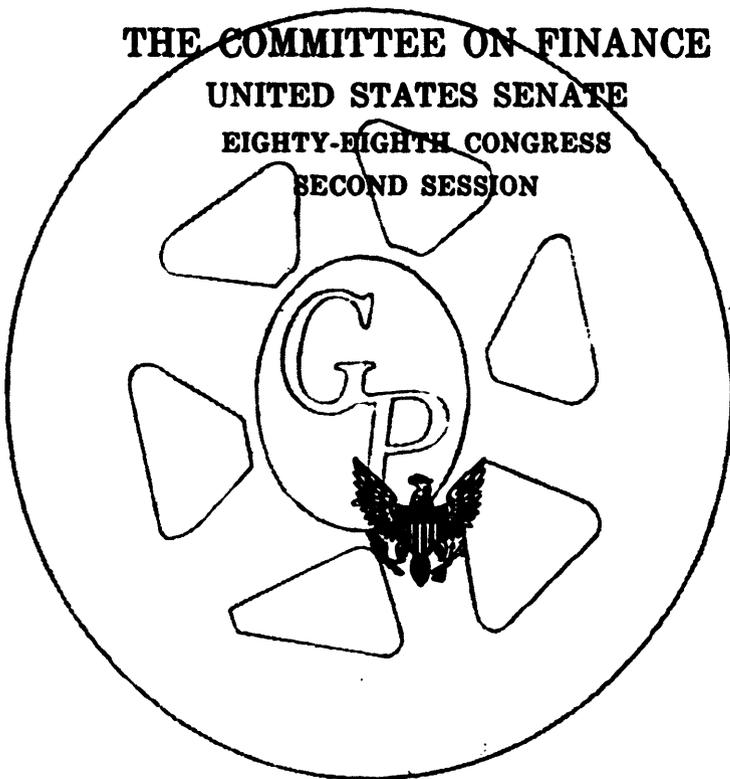


**BRIEF SUMMARY OF THE PROVISIONS OF
H.R. 8363, "THE REVENUE ACT OF 1964"**

AS AGREED TO BY THE CONFEREES

**THE COMMITTEE ON FINANCE
UNITED STATES SENATE
EIGHTY-EIGHTH CONGRESS
SECOND SESSION**



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(1) *Section 1: Declaration by Congress.*—It is the sense of Congress that the tax reduction provided by this bill, through stimulation of the economy, after a brief transitional period will raise (rather than lower) revenues and that these revenues should first be used to eliminate deficits and then the public debt. Congress also recognizes the importance of taking all reasonable means to restrain Government spending and urges the President to do the same.

(2) *Section 2:* The title of the bill is the Revenue Act of 1964.

(3) *Section 111: Individual rates.*—This reduces the rates of tax for individuals from a range of 20 to 91 percent to a range of 16 to 77 percent for 1964 and to a range of 14 to 70 percent for 1965 and subsequent years. This also splits the first bracket into four segments of \$500 each, taxed at 14, 15, 16, and 17 percent, respectively.

(4) *Section 112: Minimum standard deduction.*—This provides that, if higher than the 10-percent standard deduction, the "minimum standard deduction" is to be \$200 plus \$100 for each exemption (or \$300 for the first exemption and \$100 for each additional exemption). Thus, the exemption and minimum standard deduction for a single person will be \$900; for a married couple, \$1,600; and, for a married couple with two children, \$3,000.

(5) *Section 113: Related amendments.*—This conforms the tax rate applicable to the retirement income credit with the new rate schedules. Thus, it makes the rate applicable to the retirement income 17 percent for 1964 and 15 percent for subsequent years (instead of 20 percent). This also conforms the floor on the tax on nonresident aliens with the new rate schedule by raising from \$15,400 to \$19,000 in 1964 and to \$21,200 in 1965 and subsequent years the income level to which the regular, rather than the flat 30-percent rate, may be applicable.

(6) *Section 114.*—This is a cross-reference.

(7) *Section 121: Corporate rates.*—This reduces the overall corporate tax rate from the present 52 percent to 50 percent in 1964 and 48 percent in subsequent years. It also reduces the rate applicable to the first \$25,000 of corporate income, from the present 30 percent, to 22 percent for 1964 and subsequent years.

(8) *Section 122: Acceleration of corporate tax.*—This section provides for a speedup in the payment of corporate taxes. It applies only to tax liability in excess of \$100,000. At present, 50 percent of tax liability over \$100,000 is payable in two installments in September and December (for a calendar year corporation) in the current year of liability. This accelerates the other two payments now made after the end of the year with respect to this liability over \$100,000 so that by 1970 these two 25-percent payments also will be made in the current year of liability in April and June (for a calendar year corpo-

ration). This speedup is provided on a gradual basis. Thus, 1 percent of this liability in April and 1 percent in June will be reported for 1964, 4 percent for each of these two months in 1965, 9 percent for 1966, 14 percent for 1967, 19 percent for 1968, 22 percent for 1969, and the full 25 percent for 1970.

(9) *Section 125: Related amendments.*—This conforms other provisions in the Internal Revenue Code to the changes made with respect to corporate rates in section 121. The conforming amendments relate to the tax on mutual insurance companies (other than life) and receipts of minimum distributions for domestic corporations from their foreign subsidiaries.

(10) *Section 131: Effective date.*—This provides that the corporate and individual rate changes are to be effective generally for taxable years beginning after December 31, 1963.

(11) *Section 132: Fiscal year taxpayers.*—This provides that the individual and corporate rate changes for fiscal year taxpayers are to apply to that portion of their years ending after December 31, 1963.

(12) *Section 201: Dividend credit and exclusion.*—The 4-percent dividends received credit available to individuals is reduced to 2 percent for 1964 and repealed for subsequent years. The \$50 dividend exclusion is increased to \$100 for 1964 and subsequent years. This increase is from \$100 to \$200 for married couples where each spouse has sufficient dividend income or the two do jointly.

(13) *Section 202: Retirement income credit.*—This provides that a couple, both over 65, making a joint return may, at their election, have a total retirement income credit of \$2,286 applicable to the retirement income of either or both if either spouse meets the 10-year earned income requirement. The \$2,286 amount is required to be reduced by amounts received as tax-exempt pensions and annuities and by amounts representing adjustments for earned income. (These are the reductions applying to the \$1,524 ceiling under present law.)

(14) *Section 203: Investment credit.*—In the case of the investment credit, the provision requiring a downward adjustment in the basis of property eligible for depreciation, to the extent of the 7-percent investment credit, is repealed. Also Federal regulatory commissions are prohibited from requiring the "flowthrough" of any of the benefits of the investment credit to the customers of the regulated industries in the case of property eligible for the full 7-percent credit (mainly the transportation industries such as railroads, airlines, and pipelines). In the case of public utilities eligible only for the 3-percent credit (principally telephone and electric companies), the regulatory commissions are not to require the "flowthrough" of the benefits of the investment credit in any period of time shorter than the usual life of the asset involved. Other changes make the investment credit available in the case of elevators and escalators and increase the base on which the credit of the lessee is to be computed where dealers lease property eligible for the credit.

(15) *Section 204: Group term insurance.*—The employee exclusion for premiums on group term insurance furnished through the employer is limited to premiums paid on the first \$50,000 of coverage, and information reporting requirements are provided for those employees receiving more than \$50,000 of such insurance.

(16) *Section 205: Sick pay exclusion.*—Sick pay received after the taxpayer has been absent from work more than 30 days is to be

excluded from income up to \$100 a week. Within the 30-day period if the sick pay is 75 percent or less of the regular weekly rate, then up to \$75 a week may be excluded after an absence of 7 calendar days on account of injuries or illness, and from the first day without any waiting period, if the taxpayer is hospitalized at least 1 day in the first 7.

(17) *Section 206: Sale of residence.*—An exclusion from taxable income is provided for any capital gain attributable to the first \$20,000 of the sale price of a personal residence in the case of an individual age 65 or over who owned the house for 8 years and occupied it for 5 of them.

(18) *Section 207: State and local taxes.*—A deduction is denied in computing income subject to Federal tax for State and local taxes other than property taxes, income taxes, general sales taxes, and gasoline taxes. The principal taxes for which this denies a deduction are alcoholic beverage taxes, cigarette taxes, auto registration fees and licenses, and selective excise taxes.

(19) *Section 208: Casualty losses.*—The deduction for personal casualty and theft losses is limited to the amount in excess of \$100 per loss, in a manner somewhat similar to the treatment of “\$100 deductible” insurance.

(20) *Section 209: Charitable contributions.*—The following changes are made in the charitable contribution deduction:

(a) The additional 10-percent maximum deduction (above the 20 percent generally available) is made available generally for contributions to publicly supported organizations other than private foundations (presently it is available chiefly for churches, schools, and hospitals);

(b) The unlimited charitable contribution deduction is restricted to contributions to churches, schools, hospitals, and other publicly supported organizations and to a privately supported organization if (i) the organization is an operating charity or (ii) expends 50 percent of the contribution within 3 years after the year it was received (as well as all its net income during the period); in addition for a contribution to a privately supported organization to be deductible under this provision, the person making the contribution must not engage in certain disqualifying transactions with such organization;

(c) A 5-year carryover of charitable contributions (in excess of the amount currently deductible) is provided for individuals with respect to contributions to publicly supported organizations;

(d) The 2-year carryover of charitable contribution deductions for corporations is extended to 5 years (this is available for contributions made in 1962 and 1963 as well as subsequent years);

(e) Charitable contribution deductions for gifts of future interest made after June 30, 1964, in tangible personal property are denied until the gifts are completed.

(21) *Section 210: Expropriation losses.*—Businesses which have sustained substantial “foreign expropriation losses” after 1958 are permitted to carry such losses forward and apply them against income for a 10-year period. This is in place of the regular 3-year carryback and 5-year carryforward which will still remain available or other net operating losses.

(22) *Section 211: Medicines and drugs.*—The 1-percent limitation, or floor, on medicines and drugs, which must be taken into account in determining deductible medical expenses, is made inapplicable where the taxpayer or his wife is over 65 and also with respect to expenses for dependent parents over 65. This conforms the treatment with respect to the 1-percent limitation with that provided in the case of the 3-percent limitation for medical expenses generally.

(23) *Section 212: Child care.*—The child care deduction is revised—

(a) To make it available in the case of a husband whose wife is incapacitated or institutionalized;

(b) To make it available with respect to care for children up to age 13 (instead of 12);

(c) The maximum deduction allowable where there are two or more children is increased from \$600 to \$900; and

(d) The present limitation on family income in the case of a working wife eligible for this deduction is raised from \$4,500 to \$6,000 and is also made applicable in respect of husbands with incapacitated wives.

(24) *Section 213: Moving expenses.*—A deduction is allowed for certain moving expenses—transportation of household goods, transportation of the persons involved, and meals and lodging of the persons while in transit—for employees who are not reimbursed for these expenses and also for new employees. An exclusion of these items is already available in the case of old employees who are reimbursed.

(25) *Section 214: 100-percent dividend deduction.*—Affiliated groups of corporations, where there is an 80-percent common ownership, which are eligible to file a consolidated return but do not do so, are permitted to take a 100-percent deduction for intercorporate dividends received from other members of the group if the group agrees to be treated as a single entity for certain purposes, such as the \$25,000 surtax exemption determining what proportion of its taxes must be paid currently, etc.

(26) *Section 215: Bank loan insurance.*—An interest deduction is denied for amounts borrowed under a systematic plan to pay premiums on life insurance under policies purchased after August 6, 1963. The deduction is denied only if part or all of four of the first seven annual premiums are borrowed, the interest exceeds \$100 a year, the amounts borrowed were not unforeseen emergencies, or the amounts borrowed were not incurred in connection with a business.

(27) *Section 216: Face-amount certificate companies.*—Financial institutions subject to State banking laws and issuing face-amount certificates are not in any event to be denied a deduction for interest paid on these certificates under section 265(2) of the code (relating to interest indebtedness to carry tax-exempt obligations) to the extent the tax-exempt obligations do not constitute more than 15 percent of the average of the institutions' total assets.

(28) *Section 217: Travel expenses.*—The rule adopted in 1962 which disallows a portion of travel expenses for certain business trips combined with a vacation is modified to apply only in the case of travel outside the United States.

(29) *Section 218: Reorganizations.*—Tax-free status is provided for a stock-for-stock reorganization where the corporation acquiring the stock exchanges the voting stock of its parent corporation for the stock of the corporation being acquired.

(30) *Section 219: Multiemployer pension plans.*—Provision is made for the retroactive qualification of a pension plan under a multiemployer agreement with unions where the pension plan subsequently becomes qualified.

(31) *Section 220: Pension coverage of employees abroad.*—U.S. corporations are to be permitted to extend coverage under their qualified pension, profit sharing, et cetera, plans to U.S. citizens employed by foreign subsidiaries or by domestic subsidiaries operating outside the United States. Generally, this treatment will not be available in the case of foreign subsidiaries unless their employees are also covered for social security purposes.

(32) *Section 221: Stock options.*—The present tax treatment of employee stock options is further restricted, the principal additional restrictions being—

- (a) The stock when acquired must be held for 3 years or more;
- (b) The options must not be for a period of more than 5 years;
- (c) The option price must at least equal the market price of the stock when the option is granted;
- (d) Stockholders' approval of the options must be obtained; and
- (e) The extent to which new options may be exercised when old options are outstanding is restricted.

Separate tax treatment is provided for employee stock purchase plans which are available to all employees on a nondiscriminatory basis under rules which are substantially the same as under present law.

(33) *Section 222: Revolving credit.*—Installment sales treatment, under which the income is reported as the installment is received, is extended to revolving credit sales with respect to accounts not used as ordinary charge accounts.

(34) *Section 223: Contested items.*—Where a taxpayer contests a tax or other liability, he is, nevertheless, to be permitted a deduction for the item in the year in which he makes the payment if this is earlier than the year in which the contest is settled.

(35) *Section 224: Unstated interest.*—Where property is sold on an installment basis and either no, or very little, interest is charged on the installments, an appropriate amount of each installment is to be treated as if it were an interest payment. This section also provides that the interest element in certain installment payments for educational services (including lodging) may be treated as deductible interest.

(36) *Section 225: Personal holding companies.*—The percentage of passive income which may result in a company being classified as a personal holding company is reduced from 80 to 60 percent and amendments are made so that the personal holding company tax cannot be avoided by using rental income or oil or gas or mineral royalties (or working interests) to shelter substantial amounts of investment income, such as dividends and interest, from the personal holding company tax. Other restrictive amendments are also made. In addition, relief is provided for those companies which are not now personal holding companies, but would be under the new definitions. They are permitted favorable liquidation treatment in certain cases and also permitted a deduction in computing the personal holding company income for paying off existing debts. The section also provides that the basis of foreign personal holding company stock trans-

mitted at death is to be increased by the Federal estate tax attributable to appreciation in such stock.

(37) *Section 226: Aggregations of property.*—For the future, oil and gas leases and acquisitions may no longer be aggregated into “operating units” in determining what constitutes a property for purposes of computing the 50-percent net income limitation in the case of the percentage depletion deduction.

(38) *Section 227: Iron ore royalties.*—Capital gains treatment is extended to iron ore royalties where the iron ore is mined in the United States and the persons acquiring the ore are not related to the persons owning the property.

(39) *Section 228: Insurance companies.*—Three changes are made with respect to the income tax of insurance companies:

(a) The present rule providing for the deduction of certain distributions in 1958 through 1961 to shareholders pursuant to “mutualizations” of stock life insurance companies are extended to cover distributions in 1962;

(b) The requirement of present law that life insurance companies, and small mutual casualty insurance companies taxed on investment income only, are to ratably accrue market discount on purchased bonds as ordinary income is removed with the result that this will be treated as capital gains; and

(c) A change is made to assure the deductibility of qualified pension plan contributions of stock casualty insurance companies.

(40) *Section 229: Mutual funds.*—Regulated investment companies (i.e., mutual funds meeting certain requirements) are to be given 45 days after the close of their taxable year rather than 30 days to give notices to their shareholders as to the treatment by the shareholders of income received from the companies. In addition, a provision is added to the effect that distributions by a unit investment trust liquidating an individual’s interests in the trust are not to be considered as giving rise to capital gains tax with respect to interests of other investors still in the trust.

(41) *Section 230: Capital loss carryovers.*—Individuals will have an unlimited carryover of capital losses. (Instead of the 5-year carryover of present law). However, these losses are to retain their character as short-term or long-term losses (rather than always being treated as short-term losses in the year to which they are carried.)

(42) *Section 231: Gains on real estate.*—In the case of real estate sold in the future, any depreciation deduction, to the extent the deductions exceed the depreciation which would have been allowable under the straight line method (but only to the extent of any gain), are to be treated as giving rise to ordinary income. However, in the case of property held more than 20 months, the amount treated as ordinary income is to be reduced by 1 percent for each month of holding over 20, with the result that these amounts are taxed as capital gains, rather than as ordinary income, in the case of real property held more than 10 years.

(43) *Section 232: Averaging.*—In place of the various specialized averaging provisions available under present law, what in effect amounts to averaging of income over a 5-year period is to be available for the income in the current year which exceeds the average of the income of the 4 prior years by more than one-third but only if the excess over this $1\frac{1}{3}$ amounts to more than \$3,000.

(44) *Section 233: Subchapter S corporations.*—In the case of subchapter S corporations, the income of which is treated essentially like partnership income, it is provided that certain distributions of money after the close of a taxable year may be treated as made during the year, in order to prevent the double inclusion of this income in the tax base of a shareholder; and that a corporation member of an affiliated group may elect subchapter S treatment if the only other members of the group are inactive subsidiary corporations.

(45) *Section 234: Consolidated returns.*—The 2-percent penalty tax which presently must be paid by corporations for the privilege of filing consolidated returns is repealed.

(46) *Section 235: Multiple surtax exemptions.*—For corporations where there is common control to the extent of 80 percent or more, the corporations involved may, as under present law, file a consolidated return (except in the case of brother-sister affiliations), or may claim one \$25,000 surtax exemption for the group, or alternatively may continue to each claim their own surtax exemption if a special tax of 6 percent is paid upon the first \$25,000 of the income of each of these corporations. In addition, under present law, corporations may not transfer directly all or part of their property (other than money) to another corporation if the other corporation was created for the purpose of acquiring the property and was not actively engaged in business at the time of the acquisition and still have each of these corporations eligible for its own surtax exemption. This treatment is extended to cover cases where the same result is obtained indirectly as well as directly and also where the result is obtained where five or fewer individuals who control a corporation transfer property directly or indirectly to a transferee corporation.

(47) *Section 236: Tax liens.*—A purchaser (but not a mortgagee or pledgee) of a motor vehicle who acquires possession will not be subject to a Federal tax lien against the motor vehicle, notice of which has been publicly filed unless he has actual knowledge of the existence of the lien.

(48) *Section 237: Earned income of U.S. citizens abroad.*—In the case of U.S. citizens who are present in a foreign country for 17 out of 18 consecutive months, or who are bona fide residents of a foreign country for not more than 3 years, the limitation on the exclusion from gross income is continued at \$20,000; but in the case of a U.S. citizen who is a bona fide resident of a foreign country for more than 3 years the exclusion is to be \$25,000 after 1964 (instead of \$35,000).

(49) *Section 238: Cuban seizures of nonbusiness property.*—A deduction for losses occasioned by the seizure, by Cuba, of personal residences (and other tangible nonbusiness property) is made available prospectively by treating such losses as losses arising from a casualty.

(50) *Section 239: Refund of self-employment tax.*—This permits persons who paid self-employment tax and who are later covered for the same period by a retroactive social security agreement entered into by a State to obtain a refund of the self-employment tax. Employees may already obtain a refund of the social security taxes paid by them in this situation.

(51) *Section 240: Estate tax on reversionary or remainder interest.*—This provides 3 years (rather than 2) after a precedent interest terminates for the payment of estate tax with respect to reversionary or remainder interests if earlier payment results in undue hardship.

(52) *Section 301: Optional tax tables.*—Optional tax tables are provided for those with adjusted gross income of less than \$5,000 for the year 1964 and for 1965 and for subsequent years. These tables reflect the rate reductions for individuals referred to in section 111 above.

(53) *Section 302: Withholding.*—Provision is made for a withholding rate of 14 percent in lieu of the 18 percent applicable under present law. This is to apply to payments made after the seventh day following the date of enactment of this bill. Withholding rate tables to reflect this 14-percent withholding rate are also provided.

