

REVENUE AND EXPENDITURE CONTROL ACT OF 1968

JUNE 10, 1968.—Ordered to be printed

Mr. MILLS, from the committee of conference,
submitted the following

CONFERENCE REPORT

[To accompany H.R. 15414]

The committee of conference on the disagreeing votes of the two Houses on the amendments of the Senate to the bill (H.R. 15414) to continue the existing excise tax rates on communication services and on automobiles, and to apply more generally the provisions relating to payments of estimated tax by corporations, having met, after full and free conference, have agreed to recommend and do recommend to their respective Houses as follows:

That the House recede from its disagreement to the amendment of the Senate to the text of the bill and agree to the same with an amendment as follows:

In lieu of the matter proposed to be inserted by the Senate amendment insert the following:

SECTION 1. SHORT TITLE; TABLE OF CONTENTS.

(a) *SHORT TITLE.*—This Act may be cited as the “Revenue and Expenditure Control Act of 1968”.

(b) *TABLE OF CONTENTS.*—

TITLE I—INTERNAL REVENUE CODE AMENDMENTS

- Sec. 101. Amendment of existing law.*
- Sec. 102. Imposition of tax surcharge.*
- Sec. 103. Payment of estimated tax by corporations.*
- Sec. 104. Special rules for application of sections 102 and 103.*
- Sec. 105. Continuation of excise taxes on communication services and on automobiles.*
- Sec. 106. Timely mailing of deposits.*
- Sec. 107. Industrial development bonds.*
- Sec. 108. Advertising in a political convention program.*
- Sec. 109. Tax-exempt status of certain hospital service organizations.*
- Sec. 110. Submission of proposals for tax reform.*

TITLE II—EXPENDITURE AND RELATED CONTROLS

- Sec. 201. Limitation on the number of civilian officers and employees in the executive branch.*
- Sec. 202. Reduction of \$6 billion in expenditures during fiscal year 1969.*
- Sec. 203. Reduction of \$10 billion in new obligation authority.*
- Sec. 204. Specific recommendations for \$8 billion rescission in old obligational authority.*
- Sec. 205. Application of certain formulas.*

TITLE III—SOCIAL SECURITY ACT AMENDMENTS

- Sec. 301. *Limitation on number of children with respect to whom Federal payments may be made under program of aid to families with dependent children.*
 Sec. 302. *Aid to families with dependent children in case of unemployed fathers receiving unemployment compensation.*
 Sec. 303. *Federal payments under medical assistance program for certain services includible under supplementary medical insurance program.*

**TITLE I—INTERNAL REVENUE CODE
AMENDMENTS**

SEC. 101. AMENDMENT OF EXISTING LAW.

Except as otherwise expressly provided, whenever in this title 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.

SEC. 102. IMPOSITION OF TAX SURCHARGE.

(a) *IMPOSITION OF TAX.*—Subchapter A of chapter 1 (relating to determination of tax liability) is amended by inserting at the end thereof the following new part:

“PART V—TAX SURCHARGE

“Sec. 51. Tax surcharge.

“SEC. 51. TAX SURCHARGE.

“(a) *IMPOSITION OF TAX.*—

“(1) *CALENDAR YEARS.*—

“(A) *INDIVIDUALS (OTHER THAN ESTATES AND TRUSTS).*—

In addition to the other taxes imposed by this chapter, there is hereby imposed on the income of every individual (other than an estate or trust) whose taxable year is the calendar year a tax as follows:

CALENDAR YEAR 1968

TABLE 1.—Single person (other than head of household) and married person filing separate return

| If the adjusted tax is: | | | If the adjusted tax is: | | | If the adjusted tax is: | | |
|-------------------------|---------------|-------------|-------------------------|---------------|-------------|--|---------------|-------------|
| At least | But less than | The tax is— | At least | But less than | The tax is— | At least | But less than | The tax is— |
| 0 | \$148 | 0 | \$276 | \$282 | \$20 | \$527 | \$540 | \$40 |
| \$148 | 155 | \$1 | 282 | 288 | 21 | 540 | 553 | 41 |
| 155 | 162 | 2 | 288 | 298 | 22 | 553 | 567 | 42 |
| 162 | 168 | 3 | 298 | 313 | 23 | 567 | 580 | 43 |
| 168 | 175 | 4 | 313 | 327 | 24 | 580 | 593 | 44 |
| 175 | 182 | 5 | 327 | 340 | 25 | 593 | 607 | 45 |
| 182 | 188 | 6 | 340 | 353 | 26 | 607 | 620 | 46 |
| 188 | 195 | 7 | 353 | 367 | 27 | 620 | 633 | 47 |
| 195 | 202 | 8 | 367 | 380 | 28 | 633 | 647 | 48 |
| 202 | 208 | 9 | 380 | 393 | 29 | 647 | 660 | 49 |
| 208 | 215 | 10 | 393 | 407 | 30 | 660 | 673 | 50 |
| 215 | 222 | 11 | 407 | 420 | 31 | 673 | 687 | 51 |
| 222 | 228 | 12 | 420 | 433 | 32 | 687 | 700 | 52 |
| 228 | 235 | 13 | 433 | 447 | 33 | 700 | 713 | 53 |
| 235 | 242 | 14 | 447 | 460 | 34 | 713 | 727 | 54 |
| 242 | 248 | 15 | 460 | 473 | 35 | 727 | 734 | 55 |
| 248 | 255 | 16 | 473 | 487 | 36 | 734 | | |
| 255 | 262 | 17 | 487 | 500 | 37 | | | |
| 262 | 268 | 18 | 500 | 513 | 38 | | | |
| 268 | 275 | 19 | 513 | 527 | 39 | | | |
| | | | | | | 734 and over, 7.5% of the adjusted tax | | |

TABLE 2.—Head of household

| If the adjusted tax is: | | | If the adjusted tax is: | | | If the adjusted tax is: | | |
|-------------------------|---------------|-------------|-------------------------|---------------|-------------|--|---------------|-------------|
| At least | But less than | The tax is— | At least | But less than | The tax is— | At least | But less than | The tax is— |
| 0 | \$225 | 0 | \$350 | \$357 | \$20 | \$527 | \$540 | \$40 |
| \$225 | 250 | \$1 | 357 | 363 | 21 | 540 | 553 | 41 |
| 250 | 257 | 2 | 363 | 370 | 22 | 553 | 567 | 42 |
| 257 | 245 | 3 | 370 | 377 | 23 | 567 | 580 | 43 |
| 245 | 260 | 4 | 377 | 383 | 24 | 580 | 593 | 44 |
| 260 | 257 | 5 | 383 | 390 | 25 | 593 | 607 | 45 |
| 257 | 263 | 6 | 390 | 397 | 26 | 607 | 620 | 46 |
| 263 | 270 | 7 | 397 | 403 | 27 | 620 | 633 | 47 |
| 270 | 277 | 8 | 403 | 410 | 28 | 633 | 647 | 48 |
| 277 | 285 | 9 | 410 | 417 | 29 | 647 | 660 | 49 |
| 285 | 290 | 10 | 417 | 423 | 30 | 660 | 673 | 50 |
| 290 | 297 | 11 | 423 | 430 | 31 | 673 | 687 | 51 |
| 297 | 303 | 12 | 430 | 437 | 32 | 687 | 700 | 52 |
| 303 | 310 | 13 | 437 | 447 | 33 | 700 | 713 | 53 |
| 310 | 317 | 14 | 447 | 460 | 34 | 713 | 727 | 54 |
| 317 | 323 | 15 | 460 | 473 | 35 | 727 | 734 | 55 |
| 323 | 330 | 16 | 473 | 487 | 36 | 734 and over, 7.5% of the adjusted tax | | |
| 330 | 337 | 17 | 487 | 500 | 37 | | | |
| 337 | 345 | 18 | 500 | 513 | 38 | | | |
| 345 | 350 | 19 | 513 | 527 | 39 | | | |

TABLE 3.—Married persons or surviving spouse filing joint return

| If the adjusted tax is: | | | If the adjusted tax is: | | | If the adjusted tax is: | | |
|-------------------------|---------------|-------------|-------------------------|---------------|-------------|--|---------------|-------------|
| At least | But less than | The tax is— | At least | But less than | The tax is— | At least | But less than | The tax is— |
| 0 | \$293 | 0 | \$420 | \$427 | \$20 | \$553 | \$560 | \$40 |
| \$293 | 300 | \$1 | 427 | 433 | 21 | 560 | 567 | 41 |
| 300 | 307 | 2 | 433 | 440 | 22 | 567 | 573 | 42 |
| 307 | 313 | 3 | 440 | 447 | 23 | 573 | 580 | 43 |
| 313 | 320 | 4 | 447 | 453 | 24 | 580 | 583 | 44 |
| 320 | 327 | 5 | 453 | 460 | 25 | 583 | 607 | 45 |
| 327 | 333 | 6 | 460 | 467 | 26 | 607 | 620 | 46 |
| 333 | 340 | 7 | 467 | 473 | 27 | 620 | 633 | 47 |
| 340 | 347 | 8 | 473 | 480 | 28 | 633 | 647 | 48 |
| 347 | 353 | 9 | 480 | 487 | 29 | 647 | 660 | 49 |
| 353 | 360 | 10 | 487 | 493 | 30 | 660 | 673 | 50 |
| 360 | 367 | 11 | 493 | 500 | 31 | 673 | 687 | 51 |
| 367 | 373 | 12 | 500 | 507 | 32 | 687 | 700 | 52 |
| 373 | 380 | 13 | 507 | 513 | 33 | 700 | 713 | 53 |
| 380 | 387 | 14 | 513 | 520 | 34 | 713 | 727 | 54 |
| 387 | 393 | 15 | 520 | 527 | 35 | 727 | 734 | 55 |
| 393 | 400 | 16 | 527 | 533 | 36 | 734 and over, 7.5% of the adjusted tax | | |
| 400 | 407 | 17 | 533 | 540 | 37 | | | |
| 407 | 413 | 18 | 540 | 547 | 38 | | | |
| 413 | 420 | 19 | 547 | 553 | 39 | | | |

CALENDAR YEAR 1969

TABLE 1.—Single person (other than head of household) and married person filing separate return

| If the adjusted tax is: | | | If the adjusted tax is: | | | If the adjusted tax is: | | |
|-------------------------|---------------|-------------|-------------------------|---------------|-------------|--------------------------------------|---------------|-------------|
| At least | But less than | The tax is— | At least | But less than | The tax is— | At least | But less than | The tax is— |
| 0 | \$150 | 0 | \$270 | \$280 | \$13 | \$510 | \$530 | \$26 |
| \$150 | 160 | \$1 | 280 | 290 | 14 | 530 | 550 | 27 |
| 160 | 170 | 2 | 290 | 310 | 15 | 550 | 570 | 28 |
| 170 | 180 | 3 | 310 | 330 | 16 | 570 | 590 | 29 |
| 180 | 190 | 4 | 330 | 350 | 17 | 590 | 610 | 30 |
| 190 | 200 | 5 | 350 | 370 | 18 | 610 | 630 | 31 |
| 200 | 210 | 6 | 370 | 390 | 19 | 630 | 650 | 32 |
| 210 | 220 | 7 | 390 | 410 | 20 | 650 | 670 | 33 |
| 220 | 230 | 8 | 410 | 430 | 21 | 670 | 690 | 34 |
| 230 | 240 | 9 | 430 | 450 | 22 | 690 | 710 | 35 |
| 240 | 250 | 10 | 450 | 470 | 23 | 710 | 730 | 36 |
| 250 | 260 | 11 | 470 | 490 | 24 | 730 and over, 5% of the adjusted tax | | |
| 260 | 270 | 12 | 490 | 510 | 25 | | | |

TABLE 2.—Head of household

| If the adjusted tax is: | | | If the adjusted tax is: | | | If the adjusted tax is: | | |
|-------------------------|---------------|-------------|-------------------------|---------------|-------------|--------------------------------------|---------------|-------------|
| At least | But less than | The tax is— | At least | But less than | The tax is— | At least | But less than | The tax is— |
| 0 | \$225 | 0 | \$215 | \$255 | \$13 | \$510 | \$530 | \$26 |
| \$225 | 235 | \$1 | 255 | 265 | 14 | 530 | 560 | 27 |
| 235 | 245 | 2 | 265 | 275 | 15 | 560 | 570 | 28 |
| 245 | 255 | 3 | 275 | 285 | 16 | 570 | 590 | 29 |
| 255 | 265 | 4 | 285 | 295 | 17 | 590 | 610 | 30 |
| 265 | 275 | 5 | 295 | 305 | 18 | 610 | 630 | 31 |
| 275 | 285 | 6 | 305 | 315 | 19 | 630 | 660 | 32 |
| 285 | 295 | 7 | 315 | 325 | 20 | 660 | 670 | 33 |
| 295 | 305 | 8 | 325 | 335 | 21 | 670 | 690 | 34 |
| 305 | 315 | 9 | 335 | 345 | 22 | 690 | 710 | 35 |
| 315 | 325 | 10 | 345 | 355 | 23 | 710 | 730 | 36 |
| 325 | 335 | 11 | 355 | 365 | 24 | 730 and over, 5% of the adjusted tax | | |
| 335 | 345 | 12 | 365 | 375 | 25 | | | |

TABLE 3.—Married persons or surviving spouse filing joint return

| If the adjusted tax is: | | | If the adjusted tax is: | | | If the adjusted tax is: | | |
|-------------------------|---------------|-------------|-------------------------|---------------|-------------|--------------------------------------|---------------|-------------|
| At least | But less than | The tax is— | At least | But less than | The tax is— | At least | But less than | The tax is— |
| 0 | \$225 | 0 | \$415 | \$425 | \$13 | \$545 | \$555 | \$26 |
| \$225 | 305 | \$1 | 425 | 435 | 14 | 555 | 565 | 27 |
| 305 | 315 | 2 | 435 | 445 | 15 | 565 | 575 | 28 |
| 315 | 325 | 3 | 445 | 455 | 16 | 575 | 590 | 29 |
| 325 | 335 | 4 | 455 | 465 | 17 | 590 | 610 | 30 |
| 335 | 345 | 5 | 465 | 475 | 18 | 610 | 630 | 31 |
| 345 | 355 | 6 | 475 | 485 | 19 | 630 | 660 | 32 |
| 355 | 365 | 7 | 485 | 495 | 20 | 660 | 670 | 33 |
| 365 | 375 | 8 | 495 | 505 | 21 | 670 | 690 | 34 |
| 375 | 385 | 9 | 505 | 515 | 22 | 690 | 710 | 35 |
| 385 | 395 | 10 | 515 | 525 | 23 | 710 | 730 | 36 |
| 395 | 405 | 11 | 525 | 535 | 24 | 730 and over, 5% of the adjusted tax | | |
| 405 | 415 | 12 | 535 | 545 | 25 | | | |

“(B) OTHER PERSONS.—In addition to the other taxes imposed by this chapter, there is hereby imposed on the income of every corporation, and on the income of every estate and trust, whose taxable year is the calendar year, a tax equal to the percent of the adjusted tax (as defined in subsection (b)) for the taxable year specified in the following table:

| Calendar year | Percent | |
|---------------|--------------------|--------------|
| | Estates and trusts | Corporations |
| 1968..... | 7.5 | 10.0 |
| 1969..... | 5.0 | 5.0 |

“(2) FISCAL AND SHORT TAXABLE YEARS.—

“(A) IN GENERAL.—In addition to the other taxes imposed by this chapter and except as provided in subparagraph (B), in the case of taxable years ending on or after the effective date of the surcharge and beginning before July 1, 1969, there is hereby imposed on the income of every person whose taxable year is other than the calendar year, a tax equal to—

“(i) 10 percent of the adjusted tax for the taxable year, multiplied by

“(ii) a fraction, the numerator of which is the number of days in the taxable year occurring on and after the effective date of the surcharge and before July 1, 1969, and the denominator of which is the number of days in the entire taxable year.

“(B) *LIMITATION.*—In the case of—

“(i) a husband and wife (or surviving spouse) who file a joint return under section 6013 and whose adjusted tax for the taxable year is less than \$580,

“(ii) an individual who is a head of a household to whom section 1(b) applies and whose adjusted tax for the taxable year is less than \$440, and

“(iii) any other individual (other than an estate or trust) whose adjusted tax for the taxable year is less than \$290,

the tax imposed by subparagraph (A) shall not be greater than an amount equal to twice the tax which would be imposed by subparagraph (A) if the tax were imposed on the amount by which the adjusted tax exceeds \$290, \$220, or \$145, respectively.

“(C) *EFFECTIVE DATE DEFINED.*—For purposes of subparagraph (A), the term ‘effective date of the surcharge’ means—

“(i) January 1, 1968, in the case of a corporation, and

“(ii) April 1, 1968, in the case of any other taxpayer.

“(b) *ADJUSTED TAX DEFINED.*—For purposes of this section, the term ‘adjusted tax’ means, with respect to any taxable year, the tax imposed by this chapter for such taxable year, determined without regard to—

“(1) the taxes imposed by this section, section 871(a), and section 881; and

“(2) any increases in tax under section 47(a) (relating to certain dispositions, e.c., of section 38 property) or section 614(c)(4)(C) (relating to increase in tax for deductions under section 615(a) prior to aggregation),

and reduced by an amount equal to the amount of any credit which would be allowable under section 37 (relating to retirement income) if no tax were imposed by this section for such taxable year.

“(c) *ESTIMATED TAX.*—For purposes of applying the provisions of this title with respect to declarations, amended declarations, and payments of estimated tax the time prescribed for filing or payment of which is on or after—

“(1) in the case of an individual, September 15, 1968, or

“(2) in the case of a corporation, June 15, 1968,

sections 6654(d)(1) and 6655(d)(1) shall not apply with respect to any taxable year for which a tax is imposed by this section.

“(d) *WESTERN HEMISPHERE TRADE CORPORATIONS AND DIVIDENDS ON CERTAIN PREFERRED STOCK.*—In computing, for a taxable year of a corporation, the fraction described in—

“(1) section 244(a)(2), relating to deduction with respect to dividends received on the preferred stock of a public utility,

“(2) section 247(a)(2), relating to deduction with respect to certain dividends paid by a public utility, or

“(3) section 922(2), relating to special deduction for Western Hemisphere trade corporations,

the denominator shall, under regulations prescribed by the Secretary or his delegate, be increased to reflect the rate at which tax is imposed under subsection (a) for such taxable year.

“(e) **SHAREHOLDERS OF REGULATED INVESTMENT COMPANIES.**—In computing the amount of tax deemed paid under section 852(b)(3)(D)(ii) and the adjustment to basis described in section 852(b)(3)(D)(iii), the percentages set forth therein shall be adjusted under regulations prescribed by the Secretary or his delegate to reflect the rate at which tax is imposed under subsection (a).

“(f) **SPECIAL RULE.**—For purposes of this title, to the extent the tax imposed by this section is attributable (under regulations prescribed by the Secretary or his delegate) to a tax imposed by another section of this chapter, such tax shall be deemed to be imposed by such other section.”

(b) **TECHNICAL AMENDMENT.**—Section 963(b) (relating to receipt of minimum distributions by domestic corporations) is amended—

(1) by striking out the heading of paragraph (1) and inserting in lieu thereof the following:

“(1) **TAXABLE YEARS BEGINNING IN 1963 AND TAXABLE YEARS ENTIRELY WITHIN THE SURCHARGE PERIOD.**—”, and

(2) by striking out the heading of paragraph (3) and inserting in lieu thereof the following:

“(3) **TAXABLE YEARS BEGINNING AFTER 1964 (EXCEPT TAXABLE YEARS WHICH INCLUDE ANY PART OF THE SURCHARGE PERIOD).**—”, and

(3) by adding after the table in paragraph (3) the following:

“In the case of a taxable year beginning before the surcharge period and ending within the surcharge period, or beginning within the surcharge period and ending after the surcharge period, the required minimum distribution shall be an amount equal to the sum of—

“(A) that portion of the minimum distribution which would be required if the provisions of paragraph (1) were applicable to the taxable year, which the number of days in such taxable year which are within the surcharge period bears to the total number of days in such taxable year, plus

“(B) that portion of the minimum distribution which would be required if the provisions of paragraph (3) were applicable to such taxable year, which the number of days in such taxable year which are not within the surcharge period bears to the total number of days in such taxable year.

As used in this subsection, the term ‘surcharge period’ means the period beginning January 1, 1968, and ending June 30, 1969.”

(c) **WITHHOLDING ON WAGES.**—

(1) **PERCENTAGE METHOD OF WITHHOLDING.**—Subsection (a) of section 3402 (relating to requirement of withholding) is amended—

(A) by inserting before table 1 therein the following:

“(1) In the case of wages paid on or before the 15th day after the date of the enactment of the Revenue and Expenditure Control Act of 1968 or after June 30, 1969:”; and

(B) by adding at the end thereof the following:

“(2) In the case of wages paid after the 15th day after the date of the enactment of the Revenue and Expenditure Control Act of 1968 and before July 1, 1969:

“Table 1—If the payroll period with respect to an employee is **WEEKLY**

“(a) **Single Person—Including Head of Household:**

| | |
|---|--|
| <p>If the amount of wages is:</p> <p>Not over \$4-----</p> <p>Over \$4 but not over \$13-----</p> <p>Over \$13 but not over \$23-----</p> <p>Over \$23 but not over \$35-----</p> <p>Over \$35 but not over \$169-----</p> <p>Over \$169 but not over \$212-----</p> <p>Over \$212-----</p> | <p>The amount of income tax to be withheld shall be:</p> <p>0.</p> <p>14% of excess over \$4.</p> <p>\$1.26 plus 15% of excess over \$13.</p> <p>\$2.76 plus 19% of excess over \$23.</p> <p>\$14.54 plus 22% of excess over \$35.</p> <p>\$33.02 plus 28% of excess over \$169.</p> <p>\$45.06 plus 33% of excess over \$212.</p> |
|---|--|

"(b) Married Person:

| | |
|---|---|
| <p>If the amount of wages is:</p> <p>Not over \$4-----</p> <p>Over \$4 but not over \$23-----</p> <p>Over \$23 but not over \$58-----</p> <p>Over \$58 but not over \$169-----</p> <p>Over \$169 but not over \$340-----</p> <p>Over \$340 but not over \$423-----</p> <p>Over \$423-----</p> | <p>The amount of income tax to be withheld shall be:</p> <p>0.</p> <p>14% of excess over \$4.</p> <p>\$2.66 plus 15% of excess over \$23.</p> <p>\$7.91 plus 19% of excess over \$58.</p> <p>\$29.00 plus 22% of excess over \$169.</p> <p>\$66.62 plus 28% of excess over \$340.</p> <p>\$89.86 plus 33% of excess over \$423.</p> |
|---|---|

"Table 2—If the payroll period with respect to an employee is BIWEEKLY

"(a) Single Person—Including Head of Household:

| | |
|---|---|
| <p>If the amount of wages is:</p> <p>Not over \$8-----</p> <p>Over \$8 but not over \$27-----</p> <p>Over \$27 but not over \$46-----</p> <p>Over \$46 but not over \$169-----</p> <p>Over \$169 but not over \$338-----</p> <p>Over \$338 but not over \$423-----</p> <p>Over \$423-----</p> | <p>The amount of income tax to be withheld shall be:</p> <p>0.</p> <p>14% of excess over \$8.</p> <p>\$2.66 plus 15% of excess over \$27.</p> <p>\$5.51 plus 19% of excess over \$46.</p> <p>\$28.88 plus 22% of excess over \$169.</p> <p>\$66.06 plus 28% of excess over \$338.</p> <p>\$89.86 plus 33% of excess over \$423.</p> |
|---|---|

"(b) Married Person:

| | |
|---|---|
| <p>If the amount of wages is:</p> <p>Not over \$8-----</p> <p>Over \$8 but not over \$46-----</p> <p>Over \$46 but not over \$115-----</p> <p>Over \$115 but not over \$338-----</p> <p>Over \$338 but not over \$681-----</p> <p>Over \$681 but not over \$846-----</p> <p>Over \$846-----</p> | <p>The amount of income tax to be withheld shall be:</p> <p>0.</p> <p>14% of excess over \$8.</p> <p>\$5.32 plus 15% of excess over \$46.</p> <p>\$15.67 plus 19% of excess over \$115.</p> <p>\$58.04 plus 22% of excess over \$338.</p> <p>\$133.50 plus 28% of excess over \$681.</p> <p>\$179.70 plus 33% of excess over \$846.</p> |
|---|---|

"Table 3—If the payroll period with respect to an employee is SEMIMONTHLY

"(a) Single Person—Including Head of Household:

| | |
|---|---|
| <p>If the amount of wages is:</p> <p>Not over \$8-----</p> <p>Over \$8 but not over \$29-----</p> <p>Over \$29 but not over \$50-----</p> <p>Over \$50 but not over \$183-----</p> <p>Over \$183 but not over \$367-----</p> <p>Over \$367 but not over \$458-----</p> <p>Over \$458-----</p> | <p>The amount of income tax to be withheld shall be:</p> <p>0.</p> <p>14% of excess over \$8.</p> <p>\$2.94 plus 15% of excess over \$29.</p> <p>\$6.09 plus 19% of excess over \$50.</p> <p>\$31.36 plus 22% of excess over \$183.</p> <p>\$71.84 plus 28% of excess over \$367.</p> <p>\$97.32 plus 33% of excess over \$458.</p> |
|---|---|

"(b) Married Person:

| | |
|---|---|
| <p>If the amount of wages is:</p> <p>Not over \$8-----</p> <p>Over \$8 but not over \$50-----</p> <p>Over \$50 but not over \$125-----</p> <p>Over \$125 but not over \$367-----</p> <p>Over \$367 but not over \$738-----</p> <p>Over \$738 but not over \$917-----</p> <p>Over \$917-----</p> | <p>The amount of income tax to be withheld shall be:</p> <p>0.</p> <p>14% of excess over \$8.</p> <p>\$5.38 plus 15% of excess over \$50.</p> <p>\$17.18 plus 19% of excess over \$125.</p> <p>\$63.11 plus 22% of excess over \$367.</p> <p>\$144.73 plus 28% of excess over \$738.</p> <p>\$194.85 plus 33% of excess over \$917.</p> |
|---|---|

"Table 4—If the payroll period with respect to an employee is MONTHLY

"(a) Single Person—Including Head of Household:

If the amount of wages is:

| |
|------------------------------------|
| Not over \$17----- |
| Over \$17 but not over \$58----- |
| Over \$58 but not over \$100----- |
| Over \$100 but not over \$367----- |
| Over \$367 but not over \$733----- |
| Over \$733 but not over \$917----- |
| Over \$917----- |

The amount of income tax to be withheld shall be:

| |
|---|
| 0. |
| 14% of excess over \$17. |
| \$5.74 plus 15% of excess over \$58. |
| \$12.04 plus 19% of excess over \$100. |
| \$62.77 plus 22% of excess over \$367. |
| \$143.29 plus 28% of excess over \$733. |
| \$194.81 plus 33% of excess over \$917. |

"(b) Married Person:

If the amount of wages is:

| |
|--------------------------------------|
| Not over \$17----- |
| Over \$17 but not over \$100----- |
| Over \$100 but not over \$250----- |
| Over \$250 but not over \$733----- |
| Over \$733 but not over \$1475----- |
| Over \$1475 but not over \$1833----- |
| Over \$1833----- |

The amount of income tax to be withheld shall be:

| |
|--|
| 0. |
| 14% of excess over \$17. |
| \$11.62 plus 15% of excess over \$100. |
| \$34.12 plus 19% of excess over \$250. |
| \$125.89 plus 22% of excess over \$733. |
| \$289.13 plus 28% of excess over \$1475. |
| \$389.37 plus 33% of excess over \$1833. |

"Table 5.—If the payroll period with respect to an employee is QUARTERLY

"(a) Single Person—Including Head of Household:

If the amount of wages is:

| |
|--------------------------------------|
| Not over \$50----- |
| Over \$50 but not over \$175----- |
| Over \$175 but not over \$300----- |
| Over \$300 but not over \$1100----- |
| Over \$1100 but not over \$2200----- |
| Over \$2200 but not over \$2750----- |
| Over \$2750----- |

The amount of income tax to be withheld shall be:

| |
|--|
| 0. |
| 14% of excess over \$50. |
| \$17.50 plus 15% of excess over \$175. |
| \$36.25 plus 19% of excess over \$300. |
| \$188.25 plus 22% of excess over \$1100. |
| \$430.25 plus 28% of excess over \$2200. |
| \$584.25 plus 33% of excess over \$2750. |

"(b) Married Person:

If the amount of wages is:

| |
|--------------------------------------|
| Not over \$50----- |
| Over \$50 but not over \$300----- |
| Over \$300 but not over \$750----- |
| Over \$750 but not over \$2200----- |
| Over \$2200 but not over \$4425----- |
| Over \$4425 but not over \$5500----- |
| Over \$5500----- |

The amount of income tax to be withheld shall be:

| |
|---|
| 0. |
| 14% of excess over \$50. |
| \$35.00 plus 15% of excess over \$300. |
| \$102.50 plus 19% of excess over \$750. |
| \$378.00 plus 22% of excess over \$2200. |
| \$867.50 plus 28% of excess over \$4425. |
| \$1168.50 plus 33% of excess over \$5500. |

"Table 6—If the payroll period with respect to an employee is SEMIANNUAL

"(a) Single Person—Including Head of Household:

If the amount of wages is:

| |
|--------------------------------------|
| Not over \$100----- |
| Over \$100 but not over \$350----- |
| Over \$350 but not over \$600----- |
| Over \$600 but not over \$2200----- |
| Over \$2200 but not over \$4400----- |
| Over \$4400 but not over \$5500----- |
| Over \$5500----- |

The amount of income tax to be withheld shall be:

| |
|---|
| 0. |
| 14% of excess over \$100. |
| \$35.00 plus 15% of excess over \$350. |
| \$72.50 plus 19% of excess over \$600. |
| \$376.50 plus 22% of excess over \$2200. |
| \$860.50 plus 28% of excess over \$4400. |
| \$1168.50 plus 33% of excess over \$5500. |

"(b) Married Person:

If the amount of wages is:

| | |
|--|---|
| Not over \$100----- | 0. |
| Over \$100 but not over \$600----- | 14% of excess over \$100. |
| Over \$600 but not over \$1500----- | \$70.00 plus 15% of excess over \$600. |
| Over \$1500 but not over \$4400----- | \$205.00 plus 19% of excess over \$1500. |
| Over \$4400 but not over \$8850----- | \$756.00 plus 22% of excess over \$4400. |
| Over \$8850 but not over \$11,000----- | \$1735.00 plus 28% of excess over \$8850. |
| Over \$11,000----- | \$2337.00 plus 33% of excess over \$11,000. |

The amount of income tax to be withheld shall be:

"Table 7—If the payroll period with respect to an employee is ANNUAL

"(a) Single Person—Including Head of Household:

If the amount of wages is:

| | |
|--|---|
| Not over \$200----- | 0. |
| Over \$200 but not over \$700----- | 14% of excess over \$200. |
| Over \$700 but not over \$1200----- | \$70 plus 15% of excess over \$700. |
| Over \$1200 but not over \$4400----- | \$145 plus 19% of excess over \$1200. |
| Over \$4400 but not over \$8800----- | \$753 plus 22% of excess over \$4400. |
| Over \$8800 but not over \$11,000----- | \$1,721 plus 28% of excess over \$8800. |
| Over \$11,000----- | \$2,337 plus 33% of excess over \$11,000. |

The amount of income tax to be withheld shall be:

"(b) Married Person:

If the amount of wages is:

| | |
|--|---|
| Not over \$200----- | 0. |
| Over \$200 but not over \$1200----- | 14% of excess over \$200. |
| Over \$1200 but not over \$3000----- | \$140 plus 15% of excess over \$1200. |
| Over \$3000 but not over \$8800----- | \$410 plus 19% of excess over \$3000. |
| Over \$8800 but not over \$17,700----- | \$1,512 plus 22% of excess over \$8800. |
| Over \$17,700 but not over \$22,000----- | \$3,470 plus 28% of excess over \$17,700. |
| Over \$22,000----- | \$4,674 plus 33% of excess over \$22,000. |

The amount of income tax to be withheld shall be:

"Table 8—If the payroll period with respect to an employee is a DAILY payroll or a miscellaneous payroll period

"(a) Single Person—Including Head of Household:

If the amount of wages divided by the number of days in the payroll period is:

| | |
|--|---|
| Not over \$0.50----- | 0. |
| Over \$0.50 but not over \$1.90----- | 14% of excess over \$0.50. |
| Over \$1.90 but not over \$3.30----- | \$0.20 plus 15% of excess over \$1.90. |
| Over \$3.30 but not over \$12.10----- | \$0.41 plus 19% of excess over \$3.30. |
| Over \$12.10 but not over \$24.10----- | \$2.08 plus 22% of excess over \$12.10. |
| Over \$24.10 but not over \$30.10----- | \$4.72 plus 28% of excess over \$24.10. |
| Over \$30.10----- | \$6.40 plus 33% of excess over \$30.10. |

The amount of income tax to be withheld shall be the following amount multiplied by the number of days in such period:

"(b) Married Person:

If the amount of wages divided by the number of days in the payroll period is:

| | |
|--|---|
| Not over \$0.50----- | 0. |
| Over \$0.50 but not over \$3.30----- | 14% of excess over \$0.50. |
| Over \$3.30 but not over \$8.20----- | \$0.39 plus 15% of excess over \$3.30. |
| Over \$8.20 but not over \$24.10----- | \$1.13 plus 19% of excess over \$8.20. |
| Over \$24.10 but not over \$48.50----- | \$4.15 plus 22% of excess over \$24.10. |
| Over \$48.50 but not over \$60.30----- | \$9.52 plus 28% of excess over \$48.50. |
| Over \$60.30----- | \$12.82 plus 33% of excess over \$60.30." |

The amount of income tax to be withheld shall be the following amount multiplied by the number of days in such period:

(2) **WAGE BRACKET WITHHOLDING.**—Subsection (c) of section 3402 (relating to wage bracket withholding) is amended by adding at the end thereof the following new paragraph:

“(6) In the case of wages paid after the 15th day after the date of the enactment of the Revenue and Expenditure Control Act of 1968, and before July 1, 1969, the amount deducted and withheld under paragraph (1) shall be determined in accordance with tables prescribed by the Secretary or his delegate in lieu of the tables contained in paragraph (1). The tables so prescribed shall be the same as the tables contained in paragraph (1), except that amounts and rates set forth as amounts and rates of tax to be deducted and withheld shall be computed on the basis of table 7 contained in subsection (a) (2).”

(d) **CLERICAL AMENDMENT.**—The table of parts of subchapter A of chapter 1 is amended by adding at the end thereof the following:

“Part V. Tax surcharge.”

(e) **EFFECTIVE DATE.**—Except as provided by section 104, the amendments made by this section (other than subsection (c)) shall apply—

(1) Insofar as they relate to taxpayers other than corporations, to taxable years ending after March 31, 1968, and beginning before July 1, 1969.

(2) Insofar as they relate to corporations, to taxable years ending after December 31, 1967, and beginning before July 1, 1969.

SEC. 103. PAYMENT OF ESTIMATED TAX BY CORPORATIONS.

(a) **REPEAL OF REQUIREMENT OF DECLARATION.**—Section 6016 (relating to declarations of estimated income tax by corporations) and section 6074 (relating to time for filing declarations of estimated income tax by corporations) are repealed.

(b) **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:

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

“(a) **CORPORATIONS REQUIRED TO PAY ESTIMATED INCOME TAX.**—Every corporation subject to taxation under section 11 or 1201(a), or subchapter L of chapter 1 (relating to insurance companies), shall make payments of estimated tax (as defined in subsection (c)) during its taxable year as provided in subsection (b) if its estimated tax for such taxable year can reasonably be expected to be \$40 or more.

“(b) **PAYMENT IN INSTALLMENTS.**—Any corporation required under subsection (a) to make payments of estimated tax (as defined in subsection (c)) shall make such payments in installments as follows:

| "If the requirements of subsection (a) are first met— | The following percentages of the estimated tax shall be paid on the 15th day of the— | | | |
|---|--|-----------|-----------|------------|
| | 4th month | 6th month | 9th month | 12th month |
| Before the 1st day of the 4th month of the taxable year..... | 25 | 25 | 25 | 25 |
| After the last day of the 3d month and before the 1st day of the 6th month of the taxable year..... | | 55½ | 55½ | 55½ |
| After the last day of the 6th month and before the 1st day of the 9th month of the taxable year..... | | | 60 | 60 |
| After the last day of the 8th month and before the 1st day of the 12th month of the taxable year..... | | | | 100 |

"(c) ESTIMATED TAX DEFINED.—

"(1) IN GENERAL.—For purposes of this title, in the case of a corporation the term 'estimated tax' means the excess of—

"(A) the amount which the corporation estimates as the amount of the income tax imposed by section 11 or 1201(a), or subchapter L of chapter 1, whichever is applicable, over

"(B) the sum of—

"(i) the amount which the corporation estimates as the sum of the credits against tax provided by part IV of subchapter A of chapter 1,

"(ii) in the case of a taxable year beginning after December 31, 1967, and before January 1, 1977, the amount of the corporation's temporary estimated tax exemption for such year, and

"(iii) in the case of a taxable year beginning after December 31, 1967, and before January 1, 1972, the amount of the corporation's transitional exemption for such year.

"(2) TEMPORARY ESTIMATED TAX EXEMPTION.—

"(A) IN GENERAL.—For purposes of clause (ii) of paragraph (1)(B), the amount of a corporation's temporary estimated tax exemption for a taxable year equals the applicable percentage (determined under subparagraph (B)) multiplied by the lesser of—

"(i) an amount equal to 22 percent of the amount which the corporation estimates as its surtax exemption (as defined in section 11(d)) for such year, or

"(ii) the excess determined under paragraph (1) without regard to clauses (i) and (iii) of paragraph (1)(B).

"(B) APPLICABLE PERCENTAGE.—For purposes of subparagraph (A) and section 6655(e)(2), the applicable percentage is—

| | |
|--|-------------|
| "In the case of a taxable year beginning in— | |
| 1968, 1969, 1970, 1971, and 1972..... | 100 percent |
| 1973..... | 80 percent |
| 1974..... | 60 percent |
| 1975..... | 40 percent |
| 1976..... | 20 percent. |

"(3) TRANSITIONAL EXEMPTION.—

"(A) IN GENERAL.—For purposes of clause (iii) of paragraph (1)(B), the amount of a corporation's transitional exemption for a taxable year equals the exclusion percentage (determined under subparagraph (B)) multiplied by the lesser of—

“(i) \$100,000, reduced by the amount of the corporation's temporary estimated tax exemption for such year, or

“(ii) the excess determined under paragraph (1) without regard to clause (iii) of paragraph (1)(B).

“(B) EXCLUSION PERCENTAGE.—For purposes of subparagraph (A) and section 6655(e)(3), the exclusion percentage is—

“In the case of a taxable year beginning in—

| | |
|-----------|-------------|
| 1968..... | 80 percent |
| 1969..... | 60 percent |
| 1970..... | 40 percent |
| 1971..... | 20 percent. |

“(d) RECOMPUTATION OF ESTIMATED TAX.—If, after paying any installment of estimated tax, the taxpayer makes a new estimate, 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 new estimate 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 new estimate is made.

“(e) 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.

“(f) 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.

“(g) CERTAIN FOREIGN CORPORATIONS.—For purposes of this section and section 6655, in the case of a foreign corporation subject to taxation under section 11 or 1201(a), or under subchapter L of chapter 1, the tax imposed by section 881 shall be treated as a tax imposed by section 11.”

(c) FAILURE BY CORPORATION TO PAY ESTIMATED TAX.—

(1) RAISING 70 PERCENT REQUIREMENT TO 80 PERCENT.—Subsections (b) and (d)(3) of section 6655 (relating to underpayments of estimated tax) are amended by striking out “70 percent” each place it appears therein and inserting in lieu thereof “80 percent”.

(2) DEFINITION OF TAX.—Subsection (e) of section 6655 (relating to definition of tax) is amended to read as follows:

“(e) DEFINITION OF TAX.—

“(1) IN GENERAL.—For purposes of subsections (b) and (d), the term ‘tax’ means the excess of—

“(A) the tax imposed by section 11 or 1201 (a), or subchapter L of chapter 1, whichever is applicable, over

“(B) the sum of—

“(i) the credits against tax provided by part IV of subchapter A of chapter 1,

“(ii) in the case of a taxable year beginning after December 31, 1967, and before January 1, 1977, the amount of the corporation's temporary estimated tax exemption for such year, and

“(iii) in the case of a taxable year beginning after December 31, 1967, and before January 1, 1972, the amount of the corporation’s transitional exemption for such year.

“(2) **TEMPORARY ESTIMATED TAX EXEMPTION.**—For purposes of clause (ii) of paragraph (1)(B), the amount of a corporation’s temporary estimated tax exemption for a taxable year equals the applicable percentage (determined under section 6154(c)(2)(B)) multiplied by the lesser of—

“(A) an amount equal to 22 percent of the corporation’s surtax exemption (as defined in section 11(d)) for such year, or

“(B) the excess determined under paragraph (1) without regard to clauses (ii) and (iii) of paragraph (1)(B).

“(3) **TRANSITIONAL EXEMPTION.**—For purposes of clause (iii) of paragraph (1)(B), the amount of a corporation’s transitional exemption for a taxable year equals the exclusion percentage (determined under section 6154(c)(3)(B)) multiplied by the lesser of—

“(A) \$100,000, reduced by the amount of the corporation’s temporary estimated tax exemption for such year, or

“(B) the excess determined under paragraph (1) without regard to clause (iii) of paragraph (1)(B).

“(4) **SPECIAL RULE FOR SUBSECTION (d)(1) AND (2).**—In applying this subsection for purposes of subsection (d) (1) and (2), the applicable percentage and the exclusion percentage shall be the percentage for the taxable year for which the underpayment is being determined.”

(d) **ADJUSTMENT OF OVERPAYMENT.**—

(1) **ALLOWANCE OF ADJUSTMENT.**—Subchapter B of chapter 65 (relating to rules of special application) is amended by adding at the end thereof the following new section:

“SEC. 6425. ADJUSTMENT OF OVERPAYMENT OF ESTIMATED INCOME TAX BY CORPORATION.

“(a) **APPLICATION FOR ADJUSTMENT.**—

“(1) **TIME FOR FILING.**—A corporation may, after the close of the taxable year and on or before the 15th day of the third month thereafter, and before the day on which it files a return for such taxable year, file an application for an adjustment of an overpayment by it of estimated income tax for such taxable year. An application under this subsection shall not constitute a claim for credit or refund.

“(2) **FORM OF APPLICATION, ETC.**—An application under this subsection shall be verified in the manner prescribed by section 6065 in the case of a return of the taxpayer, and shall be filed in the manner and form required by regulations prescribed by the Secretary or his delegate. The application shall set forth—

“(A) the estimated income tax paid by the corporation during the taxable year,

“(B) the amount which, at the time of filing the application, the corporation estimates as its income tax liability for the taxable year,

“(C) the amount of the adjustment, and

“(D) such other information for purposes of carrying out the provisions of this section as may be required by such regulations.

“(b) ALLOWANCE OF ADJUSTMENT.—

“(1) LIMITED EXAMINATION OF APPLICATION.—Within a period of 45 days from the date on which an application for an adjustment is filed under subsection (a), the Secretary or his delegate shall make, to the extent he deems practicable in such period, a limited examination of the application to discover omissions and errors therein, and shall determine the amount of the adjustment upon the basis of the application and the examination; except that the Secretary or his delegate may disallow, without further action, any application which he finds contains material omissions or errors which he deems cannot be corrected within such 45 days.

“(2) ADJUSTMENT CREDITED OR REFUNDED.—The Secretary or his delegate, within the 45-day period referred to in paragraph (1), may credit the amount of the adjustment against any liability in respect of an internal revenue tax on the part of the corporation and shall refund the remainder to the corporation.

“(3) LIMITATION.—No application under this section shall be allowed unless the amount of the adjustment equals or exceeds (A) 10 percent of the amount estimated by the corporation on its application as its income tax liability for the taxable year, and (B) \$500.

“(4) EFFECT OF ADJUSTMENT.—For purposes of this title (other than section 6655), any adjustment under this section shall be treated as a reduction, in the estimated income tax paid, made on the day the credit is allowed or the refund is paid.

“(c) DEFINITIONS.—For purposes of this section and section 6655(g) (relating to excessive adjustment)—

“(1) The term ‘income tax liability’ means the excess of—

“(A) the tax imposed by section 11 or 1201(a), or subchapter L of chapter 1, whichever is applicable, over

“(B) the credits against tax provided by part IV of subchapter A of chapter 1.

“(2) The amount of an adjustment under this section is equal to the excess of—

“(A) the estimated income tax paid by the corporation during the taxable year, over

“(B) the amount which, at the time of filing the application, the corporation estimates as its income tax liability for the taxable year.

“(d) CONSOLIDATED RETURNS.—If the corporation seeking an adjustment under this section paid its estimated income tax on a consolidated basis or expects to make a consolidated return for the taxable year, this section shall apply only to such extent and subject to such conditions, limitations, and exceptions as the Secretary or his delegate may by regulations prescribe.”

“(2) AMENDMENT OF SECTION 6655.—Section 6655 is amended by adding at the end thereof the following new subsection:

“(g) EXCESSIVE ADJUSTMENT UNDER SECTION 6425.—

“(1) ADDITION TO TAX.—If the amount of an adjustment under section 6425 made before the 15th day of the third month following the close of the taxable year is excessive, there shall be added to the tax under chapter 1 for the taxable year an amount determined at the rate of 6 percent per annum upon the excessive amount from the date on which the credit is allowed or the refund is paid to such 15th day.

“(2) **EXCESSIVE AMOUNT.**—For purposes of paragraph (1), the excessive amount is equal to the amount of the adjustment or (if smaller) the amount by which—

“(A) the income tax liability (as defined in section 6425(c)) for the taxable year as shown on the return for the taxable year, exceeds

“(B) the estimated income tax paid during the taxable year, reduced by the amount of the adjustment.”

(e) **CONFORMING AMENDMENTS.**—

(1) Section 6655(d)(1) is amended by striking out “reduced by \$100,000”.

(2) Section 243(b)(3)(C)(v) is amended to read as follows:

“(v) surtax exemption, and one amount under sections 6154(c)(2) and (3) and sections 6655(e)(2) and (3), for purposes of estimated tax payment requirements under section 6154 and the addition to the tax under section 6655 for failure to pay estimated tax.”

(3) Section 6020(b)(1) is amended by striking out “section 6015 or 6016)” and inserting in lieu thereof “section 6015)”.

(4) Section 6651(c) is amended by striking out “or section 6016”.

(5) Section 7203 is amended by striking out “section 6015 or section 6016),” and inserting in lieu thereof “section 6015),”.

(6) Section 7701(a)(34)(B) is amended by striking out “section 6016(b)” and inserting in lieu thereof “section 6154(c)”.

(7) The table of sections for subpart B of part II of subchapter A of chapter 61 is amended by striking out the item relating to section 6016.

(8) The table of sections for part V of subchapter A of chapter 61 is amended by striking out the item relating to section 6074.

(9) The table of sections for subchapter B of chapter 65 is amended by adding at the end thereof the following:

“Sec. 6425. Adjustment of overpayment of estimated income tax by corporation.”

(f) **EFFECTIVE DATE.**—Except as provided by section 104, the amendments made by this section shall apply with respect to taxable years beginning after December 31, 1967.

SEC. 104. SPECIAL RULES FOR APPLICATION OF SECTIONS 102 AND 103.

(a) **PAYMENT OF ESTIMATED TAX FOR TAXABLE YEARS BEGINNING BEFORE DATE OF ENACTMENT.**—In determining whether any taxpayer is required to make a declaration or amended declaration of estimated tax, or to pay any amount or additional amount of estimated tax, by reason of the amendments made by sections 102 and 103—

(1) such amendments shall apply (A) in the case of an individual, only if the taxable year ends on or after September 30, 1968, and (B) in the case of a corporation, only if the taxable year ends on or after June 30, 1968,

(2) in applying sections 6015, 6073, and 6654 of the Internal Revenue Code of 1954, such amendments shall first be taken into account as of September 1, 1968, and

(3) in applying sections 6016, 6074, 6154, and 6655 of such Code, such amendments shall first be taken into account as of May 31, 1968.

In the case of any amount or additional amount of estimated tax payable, by reason of such amendments, by a corporation on or after June 15, 1968, and before the 15th day after the date of the enactment of this Act, the time prescribed for payment of such amount or additional amount shall not expire before such date (not earlier than the 15th day after the date of the enactment of this Act) as the Secretary of the Treasury or his delegate shall prescribe.

(b) **PAYMENT OF TAX SURCHARGE FOR TAXABLE YEARS ENDING BEFORE DATE OF ENACTMENT.**—In the case of a taxable year ending before the date of the enactment of this Act, the time prescribed for payment of the tax imposed by section 51 of the Internal Revenue Code of 1954 shall not expire before September 15, 1968.

SEC. 105. CONTINUATION OF EXCISE TAXES ON COMMUNICATION SERVICES AND ON AUTOMOBILES.

(a) PASSENGER AUTOMOBILES.—

(1) **IN GENERAL.**—Subparagraph (A) of section 4061(a)(2) (relating to tax on passenger automobiles, etc.) is amended to read as follows:

“(A) Articles enumerated in subparagraph (B) are taxable at whichever of the following rates is applicable:

| <i>“If the article is sold—</i> | <i>The tax rate is—</i> |
|-------------------------------------|-------------------------|
| <i>Before January 1, 1970</i> | <i>7 percent</i> |
| <i>During 1970</i> | <i>5 percent</i> |
| <i>During 1971</i> | <i>3 percent</i> |
| <i>During 1972</i> | <i>1 percent.</i> |

The tax imposed by this subsection shall not apply with respect to articles enumerated in subparagraph (B) which are sold by the manufacturer, producer, or importer after December 31, 1972.”

(2) **CONFORMING AMENDMENT.**—Section 6412(a)(1) (relating to floor stocks refunds on passenger automobiles, etc.) is amended by striking out “May 1, 1968, or January 1, 1969,” and inserting in lieu thereof “January 1, 1970, January 1, 1971, January 1, 1972, or January 1, 1973.”

(b) COMMUNICATIONS SERVICES.—

(1) **CONTINUATION OF TAX.**—Paragraph (2) of section 4251(a) (relating to tax on certain communications services) is amended to read as follows:

“(2) The rate of tax referred to in paragraph (1) is as follows:

| <i>“Amounts paid pursuant to bills first rendered—</i> | <i>Percent—</i> |
|--|-----------------|
| <i>Before January 1, 1970</i> | <i>10</i> |
| <i>During 1970</i> | <i>5</i> |
| <i>During 1971</i> | <i>3</i> |
| <i>During 1972</i> | <i>1.”</i> |

(2) **CONFORMING AMENDMENTS.**—Subsection (b) of section 4251 (relating to termination of tax) is amended by striking out “January 1, 1969” and inserting in lieu thereof “January 1, 1973”, and subsection (c) of section 4251 is amended to read as follows:

“(c) **SPECIAL RULE.**—For purposes of subsections (a) and (b), in the case of communications services rendered before November 1 of a calendar

year for which a bill has not been rendered before the close of such year, a bill shall be treated as having been first rendered on December 31 of such year."

(3) **REPEAL OF SUBCHAPTER B OF CHAPTER 33.**—Effective with respect to amounts paid pursuant to bills first rendered on or after January 1, 1973, subchapter B of chapter 33 (relating to the tax on communications) is repealed. For purposes of the preceding sentence, in the case of communications services rendered before November 1, 1972, for which a bill has not been rendered before January 1, 1973, a bill shall be treated as having been first rendered on December 31, 1972. Effective January 1, 1973, the table of subchapters for chapter 33 is amended by striking out the item relating to such subchapter B.

(c) **EFFECTIVE DATE.**—The amendments made by this section shall take effect as of April 30, 1968.

SEC. 106. TIMELY MAILING OF DEPOSITS.

(a) **TIMELY MAILING TREATED AS TIMELY DEPOSIT.**—Section 7502 (relating to timely mailing treated as timely filing and paying) is amended by adding at the end thereof the following new subsection:

"(e) **MAILING OF DEPOSITS.**—

"(1) **DATE OF DEPOSIT.**—If any deposit required to be made (pursuant to regulations prescribed by the Secretary or his delegate under section 6302(c)) on or before a prescribed date is, after such date, delivered by the United States mail to the bank or trust company authorized to receive such deposit, such deposit shall be deemed received by such bank or trust company on the date the deposit was mailed.

"(2) **MAILING REQUIREMENTS.**—Paragraph (1) shall apply only if the person required to make the deposit establishes that—

"(A) the date of mailing falls on or before the second day before the prescribed date for making the deposit (including any extension of time granted for making such deposit), and

"(B) the deposit was, on or before such second day, mailed in the United States in an envelope or other appropriate wrapper, postage prepaid, properly addressed to the bank or trust company authorized to receive such deposit.

In applying subsection (c) for purposes of this subsection, the term 'payment' includes 'deposit', and the reference to the postmark date refers to the date of mailing."

(b) **EFFECTIVE DATE.**—The amendment made by subsection (a) shall apply only as to mailing occurring after the date of the enactment of this Act.

SEC. 107. INDUSTRIAL DEVELOPMENT BONDS.

(a) **AMENDMENT OF SECTION 103.**—Section 103 (relating to interest on certain governmental obligations) is amended by relettering subsection (c) as subsection (d) and by inserting after subsection (b) the following new subsection:

"(c) **INDUSTRIAL DEVELOPMENT BONDS.**—

"(1) **SUBSECTION (a)(1) NOT TO APPLY.**—Except as otherwise provided in this subsection, any industrial development bond shall be treated as an obligation not described in subsection (a)(1).

"(2) **INDUSTRIAL DEVELOPMENT BOND.**—For purposes of this subsection, the term 'industrial development bond' means any obligation—

“(A) which is issued as part of an issue all or a major portion of the proceeds of which are to be used directly or indirectly in any trade or business carried on by any person who is not an exempt person (within the meaning of paragraph (3)), and

“(B) the payment of the principal or interest on which (under the terms of such obligation or any underlying arrangement) is, in whole or in major part—

“(i) secured by any interest in property used or to be used in a trade or business or in payments in respect of such property, or

“(ii) to be derived from payments in respect of property, or borrowed money, used or to be used in a trade or business.

“(3) EXEMPT PERSON.—For purposes of paragraph (2) (A), the term ‘exempt person’ means—

“(A) a governmental unit, or

“(B) an organization described in section 501(c)(3) and exempt from tax under section 501(a) (but only with respect to a trade or business carried on by such organization which is not an unrelated trade or business, determined by applying section 513(a) to such organization).

“(4) CERTAIN EXEMPT ACTIVITIES.—Paragraph (1) shall not apply to any obligation which is issued as part of an issue substantially all of the proceeds of which are to be used to provide—

“(A) residential real property for family units,

“(B) sports facilities,

“(C) convention or trade show facilities,

“(D) airports, docks, wharves, mass commuting facilities, parking facilities, or storage or training facilities directly related to any of the foregoing,

“(E) sewage or solid waste disposal facilities or facilities for the local furnishing of electric energy, gas, or water, or

“(F) air or water pollution control facilities.

“(5) INDUSTRIAL PARKS.—Paragraph (1) shall not apply to any obligation issued as part of an issue substantially all of the proceeds of which are to be used for the acquisition or development of land as the site for an industrial park. For purposes of the preceding sentence, the term ‘development of land’ includes the provision of water, sewage, drainage, or similar facilities, or of transportation, power, or communication facilities, which are incidental to use of the site as an industrial park, but, except with respect to such facilities, does not include the provision of structures or buildings.

“(6) EXEMPTION FOR CERTAIN SMALL ISSUES.—

“(A) IN GENERAL.—Paragraph (1) shall not apply to any obligation issued as part of an issue the aggregate authorized face amount of which is \$1,000,000 or less and substantially all of the proceeds of which are to be used (i) for the acquisition, construction, reconstruction, or improvement of land or property of a character subject to the allowance for depreciation, or (ii) to redeem part or all of a prior issue which was issued for purposes described in clause (i) or this clause.

“(B) CERTAIN PRIOR ISSUES TAKEN INTO ACCOUNT.—If—

“(i) the proceeds of two or more issues of obligations (whether or not the issuer of each such issue is the same) are or will be used primarily with respect to facilities located in the same incorporated municipality or located

in the same county (but not in any incorporated municipality),

“(ii) the principal user of such facilities is or will be the same person or two or more related persons, and

“(iii) but for this subparagraph, subparagraph (A) would apply to each such issue,

then, for purposes of subparagraph (A), in determining the aggregate face amount of any later issue there shall be taken into account the face amount of obligations issued under all prior such issues and outstanding at the time of such later issue (not including as outstanding any obligation which is to be redeemed from the proceeds of the later issue).

“(C) RELATED PERSONS.—For purposes of this paragraph and paragraph (7), a person is a related person to another person if—

“(i) the relationship between such persons would result in a disallowance of losses under section 267 or 707(b), or

“(ii) such persons are members of the same controlled group of corporations (as defined in section 1563(a), except that ‘more than 50 percent’ shall be substituted for ‘at least 80 percent’ each place it appears therein).

“(7) EXCEPTION.—Paragraphs (4), (5), and (6) shall not apply with respect to any obligation for any period during which it is held by a person who is a substantial user of the facilities or a related person.”

(b) EFFECTIVE DATE.—

(1) IN GENERAL.—Except as provided by paragraph (2), the amendment made by subsection (a) shall apply to taxable years ending after April 30, 1968, but only with respect to obligations issued after such date.

(2) TRANSITIONAL PROVISIONS.—Section 103(c)(1) of the Internal Revenue Code of 1954, as amended by subsection (a), shall not apply with respect to any obligation issued before January 1, 1969, if before May 1, 1968—

(A) the issuance of the obligation (or the project in connection with which the proceeds of the obligations are to be used) was authorized or approved by the governing body of the governmental unit issuing the obligation or by the voters of such governmental unit;

(B) in connection with the issuance of such obligation or with the use of the proceeds to be derived from the sale of such obligation or the property to be acquired or improved with such proceeds, a governmental unit has made a significant financial commitment;

(C) any person (other than a governmental unit) who will use the proceeds to be derived from the sale of such obligation or the property to be acquired or improved with such proceeds has expended (or has entered into a binding contract to expend) for purposes which are related to the use of such proceeds or property, an amount equal to or in excess of 20 percent of such proceeds; or

(D) in the case of an obligation issued in conjunction with a project where financial assistance will be provided by a governmental agency concerned with economic development, such agency has approved the project or an application for financial assistance is pending.

SEC. 108. ADVERTISING IN A POLITICAL CONVENTION PROGRAM.

(a) *ALLOWANCE OF DEDUCTION.*—Section 276 (relating to certain indirect contributions to political parties) is amended by redesignating subsection (c) as (d), and by inserting after subsection (b) the following new subsection:

“(c) *ADVERTISING IN A CONVENTION PROGRAM OF A NATIONAL POLITICAL CONVENTION.*—Subsection (a) shall not apply to any amount paid or incurred for advertising in a convention program of a political party distributed in connection with a convention held for the purpose of nominating candidates for the offices of President and Vice President of the United States, if the proceeds from such program are used solely to defray the costs of conducting such convention (or a subsequent convention of such party held for such purpose) and the amount paid or incurred for such advertising is reasonable in light of the business the taxpayer may expect to receive—

“(1) directly as a result of such advertising, or

“(2) as a result of the convention being held in an area in which the taxpayer has a principal place of business.”

(b) *EFFECTIVE DATE.*—The amendments made by subsection (a) shall apply with respect to amounts paid or incurred on or after January 1, 1968.

SEC. 109. TAX-EXEMPT STATUS OF CERTAIN HOSPITAL SERVICE ORGANIZATIONS.

(a) *EXEMPTION FROM TAX.*—Section 501 (relating to exemption from tax on corporations, etc.) is amended by redesignating subsection (e) as subsection (f) and by inserting after subsection (d) the following new subsection:

“(e) *COOPERATIVE HOSPITAL SERVICE ORGANIZATIONS.*—For purposes of this title, an organization shall be treated as an organization organized and operated exclusively for charitable purposes, if—

“(1) such organization is organized and operated solely—

“(A) to perform, on a centralized basis, one or more of the following services which, if performed on its own behalf by a hospital which is an organization described in subsection (c)(3) and exempt from taxation under subsection (a), would constitute activities in exercising or performing the purpose or function constituting the basis for its exemption: data processing, purchasing, warehousing, billing and collection, food, industrial engineering, laboratory, printing, communications, record center, and personnel (including selection, testing, training, and education of personnel) services; and

“(B) to perform such services solely for two or more hospitals each of which is—

“(i) an organization described in subsection (c)(3) which is exempt from taxation under subsection (a),

“(ii) a constituent part of an organization described in subsection (c)(3) which is exempt from taxation under subsection (a) and which, if organized and operated as a separate entity, would constitute an organization described in subsection (c)(3), or

“(iii) owned and operated by the United States, a State, the District of Columbia, or a possession of the United States, or a political subdivision or an agency or instrumentality of any of the foregoing;

“(2) such organization is organized and operated on a cooperative basis and allocates or pays, within 8½ months after the close of its taxable year, all net earnings to patrons on the basis of services performed for them; and

“(3) if such organization has capital stock, all of such stock outstanding is owned by its patrons.

For purposes of this title, any organization which, by reason of the preceding sentence, is an organization described in subsection (c)(3) and exempt from taxation under subsection (a), shall be treated as a hospital and as an organization referred to in section 503(b)(5).”

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

SEC. 110. SUBMISSION OF PROPOSALS FOR TAX REFORM.

Not later than December 31, 1968, the President shall submit to the Congress proposals for a comprehensive reform of the Internal Revenue Code of 1954.

TITLE II—EXPENDITURE AND RELATED CONTROLS

SEC. 201. LIMITATION ON THE NUMBER OF CIVILIAN OFFICERS AND EMPLOYEES IN THE EXECUTIVE BRANCH.

(a) *Except as otherwise provided in this section—*

(1) *No person shall be appointed as a full-time civilian employee to a permanent position in the executive branch during any month when the number of such employees is greater than the number of such employees on June 30, 1966.*

(2) *The number of temporary and part-time employees in any department or agency in the executive branch during any month shall not be greater than the number of such employees during the corresponding month of 1967.*

(b)(1) *During any period when appointments are otherwise prohibited under subsection (a)(1), the head of any department or agency may, except as otherwise provided in this subsection, appoint a number of persons as full-time civilian employees in permanent positions in such department or agency equal to 75 percent of the number of vacancies*

in such positions which have occurred during such period by reason of resignation, retirement, removal, or death.

(2) For purposes of paragraph (1), all agencies which, on the first day of any period when appointments are otherwise prohibited under subsection (a)(1), have 50 or fewer full-time civilian employees in permanent positions shall be treated as one agency, and the Director of the Bureau of the Budget (hereinafter in this section referred to as the "Director") shall determine the vacancies in each such agency which may be filled by reason of paragraph (1).

(3) For purposes of paragraph (1), the Director may reassign vacancies from one department or agency to another department or agency when such reassignment is, in the opinion of the Director, necessary or appropriate because of the creation of a new department or agency, because of a change in functions, or for the more efficient operation of the Government.

(4) If a full-time civilian employee in a permanent position is transferred from one department or agency to another department or agency—

(A) such transfer shall be taken into account under paragraph (1) as an appointment by the head of the department or agency to which he transfers, and

(B) subsection (a)(1) shall not apply to an appointment to the vacancy in the department or agency from which he transferred and such vacancy shall not be taken into account under paragraph (1).

(c) For purposes of subsection (a)(2), the Director may reassign authorized temporary and part-time employment from one department or agency to another department or agency when such reassignment is, in the opinion of the Director, necessary or appropriate because of the creation of a new department or agency, because of a change in functions, or for the more efficient operation of the Government.

(d) For purposes of this section, there shall not be taken into account—

(1) any position filled by appointment by the President by and with the advice and consent of the Senate, other than for purposes of determining under subsection (a)(1) the number of full-time civilian employees in permanent positions in the executive branch at any time,

(2) casual employees or employees serving without compensation, and

(3) those employees (not exceeding 70,000 during any month) appointed under the President's program to provide summer employment for economically or educationally disadvantaged persons between the ages of 16 and 22.

(e) The Director shall maintain a continuous study of all appropriations and contract authorizations in relation to personnel employed and shall reserve from expenditure the savings in salaries and wages resulting from the operation of this section, and any savings in other categories of expense which he determines will result from such operation.

(f) The departments and agencies in the executive branch shall submit to the Director such information as may be necessary to enable him to carry out his functions under this section.

(g) *The Director shall submit to the Senate and the House of Representatives at the end of each calendar quarter, beginning with the quarter ending September 30, 1968, a report on the operation of this section.*

(h) *Nothing in this section shall supersede or modify the reemployment rights of any person under section 9 of the Military Selective Service Act of 1967 or any other provision of law conferring reemployment rights upon persons who have performed active duty in the Armed Forces.*

(i) *The Director shall prescribe such regulations as he deems necessary or appropriate to carry out the provisions of this section.*

(j) *This section (other than subsection (i)) shall take effect on the first day of the first month which begins after the date of the enactment of this Act.*

SEC. 202. REDUCTION OF \$6 BILLION IN EXPENDITURES DURING FISCAL YEAR 1969.

(a) *Expenditures and net lending during the fiscal year ending June 30, 1969, under the Budget of the United States Government (estimated on page 55 of House Document No. 225, Part 1, 90th Congress, as totaling \$186,062,000,000), shall not exceed \$180,062,000,000, except by expenditures and net lending—*

(1) *which the President may determine are necessary for special support of Vietnam operations in excess of the amounts estimated therefor in the Budget,*

(2) *for interest in excess of the amounts estimated therefor in the Budget,*

(3) *for veterans' benefits and services in excess of the amounts estimated therefor in the Budget, and*

(4) *for payments from trust funds established by the Social Security Act, as amended, in excess of the amounts estimated therefor in the Budget.*

(b) *The President shall reserve from expenditure and net lending, from appropriations or other obligational authority heretofore or hereafter made available, such amounts as may be necessary to effectuate the provisions of subsection (a).*

SEC. 203. REDUCTION OF \$10 BILLION IN NEW OBLIGATIONAL AUTHORITY.

(a) *The total new obligational authority and loan authority for the fiscal year ending June 30, 1969, provided by law heretofore or hereafter enacted (estimated on page 55 of House Document No. 225, Part 1, 90th Congress, as \$201,723,000,000) shall not exceed \$191,723,000,000, except for new obligational authority and loan authority—*

(1) *which the President may determine are necessary for special support of Vietnam operations in excess of the amounts estimated therefor in the Budget,*

(2) *for interest in excess of the amounts estimated therefor in the Budget,*

(3) *for veterans' benefits and services in excess of the amounts estimated therefor in the Budget, and*

(4) for payments from trust funds established by the Social Security Act, as amended, in excess of the amounts estimated therefor in the Budget.

(b) In the event that the total amount of new obligational authority and loan authority for the fiscal year ending June 30, 1969, exceeds the limitation prescribed by subsection (a), the President shall reserve from such obligational and loan authority such amounts as may be necessary to effectuate the provisions of subsection (a). The amounts so reserved (other than any amounts reserved from trust funds) are hereby rescinded as of the close of June 30, 1969. The President, at the time of the submission of the Budget for the fiscal year ending June 30, 1970, shall make a report to the Congress identifying the amounts reserved pursuant to this paragraph.

SEC. 204. SPECIFIC RECOMMENDATIONS FOR \$8 BILLION RESCISSION IN OLD OBLIGATIONAL AUTHORITY.

The President shall cause a special study and analysis to be made of unobligated balances of appropriations and other obligational and loan authority available for obligation or commitment during the fiscal year ending June 30, 1969, which will remain available for obligation or commitment after June 30, 1969, and make a report thereon to the Congress. Such report shall be made at the time of the submission of the Budget for the fiscal year ending June 30, 1970, and shall include specific recommendations for legislation to rescind not less than \$8,000,000,000 of such unobligated balances.

SEC. 205. APPLICATION OF CERTAIN FORMULAS.

In the administration of any program as to which—

(1) the amount of expenditures or obligations is limited pursuant to section 202 or 203, and

(2) the allocation, grant, apportionment, or other distribution of funds among recipients is required to be determined by application of a formula involving the amount appropriated or otherwise made available for distribution,

the amount available for expenditure or obligation (as determined by the President) shall be substituted for the amount appropriated or otherwise made available in the application of the formula.

TITLE III—SOCIAL SECURITY ACT AMENDMENTS

SEC. 301. LIMITATION ON NUMBER OF CHILDREN WITH RESPECT TO WHOM FEDERAL PAYMENTS MAY BE MADE UNDER PROGRAM OF AID TO FAMILIES WITH DEPENDENT CHILDREN.

Subsection (d) of section 403 of the Social Security Act is amended (1) by inserting "(1)" immediately after "(d)", (2) by inserting "(except the succeeding paragraphs of this subsection)" immediately after "Act", (3) by striking out "June 30, 1968" and inserting in lieu thereof "June 30, 1969", and (4) by adding at the end of such subsection the following new paragraphs:

"(2) In the case of any State which is determined by the Secretary to have effectuated, in compliance with or in reliance upon or in consideration of a judicial decision (as defined in paragraph (3)), a policy of providing aid to families with dependent children under its State plan approved under this part to or on behalf of individuals who, except for such policy, would not be eligible for such aid, the average monthly number of dependent children under the age of 18 who have been deprived of parental support or care by reason of the continued absence from the home of a parent with respect to whom payments under this section were made to the State for the calendar quarter beginning January 1, 1968, shall, for purposes of applying the provisions of paragraph (1), be increased by the average monthly number, in the calendar quarter beginning April 1, 1969, of children under the age of 18 who are deprived of parental support or care by reason of the continued absence from the home of a parent and who by reason of such policy began to receive such aid after March 1968 and received such aid during the calendar quarter beginning April 1, 1969.

"(3) As used in paragraph (2), the term 'judicial decision' means any decision by a court of the United States of competent jurisdiction in any case or controversy in which there is decided the issue of the validity, under the United States Constitution, of any law, rule, regulation, or policy of a State under which aid to families with dependent children is denied to individuals otherwise eligible therefor because of failure to meet duration of residence requirements or because of the relationship between a male individual and the mother of the child or children with respect to whom such aid is sought."

SEC. 302. AID TO FAMILIES WITH DEPENDENT CHILDREN IN CASE OF UNEMPLOYED FATHERS RECEIVING UNEMPLOYMENT COMPENSATION.

Section 407(b)(2)(C) of the Social Security Act is amended to read as follows:

"(C) for the denial of aid to families with dependent children to any child or relative specified in subsection (a)—

"(i) if, and for so long as, such child's father is not currently registered with the public employment offices in the State, and

"(ii) with respect to any week for which such child's father receives unemployment compensation under an unemployment compensation law of a State or of the United States."

SEC. 303. FEDERAL PAYMENTS UNDER MEDICAL ASSISTANCE PROGRAM FOR CERTAIN SERVICES INCLUDIBLE UNDER SUPPLEMENTARY MEDICAL INSURANCE PROGRAM.

(a)(1) Section 1903(b)(2) of the Social Security Act is amended by striking out "1967" and inserting in lieu thereof "1969".

(2) Section 222(d) of the Social Security Amendments of 1967 is amended by striking out "1967" and inserting in lieu thereof "1969".

(b) The amendments made by subsection (a) shall be effective with respect to calendar quarters beginning after December 31, 1967.

And the Senate agree to the same.

That the House recede from its disagreement to the amendment of the Senate to the title of the bill and agree to the same with an amendment as follows:

Amend the title so as to read: "An Act to increase revenues, to limit expenditures and new obligational authority, and for other purposes."

And the Senate agree to the same.

W. D. MILLS,
CECIL R. KING,
HALE BOGGS,
JOHN W. BYRNES,

Managers on the Part of the House.

RUSSELL LONG,
GEO. A. SMATHERS,
CLINTON P. ANDERSON,
JOHN J. WILLIAMS,
FRANK CARLSON,

Managers on the Part of the Senate.

STATEMENT OF THE MANAGERS ON THE PART OF THE HOUSE

The managers on the part of the House at the conference on the disagreeing votes of the two Houses on the amendments of the Senate to the bill (H.R. 15414) to continue the existing excise tax rates on communication services and on automobiles, and to apply more generally the provisions relating to payments of estimated tax by corporations, submit the following statement in explanation of the effect of the action agreed upon by the conferees and recommended in the accompanying conference report:

The Senate amendment to the text of the bill struck out all after the enacting clause and inserted new text. Under the conference agreement, the House recedes with an amendment which substitutes new text explained below.

Section 1. Short title; table of contents

Section 1(a) of the conference substitute provides that the bill, when enacted, may be cited as the "Revenue and Expenditure Control Act of 1968." Section 1(a) of the bill as passed by the House provided as the short title the "Tax Adjustment Act of 1968." Section 1 of the Senate amendment provided as the short title the "Balance of Payments and Domestic Economy Act of 1968."

Section 1(b) of the conference substitute provides a table of contents which sets forth the titles and sections of the bill.

TITLE I—INTERNAL REVENUE CODE AMENDMENTS

Section 101. Amendment of existing law

Section 101 of the conference substitute provides that, except as otherwise expressly provided, whenever in title I of the bill an amendment or repeal is expressed in terms of an amendment to, or repeal of, a section or other provision, the reference is to be considered to be made to a section or other provision of the Internal Revenue Code of 1954. This corresponds to section 1(b) of the bill as passed by the House and to section 5 of the Senate amendment.

Section 102. Imposition of tax surcharge

Section 102 of the conference substitute corresponds in substance to section 17 of the Senate amendment. Subsection (a) of section 102 amends subchapter A of chapter 1 of the 1954 Code by adding at the end thereof a new part V, consisting of a new section 51 which imposes a 10 percent income tax surcharge for the period January 1, 1968, through June 30, 1969, in the case of corporations, and for the period April 1, 1968, through June 30, 1969, in the case of individuals.

Imposition of tax surcharge

Subsection (a) of the new section 51 imposes the tax surcharge. Paragraph (1) relates to calendar years. Subparagraph (A) imposes, in addition to the other taxes imposed by chapter 1 of the 1954 Code,

on the income of every individual (other than an estate or trust) whose taxable year is the calendar year, a tax which is shown in the applicable table in such subparagraph. For the calendar year 1968, the tables are based on a tax of 7.5 percent of the adjusted tax. For the calendar year 1969, the tables are based on a tax of 5 percent of the adjusted tax. The tables also are based on—

(1) An exemption from the tax surcharge for single persons (other than a head of household) whose adjusted tax does not exceed \$145, heads of households whose adjusted tax does not exceed \$220, and married persons and surviving spouses filing joint returns whose adjusted tax does not exceed \$290; and

(2) A limitation on the tax surcharge applicable to single persons (other than a head of household) whose adjusted tax does not exceed \$290, heads of households whose adjusted tax does not exceed \$440, and married persons and surviving spouses filing joint returns whose adjusted tax does not exceed \$580.

Subparagraph (B) imposes the tax surcharge on corporations, and on estates and trusts, whose taxable year is the calendar year. In the case of corporations, the tax for the calendar year 1968 is to be 10 percent of the adjusted tax, and the tax for the calendar year 1969 is to be 5 percent of the adjusted tax. In the case of estates and trusts, the rates are 7.5 percent for 1968 and 5 percent for 1969.

Paragraph (2) of subsection (a) imposes the tax surcharge in the case of taxpayers whose taxable year is a fiscal year or a short year. The tax is comparable to the tax for the calendar year and is determined, in general, by multiplying 10 percent of the adjusted tax for the taxable year by a fraction determined by the number of the days in the taxable year which are within the period during which the surcharge applies.

Adjusted tax defined

Subsection (b) of the new section 51 defines the term "adjusted tax" as meaning the tax imposed by chapter 1 of the 1954 Code for the taxable year, determined without regard to the taxes imposed by sections 51 (as added by the bill), 871(a), and 881 of such code and without regard to certain specified increases in tax, and reduced by an amount equal to the retirement income credit which would be allowable under section 37 of such code if no tax were imposed by section 51 for the taxable year. Except for this reduction for the retirement income credit, the amount of the surcharge is determined before credits (such as the foreign tax credit and the investment credit), but the credits provided by part IV of subchapter A of chapter 1 are allowed against the amount of the surcharge. In the case of an alternative tax computed by reference to a partial tax (such as sec. 1201, in the case of capital gains), the tax surcharge applies only to the alternative tax and is not taken into account in determining the partial tax.

Estimated tax

Subsection (c) of the new section 51 provides that with respect to declarations, amended declarations, and payments of estimated tax, the time prescribed for filing or payment of which is on or after September 15, 1968, in the case of an individual, or June 15, 1968, in the case of a corporation, the rules in section 6654(d)(1) and 6655(d)(1) of the Code (which permit taxpayers to base their estimated tax

payments for a taxable year on the tax liability shown on the return for the preceding year) are not to apply with respect to any taxable year for which a tax is imposed by the new section 51.

Technical amendments

The remaining subsections of the new section 51 contain technical and conforming provisions relating to (1) Western Hemisphere trade corporations and dividends on certain preferred stock of public utilities, (2) shareholders of regulated investment companies, and (3) the attribution of the tax surcharge to the section imposing the tax on which the surcharge is based.

Subsection (b) of section 102 of the bill as agreed to in conference is a technical amendment relating to the receipt of minimum distributions by domestic corporations from controlled foreign corporations.

Withholding on wages

Subsection (c) of section 102 of the bill as agreed to in conference relates to withholding on wages.

Paragraph (1) of subsection (c) sets forth new tables for the percentage method of withholding. These tables are to apply in the case of wages paid after the 15th day after the date of the enactment of the bill and before July 1, 1969. The tables provide for withholding amounts of tax including the 10-percent tax surcharge which is to be in effect during this period.

Paragraph (2) of subsection (c) relates to the wage bracket method of withholding on wages during the period referred to in paragraph (1). The amount deducted and withheld under this method is to be determined in accordance with tables prescribed by the Secretary of the Treasury or his delegate. The tables so prescribed are to be the same as the tables now in the law, except that amounts and rates set forth as amounts and rates of tax to be deducted and withheld are to be computed on the basis of table 7 (percentage method of withholding if payroll period with respect to an employee is annual) set forth in the amendment made by paragraph (1) of subsection (c).

Subsection (d) of section 102 of the bill as agreed to in conference makes a clerical amendment to a table of parts.

Effective date

Subsection (e) of section 102 of the bill as agreed to in conference provides effective dates. The amendments made by section 102 (other than subsection (c), relating to withholding on wages) are to apply (1) insofar as they relate to taxpayers other than corporations, to taxable years ending after March 31, 1968, and beginning before July 1, 1969, and (2) insofar as they relate to corporations, to taxable years ending after December 31, 1967, and beginning before July 1, 1969.

For explanation of special rules with respect to the application of the new section 51 of the 1954 Code in the case of (1) payments of estimated tax for taxable years beginning before the date of the enactment of the bill, and (2) payments of tax surcharge for taxable years ending before such date of enactment, see the explanation of section 104.

Section 103. Payment of estimated income tax by corporations

Section 103 of the conference substitute corresponds to section 3 of the bill as passed by the House and section 7 of the Senate amendment. Except for technical and conforming changes and as noted

below, the provisions of the bill as passed by the House, the Senate amendment, and the conference substitute are the same.

Under existing law, a corporation is required to make payments of estimated income tax to the extent its estimated income tax liability (after credits) exceeds \$100,000. Under the bill as passed by the House, the \$100,000 exemption is ultimately eliminated and a corporation is required to make payments if the tax liability can reasonably be expected to be \$40 or more. Under the Senate amendment, the \$100,000 exemption is ultimately reduced to an amount equal to 22 percent of its surtax exemption (this amount is \$5,500 or, in the case of certain controlled groups of corporations, the portion thereof allocated to the corporation). Both the bill as passed by the House and the Senate amendment make their respective changes in the \$100,000 exemption over a 5-year transitional period. Under the conference agreement, the \$100,000 exemption is reduced in the manner provided by the Senate amendment in five annual stages, and is then eliminated in five additional annual stages. Payments of estimated tax are not required unless such estimated tax (tax liability, reduced by credits against tax and the exemptions) can reasonably be expected to be \$40 or more.

Under the bill as passed by the House and under the Senate amendment, a corporation which overpays its estimated income tax may file an application for an adjustment ("quick refund") of the overpayment. Under the bill as passed by the House, the application may not be allowed unless the amount of the adjustment ("quick refund") equals or exceeds (A) 5 percent of the amount estimated by the corporation on its application as its income tax liability for the taxable year, and (B) \$200. The Senate amendment changed 5 percent to 10 percent, and changed the \$200 amount to \$500. The conference agreement accepts the changes made by the Senate amendment.

The bill as passed by the House, the Senate amendment, and the conference substitute provide that the amendments relating to the payment of estimated income tax by corporations are to apply with respect to taxable years beginning after December 31, 1967. The Senate amendment contained in addition, a special provision relating to the payment of estimated tax (attributable to the enactment of the bill) required of any corporation on April 15, 1968. Under the conference agreement, the special rules relating to the application of this section of the bill and section 102 (including its effect on declarations and payments of estimated tax) are contained in section 104.

Section 104. Special rules for applications of sections 102 and 103

Section 104 of the conference substitute provides certain special rules with regard to the due dates for additional payments of estimated tax attributable to sections 102 and 103 of the bill, and the due date for certain payments of the tax surcharge imposed by the new section 51 of the Code.

Payment of estimated tax for taxable years beginning before date of enactment

Subsection (a) of section 104 provides that in determining whether any taxpayer is required to make a declaration or amended declaration of estimated tax, or to pay any amount or additional amount of estimated tax, by reason of the amendments made by sections 102 and 103, such amendments are to apply only if the taxable year ends on or after September 30, 1968, in the case of an individual, or on or after

June 30, 1968, in the case of a corporation. Subsection (a) further provides that with respect to estimated tax requirements, the amendments made by sections 102 and 103 of the bill are to be first taken into account as of September 1, 1968, for individuals, and May 31, 1968, for corporations. Thus, for example, in the case of a calendar year corporation the requirements of the amended section 6154 (installment payments of estimated tax by corporations) will be first applied as of May 31, 1968, and any increase in the amount of estimated tax resulting from the amendments made by sections 102 and 103 are to be reflected in the corporation's estimated tax installments beginning with the installment due June 15, 1968. In the case of an individual whose taxable year is the calendar year, any increase in the amount of estimated tax resulting from the tax surcharge is to be reflected in the individual's estimated tax installments beginning with the installment due September 15, 1968.

Subsection (a) also provides that in the case of any amount or additional amount of estimated tax payable, by reason of the amendments made by sections 102 and 103, by a corporation on or after June 15, 1968, and before the 15th day after the date of the enactment of the bill, the time prescribed for payment of such amount or additional amount shall not expire before such date (not earlier than the 15th day after the date of the enactment of the bill) as the Secretary of the Treasury or his delegate shall prescribe.

Payment of tax surcharge for taxable years ending before date of enactment

Subsection (b) of section 104 provides that in the case of a taxable year ending before the date of enactment of this bill, the time prescribed for payment of the surcharge imposed by new section 51 shall not expire before September 15, 1968. Since taxpayers whose taxable years ended during 1968 before the date of enactment of the surcharge may have filed their returns without taking any liability for the surcharge into account, the Internal Revenue Service may require a statement to be filed with the payment due on September 15. Such statement will not constitute a return for purposes of the Internal Revenue Code of 1954. Therefore, neither the period of limitations on assessment and collection nor the period of limitations on credit or refund, if otherwise measured from the time the return is filed, will be extended by the subsequent filing of such statement. In the case of any interest, penalty, or addition to tax, the period of underpayment will not begin with respect to the surcharge before September 15, 1968. Thus, for example, interest on an underpayment of surcharge due, under section 104(b), on September 15, 1968, will be measured from such due date. This results from the application of section 6601 of the Internal Revenue Code which provides, generally, that interest will be measured on an underpayment from the last date prescribed for payment. Similarly, in the event of an overpayment of tax, interest on such overpayment attributable to a surcharge payment made on or before September 15, 1968, will not be allowable with respect to any period before September 15. This results from the application of sections 6611 and 6513 of the Internal Revenue Code which provide, generally, that interest shall be allowed on an overpayment of tax from the last day prescribed by law for payment of such tax, or, if later, from the date of such overpayment.

Under section 6152 of the Internal Revenue Code, a corporation may elect to pay its tax in two equal installments. If both installments are due before September 15, 1968, then the additional payment required to reflect the surcharge must be paid on or before September 15. If the first installment is due on or before September 15, but the second installment is due after that date, the corporation must pay one-half of the amount of the surcharge on or before September 15, 1968. The remaining half of the surcharge due will be paid as a part of the second installment on the due date for that installment.

Section 105. Continuation of excise taxes on communication services and on automobiles

Section 6 of the Senate amendment is identical to section 2 of the bill as passed by the House. These provisions are retained as section 105 of the conference substitute, except that the amendments are to take effect as of April 30, 1968, rather than March 31, 1968, in order to conform to the one month extension provided by Public Law 90-285, approved April 12, 1968.

Section 106. Timely mailing of deposits

Section 4 of the bill as passed by the House amends the Code to prescribe rules under which deposits delivered by United States mail to the bank or trust company authorized to receive the deposits are to be treated as timely deposited. Section 8 of the Senate amendment is identical to section 4 of the bill as passed by the House. These provisions are retained as section 106 of the conference substitute.

Section 107. Industrial development bonds

Sections 9 and 10 of the Senate amendment relate to industrial development bonds. In past years the Internal Revenue Service had ruled that the interest paid on obligations commonly known as industrial development bonds was exempt from income tax under section 103 of the Code (Rev. Rul. 54-106, Rev. Rul. 57-187, and Rev. Rul. 63-20). On March 23 of this year the Internal Revenue Service published proposed regulations providing that the interest paid on industrial development bonds described in the proposed regulations would no longer be considered to be exempt under section 103. The proposed regulations represented a change in the position previously taken by the Internal Revenue Service and were based on the theory that industrial development bonds described in the proposed regulations were not "obligations of a State * * * or any political subdivision" within the meaning of section 103 since the primary obligor was not a State or political subdivision. These proposed regulations also contained a series of rules to provide a transition from the prior rulings to the rules set forth in the new regulations applicable to those who had committed themselves in particular ways to projects in reliance on the Service's prior position.

Section 9 of the Senate amendment would have, in effect, suspended the application of the proposed regulations by requiring the continued application of the revenue rulings referred to above until Congress acted on the subject. Section 10 of the Senate amendment would have provided a specific rule for determining the tax status of industrial development bonds issued after January 1, 1969. In general, section 10 denied tax-exempt status to industrial development bonds described in such section issued after January 1, 1969. Section 10 also

provided specific exemptions to this rule. The effect of sections 9 and 10, taken together, would have been to extend the Internal Revenue Service's prior interpretation of the tax status of industrial development bonds until section 10 became effective.

The conferees, in agreeing to a substitute incorporating features of sections 9 and 10, have for the future provided exclusive rules for industrial development bonds essentially of the type referred to in the prior revenue rulings and within the definition contained in the substitute, specifying the types of such bonds which in the future are to be taxable and the types of such bonds which are to be tax exempt. Under the conference agreement, the substitute becomes effective on May 1, 1968, and there is a continuing exemption, in addition to the specific exemptions, for issues of under \$1 million. The May 1, 1968, effective date does not apply with respect to obligations issued before January 1, 1969, if before May 1, 1968, any of the conditions specified in section 107(b) of the conference substitute are satisfied.

The conference substitute does not affect the tax status of any obligation which is not an industrial development bond as defined in the substitute.

(a) *Amendment of section 103.*—Section 107(a) of the conference substitute amends section 103 of the Code, relating to interest on certain governmental obligations, by relettering present section 103(c) as section 103(d) and by inserting after present section 103(b) a new subsection (c), relating to the tax treatment of interest paid on industrial development bonds.

Section 103(a)(1) not to apply

Paragraph (1) of new subsection (c) provides that, except as otherwise provided in new subsection (c), any industrial development bond (as defined in new subsection (c)(2)) shall be treated as an obligation which is not described in present section 103(a)(1) of the Code. The interest paid on any obligation which is an industrial development bond will, therefore, be taxable except as otherwise provided by the new subsection (c).

Industrial development bond defined

Paragraph (2) of new subsection (c) contains the definition of the term "industrial development bond" for purposes of new subsection (c). Any debt obligation which satisfies both the trade or business test (contained in new subsection (c)(2)(A)) and the security interest test (contained in new subsection (c)(2)(B)) is an industrial development bond.

Trade or business test

Subparagraph (A) of new subsection (c)(2) contains the trade or business test. This test is met by any obligation which is issued as part of an issue all or a major portion of the proceeds of which are to be used directly or indirectly in any trade or business carried on by any person who is not an exempt person (within the meaning of paragraph (3) of the new subsection (c)). The term "obligation which is part of an issue" includes a single note issued in connection with a bank loan.

Security interest test

Subparagraph (B) of new subsection (c)(2) contains the security interest test. The test is met by any obligation the payment of the prin-

principal or interest on which (under the terms of such obligation or any underlying arrangement) is, in whole or in major part, secured in the manner described in clauses (i) or (ii) of new subparagraph (B).

Clause (i) of new subsection (c) (2) (B) provides that the security interest test is met when the payment of the principal or interest on an obligation is (in whole or major part) secured either (1) by any interest in property used or to be used in a trade or business, or (2) by any interest in payments in respect of such property.

Clause (ii) of new subsection (c) (2) (B) provides that the security interest test is met when the payment of the principal or interest on an obligation is (in whole or major part) to be derived from payments to be made in respect of property, or borrowed money, used or to be used in a trade or business.

Exempt person

Paragraph (3) of new section 103(c) defines the term "exempt person" for purposes of paragraph (2) (A) to mean—

(1) a governmental unit (that is, a State, a territory, or a possession of the United States, or any political subdivision of any of the foregoing, or of the District of Columbia), or

(2) an organization described in section 501(c)(3) of the Code and exempt from tax under section 501(a) of the Code (but only with respect to a trade or business which is not an unrelated trade or business).

In determining whether a trade or business is an unrelated trade or business, the definition of such term in section 513(a) of the Code is to be applied to the organization without regard to whether it is an organization subject to the tax imposed by section 511 of the Code.

Under paragraphs (2) and (3) of the new section 103(c), an obligation (1) which is issued as a part of an issue all or a major portion of the proceeds of which are to be used directly or indirectly in any trade or business carried on by any person who is not an exempt person, and (2) which meets the security interest test of paragraph (2) (B) is an industrial development bond. In determining whether all or a major portion of the proceeds of an issue are to be used directly or indirectly in any trade or business carried on by any person who is not an exempt person, the indirect, as well as the direct, use of the proceeds is to be taken into account. Thus, if all or a major portion of the proceeds of an issue are to be loaned by the issuer to one or more persons who are not exempt persons for use by such person or persons in trades or businesses carried on by them, such proceeds are to be used in a trade or business carried on by a person who is not an exempt person and the obligations comprising such issue are industrial development bonds. If such proceeds are to be used to construct facilities to be leased to any person who is not an exempt person and who is to use such facilities in a trade or business carried on by him, such proceeds are to be used in a trade or business carried on by a person who is not an exempt person and the obligations comprising such issue are industrial development bonds. If such proceeds are to be used to construct facilities to be leased to any person who will in turn lease them to another person who is not an exempt person for use in a trade or business carried on by him, such proceeds are to be used in a trade or business carried on by a person who is not an exempt person and the obligations comprising such issue are industrial development bonds.

Therefore, under paragraphs (2) and (3) of the new section 103(c), when all or a major portion of the proceeds of an issue which meets the security interest test of paragraph (2)(B) are to be used directly or indirectly in any trade or business carried on by any person who is not an exempt person, the obligations comprising such issue are industrial development bonds, unless all or a major portion of such proceeds are to be used directly or indirectly only in a trade or business carried on by a person who is an exempt person, and are not to be used in any trade or business carried on by any person who is not an exempt person. The fact that the governmental unit engages in a series of loan transactions of the types referred to above does not mean that the bonds relating to the loans in each case are not industrial development bonds so long as the other person uses the loans (for example, to acquire or construct property) in a trade or business carried on by a person who is not an exempt person.

Examples

The application of the rules contained in paragraphs (2) and (3) of new section 103(c) are illustrated by the following examples:

Example (1).—Governmental unit A and corporation X enter into an arrangement under which A is to provide a factory which X will lease for 20 years. The arrangement provides (1) that A will issue \$10 million of bonds, (2) that the proceeds of the bond issue will be used to purchase land and to construct and equip a factory in accordance with X's specifications, (3) that X will rent the facility for 20 years at an annual rental equal to the amount necessary to amortize the principal and pay the interest on the outstanding bonds, and (4) that such payments by X and the facility itself will be the security for the bonds. The bonds are industrial development bonds since they are part of an issue of obligations (1) all of the proceeds of which are to be used (by purchasing land and constructing and equipping the factory) in a trade or business by a person who is not an exempt person, and (2) the payment of the principal and interest on which is secured by a security interest in, and is to be derived from payments to be made in respect of, property to be used in a trade or business.

Example (2).—The facts are the same as in example (1) except that instead of providing that X will lease the facility for 20 years, the arrangement provides that (1) X will purchase the facility, and (2) annual payments equal to the amount necessary to amortize the principal and pay the interest on the outstanding bonds will be made by X. The bonds are industrial development bonds for the reasons set forth in example (1).

Example (3).—Governmental unit B and corporation X enter into an arrangement under which the governmental unit is to lend \$10 million to X. The arrangement provides that (1) B will issue \$10 million of bonds, (2) the proceeds of the bond issue will be lent to X to provide additional working capital and to finance the acquisition of certain new machinery, (3) X will repay the loan in annual installments equal to the amount necessary to amortize the principal and pay the interest on the outstanding bonds, and (4) the payments on the loan and the machinery will be security for the bonds. The bonds are industrial development bonds since they are debt obligations part of an issue (1) all of the proceeds of which are to be used in a trade or business by a person who is not an exempt person, and (2) the payment

of the principal and interest on which is secured by payments to be made in respect of property to be used in a trade or business.

Example (4).—The facts are the same as in example (1), (2), or (3) except that the annual payments required to be made by corporation X exceed the amount necessary to amortize the principal and pay the interest on the outstanding bonds. The bonds are industrial development bonds for the reasons set forth in such examples. The fact that corporation X is required to pay an amount in excess of the amount necessary to pay the principal and interest on the bonds does not affect their status as industrial development bonds.

Example (5).—The facts are the same as in example (1), (2), (3), or (4) except that the bonds also are general obligation bonds and the governmental unit is required to pay principal and interest out of general revenues in the event of a default by corporation X. The bonds are industrial development bonds for the reasons set forth in such examples. Governmental unit A's arrangement to pay the principal and interest on the bonds out of its general revenues in the event of default is a guaranty of corporation X's primary obligation to make the necessary payments. Governmental unit A's guaranty does not affect the status of the bonds as industrial development bonds.

Example (6).—Governmental unit C issues its general obligation bonds to purchase land and build a housing project principally for residential purposes. The bond indenture provides (1) that C is to own and operate the project as a rental facility, and (2) that the project itself and the rental payments are the security for the bonds. The bonds are not industrial development bonds since the project is to be owned and operated by C (an exempt person) and a major part of the proceeds of the issue are not to be used indirectly by any other person in any trade or business.

Example (7).—Governmental unit D issues its obligations to finance the construction of dormitories for educational institution Y which is an organization described in section 501(c)(3) of the Code and exempt from tax under section 501(a) of the Code. The dormitories are to be owned and operated by Y and do not constitute an unrelated trade or business. The bonds are not industrial development bonds since the proceeds are not to be used in a trade or business by a person who is not an exempt person.

Example (8).—Governmental unit E issues its obligations to finance the construction of various facilities that are to be leased to numerous unrelated corporations for use in their trades or businesses. The obligations are secured by revenues that governmental unit E will derive from such leases. The bonds will constitute industrial development bonds notwithstanding the fact that the activities of governmental unit E, an exempt person, may amount to a trade or business of leasing property, since the property involved will be used by each of the corporations in their respective trades or businesses.

Certain exempt activities

Paragraph (4) of new subsection (c) provides that new subsection (c)(1) shall not apply to any obligation which is issued as part of an issue substantially all of the proceeds of which are to be used to provide certain designated types of facilities. Obligations issued to finance such facilities may be industrial development bonds, but they are to be treated as obligations described in section 103(a)(1) of the Code.

Subparagraph (A) of new subsection (c) (4) applies in respect of obligations issued to provide residential real property for family units. A family unit is a building or portion thereof which contains complete living facilities which are to be used on other than a transient basis by only one family consisting of one or more persons. Thus, an apartment which is to be used on other than a transient basis by one family, which contains complete facilities for living, sleeping, eating, cooking, and sanitation constitutes a family unit. Hotels, motels, dormitories, fraternity and sorority houses, rooming houses, hospitals, sanitariums, rest homes, and parks and courts for mobile homes do not constitute residential real property.

The term "residential real property for family units" includes land and facilities which are functionally related and subordinate to the space used for family units. In addition, it is not intended that the fact that a minor portion of the facility is used for other nonfamily unit purposes (such as for a drugstore or other retail establishment) would cause the project not to be within the term.

Subparagraph (B) of new subsection (c) (4) applies in respect of obligations issued to provide sports facilities. The term "sports facilities" includes facilities (such as stadiums) for watching baseball, football, and other sports events as well as facilities for the participation of the general public in sports activities such as golf, skiing, or swimming. Any other facility which is functionally related and subordinate to the sports facility such as a parking lot, club house, ski slope warming house, or bath house, is considered to be a part of the exempt sports facility. The portion of the proceeds of a borrowing which are expended in connection with any functionally related and subordinate facility are taken into account in determining whether substantially all of the proceeds of the borrowing are used to provide a sports facility. A facility which is primarily a hotel or motel but which includes facilities for sports, such as a golf course, swimming pool, or tennis courts, is not within the meaning of the term.

Subparagraph (C) of new subsection (c) (3) applies in respect of obligations issued to provide convention and trade show facilities. These facilities are the meeting halls, display areas, and facilities functionally related and subordinate to them, which are needed to house a convention or trade show. The term does not include hotel facilities available to the general public whether or not intended primarily to house persons attending or participating in a convention or a trade show.

Subparagraph (D) of new subsection (c) (4) applies in respect of obligations issued to provide airports, docks, wharves, mass commuting facilities, parking facilities, or storage or training facilities directly related to an airport, dock, wharf, mass commuting facility, or parking facility. For example, a grain elevator or warehouse which is on or adjoins a dock or wharf and which is directly related to it is an exempt storage facility. A facility located at an airport at which flight personnel are trained for their duties is an example of an exempt training facility.

Subparagraph (E) of new subsection (c) (4) applies in respect of obligations issued to provide (1) sewage or solid waste disposal facilities or (2) facilities for the local furnishing of electric energy, gas, or water. Solid waste disposal means the collection, storage, treatment, utilization, processing, or final disposal of solid waste (as defined in

the Solid Waste Disposal Act, 42 U.S.C. § 3252 (4)). Facilities for the local furnishing of electric energy, gas, or water do not include facilities for regional or broader transportation of gas or water by pipeline or long line transmission of electric energy.

Subparagraph (F) of new subsection (c) (4) applies in respect of obligations issued to provide air or water pollution control facilities, such as, for example, those described in subparagraphs (B) (i) and (C) (i) of section 48(h) (12) of the Code (relating to water and air pollution control facilities).

Industrial parks

Paragraph (5) of new subsection (c) provides that new subsection (c) (1) shall not apply to any obligation which is issued as part of an issue substantially all of the proceeds of which are to be used for the acquisition or development of land as the site for an industrial park.

An industrial park, is, for purposes of new subsection (c) (5), a tract of land suitable for industrial, distribution, or wholesale use, the control and administration of which is usually vested in a governmental body. The uses of the tract are usually regulated by protective minimum restrictions, ordinarily including the size of sites, parking and loading regulations, and building set-back lines.

For purposes of paragraph (5), the term "development of land" includes the provision of water, sewer, drainage, or similar facilities, or of transportation, power, or communication facilities. Such facilities are, however, included within the meaning of the term only to the extent that they are incidental to the use of the site as an industrial park. A water pump house or a railroad siding might be incidental to the use of a site as an industrial park. Except with respect to such facilities, the term does not include the provision of structures or buildings.

Exemption for certain small issues

Paragraph (6) of new subsection (c) provides a special exemption for industrial development bond issues of \$1 million or less. If the provisions of paragraph (6) are applicable to an issue of industrial development bonds, the interest on such bonds will be tax exempt notwithstanding new subsection (c) (1).

In general.—Subparagraph (A) of new subsection (c) (6) provides that new subsection (c) (1) shall not apply to any obligation issued as part of an issue if (1) the aggregate authorized face amount of such issue is \$1 million or less and (2) substantially all of the proceeds of such issue are to be used either (i) for the acquisition, construction, reconstruction, or improvement of land or property of a character subject to the allowance for depreciation under section 167 of the Code (relating to depreciation), or (ii) to redeem part or all of a prior issue which was issued for the purposes described in clauses (i) or (ii) of new subsection (c) (6) (A).

Substantially all of the proceeds of a \$1 million or less issue must be used for the acquisition, construction, reconstruction, or improvement of land or of depreciable property if the obligations are to qualify for the small issue exemption. This \$1 million exemption is not applicable if a substantial portion of the proceeds are loaned to a borrower for use as working capital or to finance inventory.

Under the refunding rule of clause (ii), all or a part of the proceeds of a new \$1 million or less issue may be used to redeem either (1) part

or all of any prior issue which qualifies under clause (i), or (2) part or all of any prior issue which was used (either itself or one of its predecessor issues) to redeem an issue which qualified under clause (i). For example, a new \$1 million issue of 4.5 percent obligations might in the future be used to redeem an outstanding \$1 million issue of 6 percent obligations. In addition, if the outstanding issue was \$700,000, a new issue of \$1 million would be tax exempt if the \$300,000 additional proceeds were used in the manner described in clause (i).

Certain prior issues taken into account.—Subparagraph (B) of new subsection (c) (6) provides rules for taking into account outstanding prior small issues in determining whether a subsequent \$1 million or less issue qualifies for the special exception. Subparagraph (B) provides that if the requirements of clauses (i), (ii), and (iii) of subparagraph (B) with respect to a prior issue of obligations are applicable, then, for purposes of applying the special exemption of subparagraph (A), in determining the aggregate face amount of any later issue there shall be taken into account the face amount of obligations issued under all prior such issues which are outstanding at the time of such later issue. The face amount of any outstanding obligation which is to be redeemed from the proceeds of the later issue is not, however, taken into account.

The requirement of clause (i) of new subsection (c) (6) (B) is that the proceeds of two or more issues of obligations (whether or not the governmental unit issuing such obligations is the same unit for each such issue) which qualify under new subsection (c) (6) (A) and which are issued after April 30, 1968, are or will be used primarily with respect to facilities located or to be located in the same incorporated municipality or located or to be located in the same county in an unincorporated area in such county.

The requirement of clause (ii) of new subsection (c) (6) (B) is that the principal user of such facilities is or will be the same person or two or more related persons (as defined in new subsection (c) (6) (C)).

The requirement of clause (iii) of new subsection (c) (6) (B) is that, but for subparagraph (B), new subsection (c) (6) (A) would apply to each such issue of obligations.

The application of the rules contained in subparagraphs (A) and (B) of new subsection (c) (6) are illustrated by the following example:

Example.—(a) County B and corporation Y enter into an arrangement under which the county is to provide a factory which Y will lease for 20 years. The arrangement provides (1) that B will issue \$1 million of bonds on November 1, 1968, (2) that the proceeds of the bond issue will be used to purchase land in Town M and to construct and equip a factory in accordance with Y's specifications, (3) that Y will rent the facility for 20 years at an annual rental equal to the amount necessary to amortize the principal and pay the interest on the outstanding bonds, and (4) that such payments by Y and the facility itself shall be the security for the bonds. Although the bonds issued are industrial development bonds within the meaning of new subsection (c) (2), by reason of the small issue exemption of subparagraph (A) of new subsection (c) (6), they are to be treated as obligations described in section 103(a) (1) of the Code.

(b) Subsequently, corporation Y proposes to Town M that the Town build a \$400,000 warehouse in the Town for the use of corporation Y under terms similar to the factory arrangement. On the issue

date of the new bond issue, \$750,000 of the first issue of bonds are outstanding. If M issues \$400,000 of bonds for such purposes, the issue will not qualify under the small issue exemption since the prior outstanding issue of \$750,000 must be taken into account, inasmuch as (1) the facilities under both issues are to be located in Town M, (2) the same taxpayer will be the principal user of the new warehouse, and (3) but for subparagraph (B) of new subsection (c) (6), subsection (c) (6) (A) would apply to the new bond issue.

Related persons.—Subparagraph (C) of new subsection (c) (6) defines the term “related person” for purposes of paragraphs (6) and (7) of new subsection (c).

Subparagraph (C) provides that a person is a “related person” to another person if—

(1) under clause (i), the relationship between such persons would result in a disallowance of losses under section 267 of the Code (relating to disallowance of losses, etc., between related taxpayers) and section 707(b) of the Code (relating to losses disallowed, etc., between partners and controlled partnerships), or

(2) such persons are members of the same controlled group of corporations, as defined in section 1563(a) of the Code, relating to definition of controlled group of corporations (except that “more than 50 percent” shall be substituted for “at least 80 percent” each place it appears in section 1563(a)).

Exception

Paragraph (7) of new subsection (c) provides that paragraphs (4), (5), and (6) of new subsection (c) shall not apply with respect to any obligation for any period during which it is held by a person who is a substantial user of the facilities or a related person (as defined in subparagraph (C) of new subsection (c) (6)). Thus, the interest paid on an obligation which is issued to provide certain facilities, issued to finance an industrial park, or issued under the small issue exemption, will be taxable while the obligation is held by a substantial user of the financed facilities or a related person. For example, if a baseball or football club held the bonds of a stadium in which it played its home games for the season, the bond interest would be taxable. Similarly, if the users of the sites in an industrial park hold the industrial park bonds, the interest would be taxable.

(b) *Effective date.*—

In general

Paragraph (1) of section 107(b) of the conference substitute provides that, except as provided by paragraph (2) of section 107(b), the amendment made by section 107(a) is to apply with respect to taxable years ending after April 30, 1968, but only with respect to obligations issued after such date.

Transitional provisions

Paragraph (2) of section 107(b) of the conference substitute provides that section 103(c) (1) of the Code, as amended by section 107(a) of the conference substitute, is not to apply with respect to any obligation issued before January 1, 1969, if before May 1, 1968, any one of the conditions contained in subparagraph (A), (B), (C), or (D) of section 107(b) (2) is satisfied.

For purposes of section 107(b)(2), obligations are considered to be issued on the date on which there is a physical delivery of the evidences of indebtedness in exchange for the amount of the issue price. For example, a bond issue is "issued" when the issuer physically exchanges the bonds for the underwriter's (or other purchaser's) check. Obligations which are taken down after December 31, 1968, by purchasers pursuant to a delayed delivery agreement with the issuer are, therefore, subject to the rules contained in new section 103(c) of the Code.

Subparagraph (A) of section 107(b)(2) of the conference substitute provides that new section 103(c)(1) of the Code shall not apply to such an obligation if, before May 1, 1968, the issuance of the obligation (or the project in connection with which the proceeds of the obligations are to be used) was authorized or approved by the governing body of the governmental unit issuing the obligation or by the voters of such governmental unit. Therefore, if the governing body of the governmental unit issuing industrial development bonds has, prior to May 1, 1968, adopted a resolution or an ordinance which authorizes or approves either (1) the project being financed or (2) the bond issue, then new section 103(c)(1) of the Code will not apply to the bonds involved. Similarly, if the voters of the governmental unit have approved the issuance of such bonds for a designated project, such section will not be applicable.

Subparagraph (B) of section 107(b)(2) of the conference substitute provides that new section 103(c)(1) of the Code shall not apply to such an obligation if, before May 1, 1968, a governmental unit has made a significant financial commitment in connection with the issuance of such obligation, with the use of the proceeds to be derived from the sale of such obligation, or the property to be acquired or improved with such proceeds. The governmental unit making the significant financial commitment with respect to a project financed by the proceeds of an industrial development bond issue need not be the governmental unit issuing the bonds. For example, the condition of subparagraph (B) is satisfied if a State makes a significant financial commitment to build access roads to a project in one of its counties which will issue the bonds. Similarly, the condition is satisfied when a city or county makes a significant financial commitment to build roads, powerlines, or sewer lines to a project within its jurisdiction which is being financed by a separate governmental unit such as an industrial development board.

For purposes of this subparagraph, the term "significant financial commitment" means the expenditure of (or a commitment to expend) a sizable amount of money. The amount involved need not be compared to the size of the financed project. For example, a commitment to expend \$250,000 in connection with a \$10 million project would be considered significant.

Subparagraph (C) of section 107(b)(2) of the conference substitute provides that new section 103(c)(1) of the Code shall not apply to such an obligation if, before May 1, 1968, any person (other than a governmental unit) who will use the proceeds to be derived from the sale of such obligation, or who will use the property to be acquired or improved with such proceeds, has expended (or has entered into a binding contract to expend), for purposes which are related to the use of such proceeds or property, an amount equal to or in excess of 20 percent of such proceeds.

For purposes of this subparagraph, a prospective user of the proceeds of an industrial development bond issue or property to be acquired with such proceeds will be considered to have entered into a binding contract to expend money for purposes related to the project if (1) such person has entered into a contract for fuel, power, water, or raw materials and (2) any conditions to which the obligations of one or more parties to such contract are subject are beyond the control of such parties. For example, a binding contract for alumina entered into in connection with the financing of an aluminum reduction mill or such a contract to purchase timber land in connection with a paper mill are contracts related to the use of the financed facility. For purposes of determining whether the expenditures of the prospective user are equal to or in excess of 20 percent of the bond proceeds, binding contracts will be taken into account on the basis of the amounts to be expended over the term of the contract.

Subparagraph (D) of section 107(b) (2) of the conference substitute provides that new section 103(c) (1) of the Code shall not apply to such an obligation if, before May 1, 1968, in the case of an obligation issued in conjunction with a project where financial assistance will be provided by a governmental agency concerned with economic development, such agency has approved the project or an application for financial assistance is pending.

For purposes of this subparagraph, "financial assistance" includes a guaranty of the payment of the principal and interest on an obligation by a governmental unit as well as a direct financial grant. For example, new section 103(c) (1) of the Code does not apply if the Federal Economic Development Administration has approved a grant in connection with a project to be financed by industrial development bonds. Similarly, where a State agency has approved a project and the agency has guaranteed the payment of the principal and interest on the bonds, new section 103(c) (1) of the Code does not apply. The governmental unit concerned with economic development may be a Federal, State, or local agency.

Section 108. Advertising in a political convention program

Section 276(a) of the Internal Revenue Code of 1954 provides, in part, that no deduction otherwise allowable for income tax purposes shall be allowed for any amount paid or incurred for advertising in a convention program of a political party.

Section 108 of the conference substitute (which is substantially the same as sec. 13 of the Senate amendment) amends section 276 of the Code by adding a new section 276(c). The new section 276(c) provides that section 276(a) shall not apply to any amount paid or incurred for advertising in a convention program of a political party distributed in connection with a convention held for the purpose of nominating candidates for the offices of President and Vice President of the United States, if the proceeds from such program are used solely to defray the costs of conducting such convention (or a subsequent convention of such party held for such purpose) and the amount paid or incurred for such advertising is reasonable in light of the business the taxpayer may expect to receive (1) directly as a result of such advertising, or (2) as a result of the convention being held in an area in which the taxpayer has a principal place of business:

For purposes of the new section 276(c), an amount paid or incurred for advertising will not be considered as "reasonable" if such amount is greater than the amount which would be paid for comparable advertising in a comparable convention program of a nonpolitical organization. The use of the word "directly" in paragraph (1) of the new section 276(c) does not permit the deduction of amounts paid or incurred for institutional advertising; it does not, for example, permit a deduction of amounts paid or incurred for advertising of a type not designed to sell specific goods or services to persons attending the convention.

The new section 276(c) does not permit the deduction of any amount described therein which is not otherwise allowable as a deduction under section 162 of the Code (relating to trade or business expenses), nor does it permit the deduction of any amount to which section 276(a) applies other than an amount which satisfies the requirements of the new section 276(c). Therefore, in order for any such amount to be deductible, it must first satisfy the requirements of section 162; in addition, it also must satisfy the more restrictive requirements of the new section 276(c).

This amendment applies with respect to amounts paid or incurred on or after January 1, 1968.

Section 109. Tax-exempt status of certain hospital service organizations

Section 109 of the conference substitute (which corresponds to sec. 12 of the Senate amendment) adds a new subsection to section 501 of the Internal Revenue Code which, in effect, provides a tax-exempt status for certain cooperative hospital service organizations. In order to qualify for a tax-exempt status, a hospital service organization must be organized and operated solely to perform services specified in the new subsection which, if performed directly by a tax-exempt hospital, would constitute activities in the exercise or performance of the purpose or function constituting the basis for its exemption, and must perform these services solely for two or more tax-exempt hospitals. The new subsection does not grant tax-exempt status if the hospital service organization performs any services other than those specified in the new subsection (for example, laundry services), or performs any services for any person or organization other than a tax-exempt hospital. In addition, such organization must be organized and operated on a cooperative basis and, if it has capital stock, all of its stock outstanding must be owned by its patron-hospitals. Under the amendment, a hospital service organization which meets these requirements and thereby qualifies for tax-exempt status is to be treated, for purposes of the Internal Revenue Code, as a hospital and as an organization referred to in section 503(b)(5) of the Code.

This amendment applies to taxable years ending after the date of enactment of the bill.

Section 110. Submission of proposals for tax reform

Section 20 of the Senate amendment provides that not later than December 31, 1968, the President is to submit to the Congress proposals for a comprehensive reform of the Internal Revenue Code of 1954. This section is retained as section 110 of the conference substitute.

TITLE II—EXPENDITURE AND RELATED CONTROLS

Section 201. Limitation on the number of civilian officers and employees in the executive branch

Subsection (a) of section 201 of the conference substitute provides the general rules that except as otherwise provided in section 201—

(1) No person shall be appointed as a full-time civilian employee to a permanent position in the executive branch during any month when the number of such employees is greater than the number of such employees on June 30, 1966, and

(2) The number of temporary and part-time employees in any department or agency in the executive branch during any month shall not be greater than the number of such employees during the corresponding month of 1967.

Subsection (b) of section 201 relates to the application of section 201(a) (1). Paragraph (1) provides that during any period when appointments are otherwise prohibited under section 201(a) (1), the head of any department or agency may (except as otherwise provided in section 201(b)) appoint a number of persons as full-time civilian employees in permanent positions in such department or agency equal to 75 percent of the number of vacancies in such positions which have occurred during such period by reason of resignation, retirement, removal, or death.

Paragraph (2) of section 201(b) provides that, for purposes of paragraph (1), all agencies, which on the first day of any period when appointments are otherwise prohibited under section 201(a) (1), have 50 or fewer full-time civilian employees in permanent positions are to be treated as one agency, and the Director of the Bureau of the Budget is to determine the vacancies in each such agency which may be filled by reason of paragraph (1).

Paragraph (3) of section 201(b) provides that, for purposes of paragraph (1), the Director of the Bureau of the Budget may reassign vacancies from one department or agency to another department or agency when such reassignment is, in the opinion of the Director, necessary or appropriate because of the creation of a new department or agency, because of a change in functions, or for the more efficient operation of the Government.

Paragraph (4) of section 201(b) provides that, if a full-time civilian employee in a permanent position is transferred from one department or agency to another department or agency (1) such transfer is to be taken into account under paragraph (1) as an appointment by the head of the department or agency to which he transfers, and (2) section 201(a) (1) is not to apply to an appointment to the vacancy in the department or agency from which he transferred and such vacancy is not to be taken into account under paragraph (1).

Subsection (c) provides that, for purposes of section 201(a) (2), the Director of the Bureau of the Budget may reassign authorized temporary and part-time employment from one department or agency to another department or agency when such reassignment is, in the opinion of the Director, necessary or appropriate because of the creation of a new department or agency, because of a change in functions, or for the more efficient operation of the Government.

Subsection (d) provides that, for purposes of section 201, there shall not be taken into account (1) any position filled by appointment by the President by and with the advice and consent of the Senate, other than for purposes of determining under section 201(a) (1) the number of full-time civilian employees in permanent positions in the executive branch at any time, (2) casual employees or employees serving without compensation, and (3) those employees (not exceeding 70,000 during any month) appointed under the President's program to provide summer employment for economically or educationally disadvantaged persons between the ages of 16 and 22.

Subsection (e) requires the Director of the Bureau of the Budget to maintain a continuous study of all appropriations and contract authorizations in relation to personnel employed and to reserve from expenditure the savings in salaries and wages resulting from the operation of this section, and any savings in other categories of expense which he determines will result from such operation.

Subsection (f) requires the departments and agencies in the executive branch to submit to the Director of the Bureau of the Budget such information as may be necessary to enable him to carry out his functions under section 201.

Subsection (g) requires the Director to submit to the Senate and the House of Representatives at the end of each calendar quarter, beginning with the quarter ending September 30, 1968, a report on the operation of section 201.

Subsection (h) provides that nothing in section 201 shall supersede or modify the reemployment rights of any person under section 9 of the Military Selective Service Act of 1967 or any other provision of law conferring reemployment rights upon persons who have performed active duty in the Armed Forces.

Subsection (i) provides that the Director of the Bureau of the Budget shall prescribe such regulations as he deems necessary or appropriate to carry out the provisions of this section.

Subsection (j) provides that section 201 (other than subsection (i) which takes effect on enactment) shall take effect on the first day of the first month which begins after the date of the enactment of the bill.

In administering section 201, the managers both on the part of the House and on the part of the Senate expect the Director of the Bureau of the Budget and the heads of departments and agencies to exercise control to prevent circumvention of its provisions by contracting for personal services to be performed by persons who are not government employees.

In keeping with the June 30, 1966, date, the provision is carefully designed so that it can be operated in such a fashion that whenever any agency has reached its June 30, 1966, level, then it can be in a position to resume full appointment. To this end, the conferees believe that the more efficient operation of the Government means that the Director of the Budget generally should reassign vacancies to any agency which has reached its June 30, 1966, level. For example, in applying this provision in the case of the Veterans' Administration (including all such employees working in veterans' hospitals), no reduction should be required in employee levels below that of June 30, 1966, in the case of permanent or full-time employees.

Section 202. Reduction of \$6 billion in expenditures during fiscal year 1969

Subsection (a) of section 202 of the conference substitute provides that expenditures and net lending (collectively referred to in the Budget as budget outlays) during the fiscal year ending June 30, 1969, under the Budget of the United States Government (estimated on p. 55 of H. Doc. No. 225, pt. 1, 90th Cong., as totaling \$186,062 million) shall not exceed \$180,062 million, except by expenditures and net lending—

(1) Which the President may determine are necessary for special support of Vietnam operations in excess of the amounts estimated therefor in the Budget;

(2) For interest in excess of the amounts estimated therefor in the Budget;

(3) For veterans' benefits and services in excess of the amounts estimated therefor in the Budget; and

(4) For payments from trust funds established by the Social Security Act, as amended, in excess of the amounts estimated therefor in the Budget.

The amounts estimated in the Budget (H. Doc. No. 225, pt. 1, 90th Cong.) as budget outlays for the items listed above are as follows:

(1) \$26,264,000,000 for special support of Vietnam operations (see p. 83 of the Budget),

(2) \$14,400,000,000 for interest (see p. 53 of the Budget),

(3) \$7,342,000,000 for veterans' benefits and services (see p. 161 of the Budget), and

(4) \$36,042 million for payments from trust funds established by the Social Security Act (see table C-4, "Outlays and Receipts of Trust Funds", p. 488 of the Budget) as follows:

| | <i>In millions</i> |
|---|--------------------|
| Federal old-age and survivors insurance trust fund..... | \$24,567 |
| Federal disability insurance trust fund..... | 2,617 |
| Health insurance trust funds..... | 5,770 |
| Unemployment trust fund..... | 3,088 |
| Total..... | 36,042 |

Subsection (b) of section 202 provides that the President shall reserve from expenditure and net lending, from appropriations or other obligational authority heretofore or hereafter made available, such amounts as may be necessary to effectuate the provisions of section 202(a).

Section 203. Reduction of \$10 billion in new obligational authority

Subsection (a) of section 203 of the conference substitute provides that the total new obligational authority and loan authority (collectively referred to in the Budget as budget authority) for the fiscal year ending June 30, 1969, provided by law heretofore or hereafter enacted (estimated on p. 55 of H. Doc. No. 225, pt. 1, 90th Cong., as \$201,723 million) shall not exceed \$191,723 million, except for new obligational authority and loan authority—

(1) Which the President may determine are necessary for special support of Vietnam operations in excess of the amounts estimated therefor in the Budget;

(2) For interest in excess of the amounts estimated therefor in the Budget;

(3) For veterans' benefits and services in excess of the amounts estimated therefor in the Budget, and

(4) For payments from trust funds established by the Social Security Act, as amended, in excess of the amounts estimated therefor in the Budget.

The budget authority (new obligational authority and loan authority) requested in the Budget (H. Doc. No. 225, pt. 1, 90th Cong.) for the items listed above are as follows:

(1) \$25,405 million for special support of Vietnam operations. This is the sum of the amounts estimated in the Budget as indicated by the Director of the Bureau of the Budget, and may be derived as follows:

| | <i>In millions</i> |
|--|--------------------|
| National defense (see p. 81 of the Budget): | |
| Subtotal, Department of Defense—Military..... | \$79, 116 |
| Excluding special Vietnam..... | (54, 191) |
| Special Vietnam..... | 24, 925 |
| International affairs and finance (see p. 92 of the Budget): | |
| Subtotal, expenditures..... | 4, 700 |
| Excluding Vietnam..... | (4, 220) |
| Special Vietnam..... | 480 |
| | <u>25, 405</u> |

(2) \$14,400 million for interest (see p. 53 of the Budget).

(3) \$7,817 million for veterans' benefits and services (see p. 161 of the Budget).

(4) \$41,765 million for receipts appropriated to trust funds established by the Social Security Act (see table 4-C, p. 488 of the Budget) as follows:

| | <i>In millions</i> |
|---|--------------------|
| Federal old-age and survivors insurance trust fund..... | \$27, 188 |
| Federal disability insurance trust fund..... | 3, 655 |
| Health insurance trust funds..... | 6, 827 |
| Unemployment trust fund..... | 4, 095 |
| Total..... | <u>41, 765</u> |

Subsection (b) of section 203 provides that in the event that the total amount of new obligational authority and loan authority for the fiscal year ending June 30, 1969, exceeds the limitation prescribed by section 203 (a), the President shall reserve from such obligational and loan authority such amounts as may be necessary to effectuate the provisions of section 203 (a). The amounts so reserved (other than any amounts reserved from trust funds) are rescinded by subsection (b) as of the close of June 30, 1969. The President, at the time of the submission of the Budget for the fiscal year ending June 30, 1970, is to make a report to the Congress indentifying the amounts reserved pursuant to subsection (b).

Section 204. Specific recommendations for \$8 billion rescission in old obligational authority

Section 204 of the conference substitute provides that the President shall cause a special study and analysis to be made of unobligated balances of appropriations and other obligational and loan authority available for obligation or commitment during the fiscal year ending June 30, 1969, which will remain available for obligation or commitment after June 30, 1969, and make a report thereon to the Congress.

The report is to be made at the time of the submission of the Budget for the fiscal year ending June 30, 1970, and is to include specific recommendations for legislation to rescind not less than \$8 billion of such unobligated balances.

Section 205. Application of certain formulas

Section 205 of the conference substitute provides that in the administration of any program as to which—

(1) The amount of expenditures or obligations is limited pursuant to section 202 or 203; and

(2) The allocation, grant, apportionment, or other distribution of funds among recipients is required to be determined by application of a formula involving the amount appropriated or otherwise made available for distribution,

the amount available for expenditure or obligation (as determined by the President) is to be substituted for the amount appropriated or otherwise made available in the application of the formula.

TITLE III—SOCIAL SECURITY ACT AMENDMENTS

Section 301. Limitation on number of children with respect to whom Federal payments may be made under program of aid to families with dependent children

Section 301 of the conference substitute corresponds to section 14(a) of the Senate amendment. Section 14(a) repealed section 403(d) of the Social Security Act, which limited the number of dependent children under 18 who may receive AFDC with Federal financial participation in any State for any quarter after June 1968 because of a parent's absence to a proportion of the total under-18 population of the State at the beginning of the year involved equal to the corresponding proportion for the first quarter of 1968. There was no corresponding provision in the House bill.

Section 301 of the conference agreement instead postpones for one year (to July 1, 1969) the date on which the section 403(d) limitation becomes effective; the base quarter to be used for the measurement (January-March 1968) is not changed. The conference agreement also provides that if in compliance with, in reliance upon, or in consideration of a judicial decision a State adopts a policy of paying AFDC on the basis of a parent's absence to children who would not otherwise be eligible, the number of children under 18 receiving AFDC on the basis of a parent's absence in the January-March quarter of 1968 (for purposes of establishing the proportion in the base quarter and thereby determining the maximum proportion permitted for a later quarter, as described above) will be increased by the average monthly number of children under 18, added to the rolls because of such decision after March 1968, who were receiving AFDC on the basis of a parent's absence in the April-June quarter of 1969. For this purpose "judicial decision" means only a decision by a U.S. court of competent jurisdiction on the issue of the constitutional validity of a State law, rule, regulation, or policy under which AFDC is denied to otherwise eligible individuals because of failure to meet durational residence requirements or because of the relationship between a male individual and the mother of the child or children with respect to whom the aid is sought. The Department of Health, Education, and Welfare can provide sampling or other appropriate methods to be used

to determine the number of children under 18 who because of such a judicial decision are receiving AFDC in the April-June quarter of 1969 on the basis of a parent's absence, so as to provide a basis for the required adjustment of the number in the base quarter.

Section 302. Aid to families with dependent children in case of unemployed fathers receiving unemployment compensation

Section 302 of the conference substitute corresponds to section 14 (c) and (d) of the Senate amendment. Section 14 (c) and (d) eliminated the provision (in sec. 407(b)(2)(C) of the Social Security Act) prohibiting the payment of AFDC to a family on the basis of the father's unemployment for any period in which the father receives unemployment compensation under State or Federal law, and substituted a provision (in sec. 407(c)) giving each State the option under its State plan to deny all or any part of the aid otherwise payable under the plan to a family on the basis of the father's unemployment for any month if the father received unemployment compensation under State or Federal law for any week any part of which is included in such month. There was no corresponding provision in the House bill.

Section 302 of the conference agreement instead modifies section 407(b)(2)(C) of the act to prohibit the payment of AFDC to a family on the basis of the father's unemployment with respect to any week for which the father receives unemployment compensation under State or Federal law. It is the intention of the conferees that if the father receives unemployment compensation for all the weeks which fall wholly or partly in a month, the family could not under any circumstances receive an AFDC payment for that month; and if the father receives unemployment compensation for one or more but less than all the weeks which fall (wholly or partly) in a month, the family's AFDC payment will be reduced by the percentage of the month represented by such week or weeks (or by the portion of such week or weeks which falls in such month).

Section 303. Federal payments under medical assistance program for certain services includable under supplementary medical insurance program

Section 303 of the conference substitute is the same as section 16 of the Senate amendment. Section 16 amended section 1903(b)(2) of the Social Security Act (and sec. 222 of the Social Security Amendments of 1967) to postpone for 2 years (from January 1, 1968, to January 1, 1970) the date when Federal matching payments under a State's title XIX medical assistance plan may no longer be made for medical services which would have been covered under the supplementary medical insurance program (pt. B of title XVIII of the Social Security Act) had the State elected to "buy in" for its title XIX eligibles under section 1843 of that act. There was no corresponding provision in the House bill.

PROVISIONS OF SENATE AMENDMENT NOT INCLUDED IN CONFERENCE
SUBSTITUTE

Under the conference agreement, the following provisions of the Senate amendment are omitted from the bill as agreed to in conference:

Section 11, relating to income from advertising in periodicals of tax-exempt organizations.

Section 14(b), relating to prior work by unemployed fathers under Aid to Families With Dependent Children (AFDC) program.

Section 15, relating to effective date of family planning services requirement under AFDC program. The conference committee does not believe that the provisions of existing law which are involved require any State to take action contrary to State statute and expects the Department of Health, Education, and Welfare to so interpret and administer the provision referred to in the Senate amendment.

Section 18, relating to import quotas on textile articles.

Section 19, relating to foreign nations indebted to the United States. The committee of conference expects the Secretary of State and the Secretary of the Treasury to make a study of appropriate and practical terms and conditions for payment of the amounts of indebtedness of foreign countries to the United States which are past due and unpaid, and to report the results of this study to the Congress.

W. D. MILLS,
CECIL R. KING,
HALE BOGGS,
JOHN W. BYRNES,

Managers on the Part of the House.

