Calendar No. 398

92D CONGRESS
1st Session

SENATE

REPORT
No. 92–402

DUTY-FREE STATUS OF CERTAIN GIFTS BY MEMBERS OF THE ARMED FORCES SERVING IN COMBAT ZONES, AND FOR OTHER PURPOSES

OCTOBER 20, 1971.—Ordered to be printed

Mr. LONG, from the Committee on Finance, submitted the following

REPORT

[To accompany H.R. 8312]

The Committee on Finance, to which was referred the bill (H.R. 8312) to continue for 2 additional years the duty-free status of certain gifts by members of the Armed Forces serving in combat zones, having considered the same, reports favorably thereon with amendments and recommends that the bill as amended do pass.

GENERAL STATEMENT, INCLUDING EXPLANATION OF COMMITTEE AMENDMENTS

GIFTS FROM SERVICEMEN IN COMBAT ZONES

The House bill would have extended for two years until December 31, 1973, the existing suspension of duties on gifts sent from servicemen serving in combat zones to the United States.

The Committee amended this provision to limit the extension to one year, until December 31, 1972.

Existing customs law and regulations permit gifts sent from abroad to enter free of duty if they are valued at not more than $10 fair retail value in the country of shipment. However, the United States historically has made an exception to this $10 rule in the case of gifts from servicemen serving abroad in time of war. Under the exception, gifts from these servicemen valued up to $50 (determined on the basis of the fair retail value in the country of shipment) may enter this country duty free. The last exception of gifts from servicemen related to the Korean conflict and expired on July 1, 1961.

In recognition of the Vietnam conflict, Congress reenacted this $50 exception for servicemen on duty in combat zones in Public Law 89–368, effective March 15, 1966, on a temporary basis. This provision was extended by Public Law 90–240 and was further extended by Public Law 91–180 to December 31, 1971.

INCREASE IN PERSONAL EXEMPTION AND LOW-INCOME ALLOWANCE FOR CALENDAR YEAR 1971

Personal exemption.—Under present law, the amount of the personal exemption is $650 for calendar year 1971 and is scheduled to increase to $700 for 1972 and to $750 for 1973 and later years. The increased amounts apply to the personal exemptions available to taxpayers, their spouses and dependents, as well as to the additional exemptions available in the case of blindness and for a taxpayer age 65 or over.

Low-income allowance.—Under present law, the low-income allowance is $1,050 for 1971, but a portion of the low-income allowance is reduced or "phased out" by $1 for every $15 of the taxpayer's income in excess of the tax-free income levels. In 1972 and thereafter, the low-income allowance is scheduled to be $1,000 with no "phaseout."

House action on Revenue Act of 1971.—H.R. 10947 (the Revenue Act of 1971) increases the personal exemption to $675 for 1971 and removes the "phaseout" of the low-income allowance for that year. The tax reduction from the increase in the personal exemption is $925 million for 1971, and the tax reduction from the removal of the "phaseout" is $443 million, a total tax reduction of $1,368 million for 1971.

Committee's action.—The Committee on Finance has been informed by the Secretary of the Treasury that there is an urgency in reaching decisions on these two matters in order to facilitate printing of the 1971 tax return forms. The Secretary's letter to the Committee on this matter is printed below.

The Committee concurred with the House action (as reflected in H.R. 10947) to speed up the increase in the personal exemption to $675 for the calendar year 1971, and with the removal of the "phaseout" of the low-income allowance. These two actions will provide immediate relief for low-income taxpayers in 1971.

The Committee's action will enable the Secretary to complete the income tax returns and instructions for the calendar year 1971. In taking this action, the Committee is dealing only with the 1971 tax year. There will be further changes in the personal exemption and low-income allowance for 1972 and beyond. These will be included in the Revenue Act of 1971 (H.R. 10947), on which the Committee is currently working. The Committee urges that the actions taken on this bill be agreed to expeditiously in order for the Secretary of the Treasury to design and issue the 1971 income tax returns and instructions in a timely fashion, thus providing needed relief for low-income persons in 1971.

[Letter from the Secretary of the Treasury]

OCTOBER 5, 1971.

Hon. RUSSELL B. LONG,
Chairman, Committee on Finance, U.S. Senate,
Washington, D.C.

DEAR MR. CHAIRMAN: In connection with the forthcoming consideration by your Committee of the Revenue Bill of 1971, insofar as it relates to the tax liability of individuals for 1971, I wish to bring to your attention a number of serious administrative problems affecting the Internal Revenue Service specifically, and the taxpaying public generally.

It, of course, is totally unnecessary for us to dwell upon the Committee's interest in moving forward with this legislation. In addition, however, to the reasons you already are well informed of, we are concerned very much with provisions that will affect individual income tax returns for 1971. The purpose of this letter is to emphasize the consequences to the nation's taxpayers of any prolonged delay in the printing of instructions and forms to be used by taxpayers making their 1971 returns.

The Service, through the Government Printing Office, has been committed with commercial printers for several months to release Forms 1040 and tax instructions for printing in the very early part of October. With later release, only with special efforts, including the payment of overtime, can the printing of the tax packages and mailings to taxpayers be accomplished on time, i.e., by late December or very early January.

Normal costs and estimated increased costs for later printing and delayed service center operations are shown on the enclosed attachment. More importantly, and aside from these heavy increases, a delay extending past early November will make it virtually impossible to get mail packages of return forms and instructions to taxpayers by January 3. This stems in part from the capacity of printing contractors but ultimately from the maximum speed at which the service centers can affix name and address labels to the packages.

If the forms cannot reach taxpayers by early January, unprecedented inconvenience to the pulblic will result. Perhaps our greatest concern would be the ripple effect both on voluntary compliance and on the economy of a late printing causing delay of up to 10 million refunds (the number made in January and February last year). This would generate additional huge volumes of inquiries and complaints, not to mention revenue kept out of the Treasury, and the depressing effect on consumer spending.

The Internal Revenue Service is keeping in close touch with the situation and is exploring every possible way of making up for time lost beyond October 1. The Service will spare no reasonable expense and will overlook no method of getting the scores of millions of tax packages and forms into the hands of the nation's 80 million individual taxpayers as close to January 1 as possible. However, as you can see, beyond a certain point—probably very early November—the matter will be out of the Service's control.

A delay in printing the return forms and instructions beyond the third week of November would make it virtually necessary to rely entirely on over-the-counter distribution of returns and instructions at IRS offices and post offices—an unthinkable contingency.

We appreciate the problems you are laboring under and we are reluctant to add to them, but we would be remiss if we failed to invite your attention to this very critical problem. We urge you to do all you properly can, as soon as you can, to determine finally how this legislation will affect returns for 1971.

Sincerely yours,

JOHN CONNALLY.

INDIVIDUAL INCOME TAX RETURNS PRINTING AND SERVICE CENTER COSTS—BEST ESTIMATES

Date of release to printers	Cost of printing mail packages	Cost of printing separate copies	Service center costs
Normal:			
Oct. 1	$2,500,000	$2,000,000	$900,000
Oct. 15	$2,625,000	$2,000,000	918,000
Oct. 22 to 29	$2,750,000 to $3,750,000	$2,200,000 to $2,500,000	945,000
Nov. 5	$2,750,000 to $5,000,000	$2,200,000 to $3,000,000	945,000
Nov. 12	$2,750,000 to $5,000,000	$2,200,000 to $3,000,000	990,000
Nov. 19	$2,750,000 to $5,000,000	$2,200,000 to $3,000,000	990,000
Nov. 26 [1]	$2,500,000 [2]	$8,000,000	[3] 1,400,000

[1] Package contracts canceled; $4,000,000 savings in postage not included in these figures.
[2] Compensation for abrogated contracts.
[3] Includes $500,000 for additional key punching.

No objection to the bill has been received by the committee, and the executive branch agencies have urged its enactment.

EFFECT ON THE REVENUES OF THE BILL AND VOTE OF THE COMMITTEE IN REPORTING THE BILL

In compliance with Section 252(a) of the Legislative Reorganization Act of 1970, the following statement is made relative to the effect on the revenues of this bill. The committee estimates that the extension of the existing provision of the tariff schedules which permits members of the Armed Forces serving in combat zones to send from abroad on a duty-free basis gifts not exceeding $50 in retail value will not result in any additional revenue loss, or administrative costs.

The tax reduction from the increase in the personal exemption is $925 million in 1971, and the tax reduction from the removal of the "phaseout" is $443 million, a total of $1,368 million for 1971. These actions will result in no administrative difficulties, and in fact will greatly facilitate the timely issuance of 1971 income tax returns by the Secretary of the Treasury.

In compliance with section 133 of the Legislative Reorganization Act of 1946, as amended, the following statement is made relative to the vote by the committee on reporting the bill. The bill was ordered favorably reported by the committee, without objection.

CHANGES IN EXISTING LAW

In compliance with subsection 4 of rule XXIX of the Standing Rules of the Senate, changes in existing law made by the bill, as reported, are shown as follows (existing law proposed to be omitted is enclosed in black brackets; new matter is printed in italic; existing law in which no change is proposed is shown in roman):

TARIFF SCHEDULES OF THE UNITED STATES

APPENDIX TO THE TARIFF SCHEDULES

PART 1.—TEMPORARY LEGISLATION

Item	Articles	Rates of duty		Effective period
		1	2	
	* * * * * * *			
915.25	Articles constituting a bona fide gift from a member of the Armed Forces of the United States serving in a combat zone (within the meaning of section 112(c) of the Internal Revenue Code of 1954) to the extent such articles in any shipment do not exceed $50 in aggregate retail value in the country of shipment and with such limitations on the importation of alcoholic beverages and tobacco products as the Secretary of the Treasury may prescribe, if such articles were purchased in or through authorized agencies of the Armed Forces of the United States or in accordance with regulations prescribed by the Secretary of Defense.	Free (see headnote 2 of this subpart).	Free (see headnote 2 of this subpart).	[On or before Dec. 31, 1971.] *On or before Dec. 31, 1972.*
	* * * * * * *			

* * * * * * *

INTERNAL REVENUE CODE OF 1954

* * * * *

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 percentage standard deduction or the low income allowance.

[(c) LOW INCOME ALLOWANCE.—

[(1) IN GENERAL.—The low income allowance is an amount equal to the sum of—

[(A) the basic allowance, and

[(B) the additional allowance.

[(2) BASIC ALLOWANCE.—For purposes of this subsection, the basic allowance is an amount equal to the sum of—

[(A) $200, plus

[(B) $100, multiplied by the number of exemptions.

[The basic allowance shall not exceed $1,000.

[(3) ADDITIONAL ALLOWANCE.—

[(A) IN GENERAL.—For purposes of this subsection, the additional allowance is an amount equal to the excess (if any) of $900 over the sum of—

[(i) $100, multiplied by the number of exemptions, plus

[(ii) the income phase-out.

[(B) INCOME PHASE-OUT.—For purposes of subparagraph (A)(ii), the income phase-out is an amount equal to one-half of the amount by which the adjusted gross income or the taxable year exceeds the sum of—

[(i) $1,100, plus

[(ii) $625, multiplied by the number of exemptions.

[(4) MARRIED INDIVIDUALS FILING SEPARATE RETURNS.—In the case of a married taxpayer filing a separate return—

[(A) the low income allowance is an amount equal to the basic allowance, and

[(B) the basic allowance is an amount (not in excess of $500) equal to the sum of—

[(i) $100, plus

[(ii) $100, multiplied by the number of exemptions.

[(5) NUMBER OF EXEMPTIONS.—For purposes of this subsection, the number of exemptions is the number of exemptions allowed as a deduction for the taxable year under section 151.

[(6) SPECIAL RULE FOR 1971.—For a taxable year beginning after December 31, 1970, and bfeore January 1, 1972.—

[(A) paragraph (3)(A) shall be applied by substituting "$850" for "$900",

[(B) paragraph (3)(B) shall be applied by substituting "one-fifteenth" for "one-half",

[(C) paragraph (3)(B)(i) shall be applied by substituting "$1050" for "$1100", and

[(D) paragraph (3)(B)(ii) shall be applied by substituting "$650" for "$625".]

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

* * * * *

SEC. 151. ALLOWANCE OF DEDUCTIONS FOR PERSONAL EXEMPTIONS.

(a) ALLOWANCE OF DEDUCTIONS.—In the case of an individual, the exemptions provided by this section shall be allowed as deductions in computing taxable income.

(b) TAXPAYER AND SPOUSE.—An exemption of [$650] *$675* for the taxpayer; and an additional exemption of [$650] *$675* for the spouse of the taxpayer if a joint return is not made by the taxpayer and his spouse, and if the spouse, for the calendar year in which the taxable year of the taxpayer begins, has no gross income and is not the dependent of another taxpayer.

(c) ADDITIONAL EXEMPTION FOR TAXPAYER OR SPOUSE AGED 65 OR MORE.—

(1) FOR TAXPAYER.—An additional exemption of [$650] *$675* for the taxpayer if he has attained the age of 65 before the close of his taxable year.

(2) FOR SPOUSE.—An additional exemption of [$650] *$675* for the spouse of the taxpayer if a joint return is not made by the taxpayer and his spouse, and if the spouse has attained the age of 65 before the close of such taxable year, and, for the calendar year in which the taxable year of the taxpayer begins, has no gross income and is not the dependent of another taxpayer.

(d) ADDITIONAL EXEMPTION FOR BLINDNESS OF TAXPAYER OR SPOUSE.—

(1) FOR TAXPAYER.—An additional exemption of [$650] *$675* for the taxpayer if he is blind at the close of his taxable year.

(2) FOR SPOUSE.—An additional exemption of [$650] *$675* for the spouse of the taxpayer if a separate return is made by the taxpayer, and if the spouse is blind and, for the calendar year in which the taxable year of the taxpayer begins, has no gross income and is not the dependent of another taxpayer. For purposes of this paragraph, the determination of whether the spouse is blind shall be made as of the close of the taxable year of the taxpayer; except that if the spouse dies during such taxable year such determination shall be made as of the time of such death.

(3) BLINDNESS DEFINED.—For purposes of this subsection, an individual is blind only if his central visual acuity does not exceed 20/200 in the better eye with correcting lenses, or if his visual acuity is greater than 20/200 but is accompanied by a limitation in the fields of vision such that the widest diameter of the visual field subtends an angle no greater than 20 degrees.

(c) ADDITIONAL EXEMPTIONS FOR DEPENDENTS.—

(1) IN GENERAL.—An exemption of [$650] *$675* for each dependent (as defined in section 152)—

(A) whose gross income for the calendar year in which the taxable year of the taxpayer begins is less than [$650] *$675*, or

(B) who is a child of the taxpayer and who (i) has not attained the age of 19 at the close of the calendar year in which the taxable year of the taxpayer begins, or (ii) is a student.

(2) EXEMPTION DENIED IN CASE OF CERTAIN MARRIED DEPENDENTS.—No exemption shall be allowed under this subsection for any dependent who has made a joint return with his spouse under section 6013 for the taxable year beginning in the calendar year in which the taxable year of the taxpayer begins.

(3) CHILD DEFINED.—For purposes of paragraph (1) (B), the term "child" means an individual who (within the meaning of section 152) is a son, stepson, daughter, or stepdaughter of the taxpayer.

(4) STUDENT AND EDUCATIONAL INSTITUTION DEFINED.—For purposes of paragraph (1) (B) (ii), the term "student" means an individual who during each of 5 calendar months during the calendar months during the calendar year in which the taxable year of the taxpayer begins—

(A) is a full-time student at an educational institution; or

(B) is pursuing a full-time course of institutional on-farm training under the supervision of an accredited agent of an educational institution or of a State or political subdivision of a State.

For purposes of this paragraph, the term "educational institution" means only an educational institution which normally maintains a regular faculty and curriculum and normally has a regularly organized body of students in attendance at the place where its educational activities are carried on.

O