

INCOME TAX EXEMPTION FOR CERTAIN DEPENDENTS IN THE REPUBLIC OF THE PHILIPPINES

JULY 26, 1955.—Ordered to be printed

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

R E P O R T

[To accompany H. R. 7148]

The Committee on Finance, to whom was referred the bill (H. R. 7148) to amend the Internal Revenue Codes so as to provide a personal exemption with respect to certain dependents in the Republic of the Philippines, having considered the same, report favorably thereon without amendment and recommend that the bill do pass.

By virtue of this act, the Committee on Finance accepts the report of the Committee on Ways and Means, which is as follows:

PURPOSE

This bill amends both the Internal Revenue Code of 1939 and the Internal Revenue Code of 1954 to provide that certain children (including adopted children) of members of the Armed Forces may be claimed as dependents by the taxpayer.

GENERAL STATEMENT

Under section 25 (b) (3) of the 1939 code no exemption for a dependent was allowed if the dependent was a citizen or subject of a foreign country unless he was a resident of the United States or a contiguous country. The 1954 code modified this restriction by providing in section 152 (b) that any child of the taxpayer born to him, or legally adopted by him, in the Philippine Islands before July 5, 1946, may be claimed as a dependent if the child is a resident of the Republic of the Philippines, and if the taxpayer was a member of the Armed Forces of the United States at the time of the birth or adoption of the child.

This bill permits a taxpayer to claim as a dependent under the 1939 code any child born to him, or legally adopted by him, in the Philippine Islands if the child is a resident of the Philippines for the taxable year for which the deduction is claimed and the taxpayer was a member of the Armed Forces of the United States at the time of the birth or adoption of the child. This provision applies to all taxable years beginning after December 31, 1946, to which the Internal Revenue Code of 1939 applies. However, the bill does not open up years with respect to which the statute of limitations has run.

The provision in the 1954 code relating to dependents who are residents of the Republic of the Philippines is also amended by permitting the taxpayer to claim as a dependent a child born to him or legally adopted by him prior to January 1,

1956, rather than July 5, 1946. This amendment applies with respect to taxable years beginning after December 31, 1953, and ending after August 16, 1954.

This provision is designed primarily to be of aid to Filipinos who as members of the United States Armed Forces during World War II became citizens of the United States but whose families continue to reside in the Philippine Islands and have not become United States citizens.

CHANGES IN EXISTING LAW

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

SECTION 25 OF THE INTERNAL REVENUE CODE OF 1939

SEC. 25. CREDITS OF INDIVIDUAL AGAINST NET INCOME.

(a) CREDITS FOR NORMAL TAX ONLY.— * * *

(b) CREDITS FOR BOTH NORMAL TAX AND SURTAX.—

(1) CREDITS.— * * *

(3) DEFINITION OF DEPENDENT.—As used in this chapter the term "dependent" means any of the following persons over half of whose support, for the calendar year in which the taxable year of the taxpayer begins, was received from the taxpayer:

- (A) a son or daughter of the taxpayer, or a descendant of either,
- (B) a stepson or stepdaughter of the taxpayer,
- (C) a brother, sister, stepbrother, or stepsister of the taxpayer,
- (D) the father or mother of the taxpayer, or an ancestor of either,
- (E) a stepfather or stepmother of the taxpayer,
- (F) a son or daughter of a brother or sister of the taxpayer,
- (G) a brother or sister of the father or mother of the taxpayer,
- (H) a son-in-law, daughter-in-law, father-in-law, mother-in-law, brother-in-law, or sister-in-law of the taxpayer.

As used in this paragraph, the terms "brother" and "sister" include a brother or sister by the half-blood. For the purposes of determining whether any of the foregoing relationships exist (1) a legally adopted child of a person, or (2) a child for which petition for adoption was filed by a person in the appropriate court and denied because of mental incapacity of surviving natural parent to agree to such adoption, shall be considered a child of such person by blood. The term "dependent" does not include any individual who is a citizen or subject of a foreign country unless such individual is a resident of the United States or of a country contiguous to the United States. *For taxable years beginning after December 31, 1946, the preceding sentence shall not exclude from the definition of "dependent" any child of the taxpayer born to him, or legally adopted by him, in the Philippine Islands, if (i) the child is a resident of the Republic of the Philippines, and (ii) the taxpayer was a member of the Armed Forces of the United States at the time the child was born to him or legally adopted by him.* A payment to a wife which is includible under section 22 (k) or section 171 in the gross income of such wife shall not be considered a payment by her husband for the support of any dependent.

SECTION 152 OF THE INTERNAL REVENUE CODE OF 1954

SEC. 152. DEPENDENT DEFINED.

(a) GENERAL DEFINITION.— * * *

(b) RULES RELATING TO GENERAL DEFINITION.— * * *

(1) * * *

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(3) The term "dependent" does not include any individual who is not a citizen of the United States unless such individual is a resident of the United States, of a country contiguous to the United States, of the Canal Zone, or of the Republic of Panama. The preceding sentence shall not exclude from the definition of "dependent" any child of the taxpayer born to him, or legally adopted by him, in the Philippine Islands before [July 5, 1946] *January 1, 1956*, if the child is a resident of the Republic of the Philippines, and if the taxpayer was a member of the Armed Forces of the United States at the time the child was born to him or legally adopted by him.

