax, but only if a deduction is allowable under subsection (a)(4) in respect of items sold at retail in the taxing jurisdiction which are similar to such item.

"(3) STATE OR LOCAL TAXES.—A State or local tax includes only a tax imposed by a State, a possession of the United States, or a political subdivision of any of the foregoing, or by the District of Columbia.

"(4) FOREIGN TAXES.—A foreign tax includes only a tax imposed by the authority of a foreign country.

"(5) SEPARATELY STATED GENERAL SALES TAXES AND GASOLINE TAXES.—If the amount of any general sales tax or of any tax on the sale of gasoline, diesel fuel, or other motor fuel is separately stated, then, to the extent that the amount so stated is paid by the consumer (otherwise than in connection with the consumer's trade or business) to his seller, such amount shall be treated as a tax imposed on, and paid by, such consumer.

"(c) DEDUCTION DENIED IN CASE OF CERTAIN TAXES.—No deduction shall be allowed for the following taxes:

"(1) Taxes assessed against local benefits of a kind tending to increase the value of the property assessed; but this paragraph shall not prevent the deduction of so much of such taxes as is properly allocable to maintenance or interest charges.

"(2) Taxes on real property, to the extent that subsection (d) requires such taxes to be treated as imposed on another taxpayer."

(b) TECHNICAL AMENDMENTS.—

(1) The first sentence of section 164(f) (relating to payments for municipal services in atomic energy communities) is amended by inserting "State" before "real property taxes". [1] 72 Stat. 1608. 26 USC 164.

68A Stat. 47; 72 Stat. 1608. 26 USC 164.

(2) Section 164(g) (relating to cross references) is amended to read as follows:

"(g) CROSS REFERENCES.—

"(1) For provisions disallowing any deduction for the payment of the tax imposed by subchapter B of chapter 3 (relating to tax-free covenant bonds), see section 1451.

"(2) For provisions disallowing any deduction for certain taxes, see section 275."

26 USC 261-274.

(3)(A) Part IX of subchapter B of chapter 1 (relating to items not deductible) is amended by adding at the end thereof the following new section:

"SEC. 275. CERTAIN TAXES.

"(a) GENERAL RULE.—No deduction shall be allowed for the following taxes:

"(1) Federal income taxes, including—

75 Stat. 141.

"(A) the tax imposed by section 3101 (relating to the tax on employees under the Federal Insurance Contributions Act);

26 USC 3101-3126.

"(B) the taxes imposed by sections 3201 and 3211 (relating to the taxes on railroad employees and railroad employee representatives); and

73 Stat. 28, 29; 77 Stat. 221. 26 USC 3201, 3211.

"(C) the tax withheld at source on wages under section 3402, and corresponding provisions of prior revenue laws.

Post, p. 140. 26 USC 3402.

"(2) Federal war profits and excess profits taxes.

"(3) Estate, inheritance, legacy, succession, and gift taxes.

"(4) Income, war profits, and excess profits taxes imposed by the authority of any foreign country or possession of the United States, if the taxpayer chooses to take to any extent the benefits of section 901 (relating to the foreign tax credit).

26 USC 901.

26 USC 164.

"(5) Taxes on real property, to the extent that section 164(d) requires such taxes to be treated as imposed on another taxpayer.

"(b) CROSS REFERENCE.—

"For disallowance of certain other taxes, see section 164(c)."

(B) The table of sections for such part IX is amended by adding at the end thereof the following:

"Sec. 275. Certain taxes."

26 USC 535.

(4) Paragraph (1) of section 535(b) (relating to adjustments to accumulated taxable income) is amended by striking out "section 164(b)(6)" and inserting in lieu thereof "section 275(a)(4)".

26 USC 545.

(5) The first sentence of paragraph (1) of section 545(b) (relating to adjustments to personal holding company taxable income) is amended by striking out "section 164(b)(6)" and inserting in lieu thereof "section 275(a)(4)".

26 USC 556.

(6) The first sentence of paragraph (1) of section 556(b) (relating to adjustments to foreign personal holding company taxable income) is amended by striking out "section 164 (b)(6)" and inserting in lieu thereof "section 275(a)(4)".

26 USC 901.

(7) Paragraph (1) of section 901(d) (relating to credit for taxes imposed by foreign countries) is amended by striking out "section 164" and inserting in lieu thereof "sections 164 and 275".

26 USC 903.

(8) Section 903 (relating to credit for taxes imposed by a foreign country in lieu of income, etc., taxes) is amended by striking out "section 164(b)" and inserting in lieu thereof "sections 164(a) and 275(a)".

(c) EFFECTIVE DATE.—

(1) GENERAL RULE.—Except as provided in paragraph (2), the amendments made by this section shall apply to taxable years beginning after December 31, 1963.

(2) SPECIAL TAXING DISTRICTS.—Section 164(c)(1) of the Internal Revenue Code of 1954 (as amended by subsection (a)) shall not prevent the deduction under section 164 of such Code (as so amended) of taxes levied by a special taxing district which is described in section 164(b)(5) of such Code (as in effect for a taxable year ending on December 31, 1963) and which was in existence on December 31, 1963, for the purpose of retiring indebtedness existing on such date.

Ante, p. 40.
26 USC 164.

SEC. 208. PERSONAL CASUALTY AND THEFT LOSSES.

(a) LIMITATION ON AMOUNT OF CASUALTY OR THEFT LOSS DEDUCTION.—Section 165(c)(3) (relating to losses of property not connected with trade or business) is amended to read as follows:

68A Stat. 49.
26 USC 165.

"(3) losses of property not connected with a trade or business, if such losses arise from fire, storm, shipwreck, or other casualty, or from theft. A loss described in this paragraph shall be allowed only to the extent that the amount of loss to such individual arising from each casualty, or from each theft, exceeds $100. For purposes of the $100 limitation of the preceding sentence, a husband and wife making a joint return under section 6013 for the taxable year in which the loss is allowed as a deduction shall be treated as one individual. No loss described in this paragraph shall be allowed if, at the time of filing the return, such loss has been claimed for estate tax purposes in the estate tax return."

26 USC 6013.

(b) EFFECTIVE DATE.—The amendment made by subsection (a) shall apply to losses sustained after December 31, 1963, in taxable years ending after such date.

SEC. 209. CHARITABLE, ETC., CONTRIBUTIONS AND GIFTS.

(a) CERTAIN ORGANIZATIONS ADDED TO ADDITIONAL 10-PERCENT CHARITABLE LIMITATION.—Section 170(b)(1)(A) (relating to limitation on amount of deduction for charitable contributions by individuals) is amended by striking out "or" at the end of clause (iii), and by inserting after clause (iv) the following new clauses:

76 Stat. 1134.
26 USC 170.

"(v) a governmental unit referred to in subsection (c)(1), or

"(vi) an organization referred to in subsection (c)(2) which normally receives a substantial part of its support (exclusive of income received in the exercise or performance by such organization of its charitable, educational, or other purpose or function constituting the basis for its exemption under section 501(a)) from a governmental unit referred to in subsection (c)(1) or from direct or indirect contributions from the general public,".

26 USC 501.

(b) UNLIMITED CHARITABLE CONTRIBUTION DEDUCTION.—Section 170 (relating to charitable, etc., contributions and gifts) is amended by inserting after subsection (f) (added by subsection (e) of this section) the following new subsection:

Post, p. 47.

"(g) APPLICATION OF UNLIMITED CHARITABLE CONTRIBUTION DEDUCTION.—

"(1) ALLOWANCE OF DEDUCTION FOR TAXABLE YEARS BEGINNING AFTER DECEMBER 31, 1963.—If the taxable year begins after December 31, 1963—

"(A) subsection (b)(1)(C) shall apply only if the taxpayer so elects (at such time and in such manner as the Secretary or his delegate by regulations prescribes); and

"(B) for purposes of subsection (b)(1)(C), the amount of the charitable contributions for the taxable year (and for all prior taxable years beginning after December 31, 1963) shall be determined without the application of subsection (b)(5) and solely by reference to charitable contributions described in paragraph (2).

If the taxpayer elects to have subsection (b)(1)(C) apply for the taxable year, then for such taxable year subsection (a) shall apply only with respect to charitable contributions described in paragraph (2), and no amount of charitable contributions made in the taxable year or any prior taxable year may be treated under subsection (b)(5) as having been made in the taxable year or in any succeeding taxable year.

"(2) QUALIFIED CONTRIBUTIONS.—The charitable contributions referred to in paragraph (1) are—

"(A) any charitable contribution described in subsection (b)(1)(A);

"(B) any charitable contribution, not described in subsection (b)(1)(A), to an organization described in subsection (c)(2) substantially more than half of the assets of which is devoted directly to, and substantially all of the income of which is expended directly for, the active conduct of the activities constituting the purpose or function for which it is organized and operated;

"(C) any charitable contribution, not described in subsection (b)(1)(A), to an organization described in subsection (c)(2) which meets the requirements of paragraph (3) with respect to such charitable contribution; and

"(D) any charitable contribution payment of which is made on or before the date of the enactment of the Revenue Act of 1964.

"(3) ORGANIZATIONS EXPENDING AT LEAST 50 PERCENT OF DONOR'S CONTRIBUTIONS.—An organization shall be an organization referred to in paragraph (2)(C), with respect to any charitable contribution, only if—

"(A) not later than the close of the third year after the organization's taxable year in which the contribution is received (or before such later time as the Secretary or his delegate may allow upon good cause shown by such organization), such organization expends an amount equal to at least 50 percent of such contribution for—

"(i) the active conduct of the activities constituting the purpose or function for which it is organized and operated,

"(ii) assets which are directly devoted to such active conduct,

"(iii) contributions to organizations which are described in subsection (b)(1)(A) or in paragraph (2)(B) of this subsection, or

"(iv) any combination of the foregoing; and

"(B) for the period beginning with the taxable year in which such contribution is received and ending with the taxable year in which subparagraph (A) is satisfied with respect to such contribution, such organization expends all of its net income (determined without regard to capital gains and losses) for the purposes described in clauses (i), (ii), (iii), and (iv) of subparagraph (A).

If the taxpayer so elects (at such time and in such manner as the Secretary or his delegate by regulations prescribes) with respect

to contributions made by him to any organization, then, in applying subparagraph (B) with respect to contributions made by him to such organization during his taxable year for which such election is made and during all his subsequent taxable years, amounts expended by the organization after the close of any of its taxable years and on or before the 15th day of the third month following the close of such taxable year shall be treated as expended during such taxable year.

"(4) DISQUALIFYING TRANSACTIONS.—An organization shall be an organization referred to in subparagraph (B) or (C) of paragraph (2) only if at no time during the period consisting of the organization's taxable year in which the contribution is received, its 3 preceding taxable years, and its 3 succeeding taxable years, such organization—

"(A) lends any part of its income or corpus to,

"(B) pays compensation (other than reasonable compensation for personal services actually rendered) to,

"(C) makes any of its services available on a preferential basis to,

"(D) purchases more than a minimal amount of securities or other property from, or

"(E) sells more than a minimal amount of securities or other property to,

the donor of such contribution, any member of his family (as defined in section 267(c)(4)), any employee of the donor, any officer or employee of a corporation in which he owns (directly or indirectly) 50 percent or more in value of the outstanding stock, or any partner or employee of a partnership in which he owns (directly or indirectly) 50 percent or more of the capital interest or profits interest. This paragraph shall not apply to transactions occurring on or before the date of the enactment of the Revenue Act of 1964."

68A Stat. 78.
26 USC 267.

(c) 5-YEAR CARRYOVER OF CERTAIN CHARITABLE CONTRIBUTIONS MADE BY INDIVIDUALS.—

(1) IN GENERAL.—Section 170(b) (relating to limitations on amount of deduction for charitable contributions) is amended by adding at the end thereof the following new paragraph:

72 Stat. 1610.
26 USC 170.

"(5) CARRYOVER OF CERTAIN EXCESS CONTRIBUTIONS BY INDIVIDUALS.—

"(A) In the case of an individual, if the amount of charitable contributions described in paragraph (1)(A) payment of which is made within a taxable year (hereinafter in this paragraph referred to as the 'contribution year') beginning after December 31, 1963, exceeds 30 percent of the taxpayer's adjusted gross income for such year (computed without regard to any net operating loss carryback to such year under section 172), such excess shall be treated as a charitable contribution described in paragraph (1)(A) paid in each of the 5 succeeding taxable years in order of time, but, with respect to any such succeeding taxable year, only to the extent of the lesser of the two following amounts:

26 USC 172.

"(i) the amount by which 30 percent of the taxpayer's adjusted gross income for such succeeding taxable year (computed without regard to any net operating loss carryback to such succeeding taxable year under section 172) exceeds the sum of the charitable contributions described in paragraph (1)(A) payment of which is made by the taxpayer within such succeeding taxable year (determined without regard to this subparagraph)

and the charitable contributions described in paragraph (1)(A) payment of which was made in taxable years (beginning after December 31, 1963) before the contribution year which are treated under this subparagraph as having been paid in such succeeding taxable year; or

"(ii) in the case of the first succeeding taxable year, the amount of such excess, and in the case of the second, third, fourth, or fifth succeeding taxable year, the portion of such excess not treated under this subparagraph as a charitable contribution described in paragraph (1)(A) paid in any taxable year intervening between the contribution year and such succeeding taxable year.

"(B) In applying subparagraph (A), the excess determined under subparagraph (A) for the contribution year shall be reduced to the extent that such excess reduces taxable income (as computed for purposes of the second sentence of section 172(b)(2)) and increases the net operating loss deduction for a taxable year succeeding the contribution year."

76 Stat. 889.
26 USC 172.

72 Stat. 1631.
26 USC 545.

26 USC 556.

(2) TECHNICAL AMENDMENTS.—Sections 545(b)(2) (relating to deductions for charitable contributions by personal holding companies) and 556(b)(2) (relating to deductions for charitable contributions by foreign personal holding companies) are each amended by striking out "section 170(b)(2)" and inserting in lieu thereof "section 170(b)(2) and (5)".

(d) 5-YEAR CARRYOVER OF CERTAIN CHARITABLE CONTRIBUTIONS MADE BY CORPORATIONS.—

68A Stat. 58.
26 USC 170.

(1) IN GENERAL.—Section 170(b)(2) (relating to limitation on amount of deduction for charitable contributions by corporations) is amended by striking out the sentence following subparagraph (D) and inserting in lieu thereof the following:

"Any contribution made by a corporation in a taxable year (hereinafter in this sentence referred to as the 'contribution year') in excess of the amount deductible for such year under the preceding sentence shall be deductible for each of the 5 succeeding taxable years in order of time, but only to the extent of the lesser of the two following amounts: (i) the excess of the maximum amount deductible for such succeeding taxable year under the preceding sentence over the sum of the contributions made in such year plus the aggregate of the excess contributions which were made in taxable years before the contribution year and which are deductible under this sentence for such succeeding taxable year; or (ii) in the case of the first succeeding taxable year, the amount of such excess contribution, and in the case of the second, third, fourth, or fifth succeeding taxable year, the portion of such excess contribution not deductible under this sentence for any taxable year intervening between the contribution year and such succeeding taxable year."

26 USC 381.

(2) CARRYOVERS IN CERTAIN CORPORATE ACQUISITIONS.—Paragraph (19) of section 381(c) (relating to items of distributor or transferor corporation) is amended to read as follows:

"(19) CHARITABLE CONTRIBUTIONS IN EXCESS OF PRIOR YEARS' LIMITATIONS.—Contributions made in the taxable year ending on the date of distribution or transfer and the 4 prior taxable years by the distributor or transferor corporation in excess of the amount deductible under section 170(b)(2) for such taxable years shall be deductible by the acquiring corporation for its taxable years which begin after the date of distribution or transfer, subject to the limitations imposed in section 170(b)(2). In applying the preceding sentence, each taxable year

of the distributor or transferor corporation beginning on or before the date of distribution or transfer shall be treated as a prior taxable year with reference to the acquiring corporation's taxable years beginning after such date."

(e) FUTURE INTERESTS IN TANGIBLE PERSONAL PROPERTY.—Section 170 (relating to charitable, etc., contributions and gifts) is amended by redesignating subsections (f) and (g) as subsections (h) and (i), respectively, and by inserting after subsection (e) the following new subsection:

76 Stat. 1034; *Ante*, p. 43. 26 USC 170.

"(f) FUTURE INTERESTS IN TANGIBLE PERSONAL PROPERTY.—For purposes of this section, payment of a charitable contribution which consists of a future interest in tangible personal property shall be treated as made only when all intervening interests in, and rights to the actual possession or enjoyment of, the property have expired or are held by persons other than the taxpayer or those standing in a relationship to the taxpayer described in section 267(b). For purposes of the preceding sentence, a fixture which is intended to be severed from the real property shall be treated as tangible personal property."

26 USC 267.

(f) EFFECTIVE DATES.—

(1) The amendments made by subsections (a), (b), and (c), shall apply with respect to contributions which are paid in taxable years beginning after December 31, 1963.

(2) The amendments made by subsection (d) shall apply to taxable years beginning after December 31, 1963, with respect to contributions which are paid (or treated as paid under section 170(a)(2) of the Internal Revenue Code of 1954) in taxable years beginning after December 31, 1961.

(3) The amendments made by subsection (e) shall apply to transfers of future interests made after December 31, 1963, in taxable years ending after such date, except that such amendments shall not apply to any transfer of a future interest made before July 1, 1964, where—

(A) the sole intervening interest or right is a nontransferable life interest reserved by the donor, or

(B) in the case of a joint gift by husband and wife, the sole intervening interest or right is a nontransferable life interest reserved by the donors which expires not later than the death of whichever of such donors dies later.

For purposes of the exception contained in the preceding sentence, a right to make a transfer of the reserved life interest to the donee of the future interest shall not be treated as making a life interest transferable.

SEC. 210. LOSSES ARISING FROM EXPROPRIATION OF PROPERTY BY GOVERNMENTS OF FOREIGN COUNTRIES.

(a) NET OPERATING LOSS CARRYOVER.—Section 172 (relating to net operating loss deduction) is amended—

76 Stat. 889. 26 USC 172.

(1) by striking out "Except as provided in clause (ii)" in subsection (b)(1)(A)(i) and inserting in lieu thereof "Except as provided in clause (ii) and in subparagraph (D)";

(2) by striking out "Except as provided in subparagraph (C)" in subsection (b)(1)(B) and inserting in lieu thereof "Except as provided in subparagraphs (C) and (D)";

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

"(D) In the case of a taxpayer which has a foreign expropriation loss (as defined in subsection (k)) for any taxable year ending after December 31, 1958, the portion of the net operating loss for such year attributable to such foreign ex-

Post, p. 48.

propriation loss shall not be a net operating loss carryback to any taxable year preceding the taxable year of such loss and shall be a net operating loss carryover to each of the 10 taxable years following the taxable year of such loss.";

(4) by adding at the end of subsection (b)(3) the following new subparagraphs:

"(C) Paragraph (1)(D) shall apply only if—

"(i) the foreign expropriation loss (as defined in subsection (k)) for the taxable year equals or exceeds 50 percent of the net operating loss for the taxable year,

"(ii) in the case of a foreign expropriation loss for a taxable year ending after December 31, 1963, the taxpayer elects (at such time and in such manner as the Secretary or his delegate by regulations prescribes) to have paragraph (1)(D) apply, and

"(iii) in the case of a foreign expropriation loss for a taxable year ending after December 31, 1958, and before January 1, 1964, the taxpayer elects (in such manner as the Secretary or his delegate by regulations prescribes) on or before December 31, 1965, to have paragraph (1)(D) apply.

"(D) If a taxpayer makes an election under subparagraph (C)(iii), then (notwithstanding any law or rule of law), with respect to any taxable year ending before January 1, 1964, affected by the election—

68A Stat. 285. 26 USC 901-905.

"(i) the time for making or changing any choice or election under subpart A of part III of subchapter N (relating to foreign tax credit) shall not expire before January 1, 1966,

"(ii) any deficiency attributable to the election under subparagraph (C)(iii) or to the application of clause (i) of this subparagraph may be assessed at any time before January 1, 1969, and

"(iii) refund or credit of any overpayment attributable to the election under subparagraph (C)(iii) or to the application of clause (i) of this subparagraph may be made or allowed if claim therefor is filed before January 1, 1969.";

76 Stat. 649. 26 USC 172.

(5) by redesignating subsection (k) as (l), and by inserting after subsection (j) the following new subsection:

"(k) FOREIGN EXPROPRIATION LOSS DEFINED.—For purposes of subsection (b)—

"(1) The term 'foreign expropriation loss' means, for any taxable year, the sum of the losses sustained by reason of the expropriation, intervention, seizure, or similar taking of property by the government of any foreign country, any political subdivision thereof, or any agency or instrumentality of the foregoing. For purposes of the preceding sentence, a debt which becomes worthless shall, to the extent of any deduction allowed under section 166(a), be treated as a loss.

"(2) The portion of the net operating loss for any taxable year attributable to a foreign expropriation loss is the amount of the foreign expropriation loss for such year (but not in excess of the net operating loss for such year)."

76 Stat. 889. 26 USC 172.

(b) TECHNICAL AMENDMENTS.—Section 172(b)(2) is amended—

(1) by striking out subparagraph (B) and inserting in lieu thereof the following:

"(B) by determining the amount of the net operating loss deduction—

"(i) without regard to the net operating loss for the loss year or for any taxable year thereafter, and

"(ii) without regard to that portion, if any, of a net operating loss for a taxable year attributable to a foreign expropriation loss, if such portion may not, under paragraph (1)(D), be carried back to such prior taxable year."; and

(2) by adding at the end thereof the following new sentence: "For purposes of this paragraph, if a portion of the net operating loss for the loss year is attributable to a foreign expropriation loss to which paragraph (1)(D) applies, such portion shall be considered to be a separate net operating loss for such year to be applied after the other portion of such net operating loss."

(c) EFFECTIVE DATE.—The amendments made by this section shall apply in respect of foreign expropriation losses (as defined in section 172(k) of the Internal Revenue Code of 1954, as amended by subsection (a)(5) of this section), sustained in taxable years ending after December 31, 1958.

Ante, p. 48.

SEC. 211. ONE-PERCENT LIMITATION ON MEDICINE AND DRUGS.

(a) GENERAL RULE.—Subsection (b) of section 213 (relating to medical, dental, etc., expenses) is amended by adding at the end thereof the following new sentence: "The preceding sentence shall not apply to amounts paid for the care of—

68A Stat. 69.
26 USC 213.

"(1) the taxpayer and his spouse, if either of them has attained the age of 65 before the close of the taxable year, or

"(2) any dependent described in subsection (a)(1)(A)."

(b) EFFECTIVE DATE.—The amendment made by subsection (a) shall apply to taxable years beginning after December 31, 1963.

SEC. 212. CARE OF DEPENDENTS.

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

26 USC 214.

"SEC. 214. EXPENSES FOR CARE OF CERTAIN DEPENDENTS.

"(a) GENERAL RULE.—There shall be allowed as a deduction expenses paid during the taxable year by a taxpayer who is a woman or widower, or is a husband whose wife is incapacitated or is institutionalized, for the care of one or more dependents (as defined in subsection (d)(1)), but only if such care is for the purpose of enabling the taxpayer to be gainfully employed.

"(b) LIMITATIONS.—

"(1) DOLLAR LIMIT.—

"(A) Except as provided in subparagraph (B), the deduction under subsection (a) shall not exceed $600 for any taxable year.

"(B) The $600 limit of subparagraph (A) shall be increased (to an amount not above $900) by the amount of expenses incurred by the taxpayer for any period during which the taxpayer had 2 or more dependents.

"(2) WORKING WIVES AND HUSBANDS WITH INCAPACITATED WIVES.—In the case of a woman who is married and in the case of a husband whose wife is incapacitated, the deduction under subsection (a)—

"(A) shall not be allowed unless the taxpayer and his spouse file a joint return for the taxable year, and

"(B) shall be reduced by the amount (if any) by which the adjusted gross income of the taxpayer and his spouse exceeds $6,000.

This paragraph shall not apply, in the case of a woman who is married, to expenses incurred while her husband is incapable of

self-support because mentally or physically defective, or, in the case of a husband whose wife is incapacitated, to expenses incurred while his wife is institutionalized if such institutionalization is for a period of at least 90 consecutive days (whether or not within one taxable year) or a shorter period if terminated by her death.

"(3) CERTAIN PAYMENTS NOT TAKEN INTO ACCOUNT.—Subsection (a) shall not apply to any amount paid to an individual with respect to whom the taxpayer is allowed for his taxable year a deduction under section 151 (relating to deductions for personal exemptions).

68A Stat. 42.
26 USC 151.

"(c) SPECIAL RULE WHERE WIFE IS INCAPACITATED OR INSTITUTIONALIZED.—In the case of a husband whose wife is incapacitated or is institutionalized, the deduction under subsection (a) shall be allowed only for expenses incurred while the wife was incapacitated or institutionalized (as the case may be) for a period of at least 90 consecutive days (whether or not within one taxable year) or a shorter period if terminated by her death.

"(d) DEFINITIONS.—For purposes of this section—

"(1) DEPENDENT.—The term 'dependent' means a person with respect to whom the taxpayer is entitled to an exemption under section 151(e)(1)—

"(A) who has not attained the age of 13 years and who (within the meaning of section 152) is a son, stepson, daughter, or stepdaughter of the taxpayer; or

26 USC 152.

"(B) who is physically or mentally incapable of caring for himself.

"(2) WIDOWER.—The term 'widower' includes an unmarried individual who is legally separated from his spouse under a decree of divorce or of separate maintenance.

"(3) INCAPACITATED WIFE.—A wife shall be considered incapacitated only (A) while she is incapable of caring for herself because mentally or physically defective, or (B) while she is institutionalized.

"(4) INSTITUTIONALIZED WIFE.—A wife shall be considered institutionalized only while she is, for the purpose of receiving medical care or treatment, an inpatient, resident, or inmate of a public or private hospital, sanitarium, or other similar institution.

"(5) DETERMINATION OF STATUS.—A woman shall not be considered as married if—

"(A) she is legally separated from her spouse under a decree of divorce or of separate maintenance at the close of the taxable year, or

"(B) she has been deserted by her spouse, does not know his whereabouts (and has not known his whereabouts at any time during the taxable year), and has applied to a court of competent jurisdiction for appropriate process to compel him to pay support or otherwise to comply with the law or a judicial order, as determined under regulations prescribed by the Secretary or his delegate."

(b) EFFECTIVE DATE.—The amendment made by subsection (a) shall apply to taxable years beginning after December 31, 1963.

SEC. 213. MOVING EXPENSES.

(a) DEDUCTION ALLOWED FOR MOVING EXPENSES.—

26 USC 211-217.

(1) Part VII of subchapter B of chapter 1 (relating to additional itemized deductions for individuals) is amended by redesignating section 217 as section 218 and by inserting after section 216 the following new section:

"SEC. 217. MOVING EXPENSES.

"(a) DEDUCTION ALLOWED.—There shall be allowed as a deduction moving expenses paid or incurred during the taxable year in connection with the commencement of work by the taxpayer as an employee at a new principal place of work.

"(b) DEFINITION OF MOVING EXPENSES.—

"(1) IN GENERAL.—For purposes of this section, the term 'moving expenses' means only the reasonable expenses—

"(A) of moving household goods and personal effects from the former residence to the new residence, and

"(B) of traveling (including meals and lodging) from the former residence to the new place of residence.

"(2) INDIVIDUALS OTHER THAN TAXPAYER.—In the case of any individual other than the taxpayer, expenses referred to in paragraph (1) shall be taken into account only if such individual has both the former residence and the new residence as his principal place of abode and is a member of the taxpayer's household.

"(c) CONDITIONS FOR ALLOWANCE.—No deduction shall be allowed under this section unless—

"(1) the taxpayer's new principal place of work—

"(A) is at least 20 miles farther from his former residence than was his former principal place of work, or

"(B) if he had no former principal place of work, is at least 20 miles from his former residence, and

"(2) during the 12-month period immediately following his arrival in the general location of his new principal place of work, the taxpayer is a full-time employee, in such general location, during at least 39 weeks.

"(d) RULES FOR APPLICATION OF SUBSECTION (c)(2).—

"(1) Subsection (c)(2) shall not apply to any item to the extent that the taxpayer receives reimbursement or other expense allowance from his employer for such item.

"(2) If a taxpayer has not satisfied the condition of subsection (c)(2) before the time prescribed by law (including extensions thereof) for filing the return for the taxable year during which he paid or incurred moving expenses which would otherwise be deductible under this section, but may still satisfy such condition, then such expenses may (at the election of the taxpayer) be deducted for such taxable year notwithstanding subsection (c)(2).

"(3) If—

"(A) for any taxable year moving expenses have been deducted in accordance with the rule provided in paragraph (2), and

"(B) the condition of subsection (c)(2) is not satisfied by the close of the subsequent taxable year,

then an amount equal to the expenses which were so deducted shall be included in gross income for such subsequent taxable year.

"(e) DISALLOWANCE OF DEDUCTION WITH RESPECT TO REIMBURSEMENTS NOT INCLUDED IN GROSS INCOME.—No deduction shall be allowed under this section for any item to the extent that the taxpayer receives reimbursement or other expense allowance for such item which is not included in his gross income.

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

(2) The table of sections for part VII of subchapter B of chapter 1 is amended by striking out—

"Sec. 217. Cross references."

and inserting in lieu thereof the following:

"Sec. 217. Moving expenses.
"Sec. 218. Cross references."

68A Stat. 17; 76 Stat. 828. 26 USC 62.

(b) ADJUSTED GROSS INCOME.—Section 62 (defining adjusted gross income) is amended by inserting after paragraph (7) the following new paragraph:

"(8) MOVING EXPENSE DEDUCTION.—The deduction allowed by section 217."

Ante, p. 51.

Ante, p. 36.

(c) WITHHOLDING.—Section 3401(a) (relating to definition of "wages") is amended by adding after paragraph (14) (added by section 204(b) of this Act) the following new paragraph:

"(15) to or on behalf of an employee if (and to the extent that) at the time of the payment of such remuneration it is reasonable to believe that a corresponding deduction is allowable under section 217."

(d) EFFECTIVE DATES.—The amendments made by subsections (a) and (b) shall apply to expenses incurred after December 31, 1963, in taxable years ending after such date. The amendment made by subsection (c) shall apply with respect to remuneration paid after the seventh day following the date of the enactment of this Act.

SEC. 214. 100 PERCENT DIVIDENDS RECEIVED DEDUCTION FOR MEMBERS OF ELECTING AFFILIATED GROUPS.

26 USC 243.

(a) 100 PERCENT DIVIDENDS RECEIVED DEDUCTION.—Section 243 (relating to dividends received by corporations) is amended to read as follows:

"SEC. 243. DIVIDENDS RECEIVED BY CORPORATIONS.

"(a) GENERAL RULE.—In the case of a corporation, there shall be allowed as a deduction an amount equal to the following percentages of the amount received as dividends from a domestic corporation which is subject to taxation under this chapter:

"(1) 85 percent, in the case of dividends other than dividends described in paragraph (2) or (3);

"(2) 100 percent, in the case of dividends received by a small business investment company operating under the Small Business Investment Act of 1958; and

72 Stat. 689. 15 USC 661 note.

"(3) 100 percent, in the case of qualifying dividends (as defined in subsection (b)(1)).

"(b) QUALIFYING DIVIDENDS.—

"(1) DEFINITION.—For purposes of subsection (a)(3), the term 'qualifying dividends' means dividends received by a corporation which, at the close of the day the dividends are received, is a member of the same affiliated group of corporations (as defined in paragraph (5)) as the corporation distributing the dividends, if—

"(A) such affiliated group has made an election under paragraph (2) which is effective for the taxable years of its members which include such day, and

"(B) such dividends are distributed out of earnings and profits of a taxable year of the distributing corporation ending after December 31, 1963—

"(i) on each day of which the distributing corporation and the corporation receiving the dividends were members of such affiliated group, and

Post, p. 117.

"(ii) for which an election under section 1562 (relating to election of multiple surtax exemptions) is not effective.

"(2) ELECTION.—An election under this paragraph shall be made for an affiliated group by the common parent corporation, and shall be made for any taxable year of the common parent corporation at such time and in such manner as the Secretary or his delegate by regulations prescribes. Such election may not be made for an affiliated group for any taxable year of the common parent corporation for which an election under section 1562 is effective. Each corporation which is a member of such group at any time during its taxable year which includes the last day of such taxable year of the common parent corporation must consent to such election at such time and in such manner as the Secretary or his delegate by regulations prescribes. An election under this paragraph shall be effective—

Post, p. 117.

"(A) for the taxable year of each member of such affiliated group which includes the last day of the taxable year of the common parent corporation with respect to which the election is made (except that in the case of a taxable year of a member beginning in 1963 and ending in 1964, if the election is effective for the taxable year of the common parent corporation which includes the last day of such taxable year of such member, such election shall be effective for such taxable year of such member, if such member consents to such election with respect to such taxable year), and

"(B) for the taxable year of each member of such affiliated group which ends after the last day of such taxable year of the common parent corporation but which does not include such date, unless the election is terminated under paragraph (4).

"(3) EFFECT OF ELECTION.—If an election by an affiliated group is effective with respect to a taxable year of the common parent corporation, then under regulations prescribed by the Secretary or his delegate—

"(A) no member of such affiliated group may consent to an election under section 1562 for such taxable year,

"(B) the members of such affiliated group shall be treated as one taxpayer for purposes of making the elections under section 901(a) (relating to allowance of foreign tax credit) and section 904(b)(1) (relating to election of overall limitation), and

68A Stat. 285.
26 USC 901.
74 Stat. 1010.
26 USC 904.

"(C) the members of such affiliated group shall be limited to one—

"(i) $100,000 minimum accumulated earnings credit under section 535(c)(2) or (3),

26 USC 535.

"(ii) $100,000 limitation for exploration expenditures under section 615 (a) and (b),

26 USC 615.

"(iii) $400,000 limitation for exploration expenditures under section 615(c)(1),

"(iv) $25,000 limitation on small business deduction of life insurance companies under sections 804(a)(4) and 809(d)(10), and

73 Stat. 115.
26 USC 804.
26 USC 809.

"(v) $100,000 exemption for purposes of estimated tax filing requirements under section 6016 and the addition to tax under section 6655 for failure to pay estimated tax.

26 USC 6016.
26 USC 6655.

"(4) TERMINATION.—An election by an affiliated group under paragraph (2) shall terminate with respect to the taxable year of the common parent corporation and with respect to the taxable years of the members of such affiliated group which include the last day of such taxable year of the common parent corporation if—

"(A) CONSENT OF MEMBERS.—Such affiliated group files a termination of such election (at such time and in such manner as the Secretary or his delegate by regulations prescribes) with respect to such taxable year of the common parent corporation, and each corporation which is a member of such affiliated group at any time during its taxable year which includes the last day of such taxable year of the common parent corporation consents to such termination, or

"(B) REFUSAL BY NEW MEMBER TO CONSENT.—During such taxable year of the common parent corporation such affiliated group includes a member which—

"(i) was not a member of such group during such common parent corporation's immediately preceding taxable year, and

"(ii) such member files a statement that it does not consent to the election at such time and in such manner as the Secretary or his delegate by regulations prescribes.

"(5) DEFINITION OF AFFILIATED GROUP.—For purposes of this subsection, the term 'affiliated group' has the meaning assigned to it by section 1504(a), except that for such purposes sections 1504(b)(2) and 1504(c) shall not apply.

68A Stat. 369.
26 USC 1504.

"(6) SPECIAL RULES FOR INSURANCE COMPANIES.—If an election under this subsection is effective for the taxable year of an insurance company subject to taxation under section 802 or 821—

73 Stat. 115.
26 USC 802.
Ante, p. 29.

"(A) part II of subchapter B of chapter 6 (relating to certain controlled corporations) shall be applied without regard to section 1563(a)(4) (relating to certain insurance companies) and section 1563(b)(2)(D) (relating to certain excluded members) with respect to such company and the other corporations which are members of the controlled group of corporations (as determined under section 1563 without regard to subsections (a)(4) and (b)(2)(D)) of which such company is a member, and

Post, p. 120.

"(B) for purposes of paragraph (1), a distribution by such company out of earnings and profits of a taxable year for which an election under this subsection was not effective, and for which such company was not a component member of a controlled group of corporations within the meaning of section 1563 solely by reason of section 1563(b)(2)(D), shall not be a qualifying dividend.

"(c) SPECIAL RULES FOR CERTAIN DISTRIBUTIONS.—For purposes of subsection (a)—

26 USC 591.

"(1) Any amount allowed as a deduction under section 591 (relating to deduction for dividends paid by mutual savings banks, etc.) shall not be treated as a dividend.

Ante, p. 32; *post*, p. 99.
26 USC 854.

"(2) A dividend received from a regulated investment company shall be subject to the limitations prescribed in section 854.

74 Stat. 1004.
26 USC 856-858.
Post, p. 55.
26 USC 244.

"(3) Any dividend received from a real estate investment trust which, for the taxable year of the trust in which the dividend is paid, qualifies under part II of subchapter M (section 856 and following) shall not be treated as a dividend.

"(4) Any dividend received which is described in section 244 (relating to dividends received on preferred stock of a public utility) shall not be treated as a dividend.

76 Stat. 977.
26 USC 245.

"(d) CERTAIN DIVIDENDS FROM FOREIGN CORPORATIONS.—For purposes of subsection (a) and for purposes of section 245, any dividend from a foreign corporation from earnings and profits accumulated by a domestic corporation during a period with respect to which such domestic corporation was subject to taxation under this chapter

(or corresponding provisions of prior law) shall be treated as a dividend from a domestic corporation which is subject to taxation under this chapter."

(b) TECHNICAL AMENDMENTS.—

(1) Section 244 (relating to dividends received on certain preferred stock) is amended by inserting "(a) GENERAL RULE.—" before "In case of a corporation," and by adding at the end thereof the following new subsection: 68A Stat. 73. 26 USC 244.

"(b) EXCEPTION.—If the dividends described in subsection (a)(1) are qualifying dividends (as defined in section 243(b)(1), but determined without regard to section 243(c)(4))— *Ante*, p. 52.

"(1) subsection (a) shall be applied separately to such qualifying dividends, and

"(2) for purposes of subsection (a)(3), the percentage applicable to such qualifying dividends shall be 100 percent in lieu of 85 percent."

(2) Section 246(b) (relating to limitation on aggregate amount of deductions for dividends received) is amended by striking out "243(a), 244," each place it appears therein and inserting in lieu thereof "243(a)(1), 244(a),". 26 USC 246.

(3) Section 804(a)(5) (relating to the application of section 246(b) to taxable investment income of life insurance companies) is amended by striking out "243(a), 244," and inserting in lieu thereof "243(a)(1), 244(a),". 73 Stat. 115. 26 USC 804.

(4) Section 809(d)(8)(B) (relating to the application of section 246(b) to the life insurance company's share of certain dividends) is amended by striking out "243(a), 244," each place it appears therein and inserting in lieu thereof "243(a)(1), 244(a),". 26 USC 809.

(c) EFFECTIVE DATE.—The amendments made by subsections (a) and (b) shall apply with respect to dividends received in taxable years ending after December 31, 1963.

SEC. 215. INTEREST ON LOANS INCURRED TO PURCHASE CERTAIN INSURANCE AND ANNUITY CONTRACTS.

(a) DISALLOWANCE OF INTEREST DEDUCTION.—Section 264(a) (relating to certain amounts paid in connection with insurance contracts) is amended— 26 USC 264.

(1) by inserting after paragraph (2) the following new paragraph:

"(3) Except as provided in subsection (c), any amount paid or accrued on indebtedness incurred or continued to purchase or carry a life insurance, endowment, or annuity contract (other than a single premium contract or a contract treated as a single premium contract) pursuant to a plan of purchase which contemplates the systematic direct or indirect borrowing of part or all of the increases in the cash value of such contract (either from the insurer or otherwise)."

(2) by adding at the end thereof the following new sentence: "Paragraph (3) shall apply only in respect of contracts purchased after August 6, 1963."

(b) EXCEPTIONS.—Section 264 is amended by adding at the end thereof the following new subsection:

"(c) EXCEPTIONS.—Subsection (a)(3) shall not apply to any amount paid or accrued by a person during a taxable year on indebtedness incurred or continued as part of a plan referred to in subsection (a)(3)—

"(1) if no part of 4 of the annual premiums due during the 7-year period (beginning with the date the first premium on the

contract to which such plan relates was paid) is paid under such plan by means of indebtedness,

"(2) if the total of the amounts paid or accrued by such person during such taxable year for which (without regard to this paragraph) no deduction would be allowable by reason of subsection (a)(3) does not exceed $100,

"(3) if such amount was paid or accrued on indebtedness incurred because of an unforeseen substantial loss of income or unforeseen substantial increase in his financial obligations, or

"(4) if such indebtedness was incurred in connection with his trade or business.

For purposes of applying paragraph (1), if there is a substantial increase in the premiums on a contract, a new 7-year period described in such paragraph with respect to such contract shall commence on the date the first such increased premium is paid."

(c) EFFECTIVE DATE.—The amendments made by this section shall apply with respect to amounts paid or accrued in taxable years beginning after December 31, 1963.

SEC. 216. INTEREST ON INDEBTEDNESS INCURRED OR CONTINUED TO PURCHASE OR CARRY TAX-EXEMPT BONDS.

68A Stat. 78. 26 USC 265.

(a) APPLICATION WITH RESPECT TO CERTAIN FINANCIAL INSTITUTIONS.—Section 265 (relating to expenses and interest relating to tax-exempt income) is amended by adding at the end of paragraph (2) the following new sentence: "In applying the preceding sentence to a financial institution (other than a bank) which is a face-amount certificate company registered under the Investment Company Act of 1940 (15 U.S.C. 80a-1 and following) and which is subject to the banking laws of the State in which such institution is incorporated, interest on face-amount certificates (as defined in section 2(a)(15) of such Act) issued by such institution, and interest on amounts received for the purchase of such certificates to be issued by such institution, shall not be considered as interest on indebtedness incurred or continued to purchase or carry obligations the interest on which is wholly exempt from the taxes imposed by this subtitle, to the extent that the average amount of such obligations held by such institution during the taxable year (as determined under regulations prescribed by the Secretary or his delegate) does not exceed 15 percent of the average of the total assets held by such institution during the taxable year (as so determined)."

54 Stat. 789.

15 USC 80a-2.

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

SEC. 217. LIMITATION OF TRAVEL ALLOCATION REQUIREMENT TO FOREIGN TRAVEL.

76 Stat. 974. 26 USC 274.

(a) LIMITATION OF APPLICATION OF SECTION 274(c).—Section 274 (c) (relating to traveling) is amended to read as follows:

"(c) CERTAIN FOREIGN TRAVEL.—

"(1) IN GENERAL.—In the case of any individual who travels outside the United States away from home in pursuit of a trade or business or in pursuit of an activity described in section 212, no deduction shall be allowed under section 162 or section 212 for that portion of the expenses of such travel otherwise allowable under such section which, under regulations prescribed by the Secretary or his delegate, is not allocable to such trade or business or to such activity.

26 USC 212.

26 USC 162.

"(2) EXCEPTION.—Paragraph (1) shall not apply to the expenses of any travel outside the United States away from home if—

"(A) such travel does not exceed one week, or

"(B) the portion of the time of travel outside the United States away from home which is not attributable to the pursuit of the taxpayer's trade or business or an activity described in section 212 is less than 25 percent of the total time on such travel.

68A Stat. 69.
26 USC 212.

"(3) DOMESTIC TRAVEL EXCLUDED.—For purposes of this subsection, travel outside the United States does not include any travel from one point in the United States to another point in the United States."

(b) EFFECTIVE DATE.—The amendment made by subsection (a) shall apply with respect to taxable years ending after December 31, 1962, but only in respect of periods after such date.

SEC. 218. ACQUISITION OF STOCK IN EXCHANGE FOR STOCK OF CORPORATION WHICH IS IN CONTROL OF ACQUIRING CORPORATION.

(a) DEFINITION OF REORGANIZATION.—Section 368(a)(1) (relating to definition of reorganization) is amended by inserting after "voting stock" in subparagraph (B) "(or in exchange solely for all or a part of the voting stock of a corporation which is in control of the acquiring corporation)".

26 USC 368.

(b) TECHNICAL AMENDMENTS.—

(1) Section 368(a)(2)(C) (relating to special rules) is amended to read as follows:

"(C) TRANSFERS OF ASSETS OR STOCK TO SUBSIDIARIES IN CERTAIN PARAGRAPH (1)(A), (1)(B), AND (1)(C) CASES.—A transaction otherwise qualifying under paragraph (1)(A), (1)(B), or (1)(C) shall not be disqualified by reason of the fact that part or all of the assets or stock which were acquired in the transaction are transferred to a corporation controlled by the corporation acquiring such assets or stock."

(2) Section 368(b) (relating to definition of party to a reorganization) is amended by striking out the last two sentences and inserting in lieu thereof the following: "In the case of a reorganization qualifying under paragraph (1)(B) or (1)(C) of subsection (a), if the stock exchanged for the stock or properties is stock of a corporation which is in control of the acquiring corporation, the term 'a party to a reorganization' includes the corporation so controlling the acquiring corporation. In the case of a reorganization qualifying under paragraph (1)(A), (1)(B), or (1)(C) of subsection (a) by reason of paragraph (2)(C) of subsection (a), the term 'a party to a reorganization' includes the corporation controlling the corporation to which the acquired assets or stock are transferred."

(c) EFFECTIVE DATE.—The amendments made by this section shall apply with respect to transactions after December 31, 1963, in taxable years ending after such date.

SEC. 219. RETROACTIVE QUALIFICATION OF CERTAIN UNION-NEGOTIATED MULTIEMPLOYER PENSION PLANS.

(a) BEGINNING OF PERIOD AS QUALIFIED TRUST.—Section 401 (relating to qualified pension, profit-sharing, and stock bonus plans) is amended by redesignating subsection (i) as subsection (j), and by inserting after subsection (h) the following new subsection:

76 Stat. 809, 1141.
26 USC 401.

"(i) CERTAIN UNION-NEGOTIATED MULTIEMPLOYER PENSION PLANS.—In the case of a trust forming part of a pension plan which

68A Stat. 163.
26 USC 501.

has been determined by the Secretary or his delegate to constitute a qualified trust under subsection (a) and to be exempt from taxation under section 501(a) for a period beginning after contributions were first made to or for such trust, if it is shown to the satisfaction of the Secretary or his delegate that—

"(1) such trust was created pursuant to a collective bargaining agreement between employee representatives and two or more employers who are not related (determined under regulations prescribed by the Secretary or his delegate),

"(2) any disbursements of contributions, made to or for such trust before the time as of which the Secretary or his delegate determined that the trust constituted a qualified trust, substantially complied with the terms of the trust, and the plan of which the trust is a part, as subsequently qualified, and

"(3) before the time as of which the Secretary or his delegate determined that the trust constitutes a qualified trust, the contributions to or for such trust were not used in a manner which would jeopardize the interests of its beneficiaries,

then such trust shall be considered as having constituted a qualified trust under subsection (a) and as having been exempt from taxation under section 501(a) for the period beginning on the date on which contributions were first made to or for such trust and ending on the date such trust first constituted (without regard to this subsection) a qualified trust under subsection (a)."

(b) EFFECTIVE DATE.—The amendments made by subsection (a) shall apply with respect to taxable years beginning after December 31, 1953, and ending after August 16, 1954, but only with respect to contributions made after December 31, 1954.

SEC. 220. QUALIFIED PENSION, ETC., PLAN COVERAGE FOR EMPLOYEES OF CERTAIN SUBSIDIARY EMPLOYERS.

26 USC 401-405.

(a) EMPLOYEES OF FOREIGN SUBSIDIARIES COVERED BY SOCIAL SECURITY AGREEMENTS.—Part I of subchapter D of chapter 1 (relating to pension, profit-sharing, stock bonus plans, etc.) is amended by adding at the end thereof the following new section:

"SEC. 406. CERTAIN EMPLOYEES OF FOREIGN SUBSIDIARIES.

"(a) TREATMENT AS EMPLOYEES OF DOMESTIC CORPORATION.—For purposes of applying this part with respect to a pension, profit-sharing, or stock bonus plan described in section 401(a), an annuity plan described in section 403(a), or a bond purchase plan described in section 405(a), of a domestic corporation, an individual who is a citizen of the United States and who is an employee of a foreign subsidiary (as defined in section 3121(l)(8)) of such domestic corporation shall be treated as an employee of such domestic corporation, if—

76 Stat. 809.
26 USC 401.
26 USC 403.
76 Stat. 826.
26 USC 405.
68 Stat. 1094.
26 USC 3121.

"(1) such domestic corporation has entered into an agreement under section 3121(l) which applies to the foreign subsidiary of which such individual is an employee;

"(2) the plan of such domestic corporation expressly provides for contributions or benefits for individuals who are citizens of the United States and who are employees of its foreign subsidiaries to which an agreement entered into by such domestic corporation under section 3121(l) applies; and

"(3) contributions under a funded plan of deferred compensation (whether or not a plan described in section 401(a), 403(a), or 405(a)) are not provided by any other person with respect to the remuneration paid to such individual by the foreign subsidiary.

"(b) SPECIAL RULES FOR APPLICATION OF SECTION 401(a).—

"(1) NONDISCRIMINATION REQUIREMENTS.—For purposes of applying paragraphs (3)(B) and (4) of section 401(a) with respect to an individual who is treated as an employee of a domestic corporation under subsection (a)— 68A Stat. 134. 26 USC 401.

"(A) if such individual is an officer, shareholder, or person whose principal duties consist in supervising the work of other employees of a foreign subsidiary of such domestic corporation, he shall be treated as having such capacity with respect to such domestic corporation; and

"(B) the determination of whether such individual is a highly compensated employee shall be made by treating such individual's total compensation (determined with the application of paragraph (2) of this subsection) as compensation paid by such domestic corporation and by determining such individual's status with regard to such domestic corporation.

"(2) DETERMINATION OF COMPENSATION.—For purposes of applying paragraph (5) of section 401(a) with respect to an individual who is treated as an employee of a domestic corporation under subsection (a)—

"(A) the total compensation of such individual shall be the remuneration paid to such individual by the foreign subsidiary which would constitute his total compensation if his services had been performed for such domestic corporation, and the basic or regular rate of compensation of such individual shall be determined under regulations prescribed by the Secretary or his delegate; and

"(B) such individual shall be treated as having paid the amount paid by such domestic corporation which is equivalent to the tax imposed by section 3101. 75 Stat. 141. 26 USC 3101.

"(c) TERMINATION OF STATUS AS DEEMED EMPLOYEE NOT TO BE TREATED AS SEPARATION FROM SERVICE FOR PURPOSES OF CAPITAL GAIN PROVISIONS.—For purposes of applying section 402(a)(2) and section 403(a)(2) with respect to an individual who is treated as an employee of a domestic corporation under subsection (a), such individual shall not be considered as separated from the service of such domestic corporation solely by reason of the fact that— 26 USC 402. 26 USC 403.

"(1) the agreement entered into by such domestic corporation under section 3121(l) which covers the employment of such individual is terminated under the provisions of such section, 68 Stat. 1094. 26 USC 3121.

"(2) such individual becomes an employee of a foreign subsidiary with respect to which such agreement does not apply,

"(3) such individual ceases to be an employee of the foreign subsidiary by reason of which he is treated as an employee of such domestic corporation, if he becomes an employee of another corporation controlled by such domestic corporation, or

"(4) the provision of the plan described in subsection (a)(2) is terminated.

"(d) DEDUCTIBILITY OF CONTRIBUTIONS.—For purposes of applying sections 404 and 405(c) with respect to contributions made to or under a pension, profit-sharing, stock bonus, annuity, or bond purchase plan by a domestic corporation, or by another corporation which is entitled to deduct its contributions under section 404(a)(3)(B), on behalf of an individual who is treated as an employee of such domestic corporation under subsection (a)— 76 Stat. 819, 826. 26 USC 404, 405.

"(1) except as provided in paragraph (2), no deduction shall be allowed to such domestic corporation or to any other corporation which is entitled to deduct its contributions under such sections,

"(2) there shall be allowed as a deduction to the foreign subsidiary of which such individual is an employee an amount equal to the amount which (but for paragraph (1)) would be deductible under section 404 (or section 405(c)) by the domestic corporation if he were an employee of the domestic corporation, and

68A Stat. 138; 76 Stat. 819, 826. 26 USC 404, 405.

"(3) any reference to compensation shall be considered to be a reference to the total compensation of such individual (determined with the application of subsection (b)(2)).

Any amount deductible by a foreign subsidiary under this subsection shall be deductible for its taxable year with or within which the taxable year of such domestic corporation ends.

"(e) TREATMENT AS EMPLOYEE UNDER RELATED PROVISIONS.—An individual who is treated as an employee of a domestic corporation under subsection (a) shall also be treated as an employee of such domestic corporation, with respect to the plan described in subsection (a)(2), for purposes of applying the following provisions of this title:

26 USC 72. "(1) Section 72(d) (relating to employees' annuities).

"(2) Section 72(f) (relating to special rules for computing employees' contributions).

26 USC 101. "(3) Section 101(b) (relating to employees' death benefits).

26 USC 2039. "(4) Section 2039 (relating to annuities).

72 Stat. 1659. 26 USC 2517. "(5) Section 2517 (relating to certain annuities under qualified plans)."

(b) EMPLOYEES OF DOMESTIC SUBSIDIARIES ENGAGED IN BUSINESS OUTSIDE THE UNITED STATES.—Part I of subchapter D of chapter 1 (relating to pension, profit-sharing, stock bonus plans, etc.) is amended by adding after section 406 (as added by subsection (a)) the following new section:

26 USC 401-405.

Ante, p. 58.

"SEC. 407. CERTAIN EMPLOYEES OF DOMESTIC SUBSIDIARIES ENGAGED IN BUSINESS OUTSIDE THE UNITED STATES.

"(a) TREATMENT AS EMPLOYEES OF DOMESTIC PARENT CORPORATION.—

"(1) IN GENERAL.—For purposes of applying this part with respect to a pension, profit-sharing, or stock bonus plan described in section 401(a), an annuity plan described in section 403(a), or a bond purchase plan described in section 405(a), of a domestic parent corporation, an individual who is a citizen of the United States and who is an employee of a domestic subsidiary (within the meaning of paragraph (2)) of such domestic parent corporation shall be treated as an employee of such domestic parent corporation, if—

"(A) the plan of such domestic parent corporation expressly provides for contributions or benefits for individuals who are citizens of the United States and who are employees of its domestic subsidiaries; and

"(B) contributions under a funded plan of deferred compensation (whether or not a plan described in section 401(a), 403(a), or 405(a)) are not provided by any other person with respect to the remuneration paid to such individual by the domestic subsidiary.

"(2) DEFINITIONS.—For purposes of this section—

"(A) DOMESTIC SUBSIDIARY.—A corporation shall be treated as a domestic subsidiary for any taxable year only if—

"(i) such corporation is a domestic corporation 80 percent or more of the outstanding voting stock of which is owned by another domestic corporation;

"(ii) 95 percent or more of its gross income for the three-year period immediately preceding the close of its taxable year which ends on or before the close of the taxable year of such other domestic corporation (or for such part of such period during which the corporation was in existence) was derived from sources without the United States; and

"(iii) 90 percent or more of its gross income for such period (or such part) was derived from the active conduct of a trade or business.

If for the period (or part thereof) referred to in clauses (ii) and (iii) such corporation has no gross income, the provisions of clauses (ii) and (iii) shall be treated as satisfied if it is reasonable to anticipate that, with respect to the first taxable year thereafter for which such corporation has gross income, the provisions of such clauses will be satisfied.

"(B) DOMESTIC PARENT CORPORATION.—The domestic parent corporation of any domestic subsidiary is the domestic corporation which owns 80 percent or more of the outstanding voting stock of such domestic subsidiary.

"(b) SPECIAL RULES FOR APPLICATION OF SECTION 401(a).—

"(1) NONDISCRIMINATION REQUIREMENTS.—For purposes of applying paragraphs (3)(B) and (4) of section 401(a) with respect to an individual who is treated as an employee of a domestic parent corporation under subsection (a)— 68A Stat. 134. 26 USC 401.

"(A) if such individual is an officer, shareholder, or person whose principal duties consist in supervising the work of other employees of a domestic subsidiary, he shall be treated as having such capacity with respect to such domestic parent corporation; and

"(B) the determination of whether such individual is a highly compensated employee shall be made by treating such individual's total compensation (determined with the application of paragraph (2) of this subsection) as compensation paid by such domestic parent corporation and by determining such individual's status with regard to such domestic parent corporation.

"(2) DETERMINATION OF COMPENSATION.—For purposes of applying paragraph (5) of section 401(a) with respect to an individual who is treated as an employee of a domestic parent corporation under subsection (a), the total compensation of such individual shall be the remuneration paid to such individual by the domestic subsidiary which would constitute his total compensation if his services had been performed for such domestic parent corporation, and the basic or regular rate of compensation of such individual shall be determined under regulations prescribed by the Secretary or his delegate.

"(c) TERMINATION OF STATUS AS DEEMED EMPLOYEE NOT TO BE TREATED AS SEPARATION FROM SERVICE FOR PURPOSES OF CAPITAL GAIN PROVISIONS.—For purposes of applying section 402(a)(2) and section 403(a)(2) with respect to an individual who is treated as an employee of a domestic parent corporation under subsection (a), such individual shall not be considered as separated from the service of such domestic parent corporation solely by reason of the fact that— 26 USC 402, 403.

"(1) the corporation of which such individual is an employee ceases, for any taxable year, to be a domestic subsidiary within the meaning of subsection (a)(2)(A),

"(2) such individual ceases to be an employee of a domestic subsidiary of such domestic parent corporation, if he becomes an employee of another corporation controlled by such domestic parent corporation, or

"(3) the provision of the plan described in subsection (a)(1)(A) is terminated.

"(d) DEDUCTIBILITY OF CONTRIBUTIONS.—For purposes of applying sections 404 and 405(c) with respect to contributions made to or under a pension, profit-sharing, stock bonus, annuity, or bond purchase plan by a domestic parent corporation, or by another corporation which is entitled to deduct its contributions under section 404(a)(3)(B), on behalf of an individual who is treated as an employee of such domestic corporation under subsection (a)—

68A Stat. 138; 76 Stat. 819, 826. 26 USC 404, 405.

"(1) except as provided in paragraph (2), no deduction shall be allowed to such domestic parent corporation or to any other corporation which is entitled to deduct its contributions under such sections,

"(2) there shall be allowed as a deduction to the domestic subsidiary of which such individual is an employee an amount equal to the amount which (but for paragraph (1)) would be deductible under section 404 (or section 405(c)) by the domestic parent corporation if he were an employee of the domestic parent corporation, and

"(3) any reference to compensation shall be considered to be a reference to the total compensation of such individual (determined with the application of subsection (b)(2)).

Any amount deductible by a domestic subsidiary under this subsection shall be deductible for its taxable year with or within which the taxable year of such domestic parent corporation ends.

"(e) TREATMENT AS EMPLOYEE UNDER RELATED PROVISIONS.—An individual who is treated as an employee of a domestic parent corporation under subsection (a) shall also be treated as an employee of such domestic parent corporation, with respect to the plan described in subsection (a)(1)(A), for purposes of applying the following provisions of this title:

26 USC 72. "(1) Section 72(d) (relating to employees' annuities).

"(2) Section 72(f) (relating to special rules for computing employees' contributions).

26 USC 101. "(3) Section 101(b) (relating to employees' death benefits).

26 USC 2039. "(4) Section 2039 (relating to annuities).

72 Stat. 1659. 26 USC 2517. "(5) Section 2517 (relating to certain annuities under qualified plans)."

(c) TECHNICAL AMENDMENTS.—

(1) The table of sections for part I of subchapter D of chapter 1 is amended by adding at the end thereof the following:

"Sec. 406. Certain employees of foreign subsidiaries.
"Sec. 407. Certain employees of domestic subsidiaries engaged in business outside the United States."

26 USC 3121. (2) Section 3121(a)(5) (relating to definition of wages) is amended by striking out "or" at the end of subparagraph (A) and by striking out subparagraph (B) and inserting in lieu thereof the following new subparagraphs:

26 USC 403. "(B) under or to an annuity plan which, at the time of such payment, is a plan described in section 403(a), or

"(C) under or to a bond purchase plan which, at the time of such payment, is a qualified bond purchase plan described in section 405(a);".

(3) Section 209(e) of the Social Security Act (relating to the definition of wages) is amended to read as follows:

64 Stat. 492.
42 USC 409.

"(e) Any payment made to, or on behalf of, an employee or his beneficiary (1) from or to a trust exempt from tax under section 165(a) of the Internal Revenue Code of 1939 at the time of such payment or, in the case of a payment after 1954, under sections 401 and 501(a) of the Internal Revenue Code of 1954, unless such payment is made to an employee of the trust as remuneration for services rendered as such employee and not as a beneficiary of the trust, or (2) under or to an annuity plan which, at the time of such payment, meets the requirements of section 165(a) (3), (4), (5), and (6) of the Internal Revenue Code of 1939 or, in the case of a payment after 1954 and prior to 1963, the requirements of section 401(a) (3), (4), (5), and (6) of the Internal Revenue Code of 1954, or (3) under or to an annuity plan which, at the time of any such payment after 1962, is a plan described in section 403(a) of the Internal Revenue Code of 1954, or (4) under or to a bond purchase plan which, at the time of any such payment after 1962, is a qualified bond purchase plan described in section 405(a) of the Internal Revenue Code of 1954;".

53 Stat. 67.
68A Stat. 134, 163.
26 USC 401, 501.
26 USC 403.
76 Stat. 826.
26 USC 405.

(d) EFFECTIVE DATE.—The amendments made by subsections (a), (b), and (c)(1) shall apply to taxable years ending after December 31, 1963. The amendments made by subsections (c) (2) and (3) shall apply to remuneration paid after December 31, 1962.

SEC. 221. EMPLOYEE STOCK OPTIONS AND PURCHASE PLANS.

(a) IN GENERAL.—Part II of subchapter D of chapter 1 is amended to read as follows:

"PART II—CERTAIN STOCK OPTIONS

"SEC. 421. GENERAL RULES.

"(a) EFFECT OF QUALIFYING TRANSFER.—If a share of stock is transferred to an individual in a transfer in respect of which the requirements of section 422(a), 423(a), or 424(a) are met—

Post, pp. 64, 67, 69.

"(1) except as provided in section 422(c)(1), no income shall result at the time of the transfer of such share to the individual upon his exercise of the option with respect to such share;

"(2) no deduction under section 162 (relating to trade or business expenses) shall be allowable at any time to the employer corporation, a parent or subsidiary corporation of such corporation, or a corporation issuing or assuming a stock option in a transaction to which section 425(a) applies, with respect to the share so transferred; and

26 USC 162.
Post, p. 71.

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

"(b) EFFECT OF DISQUALIFYING DISPOSITION.—If the transfer of a share of stock to an individual pursuant to his exercise of an option would otherwise meet the requirements of section 422(a), 423(a), or 424(a) except that there is a failure to meet any of the holding period requirements of section 422(a)(1), 423(a)(1), or 424(a)(1), then any increase in the income of such individual or deduction from the income of his employer corporation for the taxable year in which such exercise occurred attributable to such disposition, shall be treated as an increase in income or a deduction from income in the taxable year of such individual or of such employer corporation in which such disposition occurred.

"(c) EXERCISE BY ESTATE.—

"(1) IN GENERAL.—If an option to which this part applies is exercised after the death of the employee by the estate of the decedent, or by a person who acquired the right to exercise such option by bequest or inheritance or by reason of the death of the decedent, the provisions of subsection (a) shall apply to the same extent as if the option had been exercised by the decedent, except that—

"(A) the holding period and employment requirements of sections 422(a), 423(a), and 424(a) shall not apply, and

"(B) any transfer by the estate of stock acquired shall be considered a disposition of such stock for purposes of sections 423(c) and 424(c)(1).

Post, pp. 67, 69.

"(2) DEDUCTION FOR ESTATE TAX.—If an amount is required to be included under section 422(c)(1), 423(c), or 424(c)(1) in gross income of the estate of the deceased employee or of a person described in paragraph (1), there shall be allowed to the estate or such person a deduction with respect to the estate tax attributable to the inclusion in the taxable estate of the deceased employee of the net value for estate tax purposes of the option. For this purpose, the deduction shall be determined under section 691(c) as if the option acquired from the deceased employee were an item of gross income in respect of the decedent under section 691 and as if the amount includible in gross income under section 422(c)(1), 423(c), or 424(c)(1) were an amount included in gross income under section 691 in respect of such item of gross income.

68A Stat. 235.
26 USC 691.

"(3) BASIS OF SHARES ACQUIRED.—In the case of a share of stock acquired by the exercise of an option to which paragraph (1) applies—

"(A) the basis of such share shall include so much of the basis of the option as is attributable to such share; except that the basis of such share shall be reduced by the excess (if any) of (i) the amount which would have been includible in gross income under section 422(c)(1), 423(c), or 424(c)(1) if the employee had exercised the option on the date of his death and had held the share acquired pursuant to such exercise at the time of his death, over (ii) the amount which is includible in gross income under such section; and

"(B) the last sentence of sections 422(c)(1), 423(c), and 424(c)(1) shall apply only to the extent that the amount includible in gross income under such sections exceeds so much of the basis of the option as is attributable to such share.

"SEC. 422. QUALIFIED STOCK OPTIONS.

"(a) IN GENERAL.—Subject to the provisions of subsection (c)(1), section 421(a) shall apply with respect to the transfer of a share of stock to an individual pursuant to his exercise of a qualified stock option if—

Ante, p. 63.

"(1) no disposition of such share is made by such individual within the 3-year period beginning on the day after the day of the transfer of such share, and

"(2) at all times during the period beginning with the date of the granting of the option and ending on the day 3 months before the date of such exercise, such individual was an employee of either the corporation granting such option, a parent or subsidiary corporation of such corporation, or a corporation or a parent or subsidiary corporation of such corporation issuing or

assuming a stock option in a transaction to which section 425(a) applies. Post, p. 71.

"(b) QUALIFIED STOCK OPTION.—For purposes of this part, the term 'qualified stock option' means an option granted to an individual after December 31, 1963 (other than a restricted stock option granted pursuant to a contract described in section 424(c)(3)(A)), for any reason connected with his employment by a corporation, if granted by the employer corporation or its parent or subsidiary corporation, to purchase stock of any of such corporations, but only if— Post, p. 69.

"(1) the option is granted pursuant to a plan which includes the aggregate number of shares which may be issued under options, and the employees (or class of employees) eligible to receive options, and which is approved by the stockholders of the granting corporation within 12 months before or after the date such plan is adopted;

"(2) such option is granted within 10 years from the date such plan is adopted, or the date such plan is approved by the stockholders, whichever is earlier;

"(3) such option by its terms is not exercisable after the expiration of 5 years from the date such option is granted;

"(4) except as provided in subsection (c)(1), the option price is not less than the fair market value of the stock at the time such option is granted;

"(5) such option by its terms is not exercisable while there is outstanding (within the meaning of subsection (c)(2)) any qualified stock option (or restricted stock option) which was granted, before the granting of such option, to such individual to purchase stock in his employer corporation or in a corporation which (at the time of the granting of such option) is a parent or subsidiary corporation of the employer corporation, or in a predecessor corporation of any of such corporations;

"(6) such option by its terms is not transferable by such individual otherwise than by will or the laws of descent and distribution, and is exercisable, during his lifetime, only by him; and

"(7) such individual, immediately after such option is granted, does not own stock possessing more than 5 percent of the total combined voting power or value of all classes of stock of the employer corporation or of its parent or subsidiary corporation; except that if the equity capital of such corporation or corporations (determined at the time the option is granted) is less than $2,000,000, then, for purposes of applying the limitation of this paragraph, there shall be added to such 5 percent the percentage (not higher than 5 percent) which bears the same ratio to 5 percent as the difference between such equity capital and $2,000,000 bears to $1,000,000.

"(c) SPECIAL RULES.—

"(1) EXERCISE OF OPTION WHEN PRICE IS LESS THAN VALUE OF STOCK.—If a share of stock is transferred pursuant to the exercise by an individual of an option which fails to qualify as a qualified stock option under subsection (b) because there was a failure in an attempt, made in good faith, to meet the requirement of subsection (b)(4), the requirement of subsection (b)(4) shall be considered to have been met, but there shall be included as compensation (and not as gain upon the sale or exchange of a capital asset) in his gross income for the taxable year in which such option is exercised, an amount equal to the lesser of—

"(A) 150 percent of the difference between the option price and the fair market value of the share at the time the option was granted, or

"(B) the difference between the option price and the fair market value of the share at the time of such exercise.

The basis of the share acquired shall be increased by an amount equal to the amount included in his gross income under this paragraph in the taxable year in which the exercise occurred.

"(2) CERTAIN OPTIONS TREATED AS OUTSTANDING.—For purposes of subsection (b)(5)—

"(A) any restricted stock option which is not terminated before January 1, 1965, and

"(B) any qualified stock option granted after December 31, 1963,

shall be treated as outstanding until such option is exercised in full or expires by reason of the lapse of time. For purposes of the preceding sentence, a restricted stock option granted before January 1, 1964, shall not be treated as outstanding for any period before the first day on which (under the terms of such option) it may be exercised.

"(3) OPTIONS GRANTED TO CERTAIN SHAREHOLDERS.—For purposes of subsection (b)(7)—

"(A) the term 'equity capital' means—

"(i) in the case of one corporation, the sum of its money and other property (in an amount equal to the adjusted basis of such property for determining gain), less the amount of its indebtedness (other than indebtedness to shareholders), and

"(ii) in the case of a group of corporations consisting of a parent and its subsidiary corporations, the sum of the equity capital of each of such corporations adjusted, under regulations prescribed by the Secretary or his delegate, to eliminate the effect of intercorporate ownership and transactions among such corporations;

Post, p. 71.

"(B) the rules of section 425(d) shall apply in determining the stock ownership of the individual; and

"(C) stock which the individual may purchase under outstanding options shall be treated as stock owned by such individual.

If an individual is granted an option which permits him to purchase stock in excess of the limitation of subsection (b)(7) (determined by applying the rules of this paragraph), such option shall be treated as meeting the requirement of subsection (b)(7) to the extent that such individual could, if the option were fully exercised at the time of grant, purchase stock under such option without exceeding such limitation. The portion of such option which is treated as meeting the requirement of subsection (b)(7) shall be deemed to be that portion of the option which is first exercised.

"(4) CERTAIN DISQUALIFYING DISPOSITIONS WHERE AMOUNT REALIZED IS LESS THAN VALUE AT EXERCISE.—If—

"(A) an individual who has acquired a share of stock by the exercise of a qualified stock option makes a disposition of such share within the 3-year period described in subsection (a)(1), and

"(B) such disposition is a sale or exchange with respect to which a loss (if sustained) would be recognized to such individual,

then the amount which is includible in the gross income of such individual, and the amount which is deductible from the income of his employer corporation, as compensation attributable to the exercise of such option shall not exceed the excess (if any) of the

amount realized on such sale or exchange over the adjusted basis of such share.

"(5) CERTAIN TRANSFERS BY INSOLVENT INDIVIDUALS.—If an insolvent individual holds a share of stock acquired pursuant to his exercise of a qualified stock option, and if such share is transferred to a trustee, receiver, or other similar fiduciary, in any proceeding under the Bankruptcy Act or any other similar insolvency proceeding, neither such transfer, nor any other transfer of such share for the benefit of his creditors in such proceeding, shall constitute a 'disposition of such share' for purposes of subsection (a)(1). 30 Stat. 544; 52 Stat. 840. 11 USC 1 note.

"(6) APPLICATION OF SUBSECTION (b)(5) WHERE OPTIONS ARE FOR STOCK OF SAME CLASS IN SAME CORPORATION.—The requirement of subsection (b)(5) shall be considered to have been met in the case of any option (referred to in this paragraph as 'new option') granted to an individual if—

"(A) the new option and all outstanding options referred to in subsection (b)(5) are to purchase stock of the same class in the same corporation, and

"(B) the new option by its terms is not exercisable while there is outstanding (within the meaning of paragraph (2)) any qualified stock option (or restricted stock option) which was granted, before the granting of the new option, to such individual to purchase stock in such corporation at a price (determined as of the date of grant of the new option) higher than the option price of the new option.

"SEC. 423. EMPLOYEE STOCK PURCHASE PLANS.

"(a) GENERAL RULE.—Section 421(a) shall apply with respect to the transfer of a share of stock to an individual pursuant to his exercise of an option granted after December 31, 1963 (other than a restricted stock option granted pursuant to a plan described in section 424(c)(3)(B)), under an employee stock purchase plan (as defined in subsection (b)) if— *Ante*, p. 63. *Post*, p. 69.

"(1) no disposition of such share is made by him within 2 years after the date of the granting of the option nor within 6 months after the transfer of such share to him; and

"(2) at all times during the period beginning with the date of the granting of the option and ending on the day 3 months before the date of such exercise, he is an employee of the corporation granting such option, a parent or subsidiary corporation of such corporation, or a corporation or a parent or subsidiary corporation of such corporation issuing or assuming a stock option in a transaction to which section 425(a) applies. *Post*, p. 71.

"(b) EMPLOYEE STOCK PURCHASE PLAN.—For purposes of this part, the term 'employee stock purchase plan' means a plan which meets the following requirements:

"(1) the plan provides that options are to be granted only to employees of the employer corporation or of its parent or subsidiary corporation to purchase stock in any such corporation;

"(2) such plan is approved by the stockholders of the granting corporation within 12 months before or after the date such plan is adopted;

"(3) under the terms of the plan, no employee can be granted an option if such employee, immediately after the option is granted, owns stock possessing 5 percent or more of the total combined voting power or value of all classes of stock of the employer corporation or of its parent or subsidiary corporation. For purposes of this paragraph, the rules of section 425(d) shall apply in determining the stock ownership of an individual, and

stock which the employee may purchase under outstanding options shall be treated as stock owned by the employee;

"(4) under the terms of the plan, options are to be granted to all employees of any corporation whose employees are granted any of such options by reason of their employment by such corporation, except that there may be excluded—

"(A) employees who have been employed less than 2 years,

"(B) employees whose customary employment is 20 hours or less per week,

"(C) employees whose customary employment is for not more than 5 months in any calendar year, and

"(D) officers, persons whose principal duties consist of supervising the work of other employees, or highly compensated employees;

"(5) under the terms of the plan, all employees granted such options shall have the same rights and privileges, except that the amount of stock which may be purchased by any employee under such option may bear a uniform relationship to the total compensation, or the basic or regular rate of compensation, of employees, and the plan may provide that no employee may purchase more than a maximum amount of stock fixed under the plan;

"(6) under the terms of the plan, the option price is not less than the lesser of—

"(A) an amount equal to 85 percent of the fair market value of the stock at the time such option is granted, or

"(B) an amount which under the terms of the option may not be less than 85 percent of the fair market value of the stock at the time such option is exercised;

"(7) under the terms of the plan, such option cannot be exercised after the expiration of—

"(A) 5 years from the date such option is granted if, under the terms of such plan, the option price is to be not less than 85 percent of the fair market value of such stock at the time of the exercise of the option, or

"(B) 27 months from the date such option is granted, if the option price is not determinable in the manner described in subparagraph (A);

"(8) under the terms of the plan, no employee may be granted an option which permits his rights to purchase stock under all such plans of his employer corporation and its parent and subsidiary corporations to accrue at a rate which exceeds $25,000 of fair market value of such stock (determined at the time such option is granted) for each calendar year in which such option is outstanding at any time. For purposes of this paragraph—

"(A) the right to purchase stock under an option accrues when the option (or any portion thereof) first becomes exercisable during the calendar year;

"(B) the right to purchase stock under an option accrues at the rate provided in the option, but in no case may such rate exceed $25,000 of fair market value of such stock (determined at the time such option is granted) for any one calendar year; and

"(C) a right to purchase stock which has accrued under one option granted pursuant to the plan may not be carried over to any other option; and

"(9) under the terms of the plan, such option is not transferable by such individual otherwise than by will or the laws of descent and distribution, and is exercisable, during his lifetime, only by him.

For purposes of paragraphs (3) to (9), inclusive, where additional terms are contained in an offering made under a plan, such additional terms shall, with respect to options exercised under such offering, be treated as a part of the terms of such plan.

"(c) SPECIAL RULE WHERE OPTION PRICE IS BETWEEN 85 PERCENT AND 100 PERCENT OF VALUE OF STOCK.—If the option price of a share of stock acquired by an individual pursuant to a transfer to which subsection (a) applies was less than 100 percent of the fair market value of such share at the time such option was granted, then, in the event of any disposition of such share by him which meets the holding period requirements of subsection (a), or in the event of his death (whenever occurring) while owning such share, there shall be included as compensation (and not as gain upon the sale or exchange of a capital asset) in his gross income, for the taxable year in which falls the date of such disposition or for the taxable year closing with his death, whichever applies, an amount equal to the lesser of—

"(1) the excess of the fair market value of the share at the time of such disposition or death over the amount paid for the share under the option, or

"(2) the excess of the fair market value of the share at the time the option was granted over the option price.

If the option price is not fixed or determinable at the time the option is granted, then for purposes of this subsection, the option price shall be determined as if the option were exercised at such time. In the case of the disposition of such share by the individual, the basis of the share in his hands at the time of such disposition shall be increased by an amount equal to the amount so includible in his gross income.

"SEC. 424. RESTRICTED STOCK OPTIONS.

"(a) IN GENERAL.—Section 421(a) shall apply with respect to the transfer of a share of stock to an individual pursuant to his exercise after 1949 of a restricted stock option, if— *Ante*, p. 63.

"(1) no disposition of such share is made by him within 2 years from the date of the granting of the option nor within 6 months after the transfer of such share to him, and

"(2) at the time he exercises such option—

"(A) he is an employee of either the corporation granting such option, a parent or subsidiary corporation of such corporation, or a corporation or a parent or subsidiary corporation of such corporation issuing or assuming a stock option in a transaction to which section 425(a) applies, or *Post*, p. 71.

"(B) he ceased to be an employee of such corporations within the 3-month period preceding the time of exercise.

"(b) RESTRICTED STOCK OPTION.—For purposes of this part, the term 'restricted stock option' means an option granted after February 26, 1945, and before January 1, 1964 (or, if it meets the requirements of subsection (c)(3), an option granted after December 31, 1963), to an individual, for any reason connected with his employment by a corporation, if granted by the employer corporation or its parent or subsidiary corporation, to purchase stock of any of such corporations, but only if—

"(1) at the time such option is granted—

"(A) the option price is at least 85 percent of the fair market value at such time of the stock subject to the option, or

"(B) in the case of a variable price option, the option price (computed as if the option had been exercised when granted) is at least 85 percent of the fair market value of the stock at the time such option is granted;

"(2) such option by its terms is not transferable by such individual otherwise than by will or the laws of descent and distribution, and is exercisable, during his lifetime, only by him;

"(3) such individual, at the time the option is granted, does not own stock possessing more than 10 percent of the total combined voting power of all classes of stock of the employer corporation or of its parent or subsidiary corporation. This paragraph shall not apply if at the time such option is granted the option price is at least 110 percent of the fair market value of the stock subject to the option, and such option either by its terms is not exercisable after the expiration of 5 years from the date such option is granted or is exercised within one year after August 16, 1954. For purposes of this paragraph, the provisions of section 425(d) shall apply in determining the stock ownership of an individual; and

Post, p. 71.

"(4) such option by its terms is not exercisable after the expiration of 10 years from the date such option is granted, if such option has been granted on or after June 22, 1954.

"(c) SPECIAL RULES.—

"(1) OPTIONS UNDER WHICH OPTION PRICE IS BETWEEN 85 PERCENT AND 95 PERCENT OF VALUE OF STOCK.—If no disposition of a share of stock acquired by an individual on his exercise after 1949 of a restricted stock option is made by him within 2 years from the date of the granting of the option nor within 6 months after the transfer of such share to him, but, at the time the restricted stock option was granted, the option price (computed under subsection (b)(1)) was less than 95 percent of the fair market value at such time of such share, then, in the event of any disposition of such share by him, or in the event of his death (whenever occurring) while owning such share, there shall be included as compensation (and not as gain upon the sale or exchange of a capital asset) in his gross income, for the taxable year in which falls the date of such disposition or for the taxable year closing with his death, whichever applies—

"(A) in the case of a share of stock acquired under an option qualifying under subsection (b)(1)(A), an amount equal to the amount (if any) by which the option price is exceeded by the lesser of—

"(i) the fair market value of the share at the time of such disposition or death, or

"(ii) the fair market value of the share at the time the option was granted; or

"(B) in the case of stock acquired under an option qualifying under subsection (b)(1)(B), an amount equal to the lesser of—

"(i) the excess of the fair market value of the share at the time of such disposition or death over the price paid under the option, or

"(ii) the excess of the fair market value of the share at the time the option was granted over the option price (computed as if the option had been exercised at such time).

In the case of a disposition of such share by the individual, the basis of the share in his hands at the time of such disposition shall be increased by an amount equal to the amount so includible in his gross income.

"(2) VARIABLE PRICE OPTION.—For purposes of subsection (b)(1), the term 'variable price option' means an option under which the purchase price of the stock is fixed or determinable under a formula in which the only variable is the fair market value of the stock at any time during a period of 6 months which includes the time the option is exercised; except that in the case of options granted after September 30, 1958, such term does not

include any such option in which such formula provides for determining such price by reference to the fair market value of the stock at any time before the option is exercised if such value may be greater than the average fair market value of the stock during the calendar month in which the option is exercised.

"(3) CERTAIN OPTIONS GRANTED AFTER DECEMBER 31, 1963.—For purposes of subsection (b), an option granted after December 31, 1963, meets the requirements of this paragraph if granted pursuant to—

"(A) a binding written contract entered into before January 1, 1964, or

"(B) a written plan adopted and approved before January 1, 1964, which (as of January 1, 1964, and as of the date of the granting of the option)—

"(i) met the requirements of paragraphs (4) and (5) of section 423(b), or

Ante, p. 67.

"(ii) was being administered in a way which did not discriminate in favor of officers, persons whose principal duties consist of supervising the work of other employees, or highly compensated employees.

"SEC. 425. DEFINITIONS AND SPECIAL RULES.

"(a) CORPORATE REORGANIZATIONS, LIQUIDATIONS, ETC.—For purposes of this part, the term 'issuing or assuming a stock option in a transaction to which section 425(a) applies' means a substitution of a new option for the old option, or an assumption of the old option, by an employer corporation, or a parent or subsidiary of such corporation, by reason of a corporate merger, consolidation, acquisition of property or stock, separation, reorganization, or liquidation, if—

"(1) the excess of the aggregate fair market value of the shares subject to the option immediately after the substitution or assumption over the aggregate option price of such shares is not more than the excess of the aggregate fair market value of all shares subject to the option immediately before such substitution or assumption over the aggregate option price of such shares, and

"(2) the new option or the assumption of the old option does not give the employee additional benefits which he did not have under the old option.

For purposes of this subsection, the parent-subsidiary relationship shall be determined at the time of any such transaction under this subsection.

"(b) ACQUISITION OF NEW STOCK.—For purposes of this part, if stock is received by an individual in a distribution to which section 305, 354, 355, 356, or 1036 (or so much of section 1031 as relates to section 1036) applies, and such distribution was made with respect to stock transferred to him upon his exercise of the option, such stock shall be considered as having been transferred to him on his exercise of such option. A similar rule shall be applied in the case of a series of such distributions.

68A Stat. 90. 26 USC 305, 354, 355, 356, 1036, 1031.

"(c) DISPOSITION.—

"(1) IN GENERAL.—Except as provided in paragraph (2), for purposes of this part, the term 'disposition' includes a sale, exchange, gift, or a transfer of legal title, but does not include—

"(A) a transfer from a decedent to an estate or a transfer by bequest or inheritance;

"(B) an exchange to which section 354, 355, 356, or 1036 (or so much of section 1031 as relates to section 1036) applies; or

"(C) a mere pledge or hypothecation.

"(2) JOINT TENANCY.—The acquisition of a share of stock in the name of the employee and another jointly with the right of survivorship or a subsequent transfer of a share of stock into such joint ownership shall not be deemed a disposition, but a termination of such joint tenancy (except to the extent such employee acquires ownership of such stock) shall be treated as a disposition by him occurring at the time such joint tenancy is terminated.

"(d) ATTRIBUTION OF STOCK OWNERSHIP.—For purposes of this part, in applying the percentage limitations of sections 422(b)(7), 423(b)(3), and 424(b)(3)—

Ante, pp. 64, 67, 69.

"(1) the individual with respect to whom such limitation is being determined shall be considered as owning the stock owned, directly or indirectly, by or for his brothers and sisters (whether by the whole or half blood), spouse, ancestors, and lineal descendants; and

"(2) stock owned, directly or indirectly, by or for a corporation, partnership, estate, or trust, shall be considered as being owned proportionately by or for its shareholders, partners, or beneficiaries.

"(e) PARENT CORPORATION.—For purposes of this part, the term 'parent corporation' means any corporation (other than the employer corporation) in an unbroken chain of corporations ending with the employer corporation if, at the time of the granting of the option, each of the corporations other than the employer corporation owns stock possessing 50 percent or more of the total combined voting power of all classes of stock in one of the other corporations in such chain.

"(f) SUBSIDIARY CORPORATION.—For purposes of this part, the term 'subsidiary corporation' means any corporation (other than the employer corporation) in an unbroken chain of corporations beginning with the employer corporation if, at the time of the granting of the option, each of the corporations other than the last corporation in the unbroken chain owns stock possessing 50 percent or more of the total combined voting power of all classes of stock in one of the other corporations in such chain.

"(g) SPECIAL RULE FOR APPLYING SUBSECTIONS (e) AND (f).—In applying subsections (e) and (f) for purposes of section 422(a)(2), 423(a)(2), and 424(a)(2), there shall be substituted for the term 'employer corporation' wherever it appears in subsections (e) and (f) the term 'grantor corporation', or the term 'corporation issuing or assuming a stock option in a transaction to which section 425(a) applies', as the case may be.

Ante, p. 71.

"(h) MODIFICATION, EXTENSION, OR RENEWAL OF OPTION.—

"(1) IN GENERAL.—For purposes of this part, if the terms of any option to purchase stock are modified, extended, or renewed, such modification, extension, or renewal shall be considered as the granting of a new option.

"(2) SPECIAL RULES FOR SECTIONS 423 AND 424 OPTIONS.—

"(A) In the case of the transfer of stock pursuant to the exercise of an option to which section 423 or 424 applies and which has been so modified, extended, or renewed, then, except as provided in subparagraph (B), the fair market value of such stock at the time of the granting of such option shall be considered as whichever of the following is the highest:

"(i) the fair market value of such stock on the date of the original granting of the option,

"(ii) the fair market value of such stock on the date of the making of such modification, extension, or renewal, or

"(iii) the fair market value of such stock at the time of the making of any intervening modification, extension, or renewal.

"(B) Subparagraph (A) shall not apply with respect to a modification, extension, or renewal of a restricted stock option before January 1, 1964 (or after December 31, 1963, if made pursuant to a binding written contract entered into before January 1, 1964), if the aggregate of the monthly average fair market values of the stock subject to the option for the 12 consecutive calendar months before the date of the modification, extension, or renewal, divided by 12, is an amount less than 80 percent of the fair market value of such stock on the date of the original granting of the option or the date of the making of any intervening modification, extension, or renewal, whichever is the highest.

"(3) DEFINITION OF MODIFICATION.—The term 'modification' means any change in the terms of the option which gives the employee additional benefits under the option, but such term shall not include a change in the terms of the option—

"(A) attributable to the issuance or assumption of an option under subsection (a);

"(B) to permit the option to qualify under sections 422(b)(6), 423(b)(9), and 424(b)(2); or

"(C) in the case of an option not immediately exercisable in full, to accelerate the time at which the option may be exercised.

Ante, pp. 64, 67, 69.

If a restricted stock option is exercisable after the expiration of 10 years from the date such option is granted, subparagraph (B) shall not apply unless the terms of the option are also changed to make it not exercisable after the expiration of such period.

"(i) STOCKHOLDER APPROVAL.—For purposes of this part, if the grant of an option is subject to approval by stockholders, the date of grant of the option shall be determined as if the option had not been subject to such approval.

"(j) CROSS REFERENCES.—

"For provisions requiring the reporting of certain acts with respect to a qualified stock option, options granted under employer stock purchase plans, or a restricted stock option, see section 6039."

(b) ADMINISTRATIVE PROVISIONS.—

(1) REPORTING REQUIREMENT FOR CERTAIN OPTIONS.—Subpart A of part III of subchapter A of chapter 61 (relating to information returns) is amended by renumbering section 6039 as 6040, and by inserting after section 6038 the following new section:

26 USC 6031-6039.

"SEC. 6039. INFORMATION REQUIRED IN CONNECTION WITH CERTAIN OPTIONS.

"(a) REQUIREMENT OF REPORTING.—Every corporation—

"(1) which in any calendar year transfers a share of stock to any person pursuant to such person's exercise of a qualified stock option or a restricted stock option, or

"(2) which in any calendar year records (or has by its agent recorded) a transfer of the legal title of a share of stock—

"(A) acquired by the transferor pursuant to his exercise of an option described in section 423(c) (relating to special rule where option price is between 85 percent and 100 percent of value of stock), or

Ante, p. 69.

"(B) acquired by the transferor pursuant to his exercise of a restricted stock option described in section 424(c)(1) (relating to options under which option price is between 85 percent and 95 percent of value of stock),

shall, for such calendar year, make a return at such time and in such manner, and setting forth such information, as the Secretary or his delegate may by regulations prescribe. For purposes of the preceding sentence, any option which a corporation treats as a qualified stock option, a restricted stock option, or an option granted under an employee stock purchase plan, shall be deemed to be such an option. A return is required by reason of a transfer described in paragraph (2) of a share only with respect to the first transfer of such share by the person who exercised the option.

"(b) STATEMENTS TO BE FURNISHED TO PERSONS WITH RESPECT TO WHOM INFORMATION IS FURNISHED.—Every corporation making a return under subsection (a) shall furnish to each person whose name is set forth in such return a written statement setting forth such information as the Secretary or his delegate may by regulations prescribe. The written statement required under the preceding sentence shall be furnished to the person on or before January 31 of the year following the calendar year for which the return under subsection (a) was made.

"(c) IDENTIFICATION OF STOCK.—Any corporation which transfers any share of stock pursuant to the exercise of an option described in subsection (a)(2) shall identify such stock in a manner adequate to carry out the purposes of this section.

"(d) CROSS REFERENCES.—

"For definition of—
"(1) The term 'qualified stock option', see section 422(b).
"(2) The term 'employee stock purchase plan', see section 423(b).
"(3) The term 'restricted stock option', see section 424(b)."

76 Stat. 1057.
26 USC 6652.

(2) PENALTIES FOR FAILURE TO FILE INFORMATION RETURNS.—Section 6652(a) (relating to failure to file certain information returns) is amended to read as follows:

"(a) RETURNS RELATING TO PAYMENTS OF DIVIDENDS, ETC., AND CERTAIN TRANSFERS OF STOCK.—In the case of each failure—

26 USC 6042.

"(1) to file a statement of the aggregate amount of payments to another person required by section 6042(a)(1) (relating to payments of dividends aggregating $10 or more), section 6044

26 USC 6044.
26 USC 6049.

(a)(1) (relating to payments of patronage dividends aggregating $10 or more), or section 6049(a)(1) (relating to payments of interest aggregating $10 or more),

Ante, p. 73.

"(2) to make a return required by section 6039(a) (relating to reporting information in connection with certain options) with respect to a transfer of stock or a transfer of legal title to stock, or

Ante, p. 37.

"(3) to make a return required by section 6052(a) (relating to reporting payment of wages in the form of group-term life insurance) with respect to group-term life insurance on the life of an employee,

on the date prescribed therefor (determined with regard to any extension of time for filing), unless it is shown that such failure is due to reasonable cause and not to willful neglect, there shall be paid (upon notice and demand by the Secretary or his delegate and in the same manner as tax), by the person failing to file a statement referred to in paragraph (1) or failing to make a return referred to in paragraph (2) or (3), $10 for each such failure, but the total amount imposed on the delinquent person for all such failures during any calendar year shall not exceed $25,000."

(3) PENALTIES FOR FAILURE TO FURNISH STATEMENTS TO PERSONS WITH RESPECT TO WHOM RETURNS ARE FILED.—Section 6678 (relating to failure to furnish certain statements) is amended— 76 Stat. 1058; *Ante*, p. 37. 26 USC 6678. 26 USC 6042. *Ante*, p. 73.

(A) by striking out "section 6042(c)," and inserting in lieu thereof "section 6039(b), 6042(c),"; and

(B) by striking out "section 6042(a)(1)," and inserting in lieu thereof "section 6039(a), 6042(a)(1),".

(c) TECHNICAL AMENDMENTS.—

(1) Section 402(a)(3)(B) (relating to taxability of beneficiary of employees' trust) is amended by striking out "section 421(d)(2) and (3)" and inserting in lieu thereof "subsections (e) and (f) of section 425". 68A Stat. 135. 26 USC 402. *Ante*, p. 71.

(2) The last sentence of subparagraph (B) of section 691(c)(2) (relating to allowance of deduction for estate tax in case of items constituting income in respect of a decedent) is amended to read as follows: "Such net value shall be determined with respect to the provisions of section 421(c)(2), relating to the deduction for estate tax with respect to stock options to which part II of subchapter D applies." 26 USC 691. *Ante*, p. 63.

(d) CLERICAL AMENDMENTS.—

(1) The table of parts for subchapter D of chapter 1 is amended by striking out

"Part II. Miscellaneous provisions."

and inserting in lieu thereof the following:

"Part II. Certain stock options."

(2) The table of sections for subpart A of part III of subchapter A of chapter 61 is amended by striking out

"Sec. 6039. Cross references."

and inserting in lieu thereof:

"Sec. 6039. Information required in connection with certain options.
"Sec. 6040. Cross references."

(e) EFFECTIVE DATES AND TRANSITION RULES.—

(1) Except as provided in paragraphs (2) and (3), the amendments made by this section shall apply to taxable years ending after December 31, 1963.

(2) The amendments made by paragraphs (1) and (3) of subsection (b), and paragraph (2) of section 6652(a) of the Internal Revenue Code of 1954 (as amended by paragraph (2) of subsection (b)), shall apply to stock transferred pursuant to options exercised on or after January 1, 1964. *Ante*, p. 74. 26 USC 6652.

(3) In the case of an option granted after December 31, 1963, and before January 1, 1965—

(A) paragraphs (1) and (2) of section 422(b) of the Internal Revenue Code of 1954 (as added by subsection (a)) shall not apply, and *Ante*, p. 64.

(B) paragraph (1) of section 425(h) of such Code (as added by subsection (a)) shall not apply to any change in the terms of such option made before January 1, 1965, to permit such option to qualify under paragraphs (3), (4), and (5) of such section 422(b).

SEC. 222. SALES AT RETAIL UNDER REVOLVING CREDIT PLANS.

(a) TREATMENT UNDER INSTALLMENT METHOD.—Section 453 (relating to installment method of accounting) is amended by adding at the end thereof the following new subsection: 26 USC 453.

"(e) REVOLVING CREDIT TYPE PLANS.—For purposes of subsection (a), the term 'installment plan' includes a revolving credit type plan which provides that the purchaser of personal property at retail may

pay for such property in a series of periodic payments of an agreed portion of the amounts due the seller under the plan, except that such term does not include any such plan with respect to a purchaser who uses his account primarily as an ordinary charge account."

(b) EFFECTIVE DATE.—The amendment made by subsection (a) shall apply in respect of sales made during taxable years beginning after December 31, 1963.

SEC. 223. TIMING OF DEDUCTIONS IN CERTAIN CASES WHERE ASSERTED LIABILITIES ARE CONTESTED.

(a) TAXABLE YEAR OF DEDUCTION.—

68A Stat. 157; 74 Stat. 1020; 76 Stat. 1199. 26 USC 461.

(1) Section 461 (relating to general rule for taxable year of deduction) is amended by adding at the end thereof the following new subsection:

"(f) CONTESTED LIABILITIES.—If—

"(1) the taxpayer contests an asserted liability,

"(2) the taxpayer transfers money or other property to provide for the satisfaction of the asserted liability,

"(3) the contest with respect to the asserted liability exists after the time of the transfer, and

"(4) but for the fact that the asserted liability is contested, a deduction would be allowed for the taxable year of the transfer (or for an earlier taxable year),

then the deduction shall be allowed for the taxable year of the transfer. This subsection shall not apply in respect of the deduction for income, war profits, and excess profits taxes imposed by the authority of any foreign country or possession of the United States."

53 Stat. 24.

(2) Section 43 of the Internal Revenue Code of 1939 (relating to period for which deductions and credits taken) is amended by adding at the end thereof the following new sentences: "If—

"(1) the taxpayer contests an asserted liability,

"(2) the taxpayer transfers money or other property to provide for the satisfaction of the asserted liability,

"(3) the contest with respect to the asserted liability exists after the time of the transfer, and

"(4) but for the fact that the asserted liability is contested, a deduction would be allowed for the taxable year of the transfer (or for an earlier taxable year),

then the deduction shall be allowed for the taxable year of the transfer. The preceding sentence shall not apply in respect of the deduction for income, war profits, and excess profits taxes imposed by the authority of any foreign country or possession of the United States."

(b) EFFECTIVE DATES.—Except as provided in subsections (c) and (d)—

(1) the amendment made by subsection (a)(1) shall apply to taxable years beginning after December 31, 1953, and ending after August 16, 1954, and

(2) the amendment made by subsection (a)(2) shall apply to taxable years to which the Internal Revenue Code of 1939 applies.

(c) ELECTION AS TO TRANSFERS IN TAXABLE YEARS BEGINNING BEFORE JANUARY 1, 1964.—

(1) The amendments made by subsection (a) shall not apply to any transfer of money or other property described in subsection (a) made in a taxable year beginning before January 1, 1964, if the taxpayer elects, in the manner provided by regulations prescribed by the Secretary of the Treasury or his delegate, to have this paragraph apply. Such an election—

(A) must be made within one year after the date of the enactment of this Act,

(B) may not be revoked after the expiration of such one-year period, and

(C) shall apply to all transfers described in the first sentence of this paragraph (other than transfers described in paragraph (2)).

In the case of any transfer to which this paragraph applies, the deduction shall be allowed only for the taxable year in which the contest with respect to such transfer is settled.

(2) Paragraph (1) shall not apply to any transfer if the assessment of any deficiency which would result from the application of the election in respect of such transfer is, on the date of the election under paragraph (1), prevented by the operation of any law or rule of law.

(3) If the taxpayer makes an election under paragraph (1), and if, on the date of such election, the assessment of any deficiency which results from the application of the election in respect of any transfer is not prevented by the operation of any law or rule of law, the period within which assessment of such deficiency may be made shall not expire earlier than 2 years after the date of the enactment of this Act.

(d) CERTAIN OTHER TRANSFERS IN TAXABLE YEARS BEGINNING BEFORE JANUARY 1, 1964.—The amendments made by subsection (a) shall not apply to any transfer of money or other property described in subsection (a) made in a taxable year beginning before January 1, 1964, if—

(1) no deduction has been allowed in respect of such transfer for any taxable year before the taxable year in which the contest with respect to such transfer is settled, and

(2) refund or credit of any overpayment which would result from the application of such amendments to such transfer is prevented by the operation of any law or rule of law.

In the case of any transfer to which this subsection applies, the deduction shall be allowed for the taxable year in which the contest with respect to such transfer is settled.

SEC. 224. INTEREST ON CERTAIN DEFERRED PAYMENTS.

(a) IN GENERAL.—Part III of subchapter E of chapter 1 (relating to accounting periods and methods of accounting) is amended by adding at the end thereof the following new section:

68A Stat. 160.
26 USC 481, 482.

"SEC. 483. INTEREST ON CERTAIN DEFERRED PAYMENTS.

"(a) AMOUNT CONSTITUTING INTEREST.—For purposes of this title, in the case of any contract for the sale or exchange of property there shall be treated as interest that part of a payment to which this section applies which bears the same ratio to the amount of such payment as the total unstated interest under such contract bears to the total of the payments to which this section applies which are due under such contract.

"(b) TOTAL UNSTATED INTEREST.—For purposes of this section, the term 'total unstated interest' means, with respect to a contract for the sale or exchange of property, an amount equal to the excess of—

"(1) the sum of the payments to which this section applies which are due under the contract, over

"(2) the sum of the present values of such payments and the present values of any interest payments due under the contract.

For purposes of paragraph (2), the present value of a payment shall be determined, as of the date of the sale or exchange, by discounting such payment at the rate, and in the manner, provided in regulations prescribed by the Secretary or his delegate. Such regulations shall provide for discounting on the basis of 6-month brackets and shall provide that the present value of any interest payment due not more

than 6 months after the date of the sale or exchange is an amount equal to 100 percent of such payment.

"(c) PAYMENTS TO WHICH SECTION APPLIES.—

"(1) IN GENERAL.—Except as provided in subsection (f), this section shall apply to any payment on account of the sale or exchange of property which constitutes part or all of the sales price and which is due more than 6 months after the date of such sale or exchange under a contract—

"(A) under which some or all of the payments are due more than one year after the date of such sale or exchange, and

"(B) under which, using a rate provided by regulations prescribed by the Secretary or his delegate for purposes of this subparagraph, there is total unstated interest.

Any rate prescribed for determining whether there is total unstated interest for purposes of subparagraph (B) shall be at least one percentage point lower than the rate prescribed for purposes of subsection (b)(2).

"(2) TREATMENT OF EVIDENCE OF INDEBTEDNESS.—For purposes of this section, an evidence of indebtedness of the purchaser given in consideration for the sale or exchange of property shall not be considered a payment, and any payment due under such evidence of indebtedness shall be treated as due under the contract for the sale or exchange.

"(d) PAYMENTS THAT ARE INDEFINITE AS TO TIME, LIABILITY, OR AMOUNT.—In the case of a contract for the sale or exchange of property under which the liability for, or the amount or due date of, any portion of a payment cannot be determined at the time of the sale or exchange, this section shall be separately applied to such portion as if it (and any amount of interest attributable to such portion) were the only payments due under the contract; and such determinations of liability, amount, and due date shall be made at the time payment of such portion is made.

"(e) CHANGE IN TERMS OF CONTRACT.—If the liability for, or the amount or due date of, any payment (including interest) under a contract for the sale or exchange of property is changed, the 'total unstated interest' under the contract shall be recomputed and allocated (with adjustment for prior interest (including unstated interest) payments) under regulations prescribed by the Secretary or his delegate.

"(f) EXCEPTIONS AND LIMITATIONS.—

"(1) SALES PRICE OF $3,000 OR LESS.—This section shall not apply to any payment on account of the sale or exchange of property if it can be determined at the time of such sale or exchange that the sales price cannot exceed $3,000.

"(2) CARRYING CHARGES.—In the case of the purchaser, the tax treatment of amounts paid on account of the sale or exchange of property shall be made without regard to this section if any such amounts are treated under section 163(b) as if they included interest.

68A Stat. 46.
26 USC 163.

"(3) TREATMENT OF SELLER.—In the case of the seller, the tax treatment of any amounts received on account of the sale or exchange of property shall be made without regard to this section if no part of any gain on such sale or exchange would be considered as gain from the sale or exchange of a capital asset or property described in section 1231.

26 USC 1231.

"(4) SALES OR EXCHANGES OF PATENTS.—This section shall not apply to any payments made pursuant to a transfer described in section 1235(a) (relating to sale or exchange of patents).

26 USC 1235.

"(5) ANNUITIES.—This section shall not apply to any amount the liability for which depends in whole or in part on the life expectancy of one or more individuals and which constitutes an amount received as an annuity to which section 72 applies."

68A Stat. 20; 76 Stat. 821, 1005. 26 USC 72.

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

"Sec. 483. Interest on certain deferred payments."

(c) CERTAIN CARRYING CHARGES.—Section 163(b)(1) (relating to installment purchases where interest charge is not separately stated) is amended— 26 USC 163.

(1) by striking out "personal property is purchased" and inserting in lieu thereof "personal property or educational services are purchased"; and

(2) by adding at the end thereof the following new sentence: "For purposes of this paragraph, the term 'educational services' means any service (including lodging) which is purchased from an educational institution (as defined in section 151(e)(4)) and which is provided for a student of such institution." 26 USC 151.

(d) EFFECTIVE DATE.—The amendments made by subsections (a) and (b) shall apply to payments made after December 31, 1963, on account of sales or exchanges of property occurring after June 30, 1963, other than any sale or exchange made pursuant to a binding written contract (including an irrevocable written option) entered into before July 1, 1963. The amendments made by subsection (c) shall apply to payments made during taxable years beginning after December 31, 1963.

SEC. 225. PERSONAL HOLDING COMPANIES.

(a) PERSONAL HOLDING COMPANY TAX RATE.—Section 541 (relating to imposition of personal holding company tax) is amended by striking out "tax equal to" and all that follows and inserting in lieu thereof: "tax equal to 70 percent of the undistributed personal holding company income." 26 USC 541.

(b) DEFINITION OF PERSONAL HOLDING COMPANY.—Paragraph (1) of section 542(a) (relating to the gross income requirement for personal holding company purposes) is amended to read as follows: 26 USC 542.

"(1) ADJUSTED ORDINARY GROSS INCOME REQUIREMENT.—At least 60 percent of its adjusted ordinary gross income (as defined in section 543(b)(2)) for the taxable year is personal holding company income (as defined in section 543(a)), and". *Post*, p. 81. 26 USC 543.

(c) EXCLUDED CORPORATIONS.—

(1) DOMESTIC BUILDING AND LOAN ASSOCIATIONS.—Paragraph (2) of section 542(c) (relating to corporations excepted from the definition of personal holding company) is amended to read as follows:

"(2) a bank as defined in section 581, or a domestic building and loan association within the meaning of section 7701(a)(19) without regard to subparagraphs (D) and (E) thereof;". 26 USC 581. 76 Stat. 982. 26 USC 7701.

(2) LENDING AND FINANCE COMPANIES.—Section 542(c) is amended by striking out paragraphs (6), (7), (8), and (9), by renumbering paragraphs (10) and (11) as paragraphs (7) and (8), and by inserting after paragraph (5) the following new paragraph:

"(6) a lending or finance company if—

"(A) 60 percent or more of its ordinary gross income (as defined in section 543(b)(1)) is derived directly from the active and regular conduct of a lending or finance business;

"(B) the personal holding company income for the tax-

able year (computed without regard to income described in subsection (d)(3) and income derived directly from the active and regular conduct of a lending or finance business, and computed by including as personal holding company income the entire amount of the gross income from rents, royalties, produced film rents, and compensation for use of corporate property by shareholders) is not more than 20 percent of the ordinary gross income;

"(C) the sum of the deductions which are directly allocable to the active and regular conduct of its lending or finance business equals or exceeds the sum of—

"(i) 15 percent of so much of the ordinary gross income derived therefrom as does not exceed $500,000, plus

"(ii) 5 percent of so much of the ordinary gross income derived therefrom as exceeds $500,000 but not $1,000,000; and

"(D) the loans to a person who is a shareholder in such company during the taxable year by or for whom 10 percent or more in value of its outstanding stock is owned directly or indirectly (including, in the case of an individual, stock owned by members of his family as defined in section 544 (a)(2)), outstanding at any time during such year do not exceed $5,000 in principal amount;".

68A Stat. 188.
26 USC 544.

26 USC 542.

(3) SPECIAL RULES FOR SECTION 542(c)(6).—Section 542 is amended by adding at the end thereof the following new subsection:

"(d) SPECIAL RULES FOR APPLYING SUBSECTION (c)(6).—

"(1) LENDING OR FINANCE BUSINESS DEFINED.—

"(A) IN GENERAL.—Except as provided in subparagraph (B), for purposes of subsection (c)(6), the term 'lending or finance business' means a business of—

"(i) making loans,

"(ii) purchasing or discounting accounts receivable, notes, or installment obligations,

"(iii) rendering services or making facilities available in connection with activities described in clauses (i) and (ii) carried on by the corporation rendering services or making facilities available, or

"(iv) rendering services or making facilities available to another corporation which is engaged in the lending or finance business (within the meaning of this paragraph), if such services or facilities are related to the lending or finance business (within such meaning) of such other corporation and such other corporation and the corporation rendering services or making facilities available are members of the same affiliated group (as defined in section 1504).

26 USC 1504.

"(B) EXCEPTIONS.—For purposes of subparagraph (A), the term 'lending or finance business' does not include the business of—

"(i) making loans, or purchasing or discounting accounts receivable, notes, or installment obligations, if (at the time of the loan, purchase, or discount) the remaining maturity exceeds 60 months, unless the loans, notes, or installment obligations are evidenced or secured by contracts of conditional sale, chattel mortgages, or chattel lease agreements arising out of the sale of goods or services in the course of the borrower's or transferor's trade or business, or

"(ii) making loans evidenced by, or purchasing, certificates of indebtedness issued in a series, under a trust indenture, and in registered form or with interest coupons attached.

For purposes of clause (i), the remaining maturity shall be treated as including any period for which there may be a renewal or extension under the terms of an option exercisable by the borrower.

"(2) BUSINESS DEDUCTIONS.—For purposes of subsection (c)(6)(C), the deductions which may be taken into account shall include only—

"(A) deductions which are allowable only by reason of section 162 or section 404, except there shall not be included any such deduction in respect of compensation for personal services rendered by shareholders (including members of the shareholder's family as described in section 544(a)(2)), and

"(B) deductions allowable under section 167, and deductions allowable under section 164 for real property taxes, but in either case only to the extent that the property with respect to which such deductions are allowable is used directly in the active and regular conduct of the lending or finance business.

68A Stat. 45.
26 USC 162, 404.
26 USC 544.
26 USC 167.
Ante, p. 40.
26 USC 164.

"(3) INCOME RECEIVED FROM CERTAIN AFFILIATED CORPORATIONS.—For purposes of subsection (c)(6)(B), in the case of a lending or finance company which meets the requirements of subsection (c)(6)(A), there shall not be treated as personal holding company income the lawful income received from a corporation which meets the requirements of subsection (c)(6) and which is a member of the same affiliated group (as defined in section 1504) of which such company is a member."

26 USC 1504.

(d) PERSONAL HOLDING COMPANY INCOME.—Subsections (a) and (b) of section 543 (relating to personal holding company income) are amended to read as follows:

26 USC 543.

"(a) GENERAL RULE.—For purposes of this subtitle, the term 'personal holding company income' means the portion of the adjusted ordinary gross income which consists of:

"(1) DIVIDENDS, ETC.—Dividends, interest, royalties (other than mineral, oil, or gas royalties or copyright royalties), and annuities. This paragraph shall not apply to—

"(A) interest constituting rent (as defined in subsection (b)(3)),

"(B) interest on amounts set aside in a reserve fund under section 511 or 607 of the Merchant Marine Act, 1936, and

"(C) a dividend distribution of divested stock (as defined in subsection (e) of section 1111), but only if the stock with respect to which the distribution is made was owned by the distributee on September 6, 1961, or was owned by the distributee for at least 2 years before the date on which the antitrust order (as defined in subsection (d) of section 1111) was entered.

54 Stat. 1106; 49 Stat. 2005.
46 USC 1161, 1177.
76 Stat. 4.
26 USC 1111.

"(2) RENTS.—The adjusted income from rents; except that such adjusted income shall not be included if—

"(A) such adjusted income constitutes 50 percent or more of the adjusted ordinary gross income, and

"(B) the sum of—

"(i) the dividends paid during the taxable year (determined under section 562),

"(ii) the dividends considered as paid on the last day of the taxable year under section 563(c) (as limited by the second sentence of section 563(b)), and

26 USC 562.
26 USC 563.

68A Stat. 200.
26 USC 565.

"(iii) the consent dividends for the taxable year (determined under section 565),

equals or exceeds the amount, if any, by which the personal holding company income for the taxable year (computed without regard to this paragraph and paragraph (6), and computed by including as personal holding company income copyright royalties and the adjusted income from mineral, oil, and gas royalties) exceeds 10 percent of the ordinary gross income.

"(3) MINERAL, OIL, AND GAS ROYALTIES.—The adjusted income from mineral, oil, and gas royalties; except that such adjusted income shall not be included if—

"(A) such adjusted income constitutes 50 percent or more of the adjusted ordinary gross income,

"(B) the personal holding company income for the taxable year (computed without regard to this paragraph, and computed by including as personal holding company income copyright royalties and the adjusted income from rents) is not more than 10 percent of the ordinary gross income, and

"(C) the sum of the deductions which are allowable under section 162 (relating to trade or business expenses) other than—

"(i) deductions for compensation for personal services rendered by the shareholders, and

"(ii) deductions which are specifically allowable under sections other than section 162,

26 USC 162.

equals or exceeds 15 percent of the adjusted ordinary gross income.

"(4) COPYRIGHT ROYALTIES.—Copyright royalties; except that copyright royalties shall not be included if—

"(A) such royalties (exclusive of royalties received for the use of, or right to use, copyrights or interests in copyrights on works created in whole, or in part, by any shareholder) constitute 50 percent or more of the ordinary gross income,

"(B) the personal holding company income for the taxable year computed—

"(i) without regard to copyright royalties, other than royalties received for the use of, or right to use, copyrights or interests in copyrights in works created in whole, or in part, by any shareholder owning more than 10 percent of the total outstanding capital stock of the corporation,

"(ii) without regard to dividends from any corporation in which the taxpayer owns at least 50 percent of all classes of stock entitled to vote and at least 50 percent of the total value of all classes of stock and which corporation meets the requirements of this subparagraph and subparagraphs (A) and (C), and

"(iii) by including as personal holding company income the adjusted income from rents and the adjusted income from mineral, oil, and gas royalties,

is not more than 10 percent of the ordinary gross income, and

"(C) the sum of the deductions which are properly allocable to such royalties and which are allowable under section 162, other than—

"(i) deductions for compensation for personal services rendered by the shareholders,

"(ii) deductions for royalties paid or accrued, and

"(iii) deductions which are specifically allowable under sections other than section 162,

equals or exceeds 25 percent of the amount by which the ordinary gross income exceeds the sum of the royalties paid or accrued and the amounts allowable as deductions under section 167 (relating to depreciation) with respect to copyright royalties. 68A Stat. 51; 76 Stat. 1034. 26 USC 167.

For purposes of this subsection, the term 'copyright royalties' means compensation, however designated, for the use of, or the right to use, copyrights in works protected by copyright issued under title 17 of the United States Code (other than by reason of section 2 or 6 thereof) and to which copyright protection is also extended by the laws of any country other than the United States of America by virtue of any international treaty, convention, or agreement, or interests in any such copyrighted works, and includes payments from any person for performing rights in any such copyrighted work and payments (other than produced film rents as defined in paragraph (5)(B)) received for the use of, or right to use, films. For purposes of this paragraph, the term 'shareholder' shall include any person who owns stock within the meaning of section 544. 26 USC 544.

"(5) PRODUCED FILM RENTS.—

"(A) Produced film rents: except that such rents shall not be included if such rents constitute 50 percent or more of the ordinary gross income.

"(B) For purposes of this section, the term 'produced film rents' means payments received with respect to an interest in a film for the use of, or right to use, such film, but only to the extent that such interest was acquired before substantial completion of production of such film.

"(6) USE OF CORPORATION PROPERTY BY SHAREHOLDER.—Amounts received as compensation (however designated and from whomsoever received) for the use of, or right to use, property of the corporation in any case where, at any time during the taxable year, 25 percent or more in value of the outstanding stock of the corporation is owned, directly or indirectly, by or for an individual entitled to the use of the property; whether such right is obtained directly from the corporation or by means of a sublease or other arrangement. This paragraph shall apply only to a corporation which has personal holding company income for the taxable year (computed without regard to this paragraph and paragraph (2), and computed by including as personal holding company income copyright royalties and the adjusted income from mineral, oil, and gas royalties) in excess of 10 percent of its ordinary gross income.

"(7) PERSONAL SERVICE CONTRACTS.—

"(A) Amounts received under a contract under which the corporation is to furnish personal services; if some person other than the corporation has the right to designate (by name or by description) the individual who is to perform the services, or if the individual who is to perform the services is designated (by name or by description) in the contract; and

"(B) amounts received from the sale or other disposition of such a contract.

This paragraph shall apply with respect to amounts received for services under a particular contract only if at some time during the taxable year 25 percent or more in value of the outstanding stock of the corporation is owned, directly or indirectly, by or for the individual who has performed, is to perform, or may be

designated (by name or by description) as the one to perform, such services.

"(8) ESTATES AND TRUSTS.—Amounts includible in computing the taxable income of the corporation under part I of subchapter J (sec. 641 and following, relating to estates, trusts, and beneficiaries).

68A Stat. 215.
26 USC 641-683.

"(b) DEFINITIONS.—For purposes of this part—

"(1) ORDINARY GROSS INCOME.—The term 'ordinary gross income' means the gross income determined by excluding—

"(A) all gains from the sale or other disposition of capital assets, and

"(B) all gains (other than those referred to in subparagraph (A)) from the sale or other disposition of property described in section 1231(b).

26 USC 1231.

"(2) ADJUSTED ORDINARY GROSS INCOME.—The term 'adjusted ordinary gross income' means the ordinary gross income adjusted as follows:

"(A) RENTS.—From the gross income from rents (as defined in the second sentence of paragraph (3) of this subsection) subtract the amount allowable as deductions for—

"(i) exhaustion, wear and tear, obsolescence, and amortization of property other than tangible personal property which is not customarily retained by any one lessee for more than three years,

"(ii) property taxes,

"(iii) interest, and

"(iv) rent,

to the extent allocable, under regulations prescribed by the Secretary or his delegate, to such gross income from rents. The amount subtracted under this subparagraph shall not exceed such gross income from rents.

"(B) MINERAL ROYALTIES, ETC.—From the gross income from mineral, oil, and gas royalties described in paragraph (4), and from the gross income from working interests in an oil or gas well, subtract the amount allowable as deductions for—

"(i) exhaustion, wear and tear, obsolescence, amortization, and depletion,

"(ii) property and severance taxes,

"(iii) interest, and

"(iv) rent,

to the extent allocable, under regulations prescribed by the Secretary or his delegate, to such gross income from royalties or such gross income from working interests in oil or gas wells. The amount subtracted under this subparagraph with respect to royalties shall not exceed the gross income from such royalties, and the amount subtracted under this subparagraph with respect to working interests shall not exceed the gross income from such working interests.

"(C) INTEREST.—There shall be excluded—

"(i) interest received on a direct obligation of the United States held for sale to customers in the ordinary course of trade or business by a regular dealer who is making a primary market in such obligations, and

"(ii) interest on a condemnation award, a judgment, and a tax refund.

"(3) ADJUSTED INCOME FROM RENTS.—The term 'adjusted income from rents' means the gross income from rents, reduced by the amount subtracted under paragraph (2)(A) of this subsection.

For purposes of the preceding sentence, the term 'rents' means compensation, however designated, for the use of, or right to use, property, and the interest on debts owed to the corporation, to the extent such debts represent the price for which real property held primarily for sale to customers in the ordinary course of its trade or business was sold or exchanged by the corporation; but does not include amounts constituting personal holding company income under subsection (a)(6), nor copyright royalties (as defined in subsection (a)(4)), nor produced film rents (as defined in subsection (a)(5)(B)).

"(4) ADJUSTED INCOME FROM MINERAL, OIL, AND GAS ROYALTIES.—The term 'adjusted income from mineral, oil, and gas royalties' means the gross income from mineral, oil, and gas royalties (including production payments and overriding royalties), reduced by the amount subtracted under paragraph (2)(B) of this subsection in respect of such royalties."

(e) FOREIGN PERSONAL HOLDING COMPANY INCOME AND STOCK OWNERSHIP.—Section 553 (relating to foreign personal holding company income) and section 554 (relating to stock ownership) are amended to read as follows:

68A Stat. 195.
26 USC 553, 554.

"SEC. 553. FOREIGN PERSONAL HOLDING COMPANY INCOME.

"(a) FOREIGN PERSONAL HOLDING COMPANY INCOME.—For purposes of this subtitle, the term 'foreign personal holding company income' means that portion of the gross income, determined for purposes of section 552, which consists of:

26 USC 552.

"(1) DIVIDENDS, ETC.—Dividends, interest, royalties, and annuities. This paragraph shall not apply to a dividend distribution of divested stock (as defined in subsection (e) of section 1111) but only if the stock with respect to which the distribution is made was owned by the distributee on September 6, 1961, or was owned by the distributee for at least 2 years before the date on which the antitrust order (as defined in subsection (d) of section 1111) was entered.

76 Stat. 4.
26 USC 1111.

"(2) STOCK AND SECURITIES TRANSACTIONS.—Except in the case of regular dealers in stock or securities, gains from the sale or exchange of stock or securities.

"(3) COMMODITIES TRANSACTIONS.—Gains from futures transactions in any commodity on or subject to the rules of a board of trade or commodity exchange. This paragraph shall not apply to gains by a producer, processor, merchant, or handler of the commodity which arise out of bona fide hedging transactions reasonably necessary to the conduct of its business in the manner in which such business is customarily and usually conducted by others.

"(4) ESTATES AND TRUSTS.—Amounts includible in computing the taxable income of the corporation under part I of subchapter J (sec. 641 and following, relating to estates, trusts, and beneficiaries); and gains from the sale or other disposition of any interest in an estate or trust.

26 USC 641-683.

"(5) PERSONAL SERVICE CONTRACTS.—

"(A) Amounts received under a contract under which the corporation is to furnish personal services; if some person other than the corporation has the right to designate (by name or by description) the individual who is to perform the services, or if the individual who is to perform the services is designated (by name or by description) in the contract; and

"(B) amounts received from the sale or other disposition of such a contract.

This paragraph shall apply with respect to amounts received for services under a particular contract only if at some time during the taxable year 25 percent or more in value of the outstanding stock of the corporation is owned, directly or indirectly, by or for the individual who has performed, is to perform, or may be designated (by name or by description) as the one to perform, such services.

"(6) USE OF CORPORATION PROPERTY BY SHAREHOLDER.—Amounts received as compensation (however designated and from whomsoever received) for the use of, or right to use, property of the corporation in any case where, at any time during the taxable year, 25 percent or more in value of the outstanding stock of the corporation is owned, directly or indirectly, by or for an individual entitled to the use of the property; whether such right is obtained directly from the corporation or by means of a sublease or other arrangement. This paragraph shall apply only to a corporation which has foreign personal holding company income for the taxable year, computed without regard to this paragraph and paragraph (7), in excess of 10 percent of its gross income.

"(7) RENTS.—Rents, unless constituting 50 percent or more of the gross income. For purposes of this paragraph, the term 'rents' means compensation, however designated, for the use of, or right to use, property; but does not include amounts constituting foreign personal holding company income under paragraph (6).

"(b) LIMITATION ON GROSS INCOME IN CERTAIN TRANSACTIONS.—For purposes of this part—

"(1) gross income and foreign personal holding company income determined with respect to transactions described in subsection (a)(2) (relating to gains from stock and security transactions) shall include only the excess of gains over losses from such transactions, and

"(2) gross income and foreign personal holding company income determined with respect to transactions described in subsection (a)(3) (relating to gains from commodity transactions) shall include only the excess of gains over losses from such transactions.

"SEC. 554. STOCK OWNERSHIP.

"(a) CONSTRUCTIVE OWNERSHIP.—For purposes of determining whether a corporation is a foreign personal holding company, insofar as such determination is based on stock ownership under section 552(a)(2), section 553(a)(5), or section 553(a)(6)—

68A Stat. 195.
26 USC 552.
Ante, p. 85.

"(1) STOCK NOT OWNED BY INDIVIDUAL.—Stock owned, directly or indirectly, by or for a corporation, partnership, estate, or trust shall be considered as being owned proportionately by its shareholders, partners, or beneficiaries.

"(2) FAMILY AND PARTNERSHIP OWNERSHIP.—An individual shall be considered as owning the stock owned, directly or indirectly, by or for his family or by or for his partner. For purposes of this paragraph, the family of an individual includes only his brothers and sisters (whether by the whole or half blood), spouse, ancestors, and lineal descendants.

"(3) OPTIONS.—If any person has an option to acquire stock, such stock shall be considered as owned by such person. For purposes of this paragraph, an option to acquire such an option, and each one of a series of such options, shall be considered as an option to acquire such stock.

"(4) APPLICATION OF FAMILY-PARTNERSHIP AND OPTION RULES.—Paragraphs (2) and (3) shall be applied—

"(A) for purposes of the stock ownership requirement provided in section 552(a)(2), if, but only if, the effect is to make the corporation a foreign personal holding company; 68A Stat. 195. 26 USC 552.

"(B) for purposes of section 553(a)(5) (relating to personal service contracts) or of section 553(a)(6) (relating to the use of property by shareholders), if, but only if, the effect is to make the amounts therein referred to includible under such paragraph as foreign personal holding company income. *Ante*, p. 85.

"(5) CONSTRUCTIVE OWNERSHIP AS ACTUAL OWNERSHIP.—Stock constructively owned by a person by reason of the application of paragraph (1) or (3) shall, for purposes of applying paragraph (1) or (2), be treated as actually owned by such person; but stock constructively owned by an individual by reason of the application of paragraph (2) shall not be treated as owned by him for purposes of again applying such paragraph in order to make another the constructive owner of such stock.

"(6) OPTION RULE IN LIEU OF FAMILY AND PARTNERSHIP RULE.—If stock may be considered as owned by an individual under either paragraph (2) or (3) it shall be considered as owned by him under paragraph (3).

"(b) CONVERTIBLE SECURITIES.—Outstanding securities convertible into stock (whether or not convertible during the taxable year) shall be considered as outstanding stock—

"(1) for purposes of the stock ownership requirement provided in section 552(a)(2), but only if the effect of the inclusion of all such securities is to make the corporation a foreign personal holding company;

"(2) for purposes of section 553(a)(5) (relating to personal service contracts), but only if the effect of the inclusion of all such securities is to make the amounts therein referred to includible under such paragraph as foreign personal holding company income; and

"(3) for purposes of section 553(a)(6) (relating to the use of property by shareholders), but only if the effect of the inclusion of all such securities is to make the amounts therein referred to includible under such paragraph as foreign personal holding company income.

The requirement in paragraphs (1), (2), and (3) that all convertible securities must be included if any are to be included shall be subject to the exception that, where some of the outstanding securities are convertible only after a later date than in the case of others, the class having the earlier conversion date may be included although the others are not included, but no convertible securities shall be included unless all outstanding securities having a prior conversion date are also included."

(f) DIVIDENDS-PAID DEDUCTION.—

(1) Paragraph (2) of section 316(b) (relating to special rules for dividend defined) is amended to read as follows: 26 USC 316.

"(2) DISTRIBUTIONS BY PERSONAL HOLDING COMPANIES.—

"(A) In the case of a corporation which—

"(i) under the law applicable to the taxable year in which the distribution is made, is a personal holding company (as defined in section 542), or *Ante*, p. 79. 26 USC 542.

"(ii) for the taxable year in respect of which the distribution is made under section 563(b) (relating to dividends paid after the close of the taxable year), or section 547 (relating to deficiency dividends), or the cor- 26 USC 563. 26 USC 547.

responding provisions of prior law, is a personal holding company under the law applicable to such taxable year, the term 'dividend' also means any distribution of property (whether or not a dividend as defined in subsection (a)) made by the corporation to its shareholders, to the extent of its undistributed personal holding company income (determined under section 545 without regard to distributions under this paragraph) for such year.

68A Stat. 189.
26 USC 545.

"(B) For purposes of subparagraph (A), the term 'distribution of property' includes a distribution in complete liquidation occurring within 24 months after the adoption of a plan of liquidation, but—

"(i) only to the extent of the amounts distributed to distributees other than corporate shareholders, and

"(ii) only to the extent that the corporation designates such amounts as a dividend distribution and duly notifies such distributees of such designation, under regulations prescribed by the Secretary or his delegate, but

"(iii) not in excess of the sum of such distributees' allocable share of the undistributed personal holding company income for such year, computed without regard to this subparagraph or section 562(b)."

Infra.

26 USC 331.

(2) Section 331(b) (relating to nonapplication of section 301) is amended by inserting after "any distribution of property" the phrase "(other than a distribution referred to in paragraph (2)(B) of section 316(b))".

Ante, p. 87.

26 USC 562.

(3) Section 562(b) (relating to distributions in liquidation) is amended to read as follows:

"(b) DISTRIBUTIONS IN LIQUIDATION.—

"(1) Except in the case of a personal holding company described in section 542 or a foreign personal holding company described in section 552—

26 USC 542.
26 USC 552.

"(A) in the case of amounts distributed in liquidation, the part of such distribution which is properly chargeable to earnings and profits accumulated after February 28, 1913, shall be treated as a dividend for purposes of computing the dividends paid deduction, and

"(B) in the case of a complete liquidation occurring within 24 months after the adoption of a plan of liquidation, any distribution within such period pursuant to such plan shall, to the extent of the earnings and profits (computed without regard to capital losses) of the corporation for the taxable year in which such distribution is made, be treated as a dividend for purposes of computing the dividends paid deduction.

"(2) In the case of a complete liquidation of a personal holding company, occurring within 24 months after the adoption of a plan of liquidation, the amount of any distribution within such period pursuant to such plan shall be treated as a dividend for purposes of computing the dividends paid deduction, to the extent that such amount is distributed to corporate distributees and represents such corporate distributees' allocable share of the undistributed personal holding company income for the taxable year of such distribution computed without regard to this paragraph and without regard to subparagraph (B) of section 316(b)(2)."

26 USC 551.

(4) Section 551(b) (relating to amount included in gross income) is amended by striking out "received as a dividend" and inserting in lieu thereof "received as a dividend (determined as if

any distribution in liquidation actually made in such taxable year had not been made)".

(g) ONE-MONTH LIQUIDATIONS.—Section 333 (relating to election as to recognition of gain in certain liquidations) is amended by adding at the end thereof the following new subsection: 68A Stat. 103. 26 USC 333.

"(g) SPECIAL RULE.—

"(1) LIQUIDATIONS BEFORE JANUARY 1, 1967.—In the case of a liquidation occurring before January 1, 1967, of a corporation referred to in paragraph (3)—

"(A) the date 'December 31, 1953' referred to in subsections (e)(2) and (f)(1) shall be treated as if such date were 'December 31, 1962', and

"(B) in the case of stock in such corporation held for more than 6 months, the term 'a dividend' as used in subsection (e)(1) shall be treated as if such term were 'long-term capital gain'.

Subparagraph (B) shall not apply to any earnings and profits to which the corporation succeeds after December 31, 1963, pursuant to any corporate reorganization or pursuant to any liquidation to which section 332 applies, except earnings and profits which on December 31, 1963, constituted earnings and profits of a corporation referred to in paragraph (3), and except earnings and profits which were earned after such date by a corporation referred to in paragraph (3). 26 USC 332.

"(2) LIQUIDATIONS AFTER DECEMBER 31, 1966.—

"(A) IN GENERAL.—In the case of a liquidation occurring after December 31, 1966, of a corporation to which this subparagraph applies—

"(i) the date 'December 31, 1953' referred to in subsections (e)(2) and (f)(1) shall be treated as if such date were 'December 31, 1962', and

"(ii) so much of the gain recognized under subsection (e)(1) as is attributable to the earnings and profits accumulated after February 28, 1913, and before January 1, 1967, shall, in the case of stock in such corporation held for more than 6 months, be treated as long-term capital gain, and only the remainder of such gain shall be treated as a dividend.

Clause (ii) shall not apply to any earnings and profits to which the corporation succeeds after December 31, 1963, pursuant to any corporate reorganization or pursuant to any liquidation to which section 332 applies, except earnings and profits which on December 31, 1963, constituted earnings and profits of a corporation referred to in paragraph (3), and except earnings and profits which were earned after such date by a corporation referred to in paragraph (3).

"(B) CORPORATIONS TO WHICH APPLICABLE.—Subparagraph (A) shall apply only with respect to a corporation which is referred to in paragraph (3) and which—

"(i) on January 1, 1964, owes qualified indebtedness (as defined in section 545(c)), *Post*, p. 90.

"(ii) before January 1, 1968, notifies the Secretary or his delegate that it may wish to have subparagraph (A) apply to it and submits such information as may be required by regulations prescribed by the Secretary or his delegate, and

"(iii) liquidates before the close of the taxable year in which such corporation ceases to owe such qualified indebtedness or (if earlier) the taxable year referred to in subparagraph (C).

"(C) ADJUSTED POST-1963 EARNINGS AND PROFITS EXCEED QUALIFIED INDEBTEDNESS.—In the case of any corporation, the taxable year referred to in this subparagraph is the first taxable year at the close of which its adjusted post-1963 earnings and profits equal or exceed the amount of such corporation's qualified indebtedness on January 1, 1964. For purposes of the preceding sentence, the term 'adjusted post-1963 earnings and profits' means the sum of—

"(i) the earnings and profits of such corporation for taxable years beginning after December 31, 1963, without diminution by reason of any distributions made out of such earnings and profits, and

"(ii) the deductions allowed for taxable years beginning after December 31, 1963, for exhaustion, wear and tear, obsolescence, amortization, or depletion.

"(3) CORPORATIONS REFERRED TO.—For purposes of paragraphs (1) and (2), a corporation referred to in this paragraph is a corporation which for at least one of the two most recent taxable years ending before the date of the enactment of this subsection was not a personal holding company under section 542, but would have been a personal holding company under section 542 for such taxable year if the law applicable for the first taxable year beginning after December 31, 1963, had been applicable to such taxable year.

68A Stat. 182; *ante*, p. 79.
26 USC 542.

"(4) MISTAKE AS TO APPLICABILITY OF SUBSECTION.—An election made under this section by a qualified electing shareholder of a corporation in which such shareholder states that such election is made on the assumption that such corporation is a corporation referred to in paragraph (3) shall have no force or effect if it is determined that the corporation is not a corporation referred to in paragraph (3)."

(h) EXCEPTION FOR CERTAIN CORPORATIONS.—

(1) GENERAL RULE.—Except as provided in paragraph (2), in the case of a corporation referred to in section 333(g)(3) of the Internal Revenue Code of 1954 (as added by subsection (g) of this section), the amendments made by this section (other than subsections (f) and (g)) shall not apply if there is a complete liquidation of such corporation and if the distribution of all the property under such liquidation occurs before January 1, 1966.

Ante, p. 89.

(2) EXCEPTION.—Paragraph (1) shall not apply to any liquidation to which section 332 of the Internal Revenue Code of 1954 applies unless—

26 USC 332.

(A) the corporate distributee (referred to in subsection (b)(1) of such section 332) in such liquidation is liquidated in a complete liquidation to which such section 332 does not apply, and

(B) the distribution of all the property under such liquidation occurs before the 91st day after the last distribution referred to in paragraph (1) and before January 1, 1966.

(i) DEDUCTION FOR AMORTIZATION OF INDEBTEDNESS.—

26 USC 545.

(1) Section 545(a) (relating to definition of undistributed personal holding company income) is amended by striking out "subsection (b)" and inserting in lieu thereof "subsections (b) and (c)".

(2) Section 545 is amended by adding at the end thereof the following new subsection:

"(c) SPECIAL ADJUSTMENT TO TAXABLE INCOME.—

"(1) IN GENERAL.—Except as otherwise provided in this subsection, for purposes of subsection (a) there shall be allowed as

a deduction amounts used, or amounts irrevocably set aside (to the extent reasonable with reference to the size and terms of the indebtedness), to pay or retire qualified indebtedness.

"(2) CORPORATIONS TO WHICH APPLICABLE.—This subsection shall apply only with respect to a corporation—

"(A) which for at least one of the two most recent taxable years ending before the date of the enactment of this subsection was not a personal holding company under section 542, but would have been a personal holding company under section 542 for such taxable year if the law applicable for the first taxable year beginning after December 31, 1963, had been applicable to such taxable year, or

68A Stat. 182; *ante*, p. 79. 26 USC 542.

"(B) to the extent that it succeeds to the deduction referred to in paragraph (1) by reason of section 381(c)(15).

26 USC 381. *Post*, p. 92.

"(3) QUALIFIED INDEBTEDNESS.—

"(A) IN GENERAL.—Except as otherwise provided in this paragraph, for purposes of this subsection the term 'qualified indebtedness' means—

"(i) the outstanding indebtedness incurred by the taxpayer after December 31, 1933, and before January 1, 1964, and

"(ii) the outstanding indebtedness incurred after December 31, 1963, for the purpose of making a payment or set-aside referred to in paragraph (1) in the same taxable year, but, in the case of such a payment or set-aside which is made on or after the first day of the first taxable year beginning after December 31, 1963, only to the extent the deduction otherwise allowed in paragraph (1) with respect to such payment or set-aside is treated as nondeductible by reason of the election provided in paragraph (4).

"(B) EXCEPTION.—For purposes of subparagraph (A), qualified indebtedness does not include any amounts which were, at any time after December 31, 1963, and before the payment or set-aside, owed to a person who at such time owned (or was considered as owning within the meaning of section 318(a)) more than 10 percent in value of the taxpayer's outstanding stock.

26 USC 318.

"(C) REDUCTION FOR AMOUNTS IRREVOCABLY SET ASIDE.—For purposes of subparagraph (A), the qualified indebtedness with respect to a contract shall be reduced by amounts irrevocably set aside before the taxable year to pay or retire such indebtedness; and no deduction shall be allowed under paragraph (1) for payments out of amounts so set aside.

"(4) ELECTION NOT TO DEDUCT.—A taxpayer may elect, under regulations prescribed by the Secretary or his delegate, to treat as nondeductible an amount otherwise deductible under paragraph (1); but only if the taxpayer files such election on or before the 15th day of the third month following the close of the taxable year with respect to which such election applies, designating therein the amounts which are to be treated as nondeductible and specifying the indebtedness (referred to in paragraph (3)(A)(ii)) incurred for the purpose of making the payment or set-aside.

"(5) LIMITATIONS.—The deduction otherwise allowed by this subsection for the taxable year shall be reduced by the sum of—

"(A) the amount, if any, by which—

"(i) the deductions allowed for the taxable year and all preceding taxable years beginning after December 31, 1963, for exhaustion, wear and tear, obsolescence, amortization, or depletion (other than such deductions which are disallowed in computing undistributed personal holding company income under subsection (b)(8)), exceed

"(ii) any reduction, by reason of this subparagraph, of the deductions otherwise allowed by this subsection for such preceding taxable years, and

"(B) the amount, if any, by which—

"(i) the deductions allowed under subsection (b)(5) in computing undistributed personal holding company income for the taxable year and all preceding taxable years beginning after December 31, 1963, exceed

"(ii) any reduction, by reason of this subparagraph, of the deductions otherwise allowed by this subsection for such preceding taxable years.

"(6) PRO-RATA REDUCTION IN CERTAIN CASES.—For purposes of paragraph (3)(A), if property (of a character which is subject to an allowance for exhaustion, wear and tear, obsolescence, amortization, or depletion) is disposed of after December 31, 1963, the total amounts of qualified indebtedness of the taxpayer shall be reduced pro-rata in the taxable year of such disposition by the amount, if any, by which—

"(A) the adjusted basis of such property at the time of such disposition, exceeds

"(B) the amount of qualified indebtedness which ceased to be qualified indebtedness with respect to the taxpayer by reason of the assumption of the indebtedness by the transferee."

68A Stat. 128.
26 USC 381.

(3) Paragraph (15) of section 381(c) (relating to carryovers in certain corporate acquisitions) is amended to read as follows:

"(15) INDEBTEDNESS OF CERTAIN PERSONAL HOLDING COMPANIES.—The acquiring corporation shall be considered to be the distributor or transferor corporation for the purpose of determining the applicability of subsections (b)(7) and (c) of section 545, relating to deduction with respect to payment of certain indebtedness."

Ante, p. 90.
26 USC 545.

(j) INCREASE IN BASIS WITH RESPECT TO CERTAIN FOREIGN PERSONAL HOLDING COMPANY STOCK OR SECURITIES.—

26 USC 1011-1022.

(1) IN GENERAL.—Part II of subchapter O of chapter 1 (relating to basis rules of general application) is amended by redesignating section 1022 as section 1023 and by inserting after section 1021 the following new section:

"SEC. 1022. INCREASE IN BASIS WITH RESPECT TO CERTAIN FOREIGN PERSONAL HOLDING COMPANY STOCK OR SECURITIES.

"(a) GENERAL RULE.—The basis (determined under section 1014(b)(5), relating to basis of stock or securities in a foreign personal holding company) of a share of stock or a security, acquired from a decedent dying after December 31, 1963, of a corporation which was a foreign personal holding company for its most recent taxable year ending before the date of the decedent's death shall be increased by its proportionate share of any Federal estate tax attributable to the net appreciation in value of all of such shares and securities determined as provided in this section.

26 USC 1014.

"(b) PROPORTIONATE SHARE.—For purposes of subsection (a), the proportionate share of a share of stock or of a security is that amount which bears the same ratio to the aggregate increase determined under

subsection (c) (2) as the appreciation in value of such share or security bears to the aggregate appreciation in value of all such shares and securities having appreciation in value.

"(c) SPECIAL RULES AND DEFINITIONS.—For purposes of this section—

"(1) FEDERAL ESTATE TAX.—The term 'Federal estate tax' means only the tax imposed by section 2001 or 2101, reduced by any credit allowable with respect to a tax on prior transfers by section 2013 or 2102.

68A Stat. 373.
26 USC 2001, 2101.
26 USC 2013, 2102.

"(2) FEDERAL ESTATE TAX ATTRIBUTABLE TO NET APPRECIATION IN VALUE.—The Federal estate tax attributable to the net appreciation in value of all shares of stock and securities to which subsection (a) applies is that amount which bears the same ratio to the Federal estate tax as the net appreciation in value of all of such shares and securities bears to the value of the gross estate as determined under chapter 11 (including section 2032, relating to alternate valuation).

26 USC 2032.

"(3) NET APPRECIATION.—The net appreciation in value of all shares and securities to which subsection (a) applies is the amount by which the fair market value of all such shares and securities exceeds the adjusted basis of such property in the hands of the decedent.

"(4) FAIR MARKET VALUE.—For purposes of this section, the term 'fair market value' means fair market value determined under chapter 11 (including section 2032, relating to alternate valuation).

26 USC 2001-2209.

"(d) LIMITATIONS.—This section shall not apply to any foreign personal holding company referred to in section 342(a)(2)."

26 USC 342.

(2) AMENDMENT OF SECTION 1016(a).—Section 1016(a) (relating to adjustments to basis) is amended by striking out the period at the end thereof and by inserting in lieu thereof a semicolon and by adding at the end thereof the following new paragraph:

76 Stat. 1031.
26 USC 1016.

"(21) to the extent provided in section 1022, relating to increase in basis for certain foreign personal holding company stock or securities."

Ante, p. 92.

(3) CLERICAL AMENDMENT.—The table of sections for part II of subchapter O of chapter 1 is amended by striking out

"Sec. 1022. Cross references."

and inserting in lieu thereof the following:

"Sec. 1022. Increase in basis with respect to certain foreign personal holding company stock or securities.
"Sec. 1023. Cross references."

(k) TECHNICAL AMENDMENTS.—

(1) Section 542(b) (relating to corporations filing consolidated returns) is amended by striking out "gross income" each place it appears and inserting in lieu thereof "adjusted ordinary gross income".

26 USC 542.

(2) Section 543 (relating to personal holding company income) is amended by striking out subsection (d) (relating to special adjustment on disposition of antitrust stock received as a dividend).

76 Stat. 6.
26 USC 543.

(3) Section 544 (relating to rules for determining stock ownership) is amended—

26 USC 544.

(A) by striking out "section 543(a)(5)" each place it appears and inserting in lieu thereof "section 543(a)(7)", and

Ante, p. 83.

(B) by striking out "section 543(a)(9)" each place it appears and inserting in lieu thereof "section 543(a)(4)".

Ante, p. 82.
26 USC 543.

(4) REAL ESTATE INVESTMENT TRUSTS.—Paragraph (6) of section 856(a) (relating to definition of real estate investment trust) is amended by striking out "gross income" and inserting in lieu thereof "adjusted ordinary gross income (as defined in section 543(b)(2))".

74 Stat. 1004.
26 USC 856.

(5) UNINCORPORATED BUSINESS ENTERPRISES ELECTING TO BE TAXED AS DOMESTIC CORPORATIONS.—Section 1361(i) (relating to personal holding company income) is amended to read as follows:

68A Stat. 350.
26 USC 1361.

"(i) PERSONAL HOLDING COMPANY INCOME.—

"(1) EXCLUDED FROM INCOME OF ENTERPRISE.—There shall be excluded from the gross income of the enterprise as to which an election has been made under subsection (a) any item of gross income (computed without regard to the adjustments provided in section 543(b)(3) or (4)) if, but for this paragraph, such item (adjusted, where applicable, as provided in section 543(b)(3) or (4)) would constitute personal holding company income (as defined in section 543(a)) of such enterprise.

"(2) INCOME AND DEDUCTIONS OF OWNERS.—Items excluded from the gross income of the enterprise under paragraph (1), and the expenses attributable thereto, shall be treated as the income and deductions of the proprietor or partners (in accordance with their distributive shares of partnership income) of such enterprise.

"(3) DISTRIBUTIONS.—If—

"(A) the amount excluded from gross income under paragraph (2) exceeds the expenses attributable thereto, and

"(B) any portion of such excess is distributed to the proprietor or partner during the year earned,

such portion shall not be taxed as a corporate distribution. The portion of such excess not distributed during such year shall be considered as paid-in surplus or as a contribution to capital as of the close of such year."

(6) ASSESSMENT AND COLLECTION OF PERSONAL HOLDING COMPANY TAX.—Section 6501(f) (relating to personal holding company tax) is amended by striking out "gross income, described in section 543(a)," and inserting in lieu thereof "gross income and adjusted ordinary gross income, described in section 543,".

26 USC 6501.

(l) EFFECTIVE DATES.—

(1) The amendments made by this section (other than by subsections (c)(1), (f), (g), and (j)) shall apply to taxable years beginning after December 31, 1963.

(2) The amendment made by subsection (c)(1) shall apply to taxable years beginning after October 16, 1962.

(3) The amendments made by subsections (f) and (g) shall apply to distributions made in any taxable year of the distributing corporation beginning after December 31, 1963.

(4) The amendments made by subsection (j) shall apply in respect of decedents dying after December 31, 1963.

(5) Subsection (h) shall apply to taxable years beginning after December 31, 1963.

SEC. 226. TREATMENT OF PROPERTY IN CASE OF OIL AND GAS WELLS.

26 USC 614.

(a) IN GENERAL.—Section 614(b) (relating to special rule as to operating mineral interests) is amended to read as follows:

"(b) SPECIAL RULES AS TO OPERATING MINERAL INTERESTS IN OIL AND GAS WELLS.—In the case of oil and gas wells—

"(1) IN GENERAL.—Except as otherwise provided in this subsection—

"(A) all of the taxpayer's operating mineral interests in a separate tract or parcel of land shall be combined and treated as one property, and

"(B) the taxpayer may not combine an operating mineral interest in one tract or parcel of land with an operating mineral interest in another tract or parcel of land.

"(2) ELECTION TO TREAT OPERATING MINERAL INTERESTS AS SEPARATE PROPERTIES.—If the taxpayer has more than one operating mineral interest in a single tract or parcel of land, he may elect to treat one or more of such operating mineral interests as separate properties. The taxpayer may not have more than one combination of operating mineral interests in a single tract or parcel of land. If the taxpayer makes the election provided in this paragraph with respect to any interest in a tract or parcel of land, each operating mineral interest which is discovered or acquired by the taxpayer in such tract or parcel of land after the taxable year for which the election is made shall be treated—

"(A) if there is no combination of interests in such tract or parcel, as a separate property unless the taxpayer elects to combine it with another interest, or

"(B) if there is a combination of interests in such tract or parcel, as part of such combination unless the taxpayer elects to treat it as a separate property.

"(3) CERTAIN UNITIZATION OR POOLING ARRANGEMENTS.—

"(A) IN GENERAL.—Under regulations prescribed by the Secretary or his delegate, if one or more of the taxpayer's operating mineral interests participate, under a voluntary or compulsory unitization or pooling agreement, in a single cooperative or unit plan of operation, then for the period of such participation—

"(i) they shall be treated for all purposes of this subtitle as one property, and

"(ii) the application of paragraphs (1), (2), and (4) in respect of such interests shall be suspended.

"(B) LIMITATION.—Subparagraph (A) shall apply to a voluntary agreement only if all the operating mineral interests covered by such agreement—

"(i) are in the same deposit, or are in 2 or more deposits the joint development or production of which is logical from the standpoint of geology, convenience, economy, or conservation, and

"(ii) are in tracts or parcels of land which are contiguous or in close proximity.

"(C) SPECIAL RULE IN THE CASE OF ARRANGEMENTS ENTERED INTO IN TAXABLE YEARS BEGINNING BEFORE JANUARY 1, 1964.—If—

"(i) two or more of the taxpayer's operating mineral interests participate under a voluntary or compulsory unitization or pooling agreement entered into in any taxable year beginning before January 1, 1964, in a single cooperative or unit plan of operation,

"(ii) the taxpayer, for the last taxable year beginning before January 1, 1964, treated such interests as two or more separate properties, and

"(iii) it is determined that such treatment was proper under the law applicable to such taxable year,

such taxpayer may continue to treat such interests in a consistent manner for the period of such participation.

"(4) MANNER, TIME, AND SCOPE OF ELECTION.—

"(A) MANNER AND TIME.—Any election provided in paragraph (2) shall be made for each operating mineral interest, in the manner prescribed by the Secretary or his delegate by regulations, not later than the time prescribed by law for filing the return (including extensions thereof) for whichever of the following taxable years is the later: The first taxable year beginning after December 31, 1963, or the first taxable year in which any expenditure for development or operation in respect of such operating mineral interest is made by the taxpayer after the acquisition of such interest.

"(B) SCOPE.—Any election under paragraph (2) shall be for all purposes of this subtitle and shall be binding on the taxpayer for all subsequent taxable years.

"(5) TREATMENT OF CERTAIN PROPERTIES.—If, on the day preceding the first day of the first taxable year beginning after December 31, 1963, the taxpayer has any operating mineral interests which he treats under subsection (d) of this section (as in effect before the amendments made by the Revenue Act of 1964), such treatment shall be continued and shall be deemed to have been adopted pursuant to paragraphs (1) and (2) of this subsection (as amended by such Act)."

(b) TECHNICAL AMENDMENTS.—

72 Stat. 1634. 26 USC 614.

(1) The heading of section 614(c) is amended to read as follows:

"(c) SPECIAL RULES AS TO OPERATING MINERAL INTERESTS IN MINES.—"

Repeal.

(2) Paragraph (5) of section 614(c) is hereby repealed.

(3) Section 614(d) is amended to read as follows:

"(d) OPERATING MINERAL INTERESTS DEFINED.—For purposes of this section, the term 'operating mineral interest' includes only an interest in respect of which the costs of production of the mineral are required to be taken into account by the taxpayer for purposes of computing the 50 percent limitation provided for in section 613, or would be so required if the mine, well, or other natural deposit were in the production stage."

68A Stat. 208. 26 USC 613.

(4) Section 614(e)(2) is amended by striking out "within the meaning of subsection (b)(3)".

(c) ALLOCATION OF BASIS IN CERTAIN CASES.—For purposes of the Internal Revenue Code of 1954—

(1) FAIR MARKET VALUE RULE.—Except as provided in paragraph (2), if a taxpayer has a section 614(b) aggregation, then the adjusted basis (as of the first day of the first taxable year beginning after December 31, 1963) of each property included in such aggregation shall be determined by multiplying the adjusted basis of the aggregation by a fraction—

(A) the numerator of which is the fair market value of such property, and

(B) the denominator of which is the fair market value of such aggregation.

For purposes of this paragraph, the adjusted basis and the fair market value of the aggregation, and the fair market value of each property included therein, shall be determined as of the day preceding the first day of the first taxable year which begins after December 31, 1963.

(2) ALLOCATION OF ADJUSTMENTS, ETC.—If the taxpayer makes an election under this paragraph with respect to any section 614(b) aggregation, then the adjusted basis (as of the first day of the

first taxable year beginning after December 31, 1963) of each property included in such aggregation shall be the adjusted basis of such property at the time it was first included in the aggregation by the taxpayer, adjusted for that portion of those adjustments to the basis of the aggregation which are reasonably attributable to such property. If, under the preceding sentence, the total of the adjusted bases of the interests included in the aggregation exceeds the adjusted basis of the aggregation (as of the day preceding the first day of the first taxable year which begins after December 31, 1963), the adjusted bases of the properties which include such interests shall be adjusted, under regulations prescribed by the Secretary of the Treasury or his delegate, so that the total of the adjusted bases of such interests equals the adjusted basis of the aggregation. An election under this paragraph shall be made at such time and in such manner as the Secretary of the Treasury or his delegate shall by regulations prescribe.

(3) DEFINITIONS.—For purposes of this subsection—

(A) SECTION 614(b) AGGREGATION.—The term "section 614(b) aggregation" means any aggregation to which section 614(b)(1)(A) of the Internal Revenue Code of 1954 (as in effect before the amendments made by subsection (a) of this section) applied for the day preceding the first day of the first taxable year beginning after December 31, 1963. 68A Stat. 210. 26 USC 614.

(B) PROPERTY.—The term "property" has the same meaning as is applicable, under section 614 of the Internal Revenue Code of 1954, to the taxpayer for the first taxable year beginning after December 31, 1963.

(d) EFFECTIVE DATE.—The amendments made by subsections (a) and (b) shall apply to taxable years beginning after December 31, 1963.

SEC. 227. TREATMENT OF CERTAIN IRON ORE ROYALTIES.

(a) IN GENERAL.—

(1) AMENDMENT OF SECTION 631(c).—Section 631(c) (relating to disposal of coal with a retained economic interest) is amended— 26 USC 631.

(A) by striking out the heading and inserting in lieu thereof the following:

"(c) DISPOSAL OF COAL OR DOMESTIC IRON ORE WITH A RETAINED ECONOMIC INTEREST.—";

(B) by inserting "or iron ore mined in the United States," after "coal (including lignite),";

(C) by inserting "or iron ore" after "coal" each other place it appears in section 631(c); and

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

"This subsection shall not apply to any disposal of iron ore—

"(1) to a person whose relationship to the person disposing of such iron ore would result in the disallowance of losses under section 267 or 707(b), or 26 USC 267, 707.

"(2) to a person owned or controlled directly or indirectly by the same interests which own or control the person disposing of such iron ore."

(2) AMENDMENT OF SECTION 1231(b).—Section 1231(b)(2) (defining property used in the trade or business) is amended to read as follows: 26 USC 1231.

"(2) TIMBER, COAL, OR DOMESTIC IRON ORE.—Such term includes timber, coal, and iron ore with respect to which section 631 applies."

68A Stat. 82.
26 USC 272.

(3) AMENDMENT OF SECTION 272.—The text of section 272 (relating to disposal of coal) is amended by inserting "or iron ore" after "coal" each place it appears.

(b) CLERICAL AMENDMENTS.—

Ante, p. 97.
26 USC 631.

(1) the heading of section 631 is amended to read as follows:

"SEC. 631. GAIN OR LOSS IN THE CASE OF TIMBER, COAL, OR DOMESTIC IRON ORE."

(2) The table of sections for part III of subchapter I of chapter 1 is amended by striking out

"Sec. 631. Gain or loss in the case of timber or coal."

and inserting in lieu thereof the following:

"Sec. 631. Gain or loss in the case of timber, coal, or domestic iron ore."

(3) The heading of section 272 is amended to read as follows:

"SEC. 272. DISPOSAL OF COAL OR DOMESTIC IRON ORE."

(4) The table of sections for part IX of subchapter B of chapter 1 is amended by striking out

"Sec. 272. Disposal of coal."

and inserting in lieu thereof the following:

"Sec. 272. Disposal of coal or domestic iron ore."

26 USC 1016.

(5) Section 1016(a)(15) is amended by inserting "or domestic iron ore" after "coal".

26 USC 1402.

(6) Section 1402(a)(3)(B) is amended to read as follows:

"(B) from the cutting of timber, or the disposal of timber, coal, or iron ore, if section 631 applies to such gain or loss, or"

64 Stat. 502;
68 Stat. 1055.
42 USC 411.

(7) Section 211(a)(3) of the Social Security Act is amended by striking out clause (B) and inserting in lieu thereof "(B) from the cutting of timber, or the disposal of timber, coal, or iron ore, if section 631 of the Internal Revenue Code of 1954 applies to such gain or loss,".

(c) EFFECTIVE DATE.—The amendments made by this section shall apply with respect to amounts received or accrued in taxable years beginning after December 31, 1963, attributable to iron ore mined in such taxable years.

SEC. 228. INSURANCE COMPANIES.

(a) CERTAIN MUTUALIZATION DISTRIBUTIONS MADE IN 1962.—

(1) DEDUCTION FOR CERTAIN MUTUALIZATION DISTRIBUTIONS.—

73 Stat. 123;
75 Stat. 120.
26 USC 809.

Section 809(d)(11) (relating to deductions in computing gain from operations in the case of certain mutualization distributions) is amended by striking out "and 1961" and inserting in lieu thereof "1961, and 1962".

(2) APPLICATION OF SECTION 815.—Section 809(g)(3) (relating to application of section 815 to certain mutualization distributions) is amended by striking out "or 1961" and inserting in lieu thereof "1961, or 1962".

(b) ACCRUAL OF BOND DISCOUNT.—

73 Stat. 133.
26 USC 818.

(1) LIFE INSURANCE COMPANIES.—Section 818(b) (relating to amortization of premium and accrual of discount) is amended by adding at the end thereof the following new paragraph:

"(3) EXCEPTION.—For taxable years beginning after December 31, 1962, no accrual of discount shall be required under paragraph (1) on any bond (as defined in section 171(d)), except in the case of discount which is—

26 USC 171.

26 USC 103.

"(A) interest to which section 103 applies, or

26 USC 1232.

"(B) original issue discount (as defined in section 1232(b)).

For purposes of section 805(b)(3)(A), the current earnings rate for any taxable year beginning before January 1, 1963, shall be determined as if the preceding sentence applied to such taxable year." 73 Stat. 118. 26 USC 805.

(2) MUTUAL INSURANCE COMPANIES.—Section 822(d)(2) (relating to amortization of premium and accrual of discount) is amended by adding at the end thereof the following new sentence: "For taxable years beginning after December 31, 1962, no accrual of discount shall be required under this paragraph on any bond (as defined in section 171(d))." 68A Stat. 261. 26 USC 822. 26 USC 171.

(c) CONTRIBUTIONS TO QUALIFIED, ETC., PLANS.—Section 832(c)(10) (relating to deductions allowed in computing taxable income of certain insurance companies) is amended by inserting before the semicolon at the end thereof "and in part I of subchapter D (sec. 401 and following, relating to pension, profit-sharing, stock bonus plans, etc.)". 26 USC 832. *Ante*, pp. 58, 60. 26 USC 401-407.

(d) EFFECTIVE DATES.—The amendment made by subsection (a) shall apply to taxable years beginning after December 31, 1961. The amendment made by subsection (c) shall apply to taxable years beginning after December 31, 1953, and ending after August 16, 1954.

SEC. 229. REGULATED INVESTMENT COMPANIES.

(a) TIME FOR MAILING CERTAIN NOTICES TO SHAREHOLDERS.—The following provisions (relating to notices to shareholders by regulated investment companies) are amended by striking out "30 days", wherever appearing therein, and inserting in lieu thereof "45 days": 26 USC 852-855.

(1) Section 852(b)(3)(C),
(2) Section 852(b)(3)(D)(i),
(3) Section 853(c),
(4) Section 854(b)(2), and
(5) Section 855(c).

(b) CERTAIN REDEMPTIONS BY UNIT INVESTMENT TRUSTS.—Section 852 (relating to taxation of regulated investment companies and their shareholders) is amended by adding at the end thereof the following new subsection:

"(d) DISTRIBUTIONS IN REDEMPTION OF INTERESTS IN UNIT INVESTMENT TRUSTS.—In the case of a unit investment trust—

"(1) which is registered under the Investment Company Act of 1940 and issues periodic payment plan certificates (as defined in such Act), and 54 Stat. 789. 15 USC 80a-51.

"(2) substantially all of the assets of which consist of securities issued by a management company (as defined in such Act),

section 562(c) (relating to preferential dividends) shall not apply to a distribution by such trust to a holder of an interest in such trust in redemption of part or all of such interest, with respect to the net capital gain of such trust attributable to such redemption." 26 USC 562.

(c) EFFECTIVE DATES.—The amendments made by subsection (a) shall apply to taxable years of regulated investment companies ending on or after the date of the enactment of this Act. The amendment made by subsection (b) shall apply to taxable years of regulated investment companies ending after December 31, 1963.

SEC. 230. CAPITAL LOSS CARRYOVERS FOR TAXPAYERS OTHER THAN CORPORATIONS.

(a) IN GENERAL.—Section 1212 (relating to capital loss carryover) is amended— 26 USC 1212.

(1) by striking out "If for any taxable year the taxpayer" and inserting in lieu thereof:

"(a) CORPORATIONS.—If for any taxable year a corporation"; and

(2) by adding at the end thereof the following new subsection:

"(b) OTHER TAXPAYERS.—

"(1) IN GENERAL.—If a taxpayer other than a corporation has a net capital loss for any taxable year beginning after December 31, 1963—

"(A) the excess of the net short-term capital loss over the net long-term capital gain for such year shall be a short-term capital loss in the succeeding taxable year, and

"(B) the excess of the net long-term capital loss over the net short-term capital gain for such year shall be a long-term capital loss in the succeeding taxable year.

For purposes of this paragraph, in determining such excesses an amount equal to the excess of the sum allowed for the taxable year under section 1211(b) over the gains from sales or exchanges of capital assets (determined without regard to this sentence) shall be treated as a short-term capital gain in such year.

68A Stat. 321.
26 USC 1211.

"(2) TRANSITIONAL RULE.—In the case of a taxpayer other than a corporation, there shall be treated as a short-term capital loss in the first taxable year beginning after December 31, 1963, any amount which is treated as a short-term capital loss in such year under this subchapter as in effect immediately before the enactment of the Revenue Act of 1964."

(b) TECHNICAL AMENDMENTS.—

26 USC 1222.

(1) Section 1222(9) (relating to net capital gain) is amended to read as follows:

"(9) NET CAPITAL GAIN.—In the case of a corporation, the term 'net capital gain' means the excess of the gains from sales or exchanges of capital assets over the losses from such sales or exchanges."

(2) The second sentence of section 1222(10) (relating to net capital loss) is amended by striking out "For the purpose" and inserting in lieu thereof "In the case of a corporation, for the purpose".

(c) EFFECTIVE DATE.—The amendments made by this section shall apply to taxable years beginning after December 31, 1963.

SEC. 231. GAIN FROM DISPOSITIONS OF CERTAIN DEPRECIABLE REALTY.

(a) GAIN FROM DISPOSITIONS OF CERTAIN DEPRECIABLE REALTY.—

26 USC 1231-1249.

Part IV of subchapter P of chapter 1 (relating to special rules for determining capital gains and losses) is amended by adding at the end thereof the following new section:

"SEC. 1250. GAIN FROM DISPOSITIONS OF CERTAIN DEPRECIABLE REALTY.

"(a) GENERAL RULE.—

"(1) ORDINARY INCOME.—Except as otherwise provided in this section, if section 1250 property is disposed of after December 31, 1963, the applicable percentage of the lower of—

"(A) the additional depreciation (as defined in subsection (b)(1)) in respect of the property, or

"(B) the excess of—

"(i) the amount realized (in the case of a sale, exchange, or involuntary conversion), or the fair market value of such property (in the case of any other disposition), over

"(ii) the adjusted basis of such property,

shall be treated as gain from the sale or exchange of property which is neither a capital asset nor property described in section 1231. Such gain shall be recognized notwithstanding any other provision of this subtitle.

"(2) APPLICABLE PERCENTAGE.—For purposes of paragraph (1), the term 'applicable percentage' means 100 percent minus

one percentage point for each full month the property was held after the date on which the property was held 20 full months.

"(b) ADDITIONAL DEPRECIATION DEFINED.—For purposes of this section—

"(1) IN GENERAL.—The term 'additional depreciation' means, in the case of any property, the depreciation adjustments in respect of such property; except that, in the case of property held more than one year, it means such adjustments only to the extent that they exceed the amount of the depreciation adjustments which would have resulted if such adjustments had been determined for each taxable year under the straight line method of adjustment. For purposes of the preceding sentence, if a useful life (or salvage value) was used in determining the amount allowed as a deduction for any taxable year, such life (or value) shall be used in determining the depreciation adjustments which would have resulted for such year under the straight line method.

"(2) PROPERTY HELD BY LESSEE.—In the case of a lessee, in determining the depreciation adjustments which would have resulted in respect of any building erected (or other improvement made) on the leased property, or in respect of any cost of acquiring the lease, the lease period shall be treated as including all renewal periods. For purposes of the preceding sentence—

"(A) the term 'renewal period' means any period for which the lease may be renewed, extended, or continued pursuant to an option exercisable by the lessee, but

"(B) the inclusion of renewal periods shall not extend the period taken into account by more than ⅔ of the period on the basis of which the depreciation adjustments were allowed.

"(3) DEPRECIATION ADJUSTMENTS.—The term 'depreciation adjustments' means, in respect of any property, all adjustments attributable to periods after December 31, 1963, reflected in the adjusted basis of such property on account of deductions (whether in respect of the same or other property) allowed or allowable to the taxpayer or to any other person for exhaustion, wear and tear, obsolescence, or amortization (other than amortization under section 168). For purposes of the preceding sentence, if the taxpayer can establish by adequate records or other sufficient evidence that the amount allowed as a deduction for any period was less than the amount allowable, the amount taken into account for such period shall be the amount allowed.

68A Stat. 52.
26 USC 168.

"(c) SECTION 1250 PROPERTY.—For purposes of this section, the term 'section 1250 property' means any real property (other than section 1245 property, as defined in section 1245(a)(3)) which is or has been property of a character subject to the allowance for depreciation provided in section 167.

76 Stat. 1032.
26 USC 1245.
26 USC 167.

"(d) EXCEPTIONS AND LIMITATIONS.—

"(1) GIFTS.—Subsection (a) shall not apply to a disposition by gift.

"(2) TRANSFERS AT DEATH.—Except as provided in section 691 (relating to income in respect of a decedent), subsection (a) shall not apply to a transfer at death.

26 USC 691.

"(3) CERTAIN TAX-FREE TRANSACTIONS.—If the basis of property in the hands of a transferee is determined by reference to its basis in the hands of the transferor by reason of the application of section 332, 351, 361, 371(a), 374(a), 721, or 731, then the amount of gain taken into account by the transferor under subsection (a)(1) shall not exceed the amount of gain recognized to the transferor on the transfer of such property (determined without regard to this section). This paragraph shall not apply to a disposition

26 USC 332, 351, 361, 371, 374, 721, 731.

68A Stat. 176.
26 USC 521.

to an organization (other than a cooperative described in section 521) which is exempt from the tax imposed by this chapter.

"(4) LIKE KIND EXCHANGES; INVOLUNTARY CONVERSIONS, ETC.—

"(A) RECOGNITION LIMIT.—If property is disposed of and gain (determined without regard to this section) is not recognized in whole or in part under section 1031 or 1033, then the amount of gain taken into account by the transferor under subsection (a)(1) shall not exceed the greater of the following:

"(i) the amount of gain recognized on the disposition (determined without regard to this section), increased as provided in subparagraph (B), or

"(ii) the amount determined under subparagraph (C).

26 USC 1031, 1033.

"(B) INCREASE FOR CERTAIN STOCK.—With respect to any transaction, the increase provided by this subparagraph is the amount equal to the fair market value of any stock purchased in a corporation which (but for this paragraph) would result in nonrecognition of gain under section 1033(a)(3)(A).

"(C) ADJUSTMENT WHERE INSUFFICIENT SECTION 1250 PROPERTY IS ACQUIRED.—With respect to any transaction, the amount determined under this subparagraph shall be the excess of—

"(i) the amount of gain which would (but for this paragraph) be taken into account under subsection (a)(1), over

"(ii) the fair market value (or cost in the case of a transaction described in section 1033(a)(3)) of the section 1250 property acquired in the transaction.

"(D) BASIS OF PROPERTY ACQUIRED.—In the case of property purchased by the taxpayer in a transaction described in section 1033(a)(3), in applying the last sentence of section 1033(c), such sentence shall be applied—

"(i) first solely to section 1250 properties and to the amount of gain not taken into account under subsection (a)(1) by reason of this paragraph, and

"(ii) then to all purchased properties to which such sentence applies and to the remaining gain not recognized on the transaction as if the cost of the section 1250 properties were the basis of such properties computed under clause (i).

In the case of property acquired in any other transaction to which this paragraph applies, rules consistent with the preceding sentence shall be applied under regulations prescribed by the Secretary or his delegate.

"(E) ADDITIONAL DEPRECIATION WITH RESPECT TO PROPERTY DISPOSED OF.—In the case of any transaction described in section 1031 or 1033, the additional depreciation in respect of the section 1250 property acquired which is attributable to the section 1250 property disposed of shall be an amount equal to the amount of the gain which was not taken into account under subsection (a)(1) by reason of the application of this paragraph.

Ante, p. 101.

26 USC 1071, 1081.

"(5) SECTION 1071 AND 1081 TRANSACTIONS.—Under regulations prescribed by the Secretary or his delegate, rules consistent with paragraphs (3) and (4) of this subsection and with subsections (e) and (f) shall apply in the case of transactions described in section 1071 (relating to gain from sale or exchange to effectuate

policies of FCC) or section 1081 (relating to exchanges in obedience to SEC orders). 68A Stat. 312. 26 USC 1081.

"(6) PROPERTY DISTRIBUTED BY A PARTNERSHIP TO A PARTNER.—

"(A) IN GENERAL.—For purposes of this section, the basis of section 1250 property distributed by a partnership to a partner shall be deemed to be determined by reference to the adjusted basis of such property to the partnership.

"(B) ADDITIONAL DEPRECIATION.—In respect of any property described in subparagraph (A), the additional depreciation attributable to periods before the distribution by the partnership shall be—

"(i) the amount of the gain to which subsection (a) would have applied if such property had been sold by the partnership immediately before the distribution at its fair market value at such time and the applicable percentage for the property had been 100 percent, reduced by

"(ii) if section 751(b) applied to any part of such gain, the amount of such gain to which section 751(b) would have applied if the applicable percentage for the property had been 100 percent. 26 USC 751.

"(7) DISPOSITION OF PRINCIPAL RESIDENCE.—Subsection (a) shall not apply to a disposition of—

"(A) property to the extent used by the taxpayer as his principal residence (within the meaning of section 1034, relating to sale or exchange of residence), and 26 USC 1034.

"(B) property in respect of which the taxpayer meets the age and ownership requirements of section 121 (relating to gains from sale or exchange of residence of individual who has attained the age of 65) but only to the extent that he meets the use requirements of such section in respect of such property. *Ante*, p. 38.

"(e) HOLDING PERIOD.—For purposes of determining the applicable percentage under this section, the provisions of section 1223 shall not apply, and the holding period of section 1250 property shall be determined under the following rules: 26 USC 1223.

"(1) BEGINNING OF HOLDING PERIOD.—The holding period of section 1250 property shall be deemed to begin—

"(A) in the case of property acquired by the taxpayer, on the day after the date of acquisition, or

"(B) in the case of property constructed, reconstructed, or erected by the taxpayer, on the first day of the month during which the property is placed in service.

"(2) PROPERTY WITH TRANSFERRED BASIS.—If the basis of property acquired in a transaction described in paragraph (1), (2), (3), or (5) of subsection (d) is determined by reference to its basis in the hands of the transferor, then the holding period of the property in the hands of the transferee shall include the holding period of the property in the hands of the transferor.

"(3) PRINCIPAL RESIDENCE.—If the basis of property acquired in a transaction described in paragraph (7) of subsection (d) is determined by reference to the basis in the hands of the taxpayer of other property, then the holding period of the property acquired shall include the holding period of such other property.

"(f) SPECIAL RULES FOR PROPERTY WHICH IS SUBSTANTIALLY IMPROVED.—

"(1) AMOUNT TREATED AS ORDINARY INCOME.—If, in the case of a disposition of section 1250 property, the property is treated as consisting of more than one element by reason of paragraph

(3), then the amount taken into account under subsection (a)(1) in respect of such section 1250 property as gain from the sale or exchange of property which is neither a capital asset nor property described in section 1231 shall be the sum of the amounts determined under paragraph (2).

68A Stat. 325.
26 USC 1231.

"(2) ORDINARY INCOME ATTRIBUTABLE TO AN ELEMENT.—For purposes of paragraph (1), the amount taken into account for any element shall be the amount determined by multiplying—

"(A) the amount which bears the same ratio to the lower of the amounts specified in subparagraph (A) or (B) of subsection (a)(1) for the section 1250 property as the additional depreciation for such element bears to the sum of the additional depreciation for all elements, by

"(B) the applicable percentage for such element.

For purposes of this paragraph, determinations with respect to any element shall be made as if it were a separate property.

"(3) PROPERTY CONSISTING OF MORE THAN ONE ELEMENT.—In applying this subsection in the case of any section 1250 property, there shall be treated as a separate element—

Ante, p. 101.

"(A) each separate improvement,

"(B) if, before completion of section 1250 property, units thereof (as distinguished from improvements) were placed in service, each such unit of section 1250 property, and

"(C) the remaining property which is not taken into account under subparagraphs (A) and (B).

"(4) PROPERTY WHICH IS SUBSTANTIALLY IMPROVED.—For purposes of this subsection—

"(A) IN GENERAL.—The term 'separate improvement' means each improvement added during the 36-month period ending on the last day of any taxable year to the capital account for the property, but only if the sum of the amounts added to such account during such period exceeds the greatest of—

"(i) 25 percent of the adjusted basis of the property,

"(ii) 10 percent of the adjusted basis of the property, determined without regard to the adjustments provided in paragraphs (2) and (3) of section 1016(a), or

26 USC 1016.

"(iii) $5,000.

For purposes of clauses (i) and (ii), the adjusted basis of the property shall be determined as of the beginning of the first day of such 36-month period, or of the holding period of the property (within the meaning of subsection (e)), whichever is the later.

"(B) EXCEPTION.—Improvements in any taxable year shall be taken into account for purposes of subparagraph (A) only if the sum of the amounts added to the capital account for the property for such taxable year exceeds the greater of—

"(i) $2,000, or

"(ii) one percent of the adjusted basis referred to in subparagraph (A) (ii), determined, however, as of the beginning of such taxable year.

For purposes of this section, if the amount added to the capital account for any separate improvement does not exceed the greater of clause (i) or (ii), such improvement shall be treated as placed in service on the first day, of a calendar month, which is closest to the middle of the taxable year.

"(C) IMPROVEMENT.—The term 'improvement' means, in the case of any section 1250 property, any addition to capital

account for such property after the initial acquisition or after completion of the property.

"(g) ADJUSTMENTS TO BASIS.—The Secretary or his delegate shall prescribe such regulations as he may deem necessary to provide for adjustments to the basis of property to reflect gain recognized under subsection (a).

"(h) APPLICATION OF SECTION.—This section shall apply notwithstanding any other provision of this subtitle."

(b) TECHNICAL AMENDMENTS.—

(1) SPECIAL RULE FOR CHARITABLE CONTRIBUTIONS.—

(A) The heading of section 170(e) (relating to special rule for charitable contributions of section 1245 property) is amended by striking out "SECTION 1245 PROPERTY" and inserting in lieu thereof "CERTAIN PROPERTY". 76 Stat. 1034. 26 USC 170.

(B) The text of such section 170(e) is amended by striking out "section 1245(a)" and inserting in lieu thereof "section 1245(a) or 1250(a)". 26 USC 1245, *ante*, p. 100.

(2) CORPORATE DISTRIBUTIONS OF PROPERTY.—Subsections (b) and (d) of section 301 (relating to amount distributed) are each amended by striking out "under section 1245(a)" and inserting in lieu thereof "under section 1245(a) or 1250(a)". 26 USC 301.

(3) EFFECT ON EARNINGS AND PROFITS.—Paragraph (3) of section 312(c) (relating to adjustments of earnings and profits) is amended by striking out "or under section 1245(a)" and inserting in lieu thereof "or under section 1245(a) or 1250(a)". 26 USC 312.

(4) COLLAPSIBLE CORPORATIONS.—Paragraph (12) of section 341(e) (relating to collapsible corporations) is amended by striking out "section 1245(a)" and inserting in lieu thereof "sections 1245(a) and 1250(a)". 26 USC 341.

(5) INSTALLMENT OBLIGATIONS IN CERTAIN LIQUIDATIONS.—Subparagraphs (A) and (B) of section 453(d)(4) (relating to distribution of installment obligations in certain corporate liquidations) are each amended by striking out "section 1245(a)" and inserting in lieu thereof "section 1245(a) or 1250(a)". 26 USC 453.

(6) SPECIAL RULE FOR PARTNERSHIPS.—Section 751(c) (relating to definition of "unrealized receivables" for purposes of subchapter K) is amended by striking out "(as defined in section 1245(a)(3))" and inserting in lieu thereof "(as defined in section 1245 (a)(3)) and section 1250 property (as defined in section 1250(c))" and by striking out "to which section 1245(a)" and inserting in lieu thereof "to which section 1245(a) or 1250(a)". 26 USC 751.

(7) The table of sections for part IV of subchapter P of chapter 1 is amended by adding at the end thereof the following:

"Sec. 1250. Gain from dispositions of certain depreciable realty."

(c) EFFECTIVE DATE.—The amendments made by this section shall apply to dispositions after December 31, 1963, in taxable years ending after such date.

SEC. 232. AVERAGING.

(a) GENERAL RULE.—Part I of subchapter Q of chapter 1 is amended to read as follows:

"PART I—INCOME AVERAGING

"SEC. 1301. LIMITATION ON TAX.

"If an eligible individual has averagable income for the computation year, and if the amount of such income exceeds $3,000, then the tax imposed by section 1 for the computation year which is attributable to averagable income shall be 5 times the increase in tax under such section which would result from adding 20 percent of such income to the sum of—

68A Stat. 5; *ante*, p. 19.
26 USC 1.

"(1) 133⅓ percent of average base period income, and

"(2) the amount (if any) of the average base period capital gain net income.

"SEC. 1302. DEFINITION OF AVERAGABLE INCOME; RELATED DEFINITIONS.

"(a) AVERAGABLE INCOME.—For purposes of this part—

"(1) IN GENERAL.—The term 'averagable income' means the amount (if any) by which adjusted taxable income exceeds 133⅓ percent of average base period income.

"(2) ADJUSTMENT IN CERTAIN CASES FOR CAPITAL GAINS.—If—

"(A) the average base period capital gain net income, exceeds

"(B) the capital gain net income for the computation year,

then the term 'averagable income' means the amount determined under paragraph (1), reduced by an amount equal to such excess.

"(b) ADJUSTED TAXABLE INCOME.—For purposes of this part, the term 'adjusted taxable income' means the taxable income for the computation year, decreased by the sum of the following amounts:

"(1) CAPITAL GAIN NET INCOME FOR THE COMPUTATION YEAR.—The amount (if any) of the capital gain net income for the computation year.

"(2) INCOME ATTRIBUTABLE TO GIFTS, BEQUESTS, ETC.—

"(A) IN GENERAL.—The amount of net income attributable to an interest in property where such interest was received by the taxpayer as a gift, bequest, devise, or inheritance during the computation year or any base period year. This paragraph shall not apply to gifts, bequests, devises, or inheritances between husband and wife if they make a joint return, or if one of them makes a return as a surviving spouse (as defined in section 2(b)), for the computation year.

26 USC 2.

"(B) AMOUNT OF NET INCOME.—Unless the taxpayer otherwise establishes to the satisfaction of the Secretary or his delegate, the amount of net income for any taxable year attributable to an interest described in subparagraph (A) shall be deemed to be 6 percent of the fair market value of such interest (as determined in accordance with the provisions of chapter 11 or chapter 12, as the case may be).

26 USC 2001, 2501.

"(C) LIMITATION.—This paragraph shall apply only if the sum of the net incomes attributable to interests described in subparagraph (A) exceeds $3,000.

"(D) NET INCOME.—For purposes of this paragraph, the term 'net income' means, with respect to any interest, the excess of—

"(i) items of gross income attributable to such interest, over

"(ii) the deductions properly allocable to or chargeable against such items.

For purposes of computing such net income, capital gains and losses shall not be taken into account.

"(3) WAGERING INCOME.—The amount (if any) by which the gains from wagering transactions for the computation year exceed the losses from such transactions.

"(4) CERTAIN AMOUNTS RECEIVED BY OWNER-EMPLOYEES.—The amount (if any) to which section 72(m)(5) (relating to penalties applicable to certain amounts received by owner-employees) applies. 76 Stat. 821. 26 USC 72.

"(c) AVERAGE BASE PERIOD INCOME.—For purposes of this part—

"(1) IN GENERAL.—The term 'average base period income' means one-fourth of the sum of the base period incomes for the base period.

"(2) BASE PERIOD INCOME.—The base period income for any taxable year is the taxable income for such year first increased and then decreased (but not below zero) in the following order:

"(A) Taxable income shall be increased by an amount equal to the excess of—

"(i) the amount excluded from gross income under section 911 (relating to earned income from sources without the United States) and subpart D of part III of subchapter N (sec. 931 and following, relating to income from sources within possessions of the United States), over 76 Stat. 1003. 26 USC 911. 26 USC 931-934.

"(ii) the deductions which would have been properly allocable to or chargeable against such amount but for the exclusion of such amount from gross income.

"(B) Taxable income shall be decreased by the capital gain net income.

"(C) If the decrease provided by paragraph (2) of subsection (b) applies to the computation year, the taxable income shall be decreased under the rules of such paragraph (2) (other than the limitation contained in subparagraph (C) thereof).

"(d) CAPITAL GAIN NET INCOME, ETC.—For purposes of this part—

"(1) CAPITAL GAIN NET INCOME.—The term 'capital gain net income' means the amount equal to 50 percent of the excess of the net long-term capital gain over the net short-term capital loss.

"(2) AVERAGE BASE PERIOD CAPITAL GAIN NET INCOME.—The term 'average base period capital gain net income' means one-fourth of the sum of the capital gain net incomes for the base period. For purposes of the preceding sentence, the capital gain net income for any base period year shall not exceed the base period income for such year computed without regard to subsection (c)(2)(B).

"(e) OTHER RELATED DEFINITIONS.—For purposes of this part—

"(1) COMPUTATION YEAR.—The term 'computation year' means the taxable year for which the taxpayer chooses the benefits of this part.

"(2) BASE PERIOD.—The term 'base period' means the 4 taxable years immediately preceding the computation year.

"(3) BASE PERIOD YEAR.—The term 'base period year' means any of the 4 taxable years immediately preceding the computation year.

"(4) JOINT RETURN.—The term 'joint return' means the return of a husband and wife made under section 6013. 68A Stat. 733. 26 USC 6013.

"SEC. 1303. ELIGIBLE INDIVIDUALS.

"(a) GENERAL RULE.—Except as otherwise provided in this section, for purposes of this part the term 'eligible individual' means any individual who is a citizen or resident of the United States throughout the computation year.

"(b) NONRESIDENT ALIEN INDIVIDUALS.—For purposes of this part, an individual shall not be an eligible individual for the computation

year if, at any time during such year or the base period, such individual was a nonresident alien.

"(c) INDIVIDUALS RECEIVING SUPPORT FROM OTHERS.—

"(1) IN GENERAL.—For purposes of this part, an individual shall not be an eligible individual for the computation year if, for any base period year, such individual (and his spouse) furnished less than one-half of his support.

"(2) EXCEPTIONS.—Paragraph (1) shall not apply to any computation year if—

"(A) such year ends after the individual attained age 25 and, during at least 4 of his taxable years beginning after he attained age 21 and ending with his computation year, he was not a full-time student,

"(B) more than one-half of the individual's adjusted taxable income for the computation year is attributable to work performed by him in substantial part during 2 or more of the base period years, or

"(C) the individual makes a joint return for the computation year and not more than 25 percent of the aggregate adjusted gross income of such individual and his spouse for the computation year is attributable to such individual.

In applying subparagraph (C), amounts which constitute earned income (within the meaning of section 911(b)) and are community income under community property laws applicable to such income shall be taken into account as if such amounts did not constitute community income.

76 Stat. 1003.
26 USC 911.

"(d) STUDENT DEFINED.—For purposes of this section, the term 'student' means, with respect to a taxable year, an individual who during each of 5 calendar months during such taxable year—

"(1) was a full-time student at an educational institution (as defined in section 151(e)(4)); or

68A Stat. 42.
26 USC 151.

"(2) was pursuing a full-time course of institutional on-farm training under the supervision of an accredited agent of an educational institution (as defined in section 151(e)(4)) or of a State or political subdivision of a State.

"SEC. 1304. SPECIAL RULES.

"(a) TAXPAYER MUST CHOOSE BENEFITS.—This part shall apply to the taxable year only if the taxpayer chooses to have the benefits of this part for such taxable year. Such choice may be made or changed at any time before the expiration of the period prescribed for making a claim for credit or refund of the tax imposed by this chapter for the taxable year.

"(b) CERTAIN PROVISIONS INAPPLICABLE.—If the taxpayer chooses the benefits of this part for the taxable year, the following provisions shall not apply to him for such year:

26 USC 3.
Post, p. 129.

"(1) section 3 (relating to optional tax if adjusted gross income is less than $5,000),

76 Stat. 824.
26 USC 72.

"(2) section 72(n)(2) (relating to limitation of tax in case of certain distributions with respect to contributions by self-employed individuals),

"(3) section 911 (relating to earned income from sources without the United States), and

26 USC 931-934.

"(4) subpart D of part III of subchapter N (sec. 931 and following, relating to income from sources within possessions of the United States).

"(c) FAILURE OF CERTAIN MARRIED INDIVIDUALS TO MAKE JOINT RETURN, ETC.—

"(1) APPLICATION OF SUBSECTION.—Paragraphs (2), (3), and (4) of this subsection shall apply in the case of any individual

who was married for any base period year or the computation year; except that—

"(A) such paragraphs shall not apply in respect of a base period year if—

"(i) such individual and his spouse make a joint return, or such individual makes a return as a surviving spouse (as defined in section 2(b)), for the computation year, and

68A Stat. 8.
26 USC 2.

"(ii) such individual was not married to any other spouse for such base period year, and

"(B) paragraph (4) shall not apply in respect of the computation year if the individual and his spouse make a joint return for such year.

"(2) MINIMUM BASE PERIOD INCOME.—For purposes of this part, the base period income of an individual for any base period year shall not be less than 50 percent of the base period income which would result from combining his income and deductions for such year—

"(A) with the income and deductions for such year of the individual who is his spouse for the computation year, or

"(B) if greater, with the income and deductions for such year of the individual who was his spouse for such base period year.

"(3) MINIMUM BASE PERIOD CAPITAL GAIN NET INCOME.—For purposes of this part, the capital gain net income of any individual for any base period year shall not be less than 50 percent of the capital gain net income which would result from combining his capital gain net income for such year (determined without regard to this paragraph) with the capital gain net income for such year (similarly determined) of the individual with whom he is required by paragraph (2) to combine his income and deductions for such year.

"(4) COMMUNITY INCOME ATTRIBUTABLE TO SERVICES.—In the case of amounts which constitute earned income (within the meaning of section 911(b)) and are community income under community property laws applicable to such income—

76 Stat. 1003.
26 USC 911.

"(A) the amount taken into account for any base period year for purposes of determining base period income shall not be less than the amount which would be taken into account if such amounts did not constitute community income, and

"(B) the amount taken into account for purposes of determining adjusted taxable income for the computation year shall not exceed the amount which would be taken into account if such amounts did not constitute community income.

"(5) MARITAL STATUS.—For purposes of this subsection, section 143 shall apply in determining whether an individual is married for any taxable year.

26 USC 143.

"(d) DOLLAR LIMITATIONS IN CASE OF JOINT RETURNS.—In the case of a joint return, the $3,000 figure contained in section 1301 shall be applied to the aggregate averagable income, and the $3,000 figure contained in section 1302(b)(2)(C) shall be applied to the aggregate net incomes.

Ante, p. 106.

"(e) SPECIAL RULES WHERE THERE ARE CAPITAL GAINS.—

"(1) TREATMENT OF CAPITAL GAINS IN COMPUTATION YEAR.—In the case of any taxpayer who has capital gain net income for the computation year, the tax imposed by section 1 for the computation year which is attributable to the amount of such net income shall be computed—

Ante, p. 19.
26 USC 1.

"(A) by adding so much of the amount thereof as does not exceed average base period capital gain net income above 133⅓ percent of average base period income, and

"(B) by adding the remainder (if any) of such net income above the 20 percent of the averagable income as taken into account for purposes of computing the tax imposed by section 1 (and above the amounts (if any) referred to in subsection (f)(1)).

68A Stat. 5; *ante*, p. 19. 26 USC 1.

"(2) COMPUTATION OF ALTERNATIVE TAX.—In the case of any taxpayer who has capital gain net income for the computation year, section 1201(b) shall be treated as imposing a tax equal to the tax imposed by section 1, reduced by the amount (if any) by which—

26 USC 1201.

"(A) the tax imposed by section 1 and attributable to the capital gain net income for the computation year (determined under paragraph (1)), exceeds

"(B) an amount equal to 25 percent of the excess of the net long-term capital gain over the net short-term capital loss.

"(f) TREATMENT OF CERTAIN OTHER ITEMS.—

"(1) GIFT OR WAGERING INCOME.—The tax imposed by section 1 for the computation year which is attributable to the amounts subtracted from taxable income under paragraphs (2) and (3) of section 1302(b) shall equal the increase in tax under section 1 which results from adding such amounts above the 20 percent of the averagable income as taken into account for purposes of computing the tax imposed thereon by section 1.

Ante, p. 106.

76 Stat. 821. 26 USC 72.

"(2) SECTION 72(m)(5).—Section 72(m)(5) (relating to penalties applicable to certain amounts received by owner-employees) shall be applied as if this part had not been enacted.

"(3) OTHER ITEMS.—Except as otherwise provided in this part, the order and manner in which items of income shall be taken into account in computing the tax imposed by this chapter on the income of any eligible individual to whom section 1301 applies for any computation year shall be determined under regulations prescribed by the Secretary or his delegate.

Ante, p. 106.

"(g) SHORT TAXABLE YEARS.—In the case of any computation year or base period year which is a short taxable year, this part shall be applied in the manner provided in regulations prescribed by the Secretary or his delegate.

"SEC. 1305. REGULATIONS.

"The Secretary or his delegate shall prescribe such regulations as may be necessary to carry out the purposes of this part."

Repeal. 26 USC 72.

(b) REPEAL OF SECTION 72(e)(3).—Section 72(e)(3) (relating to limit on tax attributable to receipt of lump sum) is hereby repealed.

Ante, p. 24. 26 USC 144.

(c) AMENDMENT OF SECTION 144.—Section 144 (relating to election of standard deduction) is amended by adding after subsection (c) (as added by 112(c)(2) of this Act) the following new subsection:

"(d) INDIVIDUALS ELECTING INCOME AVERAGING.—In the case of a taxpayer who chooses to have the benefits of part I of subchapter Q (relating to income averaging) for the taxable year—

"(1) subsection (a) shall not apply for such taxable year, and

"(2) the standard deduction shall be allowed if the taxpayer so elects in his return for such taxable year.

The Secretary or his delegate shall by regulations prescribe the manner of signifying such election in the return. If the taxpayer on making his return fails to signify, in the manner so prescribed, his election to take the standard deduction, such failure shall be considered his election not to take the standard deduction."

(d) STATUTE OF LIMITATIONS.—Section 6511(d)(2)(B) (relating to special period of limitation with respect to net operating loss carrybacks) is amended to read as follows: 68A Stat. 808. 26 USC 6511.

"(B) APPLICABLE RULES.—

"(i) If the allowance of a credit or refund of an overpayment of tax attributable to a net operating loss 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. If the allowance of an application, credit, or refund of a decrease in tax determined under section 6411(b) is otherwise prevented by the operation of any law or rule of law other than section 7122, such application, credit, or refund may be allowed or made if application for a tentative carryback adjustment is made within the period provided in section 6411(a). In the case of any such claim for credit or refund or any such application for a tentative carryback adjustment, the determination by any court, including the Tax Court, in any proceeding in which the decision of the court has become final, shall be conclusive except with respect to the net operating loss deduction, and the effect of such deduction, to the extent that such deduction is affected by a carryback which was not in issue in such proceeding. 26 USC 7122. 26 USC 6411.

"(ii) A claim for credit or refund for a computation year (as defined in section 1302(e)(1)) shall be determined to relate to an overpayment attributable to a net operating loss carryback when such carryback relates to any base period year (as defined in section 1302(e)(3))." *Ante*, p. 107.

(e) TECHNICAL AMENDMENTS.—The following provisions are amended by striking out "except that section 72(e)(3) shall not apply": *Ante*, p. 110.

(1) The first sentence of section 402(a)(1) (relating to general rule for taxability of beneficiary of exempt trust). 26 USC 402.

(2) The second sentence of section 402(b) (relating to taxability of beneficiary of non-exempt trust).

(3) The second sentence of section 402(d) (relating to certain employees' annuities).

(4) Section 403(a)(1) (relating to the general rule for taxability of a beneficiary under a qualified annuity plan). 26 USC 403.

(5) The second sentence of section 403(b)(1) (relating to general rule for taxability of beneficiary, etc.).

(6) The second sentence of section 403(c) (relating to taxability of beneficiary under a nonqualified annuity).

(f) CLERICAL AMENDMENTS.—

(1) Subsection (f) of section 4 (relating to cross references to rules for optional tax) is amended by adding at the end thereof the following new paragraph: 26 USC 4. *Post*, p. 140.

"(3) For rule that optional tax is not to apply if individual chooses the benefits of income averaging, see section 1304(b)."

(2) Subsection (b) of section 5 (relating to cross references to special limitations on tax) is amended to read as follows: 26 USC 5.

"(b) SPECIAL LIMITATIONS ON TAX.—

"(1) For limitation on surtax attributable to sales of oil or gas properties, see section 632.
"(2) For limitation on tax in case of income of members of Armed Forces on death, see section 692.
"(3) For limitation on tax where an individual chooses the benefits of income averaging, see section 1301.
"(4) For computation of tax where taxpayer restores substantial amount held under claim of right, see section 1341.
"(5) For limitation on surtax attributable to claims against the United States involving acquisitions of property, see section 1347."

(3) The table of parts for subchapter Q of chapter 1 is amended by striking out

"Part I. Income attributable to several taxable years."

and inserting in lieu thereof

"Part I. Income averaging."

(g) EFFECTIVE DATE.—

(1) GENERAL RULE.—Except as provided in paragraph (2), the amendments made by this section shall apply with respect to taxable years beginning after December 31, 1963.

(2) INCOME FROM AN EMPLOYMENT.—If, in a taxable year beginning after December 31, 1963, an individual or partnership receives or accrues compensation from an employment (as defined by section 1301(b) of the Internal Revenue Code of 1954 as in effect immediately before the enactment of this Act) and the employment began before February 6, 1963, the tax attributable to such compensation may, at the election of the taxpayer, be computed under the provisions of sections 1301 and 1307 of such Code as in effect immediately before the enactment of this Act. If a taxpayer so elects (at such time and in such manner as the Secretary of the Treasury or his delegate by regulations prescribes), he may not choose for such taxable year the benefits provided by part I of subchapter Q of chapter 1 of such Code (relating to income averaging) as amended by this Act and (if he elects to have subsection (e) of such section 1307 apply) section 170(b)(5) of such Code as amended by this Act shall not apply to charitable contributions paid in such taxable year.

68A Stat. 334.
26 USC 1301.

Ante, p. 105.

76 Stat. 1064.
26 USC 1307.
Ante, p. 45.
26 USC 170.

SEC. 233. SMALL BUSINESS CORPORATIONS.

72 Stat. 1650; 73 Stat. 699.
26 USC 1371.

(a) OWNERSHIP OF CERTAIN STOCK DISREGARDED.—Section 1371 (relating to definition of small business corporation) is amended by adding at the end thereof the following new subsection:

"(d) OWNERSHIP OF CERTAIN STOCK.—For purposes of subsection (a), a corporation shall not be considered a member of an affiliated group at any time during any taxable year by reason of the ownership of stock in another corporation if such other corporation—

"(1) has not begun business at any time on or after the date of its incorporation and before the close of such taxable year, and

"(2) does not have taxable income for the period included within such taxable year."

26 USC 1375.

(b) CERTAIN DISTRIBUTIONS OF MONEY AFTER CLOSE OF TAXABLE YEAR.—Section 1375 (relating to special rules applicable to distributions of electing small business corporations) is amended by adding at the end thereof the following new subsection:

"(e) CERTAIN DISTRIBUTIONS AFTER CLOSE OF TAXABLE YEAR.—

"(1) IN GENERAL.—For purposes of this chapter, if—

"(A) a corporation makes a distribution of money to its shareholders on or before the 15th day of the third month

following the close of a taxable year with respect to which it was an electing small business corporation, and

"(B) such distribution is made pursuant to a resolution of the board of directors of the corporation, adopted before the close of such taxable year, to distribute to its shareholders all or a part of the proceeds of one or more sales of capital assets, or of property described in section 1231(b), made during such taxable year,

68A Stat. 325. 26 USC 1231.

such distribution shall, at the election of the corporation, be treated as a distribution of money made on the last day of such taxable year.

"(2) SHAREHOLDERS.—An election under paragraph (1) with respect to any distribution may be made by a corporation only if each person who is a shareholder on the day the distribution is received—

"(A) owns the same proportion of the stock of the corporation on such day as he owned on the last day of the taxable year of the corporation preceding the distribution, and

"(B) consents to such election at such time and in such manner as the Secretary or his delegate shall prescribe by regulations.

"(3) MANNER AND TIME OF ELECTION.—An election under paragraph (1) shall be made in such manner as the Secretary or his delegate shall prescribe by regulations. Such election shall be made not later than the time prescribed by law for filing the return for the taxable year during which the sale was made (including extensions thereof) except that, with respect to any taxable year ending on or before the date of the enactment of the Revenue Act of 1964, such election shall be made within 120 days after such date."

(c) EFFECTIVE DATES.—The amendment made by subsection (a) shall apply with respect to taxable years of corporations beginning after December 31, 1962. The amendment made by subsection (b) shall apply with respect to taxable years of corporations beginning after December 31, 1957.

SEC. 234. REPEAL OF ADDITIONAL 2-PERCENT TAX FOR CORPORATIONS FILING CONSOLIDATED RETURNS.

(a) REPEAL OF TAX.—Subsection (a) of section 1503 (relating to computation and payment of tax in case of consolidated returns) is amended to read as follows:

26 USC 1503.

"(a) GENERAL RULE.—In any case in which a consolidated return is made or is required to be made, the tax shall be determined, computed, assessed, collected, and adjusted in accordance with the regulations under section 1502 prescribed before the last day prescribed by law for the filing of such return."

26 USC 1502.

(b) TECHNICAL AND CONFORMING AMENDMENTS.—

(1) Section 1503 is amended by striking out subsections (b) and (c) and by relettering subsection (d) as subsection (b).

(2) Paragraph (3) of section 1503(b) (as relettered by paragraph (1)) is amended to read as follows:

"(3) SPECIAL RULES.—

"(A) For purposes of paragraph (2), a corporation is a regulated public utility only if it is a regulated public utility within the meaning of subparagraph (A) (other than clauses (ii) and (iii) thereof) or (D) of section 7701(a)(33). For purposes of the preceding sentence, the limitation contained in the last two sentences of section 7701(a)(33) shall be applied as if subparagraphs (A) through (F), inclusive, of section 7701(a)(33) were limited to subparagraphs (A)(i) and (D) thereof.

Post, p. 114. 26 USC 7701.

"(B) For purposes of paragraph (2), the foreign countries referred to in this subparagraph include only any country from which any public utility referred to in the first sentence of paragraph (2) derives the principal part of its income.

"(C) For purposes of this subsection, the term 'consolidated taxable income' means the consolidated taxable income computed without regard to the deduction provided by section 242 for partially tax-exempt interest."

68A Stat. 72.
26 USC 242.
26 USC 7701.

(3) Section 7701(a) (relating to definitions) is amended by adding at the end thereof the following new paragraph:

"(33) REGULATED PUBLIC UTILITY.—The term 'regulated public utility' means—

"(A) A corporation engaged in the furnishing or sale of—

"(i) electric energy, gas, water, or sewerage disposal services, or

"(ii) transportation (not included in subparagraph (C)) on an intrastate, suburban, municipal, or interurban electric railroad, on an intrastate, municipal, or suburban trackless trolley system, or on a municipal or suburban bus system, or

"(iii) transportation (not included in clause (ii)) by motor vehicle—

if the rates for such furnishing or sale, as the case may be, have been established or approved by a State or political subdivision thereof, by an agency or instrumentality of the United States, by a public service or public utility commission or other similar body of the District of Columbia or of any State or political subdivision thereof, or by a foreign country or an agency or instrumentality or political subdivision thereof.

"(B) A corporation engaged as a common carrier in the furnishing or sale of transportation of gas by pipe line, if subject to the jurisdiction of the Federal Power Commission.

"(C) A corporation engaged as a common carrier (i) in the furnishing or sale of transportation by railroad, if subject to the jurisdiction of the Interstate Commerce Commission, or (ii) in the furnishing or sale of transportation of oil or other petroleum products (including shale oil) by pipe line, if subject to the jurisdiction of the Interstate Commerce Commission or if the rates for such furnishing or sale are subject to the jurisdiction of a public service or public utility commission or other similar body of the District of Columbia or of any State.

"(D) A corporation engaged in the furnishing or sale of telephone or telegraph service, if the rates for such furnishing or sale meet the requirements of subparagraph (A).

"(E) A corporation engaged in the furnishing or sale of transportation as a common carrier by air, subject to the jurisdiction of the Civil Aeronautics Board.

"(F) A corporation engaged in the furnishing or sale of transportation by common carrier by water, subject to the jurisdiction of the Interstate Commerce Commission under part III of the Interstate Commerce Act, or subject to the jurisdiction of the Federal Maritime Board under the Intercoastal Shipping Act, 1933.

54 Stat. 929.
49 USC 901.

47 Stat. 1425.
46 USC 848.

"(G) A railroad corporation subject to part I of the Interstate Commerce Act, if (i) substantially all of its railroad

24 Stat. 379.
49 USC 1 *et seq.*

properties have been leased to another such railroad corporation or corporations by an agreement or agreements entered into before January 1, 1954, (ii) each lease is for a term of more than 20 years, and (iii) at least 80 percent or more of its gross income (computed without regard to dividends and capital gains and losses) for the taxable year is derived from such leases and from sources described in subparagraphs (A) through (F), inclusive. For purposes of the preceding sentence, an agreement for lease of railroad properties entered into before January 1, 1954, shall be considered to be a lease including such term as the total number of years of such agreement may, unless sooner terminated, be renewed or continued under the terms of the agreement, and any such renewal or continuance under such agreement shall be considered part of the lease entered into before January 1, 1954.

"(H) A common parent corporation which is a common carrier by railroad subject to part I of the Interstate Commerce Act if at least 80 percent of its gross income (computed without regard to capital gains or losses) is derived directly or indirectly from sources described in subparagraphs (A) through (F), inclusive. For purposes of the preceding sentence, dividends and interest, and income from leases described in subparagraph (G), received from a regulated public utility shall be considered as derived from sources described in subparagraphs (A) through (F), inclusive, if the regulated public utility is a member of an affiliated group (as defined in section 1504) which includes the common parent corporation.

24 Stat. 379. 49 USC 1 *et seq.*

68A Stat. 369. 26 USC 1504.

The term 'regulated public utility' does not (except as provided in subparagraphs (G) and (H)) include a corporation described in subparagraphs (A) through (F), inclusive, unless 80 percent or more of its gross income (computed without regard to dividends and capital gains and losses) for the taxable year is derived from sources described in subparagraphs (A) through (F), inclusive. If the taxpayer establishes to the satisfaction of the Secretary or his delegate that (i) its revenue from regulated rates described in subparagraph (A) or (D) and its revenue derived from unregulated rates are derived from the operation of a single interconnected and coordinated system or from the operation of more than one such system, and (ii) the unregulated rates have been and are substantially as favorable to users and consumers as are the regulated rates, then such revenue from such unregulated rates shall be considered, for purposes of the preceding sentence, as income derived from sources described in subparagraph (A) or (D)."

(4) Section 12(8) (relating to cross reference to additional tax for corporations filing consolidated returns) is hereby repealed.

Repeal. 26 USC 12.

(5) Paragraphs (1) and (2) of section 172(j) (relating to carryover of net operating loss for certain regulated transportation corporations) are amended to read as follows:

76 Stat. 649. 26 USC 172.

"(1) DEFINITION.—For purposes of subsection (b)(1)(C), the term 'regulated transportation corporation' means a corporation—

"(A) 80 percent or more of the gross income of which (computed without regard to dividends and capital gains and losses) for the taxable year is derived from the furnishing or sale of transportation described in subparagraph (A), (C)(i), (E), or (F) of section 7701(a)(33) and taken into account for purposes of the limitation contained in the last two sentences of section 7701(a)(33),

Ante, p. 114. 26 USC 7701.

"(B) which is described in subparagraph (G) or (H) of section 7701(a)(33), or

Ante, p. 114.
26 USC 7701.

"(C) which is a member of a regulated transportation system.

"(2) REGULATED TRANSPORTATION SYSTEM.—For purposes of this subsection, a corporation shall be treated as a member of a regulated transportation system for a taxable year if—

"(A) it is a member of an affiliated group of corporations making a consolidated return for such taxable year, and

"(B) 80 percent or more of the aggregate gross income of the members of such affiliated group (computed without regard to dividends and capital gains and losses) for such taxable year is derived from sources described in paragraph (1)(A).

For purposes of subparagraph (B), income derived by a corporation described in subparagraph (G) or (H) of section 7701(a)(33) from leases described in subparagraph (G) thereof shall be considered as derived from sources described in paragraph (1)(A)."

76 Stat. 1031.
26 USC 904.

(6) Section 904(g)(2) (relating to cross references for purposes of the limitation on the foreign tax credit) is amended by striking out "**section 1503(d)**" and inserting in lieu thereof "**section 1503(b)**".

68A Stat. 348.
26 USC 1341.

(7) Section 1341(b)(2) (relating to special rules for the computation of tax where taxpayer restores substantial amount held under claim of right) is amended by striking out "(as defined in section 1503(c) without regard to paragraph (2) thereof)" and inserting in lieu thereof "(as defined in section 7701(a)(33) without regard to the limitation contained in the last two sentences thereof)".

26 USC 1552.

(8) Section 1552(a)(3) (relating to the allocation of tax liability among members of an affiliated group of corporations filing consolidated returns) is amended by striking out "(determined without regard to the 2 percent increase provided by section 1503(a))".

Ante, p. 113.
26 USC 1503.

(c) EFFECTIVE DATE.—The amendments made by subsections (a) and (b) shall apply with respect to taxable years beginning after December 31, 1963.

SEC. 235. REDUCTION OF SURTAX EXEMPTION IN CASE OF CERTAIN CONTROLLED CORPORATIONS, ETC.

(a) IN GENERAL.—Subchapter B of chapter 6 (related rules for consolidated returns) is amended by adding at the end thereof the following new part:

"PART II—CERTAIN CONTROLLED CORPORATIONS

"SEC. 1561. SURTAX EXEMPTIONS IN CASE OF CERTAIN CONTROLLED CORPORATIONS.

"(a) GENERAL RULE.—If a corporation is a component member of a controlled group of corporations on a December 31, then for purposes of this subtitle the surtax exemption of such corporation for the taxable year which includes such December 31 shall be an amount equal to—

"(1) $25,000 divided by the number of corporations which are component members of such group on such December 31, or

"(2) if all such component members consent (at such time and

in such manner as the Secretary or his delegate shall by regulations prescribe) to an apportionment plan, such portion of $25,000 as is apportioned to such member in accordance with such plan. The sum of the amounts apportioned under paragraph (2) among the component members of any controlled group shall not exceed $25,000.

"(b) CERTAIN SHORT TAXABLE YEARS.—If a corporation—

"(1) has a short taxable year which does not include a December 31, and

"(2) is a component member of a controlled group of corporations with respect to such taxable year,

then for purposes of this subtitle the surtax exemption of such corporation for such taxable year shall be an amount equal to $25,000 divided by the number of corporations which are component members of such group on the last day of such taxable year. For purposes of the preceding sentence, section 1563(b) shall be applied as if such last day were substituted for December 31.

Post, p. 120.

"SEC. 1562. PRIVILEGE OF GROUPS TO ELECT MULTIPLE SURTAX EXEMPTIONS.

"(a) ELECTION OF MULTIPLE SURTAX EXEMPTIONS.—

"(1) IN GENERAL.—A controlled group of corporations shall (subject to the provisions of this section) have the privilege of electing to have each of its component members make its returns without regard to section 1561. Such election shall be made with respect to a specified December 31 and shall be valid only if—

Ante, p. 116.

"(A) each corporation which is a component member of such group on such December 31, and

"(B) each other corporation which is a component member of such group on any succeeding December 31 before the day on which the election is filed,

consents to such election.

"(2) YEARS FOR WHICH EFFECTIVE.—An election by a controlled group of corporations under paragraph (1) shall be effective with respect to the taxable year of each component member of such group which includes the specified December 31, and each taxable year of each corporation which is a component member of such group (or a successor group) on a succeeding December 31 included within such taxable year, unless the election is terminated under subsection (c).

"(3) EFFECT OF ELECTION.—If an election by a controlled group of corporations under paragraph (1) is effective with respect to any taxable year of a corporation—

"(A) section 1561 shall not apply to such corporation for such taxable year, but

"(B) the additional tax imposed by subsection (b) shall apply to such corporation for such taxable year.

"(b) ADDITIONAL TAX IMPOSED.—

"(1) GENERAL RULE.—If an election under subsection (a)(1) by a controlled group of corporations is effective with respect to the taxable year of a corporation, there is hereby imposed for such taxable year on the taxable income of such corporation a tax equal to 6 percent of so much of such corporation's taxable income for such taxable year as does not exceed $25,000. This paragraph shall not apply to the taxable year of a corporation if—

"(A) such corporation is the only component member of such controlled group on the December 31 included in such corporation's taxable year which has taxable income for a taxable year including such December 31, or

"(B) such corporation's surtax exemption is disallowed for such taxable year under any provision of this subtitle.

Ante, p. 25.
26 USC 11.

"(2) TAX TREATED AS IMPOSED BY SECTION 11, ETC.—If for the taxable year of a corporation a tax is imposed by section 11 on the taxable income of such corporation, the additional tax imposed by this subsection shall be treated for purposes of this title as a tax imposed by section 11. If for the taxable year of a corporation a tax is imposed on the taxable income of such corporation which is computed under any other section by reference to section 11, the additional tax imposed by this subsection shall be treated for purposes of this title as imposed by such other section.

"(3) TAXABLE INCOME DEFINED.—For purposes of this subsection, the term 'taxable income' means—

"(A) in the case of a corporation subject to tax under section 511, its unrelated business taxable income (within the meaning of section 512);

68A Stat. 169, 170.
26 USC 511, 512.

"(B) in the case of a life insurance company, its life insurance company taxable income (within the meaning of section 802(b));

73 Stat. 115.
26 USC 802.

"(C) in the case of a regulated investment company, its investment company taxable income (within the meaning of section 852(b)(2)); and

26 USC 852.

"(D) in the case of a real estate investment trust, its real estate investment trust taxable income (within the meaning of section 857(b)(2)).

74 Stat. 1006.
26 USC 857.

"(4) SPECIAL RULES.—If for the taxable year an additional tax is imposed on the taxable income of a corporation by this subsection, then sections 244 (relating to dividends received on certain preferred stock), 247 (relating to dividends paid on certain preferred stock of public utilities), 804(a)(3) (relating to deduction for partially tax-exempt interest in the case of a life insurance company), and 922 (relating to special deduction for Western Hemisphere trade corporations) shall be applied without regard to the additional tax imposed by this subsection.

Ante, p. 55.
26 USC 244.
26 USC 247.
73 Stat. 116.
26 USC 804.
26 USC 922.

"(c) TERMINATION OF ELECTION.—An election by a controlled group of corporations under subsection (a) shall terminate with respect to such group—

"(1) CONSENT OF THE MEMBERS.—If such group files a termination of such election with respect to a specified December 31, and—

"(A) each corporation which is a component member of such group on such December 31, and

"(B) each other corporation which is a component member of such group on any succeeding December 31 before the day on which the termination is filed,

consents to such termination.

"(2) REFUSAL BY NEW MEMBER TO CONSENT.—If on December 31 of any year such group includes a component member which—

"(A) on the immediately preceding January 1 was not a member of such group, and

"(B) within the time and in the manner provided by regulations prescribed by the Secretary or his delegate, files a statement that it does not consent to the election.

"(3) CONSOLIDATED RETURNS.—If—

Post, pp. 120, 121.

"(A) a corporation is a component member (determined without regard to section 1563(b)(3)) of such group on a December 31 included within a taxable year ending on or after January 1, 1964, and

"(B) such corporation is a member of an affiliated group of corporations which makes a consolidated return under this chapter (sec. 1501 and following) for such taxable year. 26 USC 1501 *et seq.*

"(4) CONTROLLED GROUP NO LONGER IN EXISTENCE.—If such group is considered as no longer in existence with respect to any December 31.

Such termination shall be effective with respect to the December 31 referred to in paragraph (1)(A), (2), (3), or (4), as the case may be.

"(d) ELECTION AFTER TERMINATION.—If an election by a controlled group of corporations is terminated under subsection (c), such group (and any successor group) shall not be eligible to make an election under subsection (a) with respect to any December 31 before the sixth December 31 after the December 31 with respect to which such termination was effective.

"(e) MANNER AND TIME OF GIVING CONSENT AND MAKING ELECTION, ETC.—An election under subsection (a)(1) or a termination under subsection (c)(1) (and the consent of each member of a controlled group of corporations which is required with respect to such election or termination) shall be made in such manner as the Secretary or his delegate shall by regulations prescribe, and shall be made at any time before the expiration of 3 years after—

"(1) in the case of such an election, the date when the income tax return for the taxable year of the component member of the controlled group which has the taxable year ending first on or after the specified December 31 is required to be filed (without regard to any extensions of time), and

"(2) in the case of such a termination, the specified December 31 with respect to which such termination was made.

Any consent to such an election or termination, and a failure by a component member to file a statement that it does not consent to an election under this section, shall be deemed to be a consent to the application of subsection (g)(1) (relating to tolling of statute of limitations on assessment of deficiencies).

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

"(1) CONTINUING AND SUCCESSOR CONTROLLED GROUPS.—The determination of whether a controlled group of corporations—

"(A) is considered as no longer in existence with respect to any December 31, or

"(B) is a successor to another controlled group of corporations (and the effect of such determination with respect to any election or termination),

shall be made under regulations prescribed by the Secretary or his delegate. For purposes of subparagraph (B), such regulations shall be based on the continuation (or termination) of predominant equitable ownership.

"(2) CERTAIN SHORT TAXABLE YEARS.—If one or more corporations have short taxable years which do not include a December 31 and are component members of a controlled group of corporations with respect to such taxable years (determined by applying section 1563(b) as if the last day of each such taxable year were substituted for December 31), then an election by such group under this section shall apply with respect to such corporations with respect to such taxable years if— *Post*, pp. 120, 121.

"(A) such election is in effect with respect to both the December 31 immediately preceding such taxable years and the December 31 immediately succeeding such taxable years, or

"(B) such election is in effect with respect to the December 31 immediately preceding or succeeding such taxable

years and each such corporation files a consent to the application of such election to its short taxable year at such time and in such manner as the Secretary or his delegate shall prescribe by regulations.

"(g) TOLLING OF STATUTE OF LIMITATIONS.—In any case in which a controlled group of corporations makes an election or termination under this section, the statutory period—

"(1) for assessment of any deficiency against a corporation which is a component member of such group for any taxable year, to the extent such deficiency is attributable to the application of this part, shall not expire before the expiration of one year after the date such election or termination is made; and

"(2) for allowing or making credit or refund of any overpayment of tax by a corporation which is a component member of such group for any taxable year, to the extent such credit or refund is attributable to the application of this part, shall not expire before the expiration of one year after the date such election or termination is made.

"SEC. 1563. DEFINITIONS AND SPECIAL RULES.

"(a) CONTROLLED GROUP OF CORPORATIONS.—For purposes of this part, the term 'controlled group of corporations' means any group of—

"(1) PARENT-SUBSIDIARY CONTROLLED GROUP.—One or more chains of corporations connected through stock ownership with a common parent corporation if—

"(A) stock possessing at least 80 percent of the total combined voting power of all classes of stock entitled to vote or at least 80 percent of the total value of shares of all classes of stock of each of the corporations, except the common parent corporation, is owned (within the meaning of subsection (d)(1)) by one or more of the other corporations; and

"(B) the common parent corporation owns (within the meaning of subsection (d)(1)) stock possessing at least 80 percent of the total combined voting power of all classes of stock entitled to vote or at least 80 percent of the total value of shares of all classes of stock of at least one of the other corporations, excluding, in computing such voting power or value, stock owned directly by such other corporations.

"(2) BROTHER-SISTER CONTROLLED GROUP.—Two or more corporations if stock possessing at least 80 percent of the total combined voting power of all classes of stock entitled to vote or at least 80 percent of the total value of shares of all classes of stock of each of the corporations is owned (within the meaning of subsection (d)(2)) by one person who is an individual, estate, or trust.

"(3) COMBINED GROUP.—Three or more corporations each of which is a member of a group of corporations described in paragraph (1) or (2), and one of which—

"(A) is a common parent corporation included in a group of corporations described in paragraph (1), and also

"(B) is included in a group of corporations described in paragraph (2).

"(4) CERTAIN INSURANCE COMPANIES.—Two or more insurance companies subject to taxation under section 802 which are members of a controlled group of corporations described in paragraph (1), (2), or (3). Such insurance companies shall be treated as a controlled group of corporations separate from any other corporations which are members of the controlled group of corporations described in paragraph (1), (2), or (3).

73 Stat. 115.
26 USC 802.

"(b) COMPONENT MEMBER.—

"(1) GENERAL RULE.—For purposes of this part, a corporation is a component member of a controlled group of corporations on a December 31 of any taxable year (and with respect to the taxable year which includes such December 31) if such corporation—

"(A) is a member of such controlled group of corporations on the December 31 included in such year and is not treated as an excluded member under paragraph (2), or

"(B) is not a member of such controlled group of corporations on the December 31 included in such year but is treated as an additional member under paragraph (3).

"(2) EXCLUDED MEMBERS.—A corporation which is a member of a controlled group of corporations on December 31 of any taxable year shall be treated as an excluded member of such group for the taxable year including such December 31 if such corporation—

"(A) is a member of such group for less than one-half the number of days in such taxable year which precede such December 31,

"(B) is exempt from taxation under section 501(a) (except a corporation which is subject to tax on its unrelated business taxable income under section 511) for such taxable year, 68A Stat. 163, 169. 26 USC 501, 511.

"(C) is a foreign corporation subject to tax under section 881 for such taxable year, 26 USC 881.

"(D) is an insurance company subject to taxation under section 802 or section 821 (other than an insurance company which is a member of a controlled group described in subsection (a)(4)), or 73 Stat. 115; 76 Stat. 989. 26 USC 802, 821.

"(E) is a franchised corporation, as defined in subsection (f)(4).

"(3) ADDITIONAL MEMBERS.—A corporation which—

"(A) was a member of a controlled group of corporations at any time during a calendar year,

"(B) is not a member of such group on December 31 of such calendar year, and

"(C) is not described, with respect to such group, in subparagraph (B), (C), (D), or (E) of paragraph (2),

shall be treated as an additional member of such group on December 31 for its taxable year including such December 31 if it was a member of such group for one-half (or more) of the number of days in such taxable year which precede such December 31.

"(4) OVERLAPPING GROUPS.—If a corporation is a component member of more than one controlled group of corporations with respect to any taxable year, such corporation shall be treated as a component member of only one controlled group. The determination as to the group of which such corporation is a component member shall be made under regulations prescribed by the Secretary or his delegate which are consistent with the purposes of this part.

"(c) CERTAIN STOCK EXCLUDED.—

"(1) GENERAL RULE.—For purposes of this part, the term 'stock' does not include—

"(A) nonvoting stock which is limited and preferred as to dividends,

"(B) treasury stock, and

"(C) stock which is treated as 'excluded stock' under paragraph (2).

"(2) STOCK TREATED AS 'EXCLUDED STOCK'.—

"(A) PARENT-SUBSIDIARY CONTROLLED GROUP.—For purposes of subsection (a)(1), if a corporation (referred to in this paragraph as 'parent corporation') owns (within the meaning of subsections (d)(1) and (e)(4)), 50 percent or more of the total combined voting power of all classes of stock entitled to vote or 50 percent or more of the total value of shares of all classes of stock in another corporation (referred to in this paragraph as 'subsidiary corporation'), the following stock of the subsidiary corporation shall be treated as excluded stock—

"(i) stock in the subsidiary corporation held by a trust which is part of a plan of deferred compensation for the benefit of the employees of the parent corporation or the subsidiary corporation,

"(ii) stock in the subsidiary corporation owned by an individual (within the meaning of subsection (d)(2)) who is a principal stockholder or officer of the parent corporation. For purposes of this clause, the term 'principal stockholder' of a corporation means an individual who owns (within the meaning of subsection (d)(2)) 5 percent or more of the total combined voting power of all classes of stock entitled to vote or 5 percent or more of the total value of shares of all classes of stock in such corporation, or

"(iii) stock in the subsidiary corporation owned (within the meaning of subsection (d)(2)) by an employee of the subsidiary corporation if such stock is subject to conditions which run in favor of such parent (or subsidiary) corporation and which substantially restrict or limit the employee's right (or if the employee constructively owns such stock, the direct owner's right) to dispose of such stock.

"(B) BROTHER-SISTER CONTROLLED GROUP.—For purposes of subsection (a)(2), if a person who is an individual, estate, or trust (referred to in this paragraph as 'common owner') owns (within the meaning of subsection (d)(2)), 50 percent or more of the total combined voting power of all classes of stock entitled to vote or 50 percent or more of the total value of shares of all classes of stock in a corporation, the following stock of such corporation shall be treated as excluded stock—

"(i) stock in such corporation held by an employees' trust described in section 401(a) which is exempt from tax under section 501(a), if such trust is for the benefit of the employees of such corporation, or

68A Stat. 134, 163; 76 Stat. 809. 26 USC 401, 501.

"(ii) stock in such corporation owned (within the meaning of subsection (d)(2)) by an employee of the corporation if such stock is subject to conditions which run in favor of such common owner (or such corporation) and which substantially restrict or limit the employee's right (or if the employee constructively owns such stock, the direct owner's right) to dispose of such stock. If a condition which limits or restricts the employee's right (or the direct owner's right) to dispose of such stock also applies to the stock held by the common owner pursuant to a bona fide reciprocal stock purchase arrangement, such condition shall not be treated as one which restricts or limits the employee's right to dispose of such stock.

"(d) RULES FOR DETERMINING STOCK OWNERSHIP.—

"(1) PARENT-SUBSIDIARY CONTROLLED GROUP.—For purposes of determining whether a corporation is a member of a parent-subsidiary controlled group of corporations (within the meaning of subsection (a)(1)), stock owned by a corporation means—

"(A) stock owned directly by such corporation, and

"(B) stock owned with the application of subsection (e)(1).

"(2) BROTHER-SISTER CONTROLLED GROUP.—For purposes of determining whether a corporation is a member of a brother-sister controlled group of corporations (within the meaning of subsection (a)(2)), stock owned by a person who is an individual, estate, or trust means—

"(A) stock owned directly by such person, and

"(B) stock owned with the application of subsection (e).

"(e) CONSTRUCTIVE OWNERSHIP.—

"(1) OPTIONS.—If any person has an option to acquire stock, such stock shall be considered as owned by such person. For purposes of this paragraph, an option to acquire such an option, and each one of a series of such options, shall be considered as an option to acquire such stock.

"(2) ATTRIBUTION FROM PARTNERSHIPS.—Stock owned, directly or indirectly, by or for a partnership shall be considered as owned by any partner having an interest of 5 percent or more in either the capital or profits of the partnership in proportion to his interest in capital or profits, whichever such proportion is the greater.

"(3) ATTRIBUTION FROM ESTATES OR TRUSTS.—

"(A) Stock owned, directly or indirectly, by or for an estate or trust shall be considered as owned by any beneficiary who has an actuarial interest of 5 percent or more in such stock, to the extent of such actuarial interest. For purposes of this subparagraph, the actuarial interest of each beneficiary shall be determined by assuming the maximum exercise of discretion by the fiduciary in favor of such beneficiary and the maximum use of such stock to satisfy his rights as a beneficiary.

"(B) Stock owned, directly or indirectly, by or for any portion of a trust of which a person is considered the owner under subpart E of part I of subchapter J (relating to grantors and others treated as substantial owners) shall be considered as owned by such person.

68A Stat. 226.
26 USC 671-678.

"(C) This paragraph shall not apply to stock owned by any employees' trust described in section 401(a) which is exempt from tax under section 501(a).

68A Stat. 134, 163; 76 Stat. 809.
26 USC 401, 501.

"(4) ATTRIBUTION FROM CORPORATIONS.—Stock owned, directly or indirectly, by or for a corporation shall be considered as owned by any person who owns (within the meaning of subsection (d)) 5 percent or more in value of its stock in that proportion which the value of the stock which such person so owns bears to the value of all the stock in such corporation.

"(5) SPOUSE.—An individual shall be considered as owning stock in a corporation owned, directly or indirectly, by or for his spouse (other than a spouse who is legally separated from the individual under a decree of divorce whether interlocutory or final, or a decree of separate maintenance), except in the case of a corporation with respect to which each of the following conditions is satisfied for its taxable year—

"(A) The individual does not, at any time during such taxable year, own directly any stock in such corporation;

"(B) The individual is not a director or employee and does not participate in the management of such corporation at any time during such taxable year;

"(C) Not more than 50 percent of such corporation's gross income for such taxable year was derived from royalties, rents, dividends, interest, and annuities; and

"(D) Such stock in such corporation is not, at any time during such taxable year, subject to conditions which substantially restrict or limit the spouse's right to dispose of such stock and which run in favor of the individual or his children who have not attained the age of 21 years.

"(6) CHILDREN, GRANDCHILDREN, PARENTS, AND GRANDPARENTS.—

"(A) MINOR CHILDREN.—An individual shall be considered as owning stock owned, directly or indirectly, by or for his children who have not attained the age of 21 years, and, if the individual has not attained the age of 21 years, the stock owned, directly or indirectly, by or for his parents.

"(B) ADULT CHILDREN AND GRANDCHILDREN.—An individual who owns (within the meaning of subsection (d)(2), but without regard to this subparagraph) more than 50 percent of the total combined voting power of all classes of stock entitled to vote or more than 50 percent of the total value of shares of all classes of stock in a corporation shall be considered as owning the stock in such corporation owned, directly or indirectly, by or for his parents, grandparents, grandchildren, and children who have attained the age of 21 years.

"(C) ADOPTED CHILD.—For purposes of this section, a legally adopted child of an individual shall be treated as a child of such individual by blood.

"(f) OTHER DEFINITIONS AND RULES.—

"(1) EMPLOYEE DEFINED.—For purposes of this section the term 'employee' has the same meaning such term is given in section 3306(i).

68A Stat. 452.
26 USC 3306.

"(2) OPERATING RULES.—

"(A) IN GENERAL.—Except as provided in subparagraph (B), stock constructively owned by a person by reason of the application of paragraph (1), (2), (3), (4), (5), or (6) of subsection (e) shall, for purposes of applying such paragraphs, be treated as actually owned by such person.

"(B) MEMBERS OF FAMILY.—Stock constructively owned by an individual by reason of the application of paragraph (5) or (6) of subsection (e) shall not be treated as owned by him for purposes of again applying such paragraphs in order to make another the constructive owner of such stock.

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

"(A) If stock may be considered as owned by a person under subsection (e)(1) and under any other paragraph of subsection (e), it shall be considered as owned by him under subsection (e)(1).

"(B) If stock is owned (within the meaning of subsection (d)) by two or more persons, such stock shall be considered as owned by the person whose ownership of such stock results in the corporation being a component member of a controlled group. If by reason of the preceding sentence, a corporation would (but for this sentence) become a component member of two controlled groups, it shall be treated as a component member of one controlled group. The determination as to

the group of which such corporation is a component member shall be made under regulations prescribed by the Secretary or his delegate which are consistent with the purposes of this part.

"(C) If stock is owned by a person within the meaning of subsection (d) and such ownership results in the corporation being a component member of a controlled group, such stock shall not be treated as excluded stock under subsection (c)(2), if by reason of treating such stock as excluded stock the result is that such corporation is not a component member of a controlled group of corporations.

"(4) FRANCHISED CORPORATION.—If—

"(A) a parent corporation (as defined in subsection (c)(2)(A)), or a common owner (as defined in subsection (c)(2)(B)), of a corporation which is a member of a controlled group of corporations is under a duty (arising out of a written agreement) to sell stock of such corporation (referred to in this paragraph as 'franchised corporation') which is franchised to sell the products of another member, or the common owner, of such controlled group;

"(B) such stock is to be sold to an employee (or employees) of such franchised corporation pursuant to a bona fide plan designed to eliminate the stock ownership of the parent corporation or of the common owner in the franchised corporation;

"(C) such plan—

"(i) provides a reasonable selling price for such stock, and

"(ii) requires that a portion of the employee's share of the profits of such corporation (whether received as compensation or as a dividend) be applied to the purchase of such stock (or the purchase of notes, bonds, debentures or other similar evidence of indebtedness of such franchised corporation held by such parent corporation or common owner);

"(D) such employee (or employees) owns directly more than 20 percent of the total value of shares of all classes of stock in such franchised corporation;

"(E) more than 50 percent of the inventory of such franchised corporation is acquired from members of the controlled group, the common owner, or both; and

"(F) all of the conditions contained in subparagraphs (A), (B), (C), (D), and (E) have been met for one-half (or more) of the number of days preceding the December 31 included within the taxable year (or if the taxable year does not include December 31, the last day of such year) of the franchised corporation,

then such franchised corporation shall be treated as an excluded member of such group, under subsection (b)(2), for such taxable year."

(b) DISALLOWANCE OF SURTAX EXEMPTION AND ACCUMULATED EARNINGS CREDIT.—Section 1551 (relating to disallowance of surtax exemption and accumulated earnings credit) is amended to read as follows:

68A Stat. 371.
26 USC 1551.

"SEC. 1551. DISALLOWANCE OF SURTAX EXEMPTION AND ACCUMULATED EARNINGS CREDIT.

"(a) IN GENERAL.—If—

"(1) any corporation transfers, on or after January 1, 1951, and on or before June 12, 1963, all or part of its property (other than money) to a transferee corporation,

"(2) any corporation transfers, directly or indirectly, after June 12, 1963, all or part of its property (other than money) to a transferee corporation, or

"(3) five or fewer individuals who are in control of a corporation transfer, directly or indirectly, after June 12, 1963, property (other than money) to a transferee corporation,

and the transferee corporation was created for the purpose of acquiring such property or was not actively engaged in business at the time of such acquisition, and if after such transfer the transferor or transferors are in control of such transferee corporation during any part of the taxable year of such transferee corporation, then for such taxable year of such transferee corporation the Secretary or his delegate may (except as may be otherwise determined under subsection (d)) disallow the surtax exemption (as defined in section 11(d)), or the $100,000 accumulated earnings credit provided in paragraph (2) or (3) of section 535(c), unless such transferee corporation shall establish by the clear preponderance of the evidence that the securing of such exemption or credit was not a major purpose of such transfer.

Ante, p. 25.
26 USC 11.

68A Stat. 180.
26 USC 535.

"(b) CONTROL.—For purposes of subsection (a), the term 'control' means—

"(1) With respect to a transferee corporation described in subsection (a) (1) or (2), the ownership by the transferor corporation, its shareholders, or both, of stock possessing at least 80 percent of the total combined voting power of all classes of stock entitled to vote or at least 80 percent of the total value of shares of all classes of the stock; or

"(2) With respect to each corporation described in subsection (a) (3), the ownership by the five or fewer individuals described in such subsection of stock possessing—

"(A) at least 80 percent of the total combined voting power of all classes of stock entitled to vote or at least 80 percent of the total value of shares of all classes of the stock of each corporation, and

"(B) more than 50 percent of the total combined voting power of all classes of stock entitled to vote or more than 50 percent of the total value of shares of all classes of stock of each corporation, taking into account the stock ownership of each such individual only to the extent such stock ownership is identical with respect to each such corporation.

Ante, pp. 120, 123.

For purposes of this subsection, section 1563(e) shall apply in determining the ownership of stock.

"(c) AUTHORITY OF THE SECRETARY UNDER THIS SECTION.—The provisions of section 269(b), and the authority of the Secretary under such section, shall, to the extent not inconsistent with the provisions of this section, be applicable to this section."

26 USC 269.

(c) TECHNICAL AMENDMENTS.—

(1) AMENDMENT OF SECTION 802.—The second sentence of section 802(a)(1) (relating to tax on life insurance companies) is amended to read as follows: "Such tax shall consist of a normal tax and surtax computed as provided in section 11 as though the life insurance company taxable income were the taxable income referred to in section 11."

73 Stat. 115.
26 USC 802.

(2) AMENDMENT OF SECTION 269.—Section 269(a) (relating to acquisitions made to evade or avoid income tax) is amended by striking out "then such deduction, credit, or other allowance shall not be allowed" at the end of the first sentence and inserting in lieu thereof "then the Secretary or his delegate may disallow such deduction, credit, or other allowance".

(3) SPECIAL RULE FOR 52–53-WEEK YEAR.—Section 441(f)(2)(A) (relating to effective date with respect to special rules for 52–53-week year) is amended by striking out "In any case in which the effective date or the applicability of any provision of this title is expressed in terms of taxable years beginning or ending with reference to a specified date" and inserting in lieu thereof "In any case in which the effective date or the applicability of any provision of this title is expressed in terms of taxable years beginning, including, or ending with reference to a specified date". 68A Stat. 149. 26 USC 441.

(4) Subchapter B of chapter 6 is amended by inserting after the heading and before the table of sections the following:

"Part I. In general.
"Part II. Certain controlled corporations.

"PART I—IN GENERAL"

(d) EFFECTIVE DATE.—The amendments made by subsections (a) and (c) shall apply with respect to taxable years ending after December 31, 1963. The amendment made by subsection (b) shall apply with respect to transfers made after June 12, 1963.

SEC. 236. VALIDITY OF TAX LIENS AGAINST PURCHASERS OF MOTOR VEHICLES.

(a) PURCHASERS WITHOUT ACTUAL NOTICE OR KNOWLEDGE OF LIEN.—Section 6323 (relating to validity of liens for Federal taxes) is amended by redesignating subsection (d) as subsection (e) and by inserting after subsection (c) the following new subsection: 26 USC 6323.

"(d) EXCEPTION IN CASE OF MOTOR VEHICLES.—

"(1) EXCEPTION.—Even though notice of a lien provided in section 6321 has been filed in the manner prescribed in subsection (a) of this section, the lien shall not be valid with respect to a motor vehicle, as defined in paragraph (2) of this subsection, as against any purchaser of such motor vehicle for an adequate and full consideration in money or money's worth if— 26 USC 6321.

"(A) at the time of the purchase the purchaser is without notice or knowledge of the existence of such lien, and

"(B) before the purchaser obtains such notice or knowledge, he has acquired possession of such motor vehicle and has not thereafter relinquished possession of such motor vehicle to the seller or his agent.

"(2) DEFINITION OF MOTOR VEHICLE.—As used in this subsection, the term 'motor vehicle' means a self-propelled vehicle which is registered for highway use under the laws of any State or foreign country."

(b) LIENS FOR ESTATE AND GIFT TAXES.—Section 6324 (relating to special lien for estate and gift taxes) is amended by adding at the end thereof the following new subsection: 26 USC 6324.

"(d) EXCEPTION IN CASE OF MOTOR VEHICLES.—The lien imposed by subsection (a) or (b) shall not be valid with respect to a motor vehicle, as defined in section 6323(d)(2), as against any purchaser of

such motor vehicle for an adequate and full consideration in money or money's worth if—

"(1) at the time of the purchase the purchaser is without notice or knowledge of the existence of such lien, and

"(2) before the purchaser obtains such notice or knowledge, he has acquired possession of such motor vehicle and has not thereafter relinquished possession of such motor vehicle to the seller or his agent."

(c) CLERICAL AMENDMENTS.—

68A Stat. 779. 26 USC 6323.

(1) Section 6323(a) is amended by striking out "subsection (c)" and inserting in lieu thereof "subsections (c) and (d)".

26 USC 6324.

(2) Section 6324 is amended by inserting after "subsection (c) (relating to transfers of securities)" in subsections (a) and (b) the following: "and subsection (d) (relating to purchases of motor vehicles)".

(d) EFFECTIVE DATES.—The amendments made by this section shall apply only with respect to purchases made after the date of the enactment of this Act.

SEC. 237. EXCLUSION OF EARNED INCOME OF CERTAIN UNITED STATES CITIZENS WHO ARE RESIDENTS OF FOREIGN COUNTRIES.

76 Stat. 1003. 26 USC 911.

(a) REDUCTION OF LIMITATION.—Subparagraph (B) of section 911(c)(1) (relating to limitations on amount of exclusion) is amended by striking out "$35,000" and inserting in lieu thereof "$25,000".

(b) EFFECTIVE DATE.—The amendment made by subsection (a) shall apply to taxable years beginning after December 31, 1964.

SEC. 238. LOSSES ARISING FROM CONFISCATION OF PROPERTY BY CUBA.

76 Stat. 51. 26 USC 165.

Section 165 (relating to losses) is amended by redesignating subsection (i) as subsection (j) and by inserting after subsection (h) the following new subsection:

"(i) CERTAIN PROPERTY CONFISCATED BY CUBA.—For purposes of this chapter, any loss of tangible property, if such loss arises from expropriation, intervention, seizure, or similar taking by the government of Cuba, any political subdivision thereof, or any agency or instrumentality of the foregoing, shall be treated as a loss from a casualty within the meaning of subsection (c)(3)."

Ante, p. 43.

SEC. 239. CREDIT OR REFUND OF SELF-EMPLOYMENT TAX.

26 USC 6511.

Section 6511 (relating to limitations on credit or refund) is amended by adding at the end of subsection (d) the following new paragraph:

"(5) SPECIAL PERIOD OF LIMITATION WITH RESPECT TO SELF-EMPLOYMENT TAX IN CERTAIN CASES.—If the claim for credit or refund relates to an overpayment of the tax imposed by chapter 2 (relating to the tax on self-employment income) attributable to an agreement, or modification of an agreement, made pursuant to section 218 of the Social Security Act (relating to coverage of State and local employees), and if the allowance of a credit or refund of such overpayment 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 on or before the later of the following dates: (A) the last day of the second year after the calendar year in which such agreement (or modification) is agreed to by the State and the Secretary of Health, Education, and Welfare, or (B) December 31, 1965."

26 USC 1401-1403.

64 Stat. 514. 42 USC 418.

26 USC 7122.

SEC. 240. EXTENSION OF TIME FOR PAYMENT OF ESTATE TAX ON VALUE OF REVERSIONARY OR REMAINDER INTEREST IN PROPERTY.

(a) EXTENSION UNDER 1954 CODE.—Section 6163(b) (relating to extension of time for paying estate tax on value of reversionary or remainder interest in property to prevent undue hardship) is amended by striking out "not in excess of 2" and inserting in lieu thereof "or periods not in excess of 3". 72 Stat. 1658. 26 USC 6163.

(b) EXTENSION UNDER 1939 CODE.—Section 925 of the Internal Revenue Code of 1939 (relating to periods of extension of time for paying estate tax attributable to future interests) is amended by striking out "not in excess of 2" and inserting in lieu thereof "or periods not in excess of 3". 53 Stat. 140; 72 Stat. 1658.

(c) EFFECTIVE DATE.—

(1) The amendment made by subsection (a) shall apply in the case of any reversionary or remainder interest only if the time for payment of the tax under chapter 11 of the Internal Revenue Code of 1954 attributable to such interest, including any extensions thereof, has not expired on the date of the enactment of this Act. 26 USC 2001 *et seq.*

(2) The amendment made by subsection (b) shall apply in the case of any reversionary or remainder interest only if the time for payment of the tax under chapter 3 of the Internal Revenue Code of 1939 attributable to such interest, including any extensions thereof, has not expired on the date of the enactment of this Act. 53 Stat. 119.

Title III—Optional Tax On Individuals; Collection Of Income Tax At Source On Wages

SEC. 301. OPTIONAL TAX IF ADJUSTED GROSS INCOME IS LESS THAN $5,000.

(a) OPTIONAL TAX.—Section 3 (relating to optional tax if adjusted gross income is less than $5,000) is amended to read as follows: 68A Stat. 8. 26 USC 3.

"SEC. 3. OPTIONAL TAX IF ADJUSTED GROSS INCOME IS LESS THAN $5,000.

"(a) TAXABLE YEARS BEGINNING IN 1964.—In lieu of the tax imposed by section 1, there is hereby imposed for each taxable year beginning on or after January 1, 1964, and before January 1, 1965, on the taxable income of every individual whose adjusted gross income *Ante*, p. 19. 26 USC 1.

for such year is less than $5,000 and who has elected for such year to pay the tax imposed by this section, a tax as follows:

"Table I—Single Person—NOT Head of Household

"Taxable Years Beginning in 1964

If adjusted gross income is—		And the number of exemptions is—				If adjusted gross income is—		And the number of exemptions is—						
At least	But less than	1	2	3	4 or more	At least	But less than	1	2	3	4	5	6	7 or more
		The tax is—						The tax is—						
$0	$900	$0	$0	$0	$0	$2,450	$2,475	$261	$140	$26	$0	$0	$0	$0
900	925	2	0	0	0	2,475	2,500	266	144	30	0	0	0	0
925	950	6	0	0	0	2,500	2,525	270	148	34	0	0	0	0
950	975	10	0	0	0	2,525	2,550	275	152	38	0	0	0	0
975	1,000	14	0	0	0	2,550	2,575	279	156	42	0	0	0	0
1,000	1,025	18	0	0	0	2,575	2,600	284	160	46	0	0	0	0
1,025	1,050	22	0	0	0	2,600	2,625	288	165	50	0	0	0	0
1,050	1,075	26	0	0	0	2,625	2,650	293	169	54	0	0	0	0
1,075	1,100	30	0	0	0	2,650	2,675	297	173	58	0	0	0	0
1,100	1,125	34	0	0	0	2,675	2,700	302	178	62	0	0	0	0
1,125	1,150	38	0	0	0	2,700	2,725	306	182	66	0	0	0	0
1,150	1,175	42	0	0	0	2,725	2,750	311	187	70	0	0	0	0
1,175	1,200	46	0	0	0	2,750	2,775	315	191	74	0	0	0	0
1,200	1,225	50	0	0	0	2,775	2,800	320	195	78	0	0	0	0
1,225	1,250	54	0	0	0	2,800	2,825	324	200	82	0	0	0	0
1,250	1,275	58	0	0	0	2,825	2,850	329	204	86	0	0	0	0
1,275	1,300	62	0	0	0	2,850	2,875	333	208	90	0	0	0	0
1,300	1,325	66	0	0	0	2,875	2,900	338	213	94	0	0	0	0
1,325	1,350	70	0	0	0	2,900	2,925	343	217	99	0	0	0	0
1,350	1,375	74	0	0	0	2,925	2,950	348	222	103	0	0	0	0
1,375	1,400	78	0	0	0	2,950	2,975	353	226	107	0	0	0	0
1,400	1,425	82	0	0	0	2,975	3,000	358	230	111	0	0	0	0
1,425	1,450	86	0	0	0	3,000	3,050	365	237	117	4	0	0	0
1,450	1,475	90	0	0	0	3,050	3,100	374	246	125	12	0	0	0
1,475	1,500	94	0	0	0	3,100	3,150	383	255	134	20	0	0	0
1,500	1,525	99	0	0	0	3,150	3,200	392	264	142	28	0	0	0
1,525	1,550	103	0	0	0	3,200	3,250	401	273	150	36	0	0	0
1,550	1,575	107	0	0	0	3,250	3,300	410	282	158	44	0	0	0
1,575	1,600	111	0	0	0	3,300	3,350	419	291	167	52	0	0	0
1,600	1,625	115	2	0	0	3,350	3,400	428	300	176	60	0	0	0
1,625	1,650	119	6	0	0	3,400	3,450	437	309	184	68	0	0	0
1,650	1,675	123	10	0	0	3,450	3,500	446	318	193	76	0	0	0
1,675	1,700	127	14	0	0	3,500	3,550	455	327	202	84	0	0	0
1,700	1,725	132	18	0	0	3,550	3,600	464	336	211	92	0	0	0
1,725	1,750	136	22	0	0	3,600	3,650	473	345	219	101	0	0	0
1,750	1,775	140	26	0	0	3,650	3,700	482	355	228	109	0	0	0
1,775	1,800	144	30	0	0	3,700	3,750	491	365	237	117	4	0	0
1,800	1,825	148	34	0	0	3,750	3,800	500	375	246	125	12	0	0
1,825	1,850	152	38	0	0	3,800	3,850	509	385	255	134	20	0	0
1,850	1,875	156	42	0	0	3,850	3,900	518	395	264	142	28	0	0
1,875	1,900	160	46	0	0	3,900	3,950	527	405	273	150	36	0	0
1,900	1,925	165	50	0	0	3,950	4,000	536	415	282	158	44	0	0
1,925	1,950	169	54	0	0	4,000	4,050	545	425	291	167	52	0	0
1,950	1,975	173	58	0	0	4,050	4,100	554	434	300	176	60	0	0
1,975	2,000	178	62	0	0	4,100	4,150	563	443	309	184	68	0	0
2,000	2,025	182	66	0	0	4,150	4,200	572	452	318	193	76	0	0
2,025	2,050	187	70	0	0	4,200	4,250	581	461	327	202	84	0	0
2,050	2,075	191	74	0	0	4,250	4,300	590	470	336	211	92	0	0
2,075	2,100	195	78	0	0	4,300	4,350	599	479	345	219	101	0	0
2,100	2,125	200	82	0	0	4,350	4,400	608	488	355	228	109	0	0
2,125	2,150	204	86	0	0	4,400	4,450	617	497	365	237	117	4	0
2,150	2,175	208	90	0	0	4,450	4,500	626	506	375	246	125	12	0
2,175	2,200	213	94	0	0	4,500	4,550	635	515	385	255	134	20	0
2,200	2,225	217	99	0	0	4,550	4,600	644	524	395	264	142	28	0
2,225	2,250	222	103	0	0	4,600	4,650	653	533	405	273	150	36	0
2,250	2,275	226	107	0	0	4,650	4,700	662	542	415	282	158	44	0
2,275	2,300	230	111	0	0	4,700	4,750	671	551	425	291	167	52	0
2,300	2,325	235	115	2	0	4,750	4,800	680	560	435	300	176	60	0
2,325	2,350	239	119	6	0	4,800	4,850	689	569	445	309	184	68	0
2,350	2,375	243	123	10	0	4,850	4,900	698	578	455	318	193	76	0
2,375	2,400	248	127	14	0	4,900	4,950	707	587	465	327	202	84	0
2,400	2,425	252	132	18	0	4,950	5,000	716	596	475	336	211	92	0
2,425	2,450	257	136	22	0									

"Table II—Head of Household

"Taxable Years Beginning in 1964

If adjusted gross income is—		And the number of exemptions is—				If adjusted gross income is—		And the number of exemptions is—						
At least	But less than	1	2	3	4 or more	At least	But less than	1	2	3	4	5	6	7 or more
		The tax is—						The tax is—						
$0	$900	$0	$0	$0	$0	$2,450	$2,475	$258	$138	$26	$0	$0	$0	$0
900	925	2	0	0	0	2,475	2,500	263	142	30	0	0	0	0
925	950	6	0	0	0	2,500	2,525	267	146	34	0	0	0	0
950	975	10	0	0	0	2,525	2,550	272	150	38	0	0	0	0
975	1,000	14	0	0	0	2,550	2,575	276	154	42	0	0	0	0
1,000	1,025	18	0	0	0	2,575	2,600	280	158	46	0	0	0	0
1,025	1,050	22	0	0	0	2,600	2,625	285	162	50	0	0	0	0
1,050	1,075	26	0	0	0	2,625	2,650	289	167	54	0	0	0	0
1,075	1,100	30	0	0	0	2,650	2,675	293	171	58	0	0	0	0
1,100	1,125	34	0	0	0	2,675	2,700	298	175	62	0	0	0	0
1,125	1,150	38	0	0	0	2,700	2,725	302	180	66	0	0	0	0
1,150	1,175	42	0	0	0	2,725	2,750	307	184	70	0	0	0	0
1,175	1,200	46	0	0	0	2,750	2,775	311	188	74	0	0	0	0
1,200	1,225	50	0	0	0	2,775	2,800	315	193	78	0	0	0	0
1,225	1,250	54	0	0	0	2,800	2,825	320	197	82	0	0	0	0
1,250	1,275	58	0	0	0	2,825	2,850	324	202	86	0	0	0	0
1,275	1,300	62	0	0	0	2,850	2,875	328	206	90	0	0	0	0
1,300	1,325	66	0	0	0	2,875	2,900	333	210	94	0	0	0	0
1,325	1,350	70	0	0	0	2,900	2,925	337	215	98	0	0	0	0
1,350	1,375	74	0	0	0	2,925	2,950	342	219	102	0	0	0	0
1,375	1,400	78	0	0	0	2,950	2,975	347	223	106	0	0	0	0
1,400	1,425	82	0	0	0	2,975	3,000	352	228	110	0	0	0	0
1,425	1,450	86	0	0	0	3,000	3,050	358	234	116	4	0	0	0
1,450	1,475	90	0	0	0	3,050	3,100	367	243	124	12	0	0	0
1,475	1,500	94	0	0	0	3,100	3,150	375	252	132	20	0	0	0
1,500	1,525	98	0	0	0	3,150	3,200	384	261	140	28	0	0	0
1,525	1,550	102	0	0	0	3,200	3,250	392	269	148	36	0	0	0
1,550	1,575	106	0	0	0	3,250	3,300	401	278	156	44	0	0	0
1,575	1,600	110	0	0	0	3,300	3,350	410	287	164	52	0	0	0
1,600	1,625	114	2	0	0	3,350	3,400	418	296	173	60	0	0	0
1,625	1,650	118	6	0	0	3,400	3,450	427	304	182	68	0	0	0
1,650	1,675	122	10	0	0	3,450	3,500	435	313	191	76	0	0	0
1,675	1,700	126	14	0	0	3,500	3,550	444	322	199	84	0	0	0
1,700	1,725	130	18	0	0	3,550	3,600	452	331	208	92	0	0	0
1,725	1,750	134	22	0	0	3,600	3,650	461	340	217	100	0	0	0
1,750	1,775	138	26	0	0	3,650	3,700	469	349	226	108	0	0	0
1,775	1,800	142	30	0	0	3,700	3,750	478	359	234	116	4	0	0
1,800	1,825	146	34	0	0	3,750	3,800	487	368	243	124	12	0	0
1,825	1,850	150	38	0	0	3,800	3,850	495	378	252	132	20	0	0
1,850	1,875	154	42	0	0	3,850	3,900	504	387	261	140	28	0	0
1,875	1,900	158	46	0	0	3,900	3,950	512	397	269	148	36	0	0
1,900	1,925	162	50	0	0	3,950	4,000	521	406	278	156	44	0	0
1,925	1,950	167	54	0	0	4,000	4,050	529	415	287	164	52	0	0
1,950	1,975	171	58	0	0	4,050	4,100	538	424	296	173	60	0	0
1,975	2,000	175	62	0	0	4,100	4,150	546	432	304	182	68	0	0
2,000	2,025	180	66	0	0	4,150	4,200	555	441	313	191	76	0	0
2,025	2,050	184	70	0	0	4,200	4,250	563	449	322	199	84	0	0
2,050	2,075	188	74	0	0	4,250	4,300	572	458	331	208	92	0	0
2,075	2,100	193	78	0	0	4,300	4,350	581	467	340	217	100	0	0
2,100	2,125	197	82	0	0	4,350	4,400	589	475	349	226	108	0	0
2,125	2,150	202	86	0	0	4,400	4,450	598	484	359	234	116	4	0
2,150	2,175	206	90	0	0	4,450	4,500	606	492	368	243	124	12	0
2,175	2,200	210	94	0	0	4,500	4,550	615	501	378	252	132	20	0
2,200	2,225	215	98	0	0	4,550	4,600	623	509	387	261	140	28	0
2,225	2,250	219	102	0	0	4,600	4,650	632	518	397	269	148	36	0
2,250	2,275	223	106	0	0	4,650	4,700	640	526	406	278	156	44	0
2,275	2,300	228	110	0	0	4,700	4,750	649	535	416	287	164	52	0
2,300	2,325	232	114	2	0	4,750	4,800	658	544	425	296	173	60	0
2,325	2,350	237	118	6	0	4,800	4,850	666	552	435	304	182	68	0
2,350	2,375	241	122	10	0	4,850	4,900	675	561	444	313	191	76	0
2,375	2,400	245	126	14	0	4,900	4,950	683	569	454	322	199	84	0
2,400	2,425	250	130	18	0	4,950	5,000	692	578	463	331	208	92	0
2,425	2,450	254	134	22	0									

"Table III—Married Persons Filing JOINT Returns

"Taxable Years Beginning in 1964

If adjusted gross income is—		And the number of exemptions is—			If adjusted gross income is—		And the number of exemptions is—					
At least	But less than	2	3	4 or more	At least	But less than	2	3	4	5	6	7 or more
		The tax is—					The tax is—					
$0	$1,600	$0	$0	$0	$2,800	$2,825	$195	$82	$0	$0	$0	$0
1,600	1,625	2	0	0	2,825	2,850	199	86	0	0	0	0
1,625	1,650	6	0	0	2,850	2,875	203	90	0	0	0	0
1,650	1,675	10	0	0	2,875	2,900	207	94	0	0	0	0
1,675	1,700	14	0	0	2,900	2,925	212	98	0	0	0	0
1,700	1,725	18	0	0	2,925	2,950	216	102	0	0	0	0
1,725	1,750	22	0	0	2,950	2,975	220	106	0	0	0	0
1,750	1,775	26	0	0	2,975	3,000	224	110	0	0	0	0
1,775	1,800	30	0	0	3,000	3,050	230	116	4	0	0	0
1,800	1,825	34	0	0	3,050	3,100	238	124	12	0	0	0
1,825	1,850	38	0	0	3,100	3,150	247	132	20	0	0	0
1,850	1,875	42	0	0	3,150	3,200	255	140	28	0	0	0
1,875	1,900	46	0	0	3,200	3,250	263	148	36	0	0	0
1,900	1,925	50	0	0	3,250	3,300	271	156	44	0	0	0
1,925	1,950	54	0	0	3,300	3,350	280	164	52	0	0	0
1,950	1,975	58	0	0	3,350	3,400	288	172	60	0	0	0
1,975	2,000	62	0	0	3,400	3,450	296	181	68	0	0	0
2,000	2,025	66	0	0	3,450	3,500	304	189	76	0	0	0
2,025	2,050	70	0	0	3,500	3,550	313	197	84	0	0	0
2,050	2,075	74	0	0	3,550	3,600	321	205	92	0	0	0
2,075	2,100	78	0	0	3,600	3,650	329	214	100	0	0	0
2,100	2,125	82	0	0	3,650	3,700	338	222	108	0	0	0
2,125	2,150	86	0	0	3,700	3,750	347	230	116	4	0	0
2,150	2,175	90	0	0	3,750	3,800	356	238	124	12	0	0
2,175	2,200	94	0	0	3,800	3,850	364	247	132	20	0	0
2,200	2,225	98	0	0	3,850	3,900	373	255	140	28	0	0
2,225	2,250	102	0	0	3,900	3,950	382	263	148	36	0	0
2,250	2,275	106	0	0	3,950	4,000	391	271	156	44	0	0
2,275	2,300	110	0	0	4,000	4,050	399	280	164	52	0	0
2,300	2,325	114	2	0	4,050	4,100	407	288	172	60	0	0
2,325	2,350	118	6	0	4,100	4,150	415	296	181	68	0	0
2,350	2,375	122	10	0	4,150	4,200	423	304	189	76	0	0
2,375	2,400	126	14	0	4,200	4,250	430	313	197	84	0	0
2,400	2,425	130	18	0	4,250	4,300	438	321	205	92	0	0
2,425	2,450	134	22	0	4,300	4,350	446	329	214	100	0	0
2,450	2,475	138	26	0	4,350	4,400	454	338	222	108	0	0
2,475	2,500	142	30	0	4,400	4,450	462	347	230	116	4	0
2,500	2,525	146	34	0	4,450	4,500	470	356	238	124	12	0
2,525	2,550	150	38	0	4,500	4,550	478	364	247	132	20	0
2,550	2,575	154	42	0	4,550	4,600	486	373	255	140	28	0
2,575	2,600	158	46	0	4,600	4,650	493	382	263	148	36	0
2,600	2,625	162	50	0	4,650	4,700	501	391	271	156	44	0
2,625	2,650	166	54	0	4,700	4,750	509	399	280	164	52	0
2,650	2,675	170	58	0	4,750	4,800	518	408	288	172	60	0
2,675	2,700	174	62	0	4,800	4,850	526	417	296	181	68	0
2,700	2,725	179	66	0	4,850	4,900	534	426	304	189	76	0
2,725	2,750	183	70	0	4,900	4,950	542	434	313	197	84	0
2,750	2,775	187	74	0	4,950	5,000	550	443	321	205	92	0
2,775	2,800	191	78	0								

"Table IV—Married Persons Filing SEPARATE Returns

"10 PERCENT STANDARD DEDUCTION

"Taxable Years Beginning in 1964

If adjusted gross income is—		And the number of exemptions is—				If adjusted gross income is—		And the number of exemptions is—							
At least	But less than	1	2	3	4 or more	At least	But less than	1	2	3	4	5	6	7	8 or more
		The tax is—						The tax is—							
$0	$675	$0	$0	$0	$0	$2,325	$2,350	$251	$147	$49	$0	$0	$0	$0	$0
675	700	3	0	0	0	2,350	2,375	255	150	52	0	0	0	0	0
700	725	7	0	0	0	2,375	2,400	259	154	56	0	0	0	0	0
725	750	10	0	0	0	2,400	2,425	263	158	59	0	0	0	0	0
750	775	14	0	0	0	2,425	2,450	267	161	63	0	0	0	0	0
775	800	17	0	0	0	2,450	2,475	271	165	67	0	0	0	0	0
800	825	21	0	0	0	2,475	2,500	275	169	70	0	0	0	0	0
825	850	25	0	0	0	2,500	2,525	279	173	74	0	0	0	0	0
850	875	28	0	0	0	2,525	2,550	283	177	77	0	0	0	0	0
875	900	32	0	0	0	2,550	2,575	287	181	81	0	0	0	0	0
900	925	35	0	0	0	2,575	2,600	291	185	85	0	0	0	0	0
925	950	39	0	0	0	2,600	2,625	295	189	88	0	0	0	0	0
950	975	43	0	0	0	2,625	2,650	299	193	92	0	0	0	0	0
975	1,000	46	0	0	0	2,650	2,675	303	197	96	0	0	0	0	0
1,000	1,025	50	0	0	0	2,675	2,700	307	201	100	3	0	0	0	0
1,025	1,050	53	0	0	0	2,700	2,725	311	205	103	7	0	0	0	0
1,050	1,075	57	0	0	0	2,725	2,750	315	209	107	10	0	0	0	0
1,075	1,100	61	0	0	0	2,750	2,775	320	213	111	14	0	0	0	0
1,100	1,125	64	0	0	0	2,775	2,800	324	217	114	17	0	0	0	0
1,125	1,150	68	0	0	0	2,800	2,825	328	220	118	21	0	0	0	0
1,150	1,175	71	0	0	0	2,825	2,850	332	224	122	25	0	0	0	0
1,175	1,200	75	0	0	0	2,850	2,875	336	228	126	28	0	0	0	0
1,200	1,225	79	0	0	0	2,875	2,900	340	232	129	32	0	0	0	0
1,225	1,250	82	0	0	0	2,900	2,925	344	236	133	35	0	0	0	0
1,250	1,275	86	0	0	0	2,925	2,950	349	240	137	39	0	0	0	0
1,275	1,300	90	0	0	0	2,950	2,975	353	244	140	43	0	0	0	0
1,300	1,325	93	0	0	0	2,975	3,000	358	248	144	46	0	0	0	0
1,325	1,350	97	1	0	0	3,000	3,050	365	254	150	52	0	0	0	0
1,350	1,375	101	4	0	0	3,050	3,100	374	262	157	59	0	0	0	0
1,375	1,400	105	8	0	0	3,100	3,150	383	270	165	66	0	0	0	0
1,400	1,425	108	11	0	0	3,150	3,200	392	278	173	73	0	0	0	0
1,425	1,450	112	15	0	0	3,200	3,250	401	286	180	80	0	0	0	0
1,450	1,475	116	19	0	0	3,250	3,300	410	295	188	88	0	0	0	0
1,475	1,500	119	22	0	0	3,300	3,350	419	303	196	95	0	0	0	0
1,500	1,525	123	26	0	0	3,350	3,400	428	311	204	103	6	0	0	0
1,525	1,550	127	29	0	0	3,400	3,450	437	319	212	110	13	0	0	0
1,550	1,575	131	33	0	0	3,450	3,500	446	327	220	118	20	0	0	0
1,575	1,600	134	37	0	0	3,500	3,550	455	335	228	125	28	0	0	0
1,600	1,625	138	40	0	0	3,550	3,600	464	344	236	132	35	0	0	0
1,625	1,650	142	44	0	0	3,600	3,650	473	353	243	140	42	0	0	0
1,650	1,675	145	47	0	0	3,650	3,700	482	362	251	147	49	0	0	0
1,675	1,700	149	51	0	0	3,700	3,750	491	371	259	155	56	0	0	0
1,700	1,725	153	55	0	0	3,750	3,800	500	380	268	162	64	0	0	0
1,725	1,750	157	58	0	0	3,800	3,850	509	389	276	170	71	0	0	0
1,750	1,775	160	62	0	0	3,850	3,900	518	398	284	178	78	0	0	0
1,775	1,800	164	65	0	0	3,900	3,950	527	407	292	186	85	0	0	0
1,800	1,825	168	69	0	0	3,950	4,000	536	416	300	194	93	0	0	0
1,825	1,850	172	73	0	0	4,000	4,050	545	425	308	201	100	4	0	0
1,850	1,875	176	76	0	0	4,050	4,100	554	434	316	209	108	11	0	0
1,875	1,900	180	80	0	0	4,100	4,150	563	443	324	217	115	18	0	0
1,900	1,925	184	84	0	0	4,150	4,200	572	452	332	225	122	25	0	0
1,925	1,950	188	87	0	0	4,200	4,250	581	461	341	233	130	32	0	0
1,950	1,975	192	91	0	0	4,250	4,300	590	470	350	241	137	40	0	0
1,975	2,000	196	95	0	0	4,300	4,350	599	479	359	249	145	47	0	0
2,000	2,025	199	98	2	0	4,350	4,400	608	488	368	257	152	54	0	0
2,025	2,050	203	102	5	0	4,400	4,450	617	497	377	265	160	61	0	0
2,050	2,075	207	106	9	0	4,450	4,500	626	506	386	273	167	68	0	0
2,075	2,100	211	109	13	0	4,500	4,550	635	515	395	281	175	76	0	0
2,100	2,125	215	113	16	0	4,550	4,600	644	524	404	289	183	83	0	0
2,125	2,150	219	117	20	0	4,600	4,650	653	533	413	297	191	90	0	0
2,150	2,175	223	121	23	0	4,650	4,700	662	542	422	305	199	98	1	0
2,175	2,200	227	124	27	0	4,700	4,750	671	551	431	313	207	105	8	0
2,200	2,225	231	128	31	0	4,750	4,800	680	560	440	322	215	113	16	0
2,225	2,250	235	132	34	0	4,800	4,850	689	569	449	330	222	120	23	0
2,250	2,275	239	135	38	0	4,850	4,900	698	578	458	338	230	127	30	0
2,275	2,300	243	139	41	0	4,900	4,950	707	587	467	347	238	135	37	0
2,300	2,325	247	143	45	0	4,950	5,000	716	596	476	356	246	142	44	0

"Table V—Married Persons Filing SEPARATE Returns

"MINIMUM STANDARD DEDUCTION

"Taxable Years Beginning in 1964

If adjusted gross income is—		And the number of exemptions is—				If adjusted gross income is—		And the number of exemptions is—							
At least	But less than	1	2	3	4 or more	At least	But less than	1	2	3	4	5	6	7	8 or more
		The tax is—						The tax is—							
$0	$800	$0	$0	$0	$0	$2,400	$2,425	$270	$148	$34	$0	$0	$0	$0	$0
800	825	2	0	0	0	2,425	2,450	275	152	38	0	0	0	0	0
825	850	6	0	0	0	2,450	2,475	279	156	42	0	0	0	0	0
850	875	10	0	0	0	2,475	2,500	284	160	46	0	0	0	0	0
875	900	14	0	0	0	2,500	2,525	288	165	50	0	0	0	0	0
900	925	18	0	0	0	2,525	2,550	293	169	54	0	0	0	0	0
925	950	22	0	0	0	2,550	2,575	297	173	58	0	0	0	0	0
950	975	26	0	0	0	2,575	2,600	302	178	62	0	0	0	0	0
975	1,000	30	0	0	0	2,600	2,625	306	182	66	0	0	0	0	0
1,000	1,025	34	0	0	0	2,625	2,650	311	187	70	0	0	0	0	0
1,025	1,050	38	0	0	0	2,650	2,675	315	191	74	0	0	0	0	0
1,050	1,075	42	0	0	0	2,675	2,700	320	195	78	0	0	0	0	0
1,075	1,100	46	0	0	0	2,700	2,725	324	200	82	0	0	0	0	0
1,100	1,125	50	0	0	0	2,725	2,750	329	204	86	0	0	0	0	0
1,125	1,150	54	0	0	0	2,750	2,775	333	208	90	0	0	0	0	0
1,150	1,175	58	0	0	0	2,775	2,800	338	213	94	0	0	0	0	0
1,175	1,200	62	0	0	0	2,800	2,825	343	217	99	0	0	0	0	0
1,200	1,225	66	0	0	0	2,825	2,850	348	222	103	0	0	0	0	0
1,225	1,250	70	0	0	0	2,850	2,875	353	226	107	0	0	0	0	0
1,250	1,275	74	0	0	0	2,875	2,900	358	230	111	0	0	0	0	0
1,275	1,300	78	0	0	0	2,900	2,925	363	235	115	2	0	0	0	0
1,300	1,325	82	0	0	0	2,925	2,950	368	239	119	6	0	0	0	0
1,325	1,350	86	0	0	0	2,950	2,975	373	243	123	10	0	0	0	0
1,350	1,375	90	0	0	0	2,975	3,000	378	248	127	14	0	0	0	0
1,375	1,400	94	0	0	0	3,000	3,050	385	255	134	20	0	0	0	0
1,400	1,425	99	0	0	0	3,050	3,100	395	264	142	28	0	0	0	0
1,425	1,450	103	0	0	0	3,100	3,150	405	273	150	36	0	0	0	0
1,450	1,475	107	0	0	0	3,150	3,200	415	282	158	44	0	0	0	0
1,475	1,500	111	0	0	0	3,200	3,250	425	291	167	52	0	0	0	0
1,500	1,525	115	2	0	0	3,250	3,300	435	300	176	60	0	0	0	0
1,525	1,550	119	6	0	0	3,300	3,350	445	309	184	68	0	0	0	0
1,550	1,575	123	10	0	0	3,350	3,400	455	318	193	76	0	0	0	0
1,575	1,600	127	14	0	0	3,400	3,450	465	327	202	84	0	0	0	0
1,600	1,625	132	18	0	0	3,450	3,500	475	336	211	92	0	0	0	0
1,625	1,650	136	22	0	0	3,500	3,550	485	345	219	101	4	0	0	0
1,650	1,675	140	26	0	0	3,550	3,600	495	355	228	109	12	0	0	0
1,675	1,700	144	30	0	0	3,600	3,650	505	365	237	117	20	0	0	0
1,700	1,725	148	34	0	0	3,650	3,700	515	375	246	125	28	0	0	0
1,725	1,750	152	38	0	0	3,700	3,750	525	385	255	134	36	0	0	0
1,750	1,775	156	42	0	0	3,750	3,800	535	395	264	142	44	0	0	0
1,775	1,800	160	46	0	0	3,800	3,850	545	405	273	150	52	0	0	0
1,800	1,825	165	50	0	0	3,850	3,900	555	415	282	158	60	0	0	0
1,825	1,850	169	54	0	0	3,900	3,950	565	425	291	167	68	0	0	0
1,850	1,875	173	58	0	0	3,950	4,000	575	435	300	176	76	0	0	0
1,875	1,900	178	62	0	0	4,000	4,050	585	445	309	184	84	0	0	0
1,900	1,925	182	66	0	0	4,050	4,100	595	455	318	193	92	0	0	0
1,925	1,950	187	70	0	0	4,100	4,150	605	465	327	202	101	4	0	0
1,950	1,975	191	74	0	0	4,150	4,200	615	475	336	211	109	12	0	0
1,975	2,000	195	78	0	0	4,200	4,250	625	485	345	219	117	20	0	0
2,000	2,025	200	82	0	0	4,250	4,300	635	495	355	228	125	28	0	0
2,025	2,050	204	86	0	0	4,300	4,350	645	505	365	237	134	36	0	0
2,050	2,075	208	90	0	0	4,350	4,400	655	515	375	246	142	44	0	0
2,075	2,100	213	94	0	0	4,400	4,450	665	525	385	255	150	52	0	0
2,100	2,125	217	99	0	0	4,450	4,500	675	535	395	264	158	60	0	0
2,125	2,150	222	103	0	0	4,500	4,550	685	545	405	273	167	68	0	0
2,150	2,175	226	107	0	0	4,550	4,600	695	555	415	282	176	76	0	0
2,175	2,200	230	111	0	0	4,600	4,650	705	565	425	291	184	84	0	0
2,200	2,225	235	115	2	0	4,650	4,700	715	575	435	300	193	92	0	0
2,225	2,250	239	119	6	0	4,700	4,750	725	585	445	309	202	101	4	0
2,250	2,275	243	123	10	0	4,750	4,800	735	595	455	318	211	109	12	0
2,275	2,300	248	127	14	0	4,800	4,850	746	605	465	327	219	117	20	0
2,300	2,325	252	132	18	0	4,850	4,900	758	615	475	336	228	125	28	0
2,325	2,350	257	136	22	0	4,900	4,950	769	625	485	345	237	134	36	0
2,350	2,375	261	140	26	0	4,950	5,000	781	635	495	355	246	142	44	0
2,375	2,400	266	144	30	0										

"(b) TAXABLE YEARS BEGINNING AFTER DECEMBER 31, 1964.—In lieu of the tax imposed by section 1, there is hereby imposed for each taxable year beginning after December 31, 1964, on the taxable income of every individual whose adjusted gross income for such year is less than $5,000 and who has elected for such year to pay the tax imposed by this section a tax as follows:

Ante, p. 19.
26 USC 1.

"Table I—Single Person—NOT Head of Household

"Taxable Years Beginning After December 31, 1964

If adjusted gross income is—		And the number of exemptions is—				If adjusted gross income is—		And the number of exemptions is—						
At least	But less than	1	2	3	4 or more	At least	But less than	1	2	3	4	5	6	7 or more
		The tax is—						The tax is—						
$0	$900	$0	$0	$0	$0	$2,450	$2,475	$236	$124	$23	$0	$0	$0	$0
900	925	2	0	0	0	2,475	2,500	240	128	26	0	0	0	0
925	950	5	0	0	0	2,500	2,525	244	132	30	0	0	0	0
950	975	9	0	0	0	2,525	2,550	248	136	33	0	0	0	0
975	1,000	12	0	0	0	2,550	2,575	253	139	37	0	0	0	0
1,000	1,025	16	0	0	0	2,575	2,600	257	143	40	0	0	0	0
1,025	1,050	19	0	0	0	2,600	2,625	261	147	44	0	0	0	0
1,050	1,075	23	0	0	0	2,625	2,650	265	151	47	0	0	0	0
1,075	1,100	26	0	0	0	2,650	2,675	270	155	51	0	0	0	0
1,100	1,125	30	0	0	0	2,675	2,700	274	159	54	0	0	0	0
1,125	1,150	33	0	0	0	2,700	2,725	278	163	58	0	0	0	0
1,150	1,175	37	0	0	0	2,725	2,750	282	167	61	0	0	0	0
1,175	1,200	40	0	0	0	2,750	2,775	287	171	65	0	0	0	0
1,200	1,225	44	0	0	0	2,775	2,800	291	175	68	0	0	0	0
1,225	1,250	47	0	0	0	2,800	2,825	295	179	72	0	0	0	0
1,250	1,275	51	0	0	0	2,825	2,850	299	183	76	0	0	0	0
1,275	1,300	54	0	0	0	2,850	2,875	304	187	79	0	0	0	0
1,300	1,325	58	0	0	0	2,875	2,900	308	191	83	0	0	0	0
1,325	1,350	61	0	0	0	2,900	2,925	312	195	87	0	0	0	0
1,350	1,375	65	0	0	0	2,925	2,950	317	199	91	0	0	0	0
1,375	1,400	68	0	0	0	2,950	2,975	322	203	94	0	0	0	0
1,400	1,425	72	0	0	0	2,975	3,000	327	207	98	0	0	0	0
1,425	1,450	76	0	0	0	3,000	3,050	333	213	104	4	0	0	0
1,450	1,475	79	0	0	0	3,050	3,100	342	221	111	11	0	0	0
1,475	1,500	83	0	0	0	3,100	3,150	350	229	119	18	0	0	0
1,500	1,525	87	0	0	0	3,150	3,200	359	238	126	25	0	0	0
1,525	1,550	91	0	0	0	3,200	3,250	367	246	134	32	0	0	0
1,550	1,575	94	0	0	0	3,250	3,300	376	255	141	39	0	0	0
1,575	1,600	98	0	0	0	3,300	3,350	385	263	149	46	0	0	0
1,600	1,625	102	2	0	0	3,350	3,400	393	272	157	53	0	0	0
1,625	1,650	106	5	0	0	3,400	3,450	402	280	165	60	0	0	0
1,650	1,675	109	9	0	0	3,450	3,500	410	289	173	67	0	0	0
1,675	1,700	113	12	0	0	3,500	3,550	419	297	181	74	0	0	0
1,700	1,725	117	16	0	0	3,550	3,600	427	306	189	81	0	0	0
1,725	1,750	121	19	0	0	3,600	3,650	436	315	197	89	0	0	0
1,750	1,775	124	23	0	0	3,650	3,700	444	324	205	96	0	0	0
1,775	1,800	128	26	0	0	3,700	3,750	453	334	213	104	4	0	0
1,800	1,825	132	30	0	0	3,750	3,800	462	343	221	111	11	0	0
1,825	1,850	136	33	0	0	3,800	3,850	470	353	229	119	18	0	0
1,850	1,875	139	37	0	0	3,850	3,900	479	362	238	126	25	0	0
1,875	1,900	143	40	0	0	3,900	3,950	487	372	246	134	32	0	0
1,900	1,925	147	44	0	0	3,950	4,000	496	381	255	141	39	0	0
1,925	1,950	151	47	0	0	4,000	4,050	504	390	263	149	46	0	0
1,950	1,975	155	51	0	0	4,050	4,100	513	399	272	157	53	0	0
1,975	2,000	159	54	0	0	4,100	4,150	521	407	280	165	60	0	0
2,000	2,025	163	58	0	0	4,150	4,200	530	416	289	173	67	0	0
2,025	2,050	167	61	0	0	4,200	4,250	538	424	297	181	74	0	0
2,050	2,075	171	65	0	0	4,250	4,300	547	433	306	189	81	0	0
2,075	2,100	175	68	0	0	4,300	4,350	556	442	315	197	89	0	0
2,100	2,125	179	72	0	0	4,350	4,400	564	450	324	205	96	0	0
2,125	2,150	183	76	0	0	4,400	4,450	573	459	334	213	104	4	0
2,150	2,175	187	79	0	0	4,450	4,500	581	467	343	221	111	11	0
2,175	2,200	191	83	0	0	4,500	4,550	590	476	353	229	119	18	0
2,200	2,225	195	87	0	0	4,550	4,600	598	484	362	238	126	25	0
2,225	2,250	199	91	0	0	4,600	4,650	607	493	372	246	134	32	0
2,250	2,275	203	94	0	0	4,650	4,700	615	501	381	255	141	39	0
2,275	2,300	207	98	0	0	4,700	4,750	624	510	391	263	149	46	0
2,300	2,325	211	102	2	0	4,750	4,800	633	519	400	272	157	53	0
2,325	2,350	215	106	5	0	4,800	4,850	641	527	410	280	165	60	0
2,350	2,375	219	109	9	0	4,850	4,900	650	536	419	289	173	67	0
2,375	2,400	223	113	12	0	4,900	4,950	658	544	429	297	181	74	0
2,400	2,425	227	117	16	0	4,950	5,000	667	553	438	306	189	81	0
2,425	2,450	231	121	19	0									

"Table II—Head of Household

"Taxable Years Beginning After December 31, 1964

If adjusted gross income is—		And the number of exemptions is—				If adjusted gross income is—		And the number of exemptions is—						
At least	But less than	1	2	3	4 or more	At least	But less than	1	2	3	4	5	6	7 or more
		The tax is—						The tax is—						
$0	$900	$0	$0	$0	$0	$2,450	$2,475	$230	$121	$23	$0	$0	$0	$0
900	925	2	0	0	0	2,475	2,500	234	124	26	0	0	0	0
925	950	5	0	0	0	2,500	2,525	238	128	30	0	0	0	0
950	975	9	0	0	0	2,525	2,550	242	131	33	0	0	0	0
975	1,000	12	0	0	0	2,550	2,575	246	135	37	0	0	0	0
1,000	1,025	16	0	0	0	2,575	2,600	250	138	40	0	0	0	0
1,025	1,050	19	0	0	0	2,600	2,625	254	142	44	0	0	0	0
1,050	1,075	23	0	0	0	2,625	2,650	258	146	47	0	0	0	0
1,075	1,100	26	0	0	0	2,650	2,675	262	150	51	0	0	0	0
1,100	1,125	30	0	0	0	2,675	2,700	266	154	54	0	0	0	0
1,125	1,150	33	0	0	0	2,700	2,725	270	158	58	0	0	0	0
1,150	1,175	37	0	0	0	2,725	2,750	274	162	61	0	0	0	0
1,175	1,200	40	0	0	0	2,750	2,775	278	166	65	0	0	0	0
1,200	1,225	44	0	0	0	2,775	2,800	282	170	68	0	0	0	0
1,225	1,250	47	0	0	0	2,800	2,825	286	174	72	0	0	0	0
1,250	1,275	51	0	0	0	2,825	2,850	290	178	75	0	0	0	0
1,275	1,300	54	0	0	0	2,850	2,875	294	182	79	0	0	0	0
1,300	1,325	58	0	0	0	2,875	2,900	298	186	82	0	0	0	0
1,325	1,350	61	0	0	0	2,900	2,925	302	190	86	0	0	0	0
1,350	1,375	65	0	0	0	2,925	2,950	307	194	89	0	0	0	0
1,375	1,400	68	0	0	0	2,950	2,975	311	198	93	0	0	0	0
1,400	1,425	72	0	0	0	2,975	3,000	316	202	96	0	0	0	0
1,425	1,450	75	0	0	0	3,000	3,050	322	208	102	4	0	0	0
1,450	1,475	79	0	0	0	3,050	3,100	330	216	109	11	0	0	0
1,475	1,500	82	0	0	0	3,100	3,150	338	224	116	18	0	0	0
1,500	1,525	86	0	0	0	3,150	3,200	346	232	123	25	0	0	0
1,525	1,550	89	0	0	0	3,200	3,250	354	240	130	32	0	0	0
1,550	1,575	93	0	0	0	3,250	3,300	363	248	137	39	0	0	0
1,575	1,600	96	0	0	0	3,300	3,350	371	256	144	46	0	0	0
1,600	1,625	100	2	0	0	3,350	3,400	379	264	152	53	0	0	0
1,625	1,650	103	5	0	0	3,400	3,450	387	272	160	60	0	0	0
1,650	1,675	107	9	0	0	3,450	3,500	395	280	168	67	0	0	0
1,675	1,700	110	12	0	0	3,500	3,550	403	288	176	74	0	0	0
1,700	1,725	114	16	0	0	3,550	3,600	411	296	184	81	0	0	0
1,725	1,750	117	19	0	0	3,600	3,650	419	305	192	88	0	0	0
1,750	1,775	121	23	0	0	3,650	3,700	427	314	200	95	0	0	0
1,775	1,800	124	26	0	0	3,700	3,750	435	323	208	102	4	0	0
1,800	1,825	128	30	0	0	3,750	3,800	444	332	216	109	11	0	0
1,825	1,850	131	33	0	0	3,800	3,850	452	341	224	116	18	0	0
1,850	1,875	135	37	0	0	3,850	3,900	460	350	232	123	25	0	0
1,875	1,900	138	40	0	0	3,900	3,950	468	359	240	130	32	0	0
1,900	1,925	142	44	0	0	3,950	4,000	476	368	248	137	39	0	0
1,925	1,950	146	47	0	0	4,000	4,050	484	376	256	144	46	0	0
1,950	1,975	150	51	0	0	4,050	4,100	492	384	264	152	53	0	0
1,975	2,000	154	54	0	0	4,100	4,150	500	392	272	160	60	0	0
2,000	2,025	158	58	0	0	4,150	4,200	508	400	280	168	67	0	0
2,025	2,050	162	61	0	0	4,200	4,250	516	408	288	176	74	0	0
2,050	2,075	166	65	0	0	4,250	4,300	525	417	296	184	81	0	0
2,075	2,100	170	68	0	0	4,300	4,350	533	425	305	192	88	0	0
2,100	2,125	174	72	0	0	4,350	4,400	541	433	314	200	95	0	0
2,125	2,150	178	75	0	0	4,400	4,450	549	441	323	208	102	4	0
2,150	2,175	182	79	0	0	4,450	4,500	557	449	332	216	109	11	0
2,175	2,200	186	82	0	0	4,500	4,550	565	457	341	224	116	18	0
2,200	2,225	190	86	0	0	4,550	4,600	573	465	350	232	123	25	0
2,225	2,250	194	89	0	0	4,600	4,650	581	473	359	240	130	32	0
2,250	2,275	198	93	0	0	4,650	4,700	589	481	368	248	137	39	0
2,275	2,300	202	96	0	0	4,700	4,750	597	489	377	256	144	46	0
2,300	2,325	206	100	2	0	4,750	4,800	606	498	386	264	152	53	0
2,325	2,350	210	103	5	0	4,800	4,850	614	506	395	272	160	60	0
2,350	2,375	214	107	9	0	4,850	4,900	622	514	404	280	168	67	0
2,375	2,400	218	110	12	0	4,900	4,950	630	522	413	288	176	74	0
2,400	2,425	222	114	16	0	4,950	5,000	638	530	422	296	184	81	0
2,425	2,450	226	117	19	0									

"Table III—Married Persons Filing JOINT Returns

"Taxable Years Beginning After December 31, 1964

If adjusted gross income is—		And the number of exemptions is—			If adjusted gross income is—		And the number of exemptions is—					
At least	But less than	2	3	4 or more	At least	But less than	2	3	4	5	6	7 or more
		The tax is—					The tax is—					
$0	$1,600	$0	$0	$0	$2,800	$2,825	$172	$72	$0	$0	$0	$0
1,600	1,625	2	0	0	2,825	2,850	176	75	0	0	0	0
1,625	1,650	5	0	0	2,850	2,875	179	79	0	0	0	0
1,650	1,675	9	0	0	2,875	2,900	183	82	0	0	0	0
1,675	1,700	12	0	0	2,900	2,925	187	86	0	0	0	0
1,700	1,725	16	0	0	2,925	2,950	191	89	0	0	0	0
1,725	1,750	19	0	0	2,950	2,975	194	93	0	0	0	0
1,750	1,775	23	0	0	2,975	3,000	198	96	0	0	0	0
1,775	1,800	26	0	0	3,000	3,050	204	102	4	0	0	0
1,800	1,825	30	0	0	3,050	3,100	211	109	11	0	0	0
1,825	1,850	33	0	0	3,100	3,150	219	116	18	0	0	0
1,850	1,875	37	0	0	3,150	3,200	226	123	25	0	0	0
1,875	1,900	40	0	0	3,200	3,250	234	130	32	0	0	0
1,900	1,925	44	0	0	3,250	3,300	241	137	39	0	0	0
1,925	1,950	47	0	0	3,300	3,350	249	144	46	0	0	0
1,950	1,975	51	0	0	3,350	3,400	256	151	53	0	0	0
1,975	2,000	54	0	0	3,400	3,450	264	159	60	0	0	0
2,000	2,025	58	0	0	3,450	3,500	271	166	67	0	0	0
2,025	2,050	61	0	0	3,500	3,550	279	174	74	0	0	0
2,050	2,075	65	0	0	3,550	3,600	286	181	81	0	0	0
2,075	2,100	68	0	0	3,600	3,650	294	189	88	0	0	0
2,100	2,125	72	0	0	3,650	3,700	302	196	95	0	0	0
2,125	2,150	75	0	0	3,700	3,750	310	204	102	4	0	0
2,150	2,175	79	0	0	3,750	3,800	318	211	109	11	0	0
2,175	2,200	82	0	0	3,800	3,850	326	219	116	18	0	0
2,200	2,225	86	0	0	3,850	3,900	334	226	123	25	0	0
2,225	2,250	89	0	0	3,900	3,950	342	234	130	32	0	0
2,250	2,275	93	0	0	3,950	4,000	350	241	137	39	0	0
2,275	2,300	96	0	0	4,000	4,050	358	249	144	46	0	0
2,300	2,325	100	2	0	4,050	4,100	365	256	151	53	0	0
2,325	2,350	103	5	0	4,100	4,150	372	264	159	60	0	0
2,350	2,375	107	9	0	4,150	4,200	379	271	166	67	0	0
2,375	2,400	110	12	0	4,200	4,250	386	279	174	74	0	0
2,400	2,425	114	16	0	4,250	4,300	394	286	181	81	0	0
2,425	2,450	117	19	0	4,300	4,350	401	294	189	88	0	0
2,450	2,475	121	23	0	4,350	4,400	408	302	196	95	0	0
2,475	2,500	124	26	0	4,400	4,450	415	310	204	102	4	0
2,500	2,525	128	30	0	4,450	4,500	422	318	211	109	11	0
2,525	2,550	131	33	0	4,500	4,550	430	326	219	116	18	0
2,550	2,575	135	37	0	4,550	4,600	437	334	226	123	25	0
2,575	2,600	138	40	0	4,600	4,650	444	342	234	130	32	0
2,600	2,625	142	44	0	4,650	4,700	451	350	241	137	39	0
2,625	2,650	146	47	0	4,700	4,750	459	358	249	144	46	0
2,650	2,675	149	51	0	4,750	4,800	467	366	256	151	53	0
2,675	2,700	153	54	0	4,800	4,850	474	374	264	159	60	0
2,700	2,725	157	58	0	4,850	4,900	482	382	271	166	67	0
2,725	2,750	161	61	0	4,900	4,950	490	390	279	174	74	0
2,750	2,775	164	65	0	4,950	5,000	497	398	286	181	81	0
2,775	2,800	168	68	0								

"Table IV—Married Persons Filing SEPARATE Returns

"10 PERCENT STANDARD DEDUCTION

"Taxable Years Beginning After December 31, 1964

If adjusted gross income is—		And the number of exemptions is—				If adjusted gross income is—		And the number of exemptions is—							
At least	But less than	1	2	3	4 or more	At least	But less than	1	2	3	4	5	6	7	8 or more
		The tax is—						The tax is—							
$0	$675	$0	$0	$0	$0	$2,325	$2,350	$226	$131	$43	$0	$0	$0	$0	$0
675	700	3	0	0	0	2,350	2,375	229	134	46	0	0	0	0	0
700	725	6	0	0	0	2,375	2,400	233	137	49	0	0	0	0	0
725	750	9	0	0	0	2,400	2,425	237	141	52	0	0	0	0	0
750	775	12	0	0	0	2,425	2,450	241	144	55	0	0	0	0	0
775	800	15	0	0	0	2,450	2,475	245	148	58	0	0	0	0	0
800	825	18	0	0	0	2,475	2,500	249	151	61	0	0	0	0	0
825	850	22	0	0	0	2,500	2,525	252	155	65	0	0	0	0	0
850	875	25	0	0	0	2,525	2,550	256	158	68	0	0	0	0	0
875	900	28	0	0	0	2,550	2,575	260	162	71	0	0	0	0	0
900	925	31	0	0	0	2,575	2,600	264	166	74	0	0	0	0	0
925	950	34	0	0	0	2,600	2,625	268	169	78	0	0	0	0	0
950	975	37	0	0	0	2,625	2,650	272	173	81	0	0	0	0	0
975	1,000	40	0	0	0	2,650	2,675	275	176	84	0	0	0	0	0
1,000	1,025	44	0	0	0	2,675	2,700	279	180	88	3	0	0	0	0
1,025	1,050	47	0	0	0	2,700	2,725	283	184	91	6	0	0	0	0
1,050	1,075	50	0	0	0	2,725	2,750	287	187	95	9	0	0	0	0
1,075	1,100	53	0	0	0	2,750	2,775	291	191	98	12	0	0	0	0
1,100	1,125	56	0	0	0	2,775	2,800	294	194	101	15	0	0	0	0
1,125	1,150	59	0	0	0	2,800	2,825	298	198	105	18	0	0	0	0
1,150	1,175	62	0	0	0	2,825	2,850	302	202	108	22	0	0	0	0
1,175	1,200	66	0	0	0	2,850	2,875	306	205	111	25	0	0	0	0
1,200	1,225	69	0	0	0	2,875	2,900	310	209	115	28	0	0	0	0
1,225	1,250	72	0	0	0	2,900	2,925	314	212	118	31	0	0	0	0
1,250	1,275	75	0	0	0	2,925	2,950	318	216	122	34	0	0	0	0
1,275	1,300	79	0	0	0	2,950	2,975	323	220	125	37	0	0	0	0
1,300	1,325	82	0	0	0	2,975	3,000	327	223	128	40	0	0	0	0
1,325	1,350	86	1	0	0	3,000	3,050	333	229	133	45	0	0	0	0
1,350	1,375	89	4	0	0	3,050	3,100	342	236	140	51	0	0	0	0
1,375	1,400	92	7	0	0	3,100	3,150	350	244	147	58	0	0	0	0
1,400	1,425	96	10	0	0	3,150	3,200	359	252	154	64	0	0	0	0
1,425	1,450	99	13	0	0	3,200	3,250	367	259	161	70	0	0	0	0
1,450	1,475	102	16	0	0	3,250	3,300	376	267	169	77	0	0	0	0
1,475	1,500	106	19	0	0	3,300	3,350	385	275	176	84	0	0	0	0
1,500	1,525	109	23	0	0	3,350	3,400	393	282	183	91	5	0	0	0
1,525	1,550	113	26	0	0	3,400	3,450	402	290	190	97	12	0	0	0
1,550	1,575	116	29	0	0	3,450	3,500	410	298	197	104	18	0	0	0
1,575	1,600	119	32	0	0	3,500	3,550	419	305	205	111	24	0	0	0
1,600	1,625	123	35	0	0	3,550	3,600	427	313	212	118	30	0	0	0
1,625	1,650	126	38	0	0	3,600	3,650	436	322	219	124	37	0	0	0
1,650	1,675	129	41	0	0	3,650	3,700	444	330	226	131	43	0	0	0
1,675	1,700	133	45	0	0	3,700	3,750	453	339	234	138	49	0	0	0
1,700	1,725	136	48	0	0	3,750	3,800	462	348	242	145	56	0	0	0
1,725	1,750	140	51	0	0	3,800	3,850	470	356	249	152	62	0	0	0
1,750	1,775	143	54	0	0	3,850	3,900	479	365	257	159	68	0	0	0
1,775	1,800	146	57	0	0	3,900	3,950	487	373	265	166	75	0	0	0
1,800	1,825	150	60	0	0	3,950	4,000	496	382	272	173	82	0	0	0
1,825	1,850	154	64	0	0	4,000	4,050	504	390	280	181	88	3	0	0
1,850	1,875	157	67	0	0	4,050	4,100	513	399	287	188	95	9	0	0
1,875	1,900	161	70	0	0	4,100	4,150	521	407	295	195	102	16	0	0
1,900	1,925	164	73	0	0	4,150	4,200	530	416	303	202	109	22	0	0
1,925	1,950	168	77	0	0	4,200	4,250	538	424	310	209	115	28	0	0
1,950	1,975	172	80	0	0	4,250	4,300	547	433	319	217	122	35	0	0
1,975	2,000	175	83	0	0	4,300	4,350	556	442	328	224	129	41	0	0
2,000	2,025	179	87	2	0	4,350	4,400	564	450	336	231	136	47	0	0
2,025	2,050	182	90	5	0	4,400	4,450	573	459	345	239	142	54	0	0
2,050	2,075	186	93	8	0	4,450	4,500	581	467	353	247	149	60	0	0
2,075	2,100	190	97	11	0	4,500	4,550	590	476	362	254	157	66	0	0
2,100	2,125	193	100	14	0	4,550	4,600	598	484	370	262	164	73	0	0
2,125	2,150	197	104	17	0	4,600	4,650	607	493	379	270	171	79	0	0
2,150	2,175	200	107	20	0	4,650	4,700	615	501	387	277	178	86	1	0
2,175	2,200	204	110	24	0	4,700	4,750	624	510	396	285	185	93	7	0
2,200	2,225	208	114	27	0	4,750	4,800	633	519	405	293	193	100	14	0
2,225	2,250	211	117	30	0	4,800	4,850	641	527	413	300	200	106	20	0
2,250	2,275	215	120	33	0	4,850	4,900	650	536	422	308	207	113	26	0
2,275	2,300	218	124	36	0	4,900	4,950	658	544	430	316	214	120	33	0
2,300	2,325	222	127	39	0	4,950	5,000	667	553	439	325	221	127	39	0

"Table V—Married Persons Filing SEPARATE Returns

"MINIMUM STANDARD DEDUCTION

"Taxable Years Beginning After December 31, 1964

If adjusted gross income is—		And the number of exemptions is—				If adjusted gross income is—		And the number of exemptions is—							
At least	But less than	1	2	3	4 or more	At least	But less than	1	2	3	4	5	6	7	8 or more
		The tax is—						The tax is—							
$0	$800	$0	$0	$0	$0	$2,400	$2,425	$244	$132	$30	$0	$0	$0	$0	$0
800	825	2	0	0	0	2,425	2,450	248	136	33	0	0	0	0	0
825	850	5	0	0	0	2,450	2,475	253	139	37	0	0	0	0	0
850	875	9	0	0	0	2,475	2,500	257	143	40	0	0	0	0	0
875	900	12	0	0	0	2,500	2,525	261	147	44	0	0	0	0	0
900	925	16	0	0	0	2,525	2,550	265	151	47	0	0	0	0	0
925	950	19	0	0	0	2,550	2,575	270	155	51	0	0	0	0	0
950	975	23	0	0	0	2,575	2,600	274	159	54	0	0	0	0	0
975	1,000	26	0	0	0	2,600	2,625	278	163	58	0	0	0	0	0
1,000	1,025	30	0	0	0	2,625	2,650	282	167	61	0	0	0	0	0
1,025	1,050	33	0	0	0	2,650	2,675	287	171	65	0	0	0	0	0
1,050	1,075	37	0	0	0	2,675	2,700	291	175	68	0	0	0	0	0
1,075	1,100	40	0	0	0	2,700	2,725	295	179	72	0	0	0	0	0
1,100	1,125	44	0	0	0	2,725	2,750	299	183	76	0	0	0	0	0
1,125	1,150	47	0	0	0	2,750	2,775	304	187	79	0	0	0	0	0
1,150	1,175	51	0	0	0	2,775	2,800	308	191	83	0	0	0	0	0
1,175	1,200	54	0	0	0	2,800	2,825	312	195	87	0	0	0	0	0
1,200	1,225	58	0	0	0	2,825	2,850	317	199	91	0	0	0	0	0
1,225	1,250	61	0	0	0	2,850	2,875	322	203	94	0	0	0	0	0
1,250	1,275	65	0	0	0	2,875	2,900	327	207	98	0	0	0	0	0
1,275	1,300	68	0	0	0	2,900	2,925	331	211	102	2	0	0	0	0
1,300	1,325	72	0	0	0	2,925	2,950	336	215	106	5	0	0	0	0
1,325	1,350	76	0	0	0	2,950	2,975	341	219	109	9	0	0	0	0
1,350	1,375	79	0	0	0	2,975	3,000	346	223	113	12	0	0	0	0
1,375	1,400	83	0	0	0	3,000	3,050	353	229	119	18	0	0	0	0
1,400	1,425	87	0	0	0	3,050	3,100	362	238	126	25	0	0	0	0
1,425	1,450	91	0	0	0	3,100	3,150	372	246	134	32	0	0	0	0
1,450	1,475	94	0	0	0	3,150	3,200	381	255	141	39	0	0	0	0
1,475	1,500	98	0	0	0	3,200	3,250	391	263	149	46	0	0	0	0
1,500	1,525	102	2	0	0	3,250	3,300	400	272	157	53	0	0	0	0
1,525	1,550	106	5	0	0	3,300	3,350	410	280	165	60	0	0	0	0
1,550	1,575	109	9	0	0	3,350	3,400	419	289	173	67	0	0	0	0
1,575	1,600	113	12	0	0	3,400	3,450	429	297	181	74	0	0	0	0
1,600	1,625	117	16	0	0	3,450	3,500	438	306	189	81	0	0	0	0
1,625	1,650	121	19	0	0	3,500	3,550	448	315	197	89	4	0	0	0
1,650	1,675	124	23	0	0	3,550	3,600	457	324	205	96	11	0	0	0
1,675	1,700	128	26	0	0	3,600	3,650	467	334	213	104	18	0	0	0
1,700	1,725	132	30	0	0	3,650	3,700	476	343	221	111	25	0	0	0
1,725	1,750	136	33	0	0	3,700	3,750	486	353	229	119	32	0	0	0
1,750	1,775	139	37	0	0	3,750	3,800	495	362	238	126	39	0	0	0
1,775	1,800	143	40	0	0	3,800	3,850	505	372	246	134	46	0	0	0
1,800	1,825	147	44	0	0	3,850	3,900	514	381	255	141	53	0	0	0
1,825	1,850	151	47	0	0	3,900	3,950	524	391	263	149	60	0	0	0
1,850	1,875	155	51	0	0	3,950	4,000	533	400	272	157	67	0	0	0
1,875	1,900	159	54	0	0	4,000	4,050	543	410	280	165	74	0	0	0
1,900	1,925	163	58	0	0	4,050	4,100	552	419	289	173	81	0	0	0
1,925	1,950	167	61	0	0	4,100	4,150	562	429	297	181	89	4	0	0
1,950	1,975	171	65	0	0	4,150	4,200	571	438	306	189	96	11	0	0
1,975	2,000	175	68	0	0	4,200	4,250	581	448	315	197	104	18	0	0
2,000	2,025	179	72	0	0	4,250	4,300	590	457	324	205	111	25	0	0
2,025	2,050	183	76	0	0	4,300	4,350	600	467	334	213	119	32	0	0
2,050	2,075	187	79	0	0	4,350	4,400	609	476	343	221	126	39	0	0
2,075	2,100	191	83	0	0	4,400	4,450	619	486	353	229	134	46	0	0
2,100	2,125	195	87	0	0	4,450	4,500	628	495	362	238	141	53	0	0
2,125	2,150	199	91	0	0	4,500	4,550	638	505	372	246	149	60	0	0
2,150	2,175	203	94	0	0	4,550	4,600	647	514	381	255	157	67	0	0
2,175	2,200	207	98	0	0	4,600	4,650	657	524	391	263	165	74	0	0
2,200	2,225	211	102	2	0	4,650	4,700	666	533	400	272	173	81	0	0
2,225	2,250	215	106	5	0	4,700	4,750	676	543	410	280	181	89	4	0
2,250	2,275	219	109	9	0	4,750	4,800	685	552	419	289	189	96	11	0
2,275	2,300	223	113	12	0	4,800	4,850	696	562	429	297	197	104	18	0
2,300	2,325	227	117	16	0	4,850	4,900	707	571	438	306	205	111	25	0
2,325	2,350	231	121	19	0	4,900	4,950	718	581	448	315	213	119	32	0
2,350	2,375	236	124	23	0	4,950	5,000	729	590	457	324	221	126	39	0"
2,375	2,400	240	128	26	0										

(b) RULES FOR OPTIONAL TAX.—

(1) HUSBAND OR WIFE FILING SEPARATE RETURNS.—Subsection (c) of section 4 (relating to rules for optional tax) is amended to read as follows:

68A Stat. 10.
26 USC 4.

"(c) HUSBAND OR WIFE FILING SEPARATE RETURN.—

"(1) A husband or wife may not elect to pay the optional tax imposed by section 3 if the tax of the other spouse is determined under section 1 on the basis of taxable income computed without regard to the standard deduction.

Ante, p. 129.
26 USC 3.
Ante, p. 19.
26 USC 1.

"(2) Except as otherwise provided in this subsection, in the case of a husband or wife filing a separate return the tax imposed by section 3 shall be—

"(A) for taxable years beginning in 1964, the lesser of the tax shown in Table IV or Table V of section 3(a), and

"(B) for taxable years beginning after December 31, 1964, the lesser of the tax shown in Table IV or Table V of section 3(b).

"(3) Neither Table V of section 3(a) nor Table V of section 3(b) shall apply in the case of a husband or wife filing a separate return if the tax of the other spouse is determined with regard to the 10-percent standard deduction; except that an individual described in section 141(d)(2) may elect (under regulations prescribed by the Secretary or his delegate)—

Ante, p. 23.
26 USC 141.

"(A) to pay the tax shown in Table V of section 3(a) in lieu of the tax shown in Table IV of section 3(a), and

"(B) to pay the tax shown in Table V of section 3(b) in lieu of the tax shown in Table IV of section 3(b).

For purposes of this title, an election under the preceding sentence shall be treated as an election made under section 141(d)(2).

"(4) For purposes of this subsection, determination of marital status shall be made under section 143."

26 USC 143.

(2) AMENDMENT OF SECTION 6014.—Section 6014(a) (relating to income tax return—tax not computed by taxpayer) is amended by adding at the end thereof the following new sentence: "In the case of a married individual filing a separate return and electing the benefits of this subsection, neither Table V in section 3(a) nor Table V in section 3(b) shall apply."

26 USC 6014.

(3) TECHNICAL AMENDMENTS.—

(A) Subsection (a) of section 4 (relating to rules for optional tax) is amended by striking out "table" and inserting in lieu thereof "tables".

(B) Section 4(f) (relating to cross references) is amended by adding at the end thereof the following new paragraph:

Ante, p. 111.

"(4) For nonapplicability of Table V in section 3(a) and Table V in section 3(b) in case where tax is not computed by taxpayer, see section 6014(a)."

(c) EFFECTIVE DATE.—Except for purposes of section 21 of the Internal Revenue Code of 1954 (relating to effect of changes in rates during a taxable year), the amendments made by this section shall apply to taxable years beginning after December 31, 1963.

26 USC 21.

SEC. 302. INCOME TAX COLLECTED AT SOURCE.

(a) PERCENTAGE METHOD OF WITHHOLDING.—Subsection (a) of section 3402 (relating to requirement of withholding) is amended by striking out "18 percent" and inserting in lieu thereof "14 percent".

26 USC 3402.

(b) WAGE BRACKET WITHHOLDING.—Paragraph (1) of section 3402(c) (relating to wage bracket withholding) is amended to read as follows:

"(1) At the election of the employer with respect to any employee, the employer shall deduct and withhold upon the wages paid to such employee a tax determined in accordance with the

following tables, which shall be in lieu of the tax required to be deducted and withheld under subsection (a):

"If the payroll period with respect to an employee is weekly—

And the wages are—		And the number of withholding exemptions claimed is—										
At least—	But less than—	0	1	2	3	4	5	6	7	8	9	10 or more
		The amount of income tax to be withheld shall be—										
$0	$13	14% of wages	$0	$0	$0	$0	$0	$0	$0	$0	$0	$0
$13	$14	$1.90	.10	0	0	0	0	0	0	0	0	0
$14	$15	2.00	.20	0	0	0	0	0	0	0	0	0
$15	$16	2.20	.40	0	0	0	0	0	0	0	0	0
$16	$17	2.30	.50	0	0	0	0	0	0	0	0	0
$17	$18	2.50	.70	0	0	0	0	0	0	0	0	0
$18	$19	2.60	.80	0	0	0	0	0	0	0	0	0
$19	$20	2.70	.90	0	0	0	0	0	0	0	0	0
$20	$21	2.90	1.10	0	0	0	0	0	0	0	0	0
$21	$22	3.00	1.20	0	0	0	0	0	0	0	0	0
$22	$23	3.20	1.40	0	0	0	0	0	0	0	0	0
$23	$24	3.30	1.50	0	0	0	0	0	0	0	0	0
$24	$25	3.40	1.60	0	0	0	0	0	0	0	0	0
$25	$26	3.60	1.80	0	0	0	0	0	0	0	0	0
$26	$27	3.70	1.90	.10	0	0	0	0	0	0	0	0
$27	$28	3.90	2.10	.30	0	0	0	0	0	0	0	0
$28	$29	4.00	2.20	.40	0	0	0	0	0	0	0	0
$29	$30	4.10	2.30	.50	0	0	0	0	0	0	0	0
$30	$31	4.30	2.50	.70	0	0	0	0	0	0	0	0
$31	$32	4.40	2.60	.80	0	0	0	0	0	0	0	0
$32	$33	4.60	2.80	1.00	0	0	0	0	0	0	0	0
$33	$34	4.70	2.90	1.10	0	0	0	0	0	0	0	0
$34	$35	4.80	3.00	1.20	0	0	0	0	0	0	0	0
$35	$36	5.00	3.20	1.40	0	0	0	0	0	0	0	0
$36	$37	5.10	3.30	1.50	0	0	0	0	0	0	0	0
$37	$38	5.30	3.50	1.70	0	0	0	0	0	0	0	0
$38	$39	5.40	3.60	1.80	0	0	0	0	0	0	0	0
$39	$40	5.50	3.70	1.90	.10	0	0	0	0	0	0	0
$40	$41	5.70	3.90	2.10	.30	0	0	0	0	0	0	0
$41	$42	5.80	4.00	2.20	.40	0	0	0	0	0	0	0
$42	$43	6.00	4.20	2.40	.60	0	0	0	0	0	0	0
$43	$44	6.10	4.30	2.50	.70	0	0	0	0	0	0	0
$44	$45	6.20	4.40	2.60	.80	0	0	0	0	0	0	0
$45	$46	6.40	4.60	2.80	1.00	0	0	0	0	0	0	0
$46	$47	6.50	4.70	2.90	1.10	0	0	0	0	0	0	0
$47	$48	6.70	4.90	3.10	1.30	0	0	0	0	0	0	0
$48	$49	6.80	5.00	3.20	1.40	0	0	0	0	0	0	0
$49	$50	6.90	5.10	3.30	1.50	0	0	0	0	0	0	0
$50	$51	7.10	5.30	3.50	1.70	0	0	0	0	0	0	0
$51	$52	7.20	5.40	3.60	1.80	0	0	0	0	0	0	0
$52	$53	7.40	5.60	3.80	2.00	.20	0	0	0	0	0	0
$53	$54	7.50	5.70	3.90	2.10	.30	0	0	0	0	0	0
$54	$55	7.60	5.80	4.00	2.20	.50	0	0	0	0	0	0
$55	$56	7.80	6.00	4.20	2.40	.60	0	0	0	0	0	0
$56	$57	7.90	6.10	4.30	2.50	.70	0	0	0	0	0	0
$57	$58	8.10	6.30	4.50	2.70	.90	0	0	0	0	0	0
$58	$59	8.20	6.40	4.60	2.80	1.00	0	0	0	0	0	0
$59	$60	8.30	6.50	4.70	2.90	1.20	0	0	0	0	0	0
$60	$62	8.50	6.70	5.00	3.20	1.40	0	0	0	0	0	0
$62	$64	8.80	7.00	5.20	3.40	1.60	0	0	0	0	0	0
$64	$66	9.10	7.30	5.50	3.70	1.90	.10	0	0	0	0	0
$66	$68	9.40	7.60	5.80	4.00	2.20	.40	0	0	0	0	0
$68	$70	9.70	7.90	6.10	4.30	2.50	.70	0	0	0	0	0
$70	$72	9.90	8.10	6.40	4.60	2.80	1.00	0	0	0	0	0
$72	$74	10.20	8.40	6.60	4.80	3.00	1.20	0	0	0	0	0
$74	$76	10.50	8.70	6.90	5.10	3.30	1.50	0	0	0	0	0
$76	$78	10.80	9.00	7.20	5.40	3.60	1.80	0	0	0	0	0
$78	$80	11.10	9.30	7.50	5.70	3.90	2.10	.30	0	0	0	0
$80	$82	11.30	9.50	7.80	6.00	4.20	2.40	.60	0	0	0	0
$82	$84	11.60	9.80	8.00	6.20	4.40	2.60	.90	0	0	0	0
$84	$86	11.90	10.10	8.30	6.50	4.70	2.90	1.10	0	0	0	0
$86	$88	12.20	10.40	8.60	6.80	5.00	3.20	1.40	0	0	0	0
$88	$90	12.50	10.70	8.90	7.10	5.30	3.50	1.70	0	0	0	0
$90	$92	12.70	10.90	9.20	7.40	5.60	3.80	2.00	.20	0	0	0
$92	$94	13.00	11.20	9.40	7.60	5.80	4.00	2.30	.50	0	0	0
$94	$96	13.30	11.50	9.70	7.90	6.10	4.30	2.50	.70	0	0	0
$96	$98	13.60	11.80	10.00	8.20	6.40	4.60	2.80	1.00	0	0	0
$98	$100	13.90	12.10	10.30	8.50	6.70	4.90	3.10	1.30	0	0	0
$100	$105	14.40	12.60	10.80	9.00	7.20	5.40	3.60	1.80	0	0	0
$105	$110	15.10	13.30	11.50	9.70	7.90	6.10	4.30	2.50	.70	0	0
$110	$115	15.80	14.00	12.20	10.40	8.60	6.80	5.00	3.20	1.40	0	0
$115	$120	16.50	14.70	12.90	11.10	9.30	7.50	5.70	3.90	2.10	.30	0
$120	$125	17.20	15.40	13.60	11.80	10.00	8.20	6.40	4.60	2.80	1.00	0
$125	$130	17.90	16.10	14.30	12.50	10.70	8.90	7.10	5.30	3.50	1.70	0
$130	$135	18.60	16.80	15.00	13.20	11.40	9.60	7.80	6.00	4.20	2.40	.60
$135	$140	19.30	17.50	15.70	13.90	12.10	10.30	8.50	6.70	4.90	3.10	1.30
$140	$145	20.00	18.20	16.40	14.60	12.80	11.00	9.20	7.40	5.60	3.80	2.00
$145	$150	20.70	18.90	17.10	15.30	13.50	11.70	9.90	8.10	6.30	4.50	2.70
$150	$160	21.70	19.90	18.10	16.30	14.50	12.70	10.90	9.10	7.30	5.50	3.80
$160	$170	23.10	21.30	19.50	17.70	15.90	14.10	12.30	10.50	8.70	6.90	5.20
$170	$180	24.50	22.70	20.90	19.10	17.30	15.50	13.70	11.90	10.10	8.30	6.60
$180	$190	25.90	24.10	22.30	20.50	18.70	16.90	15.10	13.30	11.50	9.70	8.00
$190	$200	27.30	25.50	23.70	21.90	20.10	18.30	16.50	14.70	12.90	11.10	9.40
		14 percent of the excess over $200 plus—										
$200 and over		28.00	26.20	24.40	22.60	20.80	19.00	17.20	15.40	13.60	11.80	10.10

"If the payroll period with respect to an employee is biweekly—

And the wages are—		And the number of withholding exemptions claimed is—										
At least—	But less than—	0	1	2	3	4	5	6	7	8	9	10 or more
		The amount of income tax to be withheld shall be—										
$0	$26	14% of wages	$0	$0	$0	$0	$0	$0	$0	$0	$0	$0
$26	$28	$3.80	.20	0	0	0	0	0	0	0	0	0
$28	$30	4.10	.50	0	0	0	0	0	0	0	0	0
$30	$32	4.30	.80	0	0	0	0	0	0	0	0	0
$32	$34	4.60	1.00	0	0	0	0	0	0	0	0	0
$34	$36	4.90	1.30	0	0	0	0	0	0	0	0	0
$36	$38	5.20	1.60	0	0	0	0	0	0	0	0	0
$38	$40	5.50	1.90	0	0	0	0	0	0	0	0	0
$40	$42	5.70	2.20	0	0	0	0	0	0	0	0	0
$42	$44	6.00	2.40	0	0	0	0	0	0	0	0	0
$44	$46	6.30	2.70	0	0	0	0	0	0	0	0	0
$46	$48	6.60	3.00	0	0	0	0	0	0	0	0	0
$48	$50	6.90	3.30	0	0	0	0	0	0	0	0	0
$50	$52	7.10	3.60	0	0	0	0	0	0	0	0	0
$52	$54	7.40	3.80	.20	0	0	0	0	0	0	0	0
$54	$56	7.70	4.10	.50	0	0	0	0	0	0	0	0
$56	$58	8.00	4.40	.80	0	0	0	0	0	0	0	0
$58	$60	8.30	4.70	1.10	0	0	0	0	0	0	0	0
$60	$62	8.50	5.00	1.40	0	0	0	0	0	0	0	0
$62	$64	8.80	5.20	1.60	0	0	0	0	0	0	0	0
$64	$66	9.10	5.50	1.90	0	0	0	0	0	0	0	0
$66	$68	9.40	5.80	2.20	0	0	0	0	0	0	0	0
$68	$70	9.70	6.10	2.50	0	0	0	0	0	0	0	0
$70	$72	9.90	6.40	2.80	0	0	0	0	0	0	0	0
$72	$74	10.20	6.60	3.00	0	0	0	0	0	0	0	0
$74	$76	10.50	6.90	3.30	0	0	0	0	0	0	0	0
$76	$78	10.80	7.20	3.60	0	0	0	0	0	0	0	0
$78	$80	11.10	7.50	3.90	.30	0	0	0	0	0	0	0
$80	$82	11.30	7.80	4.20	.60	0	0	0	0	0	0	0
$82	$84	11.60	8.00	4.40	.90	0	0	0	0	0	0	0
$84	$86	11.90	8.30	4.70	1.10	0	0	0	0	0	0	0
$86	$88	12.20	8.60	5.00	1.40	0	0	0	0	0	0	0
$88	$90	12.50	8.90	5.30	1.70	0	0	0	0	0	0	0
$90	$92	12.70	9.20	5.60	2.00	0	0	0	0	0	0	0
$92	$94	13.00	9.40	5.80	2.30	0	0	0	0	0	0	0
$94	$96	13.30	9.70	6.10	2.50	0	0	0	0	0	0	0
$96	$98	13.60	10.00	6.40	2.80	0	0	0	0	0	0	0
$98	$100	13.90	10.30	6.70	3.10	0	0	0	0	0	0	0
$100	$102	14.10	10.60	7.00	3.40	0	0	0	0	0	0	0
$102	$104	14.40	10.80	7.20	3.70	.10	0	0	0	0	0	0
$104	$106	14.70	11.10	7.50	3.90	.30	0	0	0	0	0	0
$106	$108	15.00	11.40	7.80	4.20	.60	0	0	0	0	0	0
$108	$110	15.30	11.70	8.10	4.50	.90	0	0	0	0	0	0
$110	$112	15.50	12.00	8.40	4.80	1.20	0	0	0	0	0	0
$112	$114	15.80	12.20	8.60	5.10	1.50	0	0	0	0	0	0
$114	$116	16.10	12.50	8.90	5.30	1.70	0	0	0	0	0	0
$116	$118	16.40	12.80	9.20	5.60	2.00	0	0	0	0	0	0
$118	$120	16.70	13.10	9.50	5.90	2.30	0	0	0	0	0	0
$120	$124	17.10	13.50	9.90	6.30	2.70	0	0	0	0	0	0
$124	$128	17.60	14.10	10.50	6.90	3.30	0	0	0	0	0	0
$128	$132	18.20	14.60	11.00	7.40	3.80	.30	0	0	0	0	0
$132	$136	18.80	15.20	11.60	8.00	4.40	.80	0	0	0	0	0
$136	$140	19.30	15.70	12.10	8.60	5.00	1.40	0	0	0	0	0
$140	$144	19.90	16.30	12.70	9.10	5.50	1.90	0	0	0	0	0
$144	$148	20.40	16.90	13.30	9.70	6.10	2.50	0	0	0	0	0
$148	$152	21.00	17.40	13.80	10.20	6.60	3.10	0	0	0	0	0
$152	$156	21.60	18.00	14.40	10.80	7.20	3.60	0	0	0	0	0
$156	$160	22.10	18.50	14.90	11.40	7.80	4.20	.60	0	0	0	0
$160	$164	22.70	19.10	15.50	11.90	8.30	4.70	1.10	0	0	0	0
$164	$168	23.20	19.70	16.10	12.50	8.90	5.30	1.70	0	0	0	0
$168	$172	23.80	20.20	16.60	13.00	9.40	5.90	2.30	0	0	0	0
$172	$176	24.40	20.80	17.20	13.60	10.00	6.40	2.80	0	0	0	0
$176	$180	24.90	21.30	17.70	14.20	10.60	7.00	3.40	0	0	0	0
$180	$184	25.50	21.90	18.30	14.70	11.10	7.50	3.90	.40	0	0	0
$184	$188	26.00	22.50	18.90	15.30	11.70	8.10	4.50	.90	0	0	0
$188	$192	26.60	23.00	19.40	15.80	12.20	8.70	5.10	1.50	0	0	0
$192	$196	27.20	23.60	20.00	16.40	12.80	9.20	5.60	2.00	0	0	0
$196	$200	27.70	24.10	20.50	17.00	13.40	9.80	6.20	2.60	0	0	0
$200	$210	28.70	25.10	21.50	17.90	14.30	10.80	7.20	3.60	0	0	0
$210	$220	30.10	26.50	22.90	19.30	15.70	12.20	8.60	5.00	1.40	0	0
$220	$230	31.50	27.90	24.30	20.70	17.10	13.60	10.00	6.40	2.80	0	0
$230	$240	32.90	29.30	25.70	22.10	18.50	15.00	11.40	7.80	4.20	.60	0
$240	$250	34.30	30.70	27.10	23.50	19.90	16.40	12.80	9.20	5.60	2.00	0
$250	$260	35.70	32.10	28.50	24.90	21.30	17.80	14.20	10.60	7.00	3.40	0
$260	$270	37.10	33.50	29.90	26.30	22.70	19.20	15.60	12.00	8.40	4.80	1.20
$270	$280	38.50	34.90	31.30	27.70	24.10	20.60	17.00	13.40	9.80	6.20	2.60
$280	$290	39.90	36.30	32.70	29.10	25.50	22.06	18.40	14.80	11.20	7.60	4.00
$290	$300	41.30	37.70	34.10	30.50	26.90	23.40	19.80	16.20	12.60	9.00	5.40
$300	$320	43.40	39.80	36.20	32.60	29.00	25.50	21.90	18.30	14.70	11.10	7.50
$320	$340	46.20	42.60	39.00	35.40	31.80	28.30	24.70	21.10	17.50	13.90	10.30
$340	$360	49.00	45.40	41.80	38.20	34.60	31.10	27.50	23.90	20.30	16.70	13.10
$360	$380	51.80	48.20	44.60	41.00	37.40	33.90	30.30	26.70	23.10	19.50	15.90
$380	$400	54.60	51.00	47.40	43.80	40.20	36.70	33.10	29.50	25.90	22.30	18.70
		14 percent of the excess over $400 plus—										
$400 and over		56.00	52.40	48.80	45.20	41.60	38.10	34.50	30.90	27.30	23.70	20.10

"If the payroll period with respect to an employee is semimonthly—

And the wages are—		And the number of withholding exemptions claimed is—										
At least—	But less than—	0	1	2	3	4	5	6	7	8	9	10 or more
		The amount of income tax to be withheld shall be—										
$0	$28	14% of wages	$0	$0	$0	$0	$0	$0	$0	$0	$0	$0
$28	$30	$4.10	.20	0	0	0	0	0	0	0	0	0
$30	$32	4.30	.50	0	0	0	0	0	0	0	0	0
$32	$34	4.60	.70	0	0	0	0	0	0	0	0	0
$34	$36	4.90	1.00	0	0	0	0	0	0	0	0	0
$36	$38	5.20	1.30	0	0	0	0	0	0	0	0	0
$38	$40	5.50	1.60	0	0	0	0	0	0	0	0	0
$40	$42	5.70	1.90	0	0	0	0	0	0	0	0	0
$42	$44	6.00	2.10	0	0	0	0	0	0	0	0	0
$44	$46	6.30	2.40	0	0	0	0	0	0	0	0	0
$46	$48	6.60	2.70	0	0	0	0	0	0	0	0	0
$48	$50	6.90	3.00	0	0	0	0	0	0	0	0	0
$50	$52	7.10	3.30	0	0	0	0	0	0	0	0	0
$52	$54	7.40	3.50	0	0	0	0	0	0	0	0	0
$54	$56	7.70	3.80	0	0	0	0	0	0	0	0	0
$56	$58	8.00	4.10	.20	0	0	0	0	0	0	0	0
$58	$60	8.30	4.40	.50	0	0	0	0	0	0	0	0
$60	$62	8.50	4.70	.80	0	0	0	0	0	0	0	0
$62	$64	8.80	4.90	1.00	0	0	0	0	0	0	0	0
$64	$66	9.10	5.20	1.30	0	0	0	0	0	0	0	0
$66	$68	9.40	5.50	1.60	0	0	0	0	0	0	0	0
$68	$70	9.70	5.80	1.90	0	0	0	0	0	0	0	0
$70	$72	9.90	6.10	2.20	0	0	0	0	0	0	0	0
$72	$74	10.20	6.30	2.40	0	0	0	0	0	0	0	0
$74	$76	10.50	6.60	2.70	0	0	0	0	0	0	0	0
$76	$78	10.80	6.90	3.00	0	0	0	0	0	0	0	0
$78	$80	11.10	7.20	3.30	0	0	0	0	0	0	0	0
$80	$82	11.30	7.50	3.60	0	0	0	0	0	0	0	0
$82	$84	11.60	7.70	3.80	0	0	0	0	0	0	0	0
$84	$86	11.90	8.00	4.10	.20	0	0	0	0	0	0	0
$86	$88	12.20	8.30	4.40	.50	0	0	0	0	0	0	0
$88	$90	12.50	8.60	4.70	.80	0	0	0	0	0	0	0
$90	$92	12.70	8.90	5.00	1.10	0	0	0	0	0	0	0
$92	$94	13.00	9.10	5.20	1.40	0	0	0	0	0	0	0
$94	$96	13.30	9.40	5.50	1.60	0	0	0	0	0	0	0
$96	$98	13.60	9.70	5.80	1.90	0	0	0	0	0	0	0
$98	$100	13.90	10.00	6.10	2.20	0	0	0	0	0	0	0
$100	$102	14.10	10.30	6.40	2.50	0	0	0	0	0	0	0
$102	$104	14.40	10.50	6.60	2.80	0	0	0	0	0	0	0
$104	$106	14.70	10.80	6.90	3.00	0	0	0	0	0	0	0
$106	$108	15.00	11.10	7.20	3.30	0	0	0	0	0	0	0
$108	$110	15.30	11.40	7.50	3.60	0	0	0	0	0	0	0
$110	$112	15.50	11.70	7.80	3.90	0	0	0	0	0	0	0
$112	$114	15.80	11.90	8.00	4.20	.30	0	0	0	0	0	0
$114	$116	16.10	12.20	8.30	4.40	.50	0	0	0	0	0	0
$116	$118	16.40	12.50	8.60	4.70	.80	0	0	0	0	0	0
$118	$120	16.70	12.80	8.90	5.00	1.10	0	0	0	0	0	0
$120	$124	17.10	13.20	9.30	5.40	1.50	0	0	0	0	0	0
$124	$128	17.60	13.80	9.90	6.00	2.10	0	0	0	0	0	0
$128	$132	18.20	14.30	10.40	6.50	2.60	0	0	0	0	0	0
$132	$136	18.80	14.90	11.00	7.10	3.20	0	0	0	0	0	0
$136	$140	19.30	15.40	11.50	7.70	3.80	0	0	0	0	0	0
$140	$144	19.90	16.00	12.10	8.20	4.30	.40	0	0	0	0	0
$144	$148	20.40	16.60	12.70	8.80	4.90	1.00	0	0	0	0	0
$148	$152	21.00	17.10	13.20	9.30	5.40	1.60	0	0	0	0	0
$152	$156	21.60	17.70	13.80	9.90	6.00	2.10	0	0	0	0	0
$156	$160	22.10	18.20	14.30	10.50	6.60	2.70	0	0	0	0	0
$160	$164	22.70	18.80	14.90	11.00	7.10	3.20	0	0	0	0	0
$164	$168	23.20	19.40	15.50	11.60	7.70	3.80	0	0	0	0	0
$168	$172	23.80	19.90	16.00	12.10	8.20	4.40	.50	0	0	0	0
$172	$176	24.40	20.50	16.60	12.70	8.80	4.90	1.00	0	0	0	0
$176	$180	24.90	21.00	17.10	13.30	9.40	5.50	1.60	0	0	0	0
$180	$184	25.50	21.60	17.70	13.80	9.90	6.00	2.10	0	0	0	0
$184	$188	26.00	22.20	18.30	14.40	10.50	6.60	2.70	0	0	0	0
$188	$192	26.60	22.70	18.80	14.90	11.00	7.20	3.30	0	0	0	0
$192	$196	27.20	23.30	19.40	15.50	11.60	7.70	3.80	0	0	0	0
$196	$200	27.70	23.80	19.90	16.10	12.20	8.30	4.40	.50	0	0	0
$200	$210	28.70	24.80	20.90	17.00	13.10	9.30	5.40	1.50	0	0	0
$210	$220	30.10	26.20	22.30	18.40	14.50	10.70	6.80	2.90	0	0	0
$220	$230	31.50	27.60	23.70	19.80	15.90	12.10	8.20	4.30	.40	0	0
$230	$240	32.90	29.00	25.10	21.20	17.30	13.50	9.60	5.70	1.80	0	0
$240	$250	34.30	30.40	26.50	22.60	18.70	14.90	11.00	7.10	3.20	0	0
$250	$260	35.70	31.80	27.90	24.00	20.10	16.30	12.40	8.50	4.60	.70	0
$260	$270	37.10	33.20	29.30	25.40	21.50	17.70	13.80	9.90	6.00	2.10	0
$270	$280	38.50	34.60	30.70	26.80	22.90	19.10	15.20	11.30	7.40	3.50	0
$280	$290	39.90	36.00	32.10	28.20	24.30	20.50	16.60	12.70	8.80	4.90	1.00
$290	$300	41.30	37.40	33.50	29.60	25.70	21.90	18.00	14.10	10.20	6.30	2.40
$300	$320	43.40	39.50	35.60	31.70	27.80	24.00	20.10	16.20	12.30	8.40	4.50
$320	$340	46.20	42.30	38.40	34.50	30.60	26.80	22.90	19.00	15.10	11.20	7.30
$340	$360	49.00	45.10	41.20	37.30	33.40	29.60	25.70	21.80	17.90	14.00	10.10
$360	$380	51.80	47.90	44.00	40.10	36.20	32.40	28.50	24.60	20.70	16.80	12.90
$380	$400	54.60	50.70	46.80	42.90	39.00	35.20	31.30	27.40	23.50	19.60	15.70
$400	$420	57.40	53.50	49.60	45.70	41.80	38.00	34.10	30.20	26.30	22.40	18.50
$420	$440	60.20	56.30	52.40	48.50	44.60	40.80	36.90	33.00	29.10	25.20	21.30
$440	$460	63.00	59.10	55.20	51.30	47.40	43.60	39.70	35.80	31.90	28.00	24.10
$460	$480	65.80	61.90	58.00	54.10	50.20	46.40	42.50	38.60	34.70	30.80	26.90
$480	$500	68.60	64.70	60.80	56.90	53.00	49.20	45.30	41.40	37.50	33.60	29.70
		14 percent of the excess over $500 plus—										
$500 and over		70.00	66.10	62.20	58.30	54.40	50.60	46.70	42.80	38.90	35.00	31.10

"If the payroll period with respect to an employee is monthly—

And the wages are—		And the number of withholding exemptions claimed is—										
At least—	But less than—	0	1	2	3	4	5	6	7	8	9	10 or more
		The amount of income tax to be withheld shall be—										
$0	$56	14% of wages	$0	$0	$0	$0	$0	$0	$0	$0	$0	$0
$56	$60	$8.10	.30	0	0	0	0	0	0	0	0	0
$60	$64	8.70	.90	0	0	0	0	0	0	0	0	0
$64	$68	9.20	1.50	0	0	0	0	0	0	0	0	0
$68	$72	9.80	2.00	0	0	0	0	0	0	0	0	0
$72	$76	10.40	2.60	0	0	0	0	0	0	0	0	0
$76	$80	10.90	3.10	0	0	0	0	0	0	0	0	0
$80	$84	11.50	3.70	0	0	0	0	0	0	0	0	0
$84	$88	12.00	4.30	0	0	0	0	0	0	0	0	0
$88	$92	12.60	4.80	0	0	0	0	0	0	0	0	0
$92	$96	13.20	5.40	0	0	0	0	0	0	0	0	0
$96	$100	13.70	5.90	0	0	0	0	0	0	0	0	0
$100	$104	14.30	6.50	0	0	0	0	0	0	0	0	0
$104	$108	14.80	7.10	0	0	0	0	0	0	0	0	0
$108	$112	15.40	7.60	0	0	0	0	0	0	0	0	0
$112	$116	16.00	8.20	.40	0	0	0	0	0	0	0	0
$116	$120	16.50	8.70	1.00	0	0	0	0	0	0	0	0
$120	$124	17.10	9.30	1.50	0	0	0	0	0	0	0	0
$124	$128	17.60	9.90	2.10	0	0	0	0	0	0	0	0
$128	$132	18.20	10.40	2.60	0	0	0	0	0	0	0	0
$132	$136	18.80	11.00	3.20	0	0	0	0	0	0	0	0
$136	$140	19.30	11.50	3.80	0	0	0	0	0	0	0	0
$140	$144	19.90	12.10	4.30	0	0	0	0	0	0	0	0
$144	$148	20.40	12.70	4.90	0	0	0	0	0	0	0	0
$148	$152	21.00	13.20	5.40	0	0	0	0	0	0	0	0
$152	$156	21.60	13.80	6.00	0	0	0	0	0	0	0	0
$156	$160	22.10	14.30	6.60	0	0	0	0	0	0	0	0
$160	$164	22.70	14.90	7.10	0	0	0	0	0	0	0	0
$164	$168	23.20	15.50	7.70	0	0	0	0	0	0	0	0
$168	$172	23.80	16.00	8.20	.50	0	0	0	0	0	0	0
$172	$176	24.40	16.60	8.80	1.00	0	0	0	0	0	0	0
$176	$180	24.90	17.10	9.40	1.60	0	0	0	0	0	0	0
$180	$184	25.50	17.70	9.90	2.10	0	0	0	0	0	0	0
$184	$188	26.00	18.30	10.50	2.70	0	0	0	0	0	0	0
$188	$192	26.60	18.80	11.00	3.30	0	0	0	0	0	0	0
$192	$196	27.20	19.40	11.60	3.80	0	0	0	0	0	0	0
$196	$200	27.70	19.90	12.20	4.40	0	0	0	0	0	0	0
$200	$204	28.30	20.50	12.70	4.90	0	0	0	0	0	0	0
$204	$208	28.80	21.10	13.30	5.50	0	0	0	0	0	0	0
$208	$212	29.40	21.60	13.80	6.10	0	0	0	0	0	0	0
$212	$216	30.00	22.20	14.40	6.60	0	0	0	0	0	0	0
$216	$220	30.50	22.70	15.00	7.20	0	0	0	0	0	0	0
$220	$224	31.10	23.30	15.50	7.70	0	0	0	0	0	0	0
$224	$228	31.60	23.90	16.10	8.30	.50	0	0	0	0	0	0
$228	$232	32.20	24.40	16.60	8.90	1.10	0	0	0	0	0	0
$232	$236	32.80	25.00	17.20	9.40	1.60	0	0	0	0	0	0
$236	$240	33.30	25.50	17.80	10.00	2.20	0	0	0	0	0	0
$240	$248	34.20	26.40	18.60	10.80	3.00	0	0	0	0	0	0
$248	$256	35.30	27.50	19.70	11.90	4.20	0	0	0	0	0	0
$256	$264	36.40	28.60	20.80	13.10	5.30	0	0	0	0	0	0
$264	$272	37.50	29.70	22.00	14.20	6.40	0	0	0	0	0	0
$272	$280	38.60	30.90	23.10	15.30	7.50	0	0	0	0	0	0
$280	$288	39.80	32.00	24.20	16.40	8.60	.90	0	0	0	0	0
$288	$296	40.90	33.10	25.30	17.50	9.80	2.00	0	0	0	0	0
$296	$304	42.00	34.20	26.40	18.70	10.90	3.10	0	0	0	0	0
$304	$312	43.10	35.30	27.60	19.80	12.00	4.20	0	0	0	0	0
$312	$320	44.20	36.50	28.70	20.90	13.10	5.40	0	0	0	0	0
$320	$328	45.40	37.60	29.80	22.00	14.20	6.50	0	0	0	0	0
$328	$336	46.50	38.70	30.90	23.10	15.40	7.60	0	0	0	0	0
$336	$344	47.60	39.80	32.00	24.30	16.50	8.70	.90	0	0	0	0
$344	$352	48.70	40.90	33.20	25.40	17.60	9.80	2.10	0	0	0	0
$352	$360	49.80	42.10	34.30	26.50	18.70	11.00	3.20	0	0	0	0
$360	$368	51.00	43.20	35.40	27.60	19.80	12.10	4.30	0	0	0	0
$368	$376	52.10	44.30	36.50	28.70	21.00	13.20	5.40	0	0	0	0
$376	$384	53.20	45.40	37.60	29.90	22.10	14.30	6.50	0	0	0	0
$384	$392	54.30	46.50	38.80	31.00	23.20	15.40	7.70	0	0	0	0
$392	$400	55.40	47.70	39.90	32.10	24.30	16.60	8.80	1.00	0	0	0
$400	$420	57.40	49.60	41.80	34.10	26.30	18.50	10.70	3.00	0	0	0
$420	$440	60.20	52.40	44.60	36.90	29.10	21.30	13.50	5.80	0	0	0
$440	$460	63.00	55.20	47.40	39.70	31.90	24.10	16.30	8.60	.80	0	0
$460	$480	65.80	58.00	50.20	42.50	34.70	26.90	19.10	11.40	3.60	0	0
$480	$500	68.60	60.80	53.00	45.30	37.50	29.70	21.90	14.20	6.40	0	0
$500	$520	71.40	63.60	55.80	48.10	40.30	32.50	24.70	17.00	9.20	1.40	0
$520	$540	74.20	66.40	58.60	50.90	43.10	35.30	27.50	19.80	12.00	4.20	0
$540	$560	77.00	69.20	61.40	53.70	45.90	38.10	30.30	22.60	14.80	7.00	0
$560	$580	79.80	72.00	64.20	56.50	48.70	40.90	33.10	25.40	17.60	9.80	2.00
$580	$600	82.60	74.80	67.00	59.30	51.50	43.70	35.90	28.20	20.40	12.60	4.80
$600	$640	86.80	79.00	71.20	63.50	55.70	47.90	40.10	32.40	24.60	16.80	9.00
$640	$680	92.40	84.60	76.80	69.10	61.30	53.50	45.70	38.00	30.20	22.40	14.60
$680	$720	98.00	90.20	82.40	74.70	66.90	59.10	51.30	43.60	35.80	28.00	20.20
$720	$760	103.60	95.80	88.00	80.30	72.50	64.70	56.90	49.20	41.40	33.60	25.80
$760	$800	109.20	101.40	93.60	85.90	78.10	70.30	62.50	54.80	47.00	39.20	31.40
$800	$840	114.80	107.00	99.20	91.50	83.70	75.90	68.10	60.40	52.60	44.80	37.00
$840	$880	120.40	112.60	104.80	97.10	89.30	81.50	73.70	66.00	58.20	50.40	42.60
$880	$920	126.00	118.20	110.40	102.70	94.90	87.10	79.30	71.60	63.80	56.00	48.20
$920	$960	131.60	123.80	116.00	108.30	100.50	92.70	84.90	77.20	69.40	61.60	53.80
$960	$1,000	137.20	129.40	121.60	113.90	106.10	98.30	90.50	82.80	75.00	67.20	59.40
		14 percent of the excess over $1,000 plus—										
$1,000 and over		140.00	132.20	124.40	116.70	108.90	101.10	93.30	85.60	77.80	70.00	62.20

"If the payroll period with respect to an employee is a daily payroll period or a miscellaneous payroll period—

And the wages divided by the number of days in such period are—		And the number of withholding exemptions claimed is—										
		0	1	2	3	4	5	6	7	8	9	10 or more
At least—	But less than—	The amount of tax to be withheld shall be the following amount multiplied by the number of days in such period—										
$0	$2.00	14% of wages	$0	$0	$0	$0	$0	$0	$0	$0	$0	$0
$2.00	$2.25	$.30	.05	0	0	0	0	0	0	0	0	0
$2.25	$2.50	.35	.10	0	0	0	0	0	0	0	0	0
$2.50	$2.75	.35	.10	0	0	0	0	0	0	0	0	0
$2.75	$3.00	.40	.15	0	0	0	0	0	0	0	0	0
$3.00	$3.25	.45	.20	0	0	0	0	0	0	0	0	0
$3.25	$3.50	.45	.20	0	0	0	0	0	0	0	0	0
$3.50	$3.75	.50	.25	0	0	0	0	0	0	0	0	0
$3.75	$4.00	.55	.30	.05	0	0	0	0	0	0	0	0
$4.00	$4.25	.60	.30	.05	0	0	0	0	0	0	0	0
$4.25	$4.50	.60	.35	.10	0	0	0	0	0	0	0	0
$4.50	$4.75	.65	.40	.15	0	0	0	0	0	0	0	0
$4.75	$5.00	.70	.45	.15	0	0	0	0	0	0	0	0
$5.00	$5.25	.70	.45	.20	0	0	0	0	0	0	0	0
$5.25	$5.50	.75	.50	.25	0	0	0	0	0	0	0	0
$5.50	$5.75	.80	.55	.30	0	0	0	0	0	0	0	0
$5.75	$6.00	.80	.55	.30	.05	0	0	0	0	0	0	0
$6.00	$6.25	.85	.60	.35	.10	0	0	0	0	0	0	0
$6.25	$6.50	.90	.65	.40	.15	0	0	0	0	0	0	0
$6.50	$6.75	.95	.65	.40	.15	0	0	0	0	0	0	0
$6.75	$7.00	.95	.70	.45	.20	0	0	0	0	0	0	0
$7.00	$7.25	1.00	.75	.50	.25	0	0	0	0	0	0	0
$7.25	$7.50	1.05	.80	.50	.25	0	0	0	0	0	0	0
$7.50	$7.75	1.05	.80	.55	.30	.05	0	0	0	0	0	0
$7.75	$8.00	1.10	.85	.60	.35	.10	0	0	0	0	0	0
$8.00	$8.25	1.15	.90	.65	.35	.10	0	0	0	0	0	0
$8.25	$8.50	1.15	.90	.65	.40	.15	0	0	0	0	0	0
$8.50	$8.75	1.20	.95	.70	.45	.20	0	0	0	0	0	0
$8.75	$9.00	1.25	1.00	.75	.50	.20	0	0	0	0	0	0
$9.00	$9.25	1.30	1.00	.75	.50	.25	0	0	0	0	0	0
$9.25	$9.50	1.30	1.05	.80	.55	.30	.05	0	0	0	0	0
$9.50	$9.75	1.35	1.10	.85	.60	.30	.05	0	0	0	0	0
$9.75	$10.00	1.40	1.15	.85	.60	.35	.10	0	0	0	0	0
$10.00	$10.50	1.45	1.20	.90	.65	.40	.15	0	0	0	0	0
$10.50	$11.00	1.50	1.25	1.00	.75	.50	.25	0	0	0	0	0
$11.00	$11.50	1.60	1.30	1.05	.80	.55	.30	.05	0	0	0	0
$11.50	$12.00	1.65	1.40	1.15	.90	.60	.35	.10	0	0	0	0
$12.00	$12.50	1.70	1.45	1.20	.95	.70	.45	.20	0	0	0	0
$12.50	$13.00	1.80	1.55	1.25	1.00	.75	.50	.25	0	0	0	0
$13.00	$13.50	1.85	1.60	1.35	1.10	.85	.60	.30	.05	0	0	0
$13.50	$14.00	1.95	1.65	1.40	1.15	.90	.65	.40	.15	0	0	0
$14.00	$14.50	2.00	1.75	1.50	1.25	.95	.70	.45	.20	0	0	0
$14.50	$15.00	2.05	1.80	1.55	1.30	1.05	.80	.55	.30	0	0	0
$15.00	$15.50	2.15	1.90	1.60	1.35	1.10	.85	.60	.35	.10	0	0
$15.50	$16.00	2.20	1.95	1.70	1.45	1.20	.95	.65	.40	.15	0	0
$16.00	$16.50	2.30	2.00	1.75	1.50	1.25	1.00	.75	.50	.25	0	0
$16.50	$17.00	2.35	2.10	1.85	1.60	1.30	1.05	.80	.55	.30	.05	0
$17.00	$17.50	2.40	2.15	1.90	1.65	1.40	1.15	.90	.65	.35	.10	0
$17.50	$18.00	2.50	2.25	1.95	1.70	1.45	1.20	.95	.70	.45	.20	0
$18.00	$18.50	2.55	2.30	2.05	1.80	1.55	1.30	1.00	.75	.50	.25	0
$18.50	$19.00	2.65	2.35	2.10	1.85	1.60	1.35	1.10	.85	.60	.30	.05
$19.00	$19.50	2.70	2.45	2.20	1.95	1.65	1.40	1.15	.90	.65	.40	.15
$19.50	$20.00	2.75	2.50	2.25	2.00	1.75	1.50	1.25	1.00	.70	.45	.20
$20.00	$21.00	2.85	2.60	2.35	2.10	1.85	1.60	1.35	1.10	.80	.55	.30
$21.00	$22.00	3.00	2.75	2.50	2.25	2.00	1.75	1.50	1.20	.95	.70	.45
$22.00	$23.00	3.15	2.90	2.65	2.40	2.15	1.85	1.60	1.35	1.10	.85	.60
$23.00	$24.00	3.30	3.05	2.80	2.50	2.25	2.00	1.75	1.50	1.25	1.00	.75
$24.00	$25.00	3.45	3.15	2.90	2.65	2.40	2.15	1.90	1.65	1.40	1.15	.85
$25.00	$26.00	3.55	3.30	3.05	2.80	2.55	2.30	2.05	1.80	1.50	1.25	1.00
$26.00	$27.00	3.70	3.45	3.20	2.95	2.70	2.45	2.20	1.90	1.65	1.40	1.15
$27.00	$28.00	3.85	3.60	3.35	3.10	2.85	2.55	2.30	2.05	1.80	1.55	1.30
$28.00	$29.00	4.00	3.75	3.50	3.20	2.95	2.70	2.45	2.20	1.95	1.70	1.45
$29.00	$30.00	4.15	3.85	3.60	3.35	3.10	2.85	2.60	2.35	2.10	1.85	1.55
		14 percent of the excess over $30 plus—										
$30 and over		4.20	3.95	3.70	3.45	3.20	2.90	2.65	2.40	2.15	1.90	1.65"

68A Stat. 357; 75 Stat. 536. 26 USC 1441.

(c) WITHHOLDING OF TAX ON CERTAIN NONRESIDENT ALIENS.—Subsections (a) and (b) of section 1441 (relating to withholding of tax on nonresident aliens) are amended by striking out "18 percent" and inserting in lieu thereof "14 percent".

Effective date.

(d) EFFECTIVE DATES.—The amendments made by subsections (a) and (b) of this section shall apply with respect to remuneration paid after the seventh day following the date of the enactment of this Act. The amendment made by subsection (c) of this section shall apply with respect to payments made after the seventh day following the date of the enactment of this Act.

Approved February 26, 1964.

Public Law 88-273

February 28, 1964 [S. 298]

AN ACT

To amend the Small Business Investment Act of 1958.

Small Business Investment Act Amendments of 1963.

Be it enacted by the Senate and House of Representatives of the United States of America in Congress assembled, That this Act may be cited as the "Small Business Investment Act Amendments of 1963".

72 Stat. 692; 75 Stat. 752. 15 USC 682.

SEC. 2. The second sentence of section 302(a) of the Small Business Investment Act of 1958 is amended by striking out "$400,000" and inserting in lieu thereof "$700,000", by striking out "three years" and inserting in lieu thereof "five years", and by striking out "1961" and inserting in lieu thereof "1963".

Borrowing power. 15 USC 683.

SEC. 3. Section 303(b) of the Small Business Investment Act of 1958 is amended to read as follows:

"(b) To encourage the formation and growth of small business investment companies, the Administration is authorized (but only to the extent that the necessary funds are not available to the company involved from private sources on reasonable terms) to lend funds to such companies either directly or by loans made or effected in cooperation with banks or other lending institutions through agreements to participate on an immediate or deferred (standby) basis. Such loans shall bear interest at such rate (in no case lower than the average investment yield, as determined by the Secretary of the Treasury, on marketable obligations of the United States outstanding at the time of the loan involved) and contain such other terms as the Administration may fix, and shall be subject to the following restrictions and limitations:

"(1) The total amount of obligations of any one company which may be purchased and outstanding at any one time by the Administration under this subsection (including commitments to purchase such obligations) shall not exceed 50 per centum of the paid-in capital and surplus of such company or $4,000,000, whichever is less.

"(2) All loans made under this subsection (b) shall be of such sound value as reasonably to assure repayment."

Assistance; limitations. 15 USC 686.

SEC. 4. Section 306 of the Small Business Investment Act of 1958 is amended to read as follows:

"AGGREGATE LIMITATIONS

"SEC. 306. Without the approval of the Administration, the aggregate amount of obligations and securities acquired and for which commitments may be issued by any small business investment company