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SMALL BUSINESS INVESTMENT COMPANIES; RECOVERIES OF FOREIGN EXPROPRIATION LOSSES, ETC.

SEPTEMBER 25, 1964.—Ordered to be printed

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

REPORT

[To accompany H.R. 8050]

The Committee on Finance, to whom was referred the bill (H.R. 8050) to amend the Internal Revenue Code of 1954 to provide tax-exempt status for nonprofit nurses' professional registries operated by nurses' professional associations, having considered the same, report favorably thereon with amendments and recommend that the bill as amended do pass.

I. SUMMARY

H.R. 8050, as passed by the House, would have provided an income-tax exemption for nonprofit nurses' professional registeries. Your committee has deleted this provision from the bill and added the following four new provisions:

1. In the case of small business investment companies it has narrowed the application of the personal holding company provisions and made provision for these investment companies to establish reserves for losses on their holdings of convertible debentures of small business concerns.

2. In the case of recoveries of foreign expropriation losses it has developed a new set of rules generally limiting the tax on the recovery to the benefit previously received in deducting the loss (but applying current tax rates). In hardship situations it has also made provision for payment of the tax on recoveries in 10 annual equal installments bearing interest at 4 percent. It has also made provision for taxing recoveries with respect to foreign expropriation losses where a benefit from a tax deduction was received by one corporation holding securities in another whose property was expropriated. In such a case the tax on the recovery is attributed to the same corporation receiving the benefit from the loss.

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3. In the case of the provision in present law providing for the deduction of soil and water conservation expenditures it has provided that where these expenditures are made by an assessment district, the related assessments are to be deductible to the members of the district even though the funds are expended by the district to acquire land, easements, or to relocate roads or powerlines, or other obstructions, to the extent that these expenditures are in connection with soil or water conservation or drainage purposes.

4. It has removed the limitation on the authorization of expenditures in the case of the Joint Committee on Reduction of Nonessential Federal Expenditures.

II. SMALL BUSINESS INVESTMENT COMPANIES

(Sec. 1 of the bill and secs. 542(c)(8), 166(g), and 1243(1) of the Code)

The first section of the bill as amended by your committee deals with "small business investment companies." These are investment corporations operating under the Small Business Investment Act of 1958 and are regulated by the Small Business Administration. The primary functions of these corporations, as specified in the Small Business Investment Act, are to make equity capital and long-term credit available to small business concerns. To accomplish this result, these investment companies may purchase convertible debentures of small business concerns as well as make loans to them directly and purchase their stock.

Congress in 1958 also provided special tax treatment to encourage the formation and use of these small business investment companies. To achieve this result, it provided that losses on the sale (or exchange) by the investment company of these convertible debentures of small business concerns (or upon these debentures becoming worthless) were to be treated as losses from the sale of ordinary, rather than capital, assets. Second, it provided that taxpayers investing in stock in the investment companies are to be allowed an ordinary loss deduction under certain cases rather than a capital loss arising from, the worthlessness, or from the sale of investment company stock. Third, it provided that these investment companies would be allowed a deduction for 100 percent of the dividends received from another corporation, rather than the 85 percent generally allowed corporate taxpayers. Later Congress also provided a special exception from the personal holding company tax for small business investment companies. These provisions were designed to encourage the formation of investment companies and to make funds available to small business concerns.

The first section of this bill changes the tax treatment of the small business investment companies in two respects: (1) It expands the personal holding company exception applicable to these small business investment companies, and (2) it provides that the convertible debentures referred to above are to be treated as "debts" for the purposes of setting up a bad-debt reserve and for other similar purposes.

A. Personal Holding Company Exception

Present law.—To prevent individuals, who have substantial investment income, from avoiding the upper individual income tax rates

on this income by holding their investments in a corporation, present law imposes a special, additional tax on the undistributed income of certain investment companies called personal holding companies. Generally, a closely held corporation which derives substantially all of its income from interest and dividends is classified as a personal holding company.

Had no special provision been added to the law, small business investment companies, which are closely held, would be classified as personal holding companies, since most of their income is from interest and dividends. However, if a small business investment company were forced to distribute its earnings to avoid the personal holding company tax, it would be difficult for it to accumulate sufficient funds to provide for the needs of small business concerns. Because of this, Congress, in 1959, provided that small business investment companies generally are not to be classified as personal holding companies. However, to prevent avoidance of the personal holding company tax this exception was limited to cases where no shareholder in the small business investment company owns directly or indirectly a 5-percent or more stock or proprietary interest in any small business concern to which funds are provided by the small business investment company. The Internal Revenue Service takes the position that in determining this 5-percent ownership, stock owned by the small business investment company must be treated as owned indirectly by its shareholders. In other words, each shareholder of the small business investment company is treated as owning his proportionate share of all stock owned by the small business investment company.

Reason for provision.—The exception to the personal holding company provision has not proved satisfactory in the case of many small business investment companies in two respects. First, if a person is a 5-percent or more shareholder in a small business concern and also a shareholder in a small business investment company investing in the former—even though the interest in the investment company may be minimal—the exemption for the investment company is destroyed and the company may be classed as a personal holding company. Second, the present investment company exclusion has been ineffective in some cases because of the attribution of stock through the small business investment company to its shareholders. This is because, under the presently applied attribution rules, a shareholder is treated as owning his proportionate share of the stock held by the small business investment company. Therefore, where the small business investment company is closely held, the holdings of the small business concern attributed to the shareholders of the investment company are necessarily large and, therefore, likely to lead to the investment company being classified as a personal holding company. To illustrate, if a shareholder has a 40-percent interest in a small business investment company and the small business investment company, in connection with the advancing of funds to a small business corporation, acquires a 25-percent stock interest in it, then the shareholder mentioned will be treated as owning indirectly a 10-percent (40 percent of 25 percent) interest in the small business corporation. Thus, under present law, the small business investment company will be subject to the personal holding company sections even though the shareholder owns no direct interest in a small business concern and his entire indirect interest in it represents funds invested through the small business investment company.

General explanation of provision.—Your committee has substituted an entirely new rule for the 5-percent rule in existing law in determining when a small business investment company is to be treated as a personal holding company. In lieu of the rule that no shareholder in a small business investment company may own directly or indirectly a 5-percent or more stock or proprietary interest in a small business concern to which funds are provided by the investment company, your committee's amendment provides two new tests, both of which must be met if the investment company is to avoid classification as a personal holding company. First, it provides that to avoid such classification no "principal" shareholder in the investment company may own directly or indirectly a 10-percent or more stock or proprietary interest in a small business concern to which the investment company provides funds. Second, it provides that the investment company, together with its "principal" shareholders may not own a 50-percent or more stock or proprietary interest in a small business concern to which it provides funds. In the case of this later rule, the bill provides that the 50-percent limit may be exceeded where this additional stock or proprietary interest was acquired by the small business investment company to prevent a substantial drop in the value of the already existing interest of the investment company in the small business concern.

The term "principal" shareholder, as it is used in the two tests referred to above, means a shareholder owning directly or indirectly 10 percent or more of the small business investment company's stock.

A specific rule added to the statute by your committee's amendment provides that in determining stock ownership of a small business concern, a shareholder in a small business investment company is not to be considered as owning any stock or proprietary interest in a small business concern merely because of his ownership of stock in the small business investment company.

In determining indirect ownership the bill makes it clear that this includes, in the case of an individual, ownership by members of his immediate family (as defined in section 544(a)(2)). In applying both the 10-percent and the 50-percent limitations on ownership in a small business concern, stock which may be acquired by the exercise of an option (or a series of options) is treated as owned by the option holder. However, this is done only if the effect is to cause one of the ownership limitations to be exceeded. A similar rule applies in the case of outstanding securities convertible into stock.

It will be noted that the above rules avoid the problems presented under present law. First, since under the new rules only "principal" shareholders are taken into account, the fact that an individual has an important interest in a small business concern cannot result in the investment company being classified as a personal holding company unless he is a significant shareholder in the investment company (i.e., has an interest of 10 percent or more). Second, the requirement added to the law by this bill to the effect that the holdings of the investment company are not to be attributed to its shareholders prevents the type of situation where a closely held investment company is automatically denied the opportunity to make any significant loans to a small business concern because of the attribution rule presently followed.

Effective date.—This amendment applies with respect to taxable years ending on or after the date of enactment of this bill.

B. Losses on Convertible Debentures

Present law.—Generally a loss incurred when a security—which includes most convertible debentures—becomes worthless is treated as a capital loss. Accordingly, in the absence of a special provision capital loss treatment would be provided when a convertible debenture acquired by a small business investment company either becomes worthless or is sold at a loss. However, as previously indicated, to encourage investments in small business concerns by small business investment companies Congress provided ordinary, rather than capital, loss treatment for convertible debentures of small business concerns either where the small business investment company sells the security at a loss or it becomes worthless.

Reasons for provision.—Even though under present law a small business investment company is entitled to treat as an ordinary loss a loss on a convertible debenture in a small business concern, it is not permitted to establish a bad debt reserve for such losses if the debenture is classified as a "security."

Your committee believes that provision for a reserve for losses on these convertible debentures is consistent with the ordinary loss treatment already allowed in the case of holdings of these convertible debentures by small business investment companies. This would then make the treatment of these convertible debenture holdings consistent with the treatment of other loans which do not represent "securities" and which not only generally are accorded ordinary loss treatment but also are eligible for bad debt reserves which can be established in anticipation of the losses rather than only when the actual losses occur.

General explanation of provision.—The amendment made by your committee provides that convertible debentures of a small business concern acquired by a small business investment company (pursuant to section 304 of the Small Business Investment Act of 1958) are to be treated as "debts" for purposes of a possible specific chargeoff or more importantly for purposes of the establishment of a reserve for bad debts. The amendment also provides that a loss on the sale or exchange of these convertible debentures is to be treated as a bad debt. This is necessary to assure the proper charges against the reserves but otherwise represents no change in the ordinary loss treatment already available for these debentures. No change is made in the rule of present law that the loss on a sale (or becoming worthless) of stock received pursuant to the conversion privilege of these convertible debentures, is to be treated as a loss from the sale or exchange of property which is an ordinary income-type asset.

In this connection, it should be observed that in February 1964, the Internal Revenue Service published a ruling (Revenue Ruling 64–48, Internal Revenue Bulletin 64–6, Feb. 10, 1964, p. 9), in which it stated that it would allow small business investment companies to establish bad debt reserves up to a ceiling equal to 10 percent of their outstanding loans as reasonable reserves under section 166(c). The ruling stated that this figure was to apply for a period of 10 years beginning with 1959 after which a small business investment company's own experience would be used to determine the reasonableness of further additions to the reserve. Whether or not this revenue ruling should be applied to the new class of obligations for

which reserves may be created under this bill is a matter not dealt with in this provision.

Effective date.—This amendment applies with respect to taxable years ending on or after the date of enactment of this bill.

III. RECOVERIES AND RESTORATION OF FOREIGN EXPROPRIATION LOSSES

(Sec. 2 of the bill and secs. 1351, 80, and 6167 of the Code)

A. Recoveries of Foreign Expropriation Losses

Present law.—Present law provides an explicit rule in the case of the recovery of a "bad debt," "prior tax," or "delinquency amount." It, in effect, provides (in sec. 111) that the recovery in these cases is to be included in income subject to tax to the extent that the initial deduction was included in the tax base. However, no account is taken of the fact that the prior deduction in effect offset income which otherwise was not subject to a full tax (e.g., offset a capital gain or income eligible for the Western Hemisphere trade corporation treatment) nor does this rule take into account the fact that the prior deduction may have offset income subject to tax but with respect to which no tax was payable because of the offset of credits against tax (e.g., the foreign tax credit and the investment credit). Although the statutory language under present law refers only to a bad debt, prior tax, or delinquency amount, the regulations also apply this rule with respect to all other losses, expenditures and accruals made the basis of deductions from gross income for prior taxable years, including war losses, but not including deductions with respect to depreciation, depletion, amortization, or amortizable bond premiums.[1]

Thus, present law has been interpreted as providing that the recovery of losses sustained by reason of expropriation, intervention, seizure, or similar taking of property by a foreign government is to be included in the person's tax base to the extent the deduction for the loss initially taken was included in the tax base at the time of the taking of the property.[2]

Reasons for provision.—Congress, in the Revenue Act of 1964, recognized the tax problems resulting from the numerous cases of expropriation by foreign governments of property of United States taxpayers since World War II, including the major expropriations made in Cuba, beginning in 1959 when all investments in that country were expropriated. The Revenue Act of 1964 dealt with one aspect of the problem raised by these expropriations; namely, the fact that a longer period than usual was needed to offset these major losses against income. For that reason the Revenue Act of 1964 provided a 10-year carryforward for expropriation losses rather than the generally available 5-year carryforward and 3-year carryback. However, there was not sufficient time when that legislation was considered to deal with the second phase of this problem; namely, the tax treatment to be accorded in the case of the recovery of any of these expropriations or similar takings of property. As a result, your committee in its consideration of the Revenue Act of 1965 requested the Treasury Department and the congressional staff to develop an appropriate

[1] Sec. 1.111-1(a) of the regulations.
[2] Separate rules are provided for the recovery of World War II losses.

suggestion as to the proper tax treatment of recoveries arising from expropriation, etc., losses. This provision grew out of this study. Your committee believes it is important to act on this problem at the present time without regard to the possibility of the timing of any recovery in any specific instance to assure taxpayers that in the event of a recovery of expropriated property they will be treated fairly under the U.S. tax laws.

The recovery provisions described more fully below are somewhat similar to the provisions of present law relating to a bad debt, prior tax, or delinquency amount (sec. 111). However, there are significant differences. Probably the most important is the fact that in determining the tax benefit of the prior deduction—and, therefore, the tax applicable with respect to the restored amount—tax credits, such as the foreign tax credit and investment credit, are taken into account. Thus, if because of such credits the deduction of the loss produced little or no actual tax benefit, little or no tax is to be imposed with respect to the recovery under the rules set forth below. Similar treatment is provided where the tax benefit in the year of the loss may have been reduced by lower rates, such as the capital gains rate and the rate applicable to Western Hemisphere trade corporations. The tax benefit, however, for purposes of the recovery will be measured by using the rates in effect in the year of the recovery rather than in the year of the loss.

Another important point of departure from the rule in present law, which is made available in the rules set forth below, relates to the time allowed for the payment of the tax on the recovery. Where certain conditions exist as to the recovery (e.g., the bulk of the recovery is in property rather than cash) up to 10 years is to be allowed for the payment of the tax on the recovered amount. However, these payments will be subject to interest at the rate of 4 percent on the declining balance. Frequently where there are recoveries it is necessary for the taxpayer to invest substantial additional amounts in placing the property in usable condition. Alternatively, the recovery may be made in the form of property which cannot readily be sold for a period of time. Because of these factors, it was believed that additional time frequently would be required for payment of the tax on these recovered amounts. The interest rate provided is the same as that available under present law for deferred payment of estate tax where it is determined that the full payment of the tax would constitute a hardship.

General explanation of provision.—The new provision added by the amendment, dealing with the treatment of recoveries by domestic corporations of foreign expropriation losses, is elective at the option of the taxpayer, but once applied, is effective to all recoveries with respect to the same expropriation loss. Foreign expropriation losses for this purpose are defined in the same manner as in the case of 10-year carryforward of losses. They are losses sustained by reason of expropriation, intervention, seizure, or similar taking of property by a foreign government. Included in this category is a debt which becomes worthless by reason of such an expropriation, etc.

The amount treated as recovered for purposes of the new provision is the amount of money and the current fair market value of other property received. The bill divides the amount recovered into two portions: the amount with respect to which a deduction was taken in the year of the loss; and any excess recovery of the amount over

the deduction previously taken. The amount representing the deduction previously taken is excluded from gross income. In place of including this amount in income, a tax is computed with respect to this deduction under a "tax benefit" rule.

Any recovery in excess of the deduction previously taken is treated as gain on the involuntary conversion of property (as provided in sec. 1033). Thus, if cash in excess of the deduction previously taken is obtained on the recovery (or other property is obtained which is not of a like kind to that expropriated) and there is no reinvestment of this excess within the time specified under the present law in the case of involuntary conversions, gain is recognized with respect to this excess amount. However, if the property recovered is "similar or related in service or use" (or in the case of real estate of a like kind) to that expropriated or there is a reinvestment in such property, to that extent no gain is recognized at the time of the recovery on this portion of the amount received. Where this is true, the basis of the property is reduced to the extent of the gain which is not recognized because of treatment as an involuntary conversion.

Where both cash and similar, etc., property are received in a recovery and the amount of the recovery exceeds the deduction previously taken, then the cash is to be first attributed to this deduction and the similar, etc., property, to the extent appropriate, attributed to the excess recovery over this deduction.

The tax computation under the "tax benefit rule," referred to above, is made by decreasing the loss in the year in which the expropriation occurred (or any year to which it was carried) by the amount of the recovery representing this prior deduction. A tax is then computed on this additional income (if any).

It should be noted that this additional tax is computed by in effect "restoring" the recovered amount back in the year or years in which the deduction was taken. However, for the purposes of this additional tax, the current year's tax rates (under sec. 11) rather than those applicable to the earlier year are to be used, although in other respects the law applicable in the earlier year or years will be applied. Thus, for example, the rules then applicable in the case of multiple surtax exemptions would govern, rather than those applicable in the year of the recovery.

For purposes of this computation of additional tax, if a series of recoveries has occurred, any recoveries made before the one in question are taken into account in determining income of the prior year or years for purposes of determining the additional tax in case of the current recovery. This includes recoveries whether or not this provision was elected (it includes, for example, those coming under sec. 111 of the code as well as the new sec. 1351(g)).

Adjustments are made for all credits against tax and also carryovers and carrybacks of losses or credits which would normally have resulted had the income in the prior year been greater by the amount now being added back. This gives effect, for example, to the foreign tax credit and the investment credit. It is important to note in this respect that where a foreign tax credit, for example, was not fully utilized in prior years because of a loss deduction, part of the deduction did not reduce the tax for those years. As a result a restoration of income where there was an unused foreign tax credit (except to the extent influenced by the foreign tax credit limitation)

may not give rise to an additional tax on the recovery under this provision.

In making these recomputations with respect to prior years, the principles set forth in section 1314(a), relating to the correction of errors, are to apply. Thus, for example, there will be no recomputations of other income items or deductions with respect to such a year because of this provision, but limitations will be changed where they would normally have been different had the additional income been received in the prior year. Thus, for example, the 5-percent limitation on charitable contributions will permit a greater deduction where the actual contributions exceeded the amount previously deductible.

For purposes of this recomputation, taxpayers are also allowed a new choice as to whether they desire to deduct foreign taxes or take a foreign tax credit. Similarly, for this purpose, the taxpayer may make a new election between the "per country" and "overall" limitation in the case of the foreign tax credit. The new choice and election, in the case of foreign taxes, are only for purposes of the computation of the additional tax attributable to the recovery. For all other purposes any prior election or choice made is still binding to the same extent as if this provision were not applicable.

The tax benefit rule described above works in such a manner that where a partial recovery of property occurs, if no tax benefit was derived from a part of the prior deduction (e.g., where part of the deduction represented an unused net operating loss), the recovery is not to result in additional tax if the recovery does not exceed the part of the deduction which gave no tax reduction. This occurs since the loss previously taken is only reduced by the amount of the partial recovery and therefore the recomputation still gives rise to no tax.

The amendment also provides that, for purposes of this provision, if an investment (such as a stock or bond) becomes worthless by reason of the expropriation of the assets of the corporation which issued the stock or bond, and thereafter there is a restoration in value of the stock or bond because of the recovery by the corporation of its expropriated property, then the value restored will be treated as a recovery.

The tax on the recovery cannot be reduced by foreign tax credits or investment credits available in the year of recovery.

The bill provides that the tax payable with respect to the recovery on a foreign expropriation loss—both that coming under the tax benefit rule attributable to the deduction previously taken and also any gain taxed on excess recovery—may under certain conditions be paid in 10 equal annual installments bearing interest at 4 percent. As is generally true in the case of installment payments, if any installment is not paid on time, all of the remaining installments then become due.

The bill sets forth rules to permit the taxpayer to pay the tax attributable to the recovery of foreign expropriation losses over the 10-year period where a hardship situation is likely to exist. Thus, the taxpayer has this option where the money received is less than 25 percent of the recovery and is not larger than the tax attributable to the recovery. In addition, even though the cash payments exceed the 25-percent limit or the tax on the recovery, the Secretary of the Treasury may nevertheless permit the tax to be paid in up to 10 annual equal installments if he finds that the payment of the tax at the time of the recovery would result in undue hardship.

The bill provides that where the taxpayer has elected to pay the tax in 10 equal annual installments and property received on the recovery is sold for cash (or exchanged for other property sold for cash) the taxpayer's right to spread the tax payments over 10 years is modified. In such an event, if the cash received exceeds the 25-percent limit or tax on the recovery if smaller (or to the extent that it exceeds this amount), the remaining taxpayments are to become due at the time of the due date for the next tax return. Money received in such a case is always attributed first to the payments with the shortest maturity. Money for purposes of this provision includes the dollar value of foreign currencies.

Effective date.—The amendments made by this provision apply to recoveries on or after January 1, 1964, with respect to foreign expropriation losses sustained after December 31, 1958.

B. Restoration of Value Securities After Expropriation Loss

Present law.—Present law (sec. 1334) contains a provision dealing with restoration of value of certain investments which were deducted as worthless investments under the World War II loss provisions. Under this provision, if stock in a corporation became worthless because the corporation's assets were seized by Germany during World War II and a deduction for the loss was taken with full tax benefit, then any restoration in value of the stock (by reason of recoveries made by the corporation) is required to be included in gross income in the year of such restoration in value of the stock, even though the stockholder at that time receives no money or other property.

Reasons for provision.—The provision in present law deals only with World War II losses and existing law contains no comparable provision to deal with similar cases which can arise from other foreign expropriations. Your committee concluded that a comparable provision was needed for recoveries of more recent foreign expropriation losses. Such treatment is necessary if taxpayers in these cases are to be taxed on recoveries of amounts for which deductions previously were taken.

General explanation of provisions.—The new provision (sec. 80) added by your committee applies only to corporations which are subject to the regular corporate tax (imposed by sec. 11). Thus, the new section will not apply to an insurance company, or to individuals, estates, or trusts. If a corporation is subject to the regular corporate tax, it would not lose that status because its tax for the year is computed under the alternative tax in case of capital gains (sec. 1201(a)).

The new provision applies only to restoration in the value of securities (as defined in sec. 165(g)(2)). If a stock or bond became worthless by reason of the expropriation after 1958 by a foreign government of the assets of the corporation which issued the stock or bond, and a deduction for the loss was allowed; and the value of the stock is restored in full or in part during any taxable year beginning after 1964 by reason of the recovery by the corporation of money or other property, the value restored will be included in gross income subject to two limitations. First, the amount included in gross income is not to exceed the amount of the original loss (the adjusted basis of the stock at the time it became worthless). Second, the

amount includible in gross income is to be reduced by the amount, if any, by which the loss did not result in a tax benefit.

The following example will illustrate the application of the new provision. The taxpayer owns stock in a corporation having an adjusted basis of $10,000 and a fair market value of $30,000 at the time Cuba seized all the assets of the corporation. As a result of the expropriation the stock became worthless and the taxpayer deducted the $10,000 as a capital loss which was utilized in full against capital gains. In 1970 the Cuban Government returns property to the corporation with the result that there is a restoration in the value of the taxpayer's stock to $15,000. The first limitation referred to above requires the inclusion in 1970 in gross income of only $10,000 of the $15,000 restoration in value since the original loss was only $10,000. The second limitation referred to above would not apply since eliminating the original capital loss would have produced a tax on $10,000 of capital gains.

In the above example, if only $6,000 of the $10,000 capital loss had been utilized against capital gains, then the second limitation would apply so that the $10,000 restoration in value would be reduced by the $4,000 of the capital loss not utilized. If the restoration in value had been to $3,000 instead of $15,000, then the second limitation would apply so that the $3,000 would be reduced to zero since $4,000 of the original loss did not result in a tax benefit.

The amount included in gross income under this provision will be ordinary income unless the loss resulting from the expropriation was taken into account as a loss from the sale or exchange of a capital asset. In the latter case the restored value taken into gross income will be treated as a capital gain.

This provision will not apply to a restoration in value if the taxpayer elects the application of section 1351 to the recovery or to any prior recovery with respect to the original loss. Section 1351 has its own rules with respect to restoration of value in case of expropriation losses.

Effective date.—The new provision applies to restoration in value occurring in taxable years beginning after 1964 with respect to the specified types of expropriation losses sustained after December 31, 1958.

IV. SOIL AND WATER CONSERVATION

(Sec. 3 of the bill and sec. 175 of the Code)

Present law.—Under present law a farmer may treat certain expenditures for soil or water conservation, or for the purpose of preventing erosion of land, as deductions for tax purposes. The expenditures referred to include those for the moving of earth, leveling, grading and terracing, contour furrowing, the construction of diversion channels, drainage ditches, earthen dams, etc. The deduction allowed is not only for expenditures made directly by the farmer but also for assessments paid by him levied by a soil or water conservation or drainage district to defray expenditures by the district which, if made by the farmer, would be deductible.

Under existing law no deduction may be taken for the purchase or construction of structures, machinery, etc., which are subject to the allowance for depreciation, and the Internal Revenue Service takes the position that expenditures to acquire land, or any easement over

land, or to relocate roads or powerlines or other obstructions, in connection with soil or water conservation, are not deductible.

Reasons for provision.—The attention of your committee has been called to a case where an improvement of drainage ditches, etc., of an assessment district has been made necessary by Federal construction on a nearby river. Recognizing the fact that the Federal Government contributed to the necessity for the improvement, Federal funds have been made available for much of the improvement work necessary. However, the assessment district furnished the funds for acquiring easements over land, moving roads, bridges, etc., and assessments were levied against the farmer members to defray such expenditures. The Internal Revenue Service has denied the deduction of the portion of the assessments attributable to such expenditures.

Your committee believes that the type of expenditures referred to above, when made by a soil or water conservation or irrigation district and assessed against the farmer members, should be deductible by the farmers since such expenditures, when incurred by an assessment district, can be expected to be used exclusively for soil and water conservation, etc., purposes.

Explanation of provision.—The amendment made by your committee provides for the deduction of assessments levied by a soil or water conservation or drainage district to defray expenditures by such a district in acquiring machines, buildings, land, or any easement over land, or to relocate roads or powerlines or other obstructions, in connection with soil or water conservation purposes.

Effective date.—Your committee's amendment applies to all assessments paid after December 31, 1963 (whether the expenditures by the district were made before or after that date). While the amendment is not applicable to assessments paid before 1964, your committee does not intend that any inferences should be drawn from the amendment or its effective date as to the treatment under existing law of expenditures made to acquire land or an easement over land, or in relocating roads or powerlines or other obstructions.

Your committee is aware of cases where assessments were paid prior to 1964 which could have been paid in installments, some of which installments would have been payable after 1963. In order to treat alike those people who prepaid and those who pay each installment of the assessment as it becomes due after 1963, your committee has provided (with respect to the portion of the assessment which is not deductible under existing law) that such amount shall be treated, if the taxpayer so elects, as having been paid when it would have become due if the taxpayer had chosen to pay the assessment in installments rather than in a lump sum. If the taxpayer should die before all of the installments would have become due, any amount remaining at his death to be treated under the election as paid on a subsequent installment due date shall be treated as paid in the year of his death. If the election is made, proper adjustment of the basis of the land used in farming would have to be made to eliminate any amount of the assessment paid before 1964 which under existing law was chargeable to capital account but becomes deductible after 1963 pursuant to the election.

V. JOINT COMMITTEE ON REDUCTION OF NONESSENTIAL FEDERAL EXPENDITURES

The Joint Committee on Reduction of Nonessential Federal Expenditures was created by section 601 of the Revenue Act of 1941. That act provided a ceiling of $10,000 on authorizations for appropriations for the committee. In the years which have passed since that act was passed, numerous pay increases have been enacted making the $10,000 limitation no longer appropriate. This amendment eliminates the $10,000 ceiling and provides that such amounts may be appropriated as are necessary to carry out the purposes of the act creating this joint committee. The purpose of this amendment is to meet the technical point that the original authorization has not been adjusted to take into account generally available pay increases enacted by Congress.

VI. CHANGES IN EXISTING LAW

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

INTERNAL REVENUE CODE OF 1954

Subtitle A—Income Taxes

CHAPTER 1—NORMAL TAXES AND SURTAXES

Subchapter A— Determination of Tax Liability

* * * * * * *

PART IV—CREDITS AGAINST TAX

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SEC. 46. AMOUNT OF CREDIT.

(a) DETERMINATION OF AMOUNT.—

(1) GENERAL RULE.—The amount of the credit allowed by section 38 for the taxable year shall be equal to 7 percent of the qualified investment (as defined in subsection (c)).

(2) LIMITATION BASED ON AMOUNT OF TAX.—Notwithstanding paragraph (1), the credit allowed by section 38 for the taxable year shall not exceed—

(A) so much of the liability for tax for the taxable year as does not exceed $25,000, plus

(B) 25 percent of so much of the liability for tax for the taxable year as exceeds $25,000.

(3) LIABILITY FOR TAX.—For purposes of paragraph (2), the liability for tax for the taxable year shall be the tax imposed by this chapter for such year, reduced by the sum of the credits allowable under—

(A) section 33 (relating to foreign tax credit),

(B) section 35 (relating to partially tax-exempt interest), and

(C) section 37 (relating to retirement income).

For purposes of this paragraph, any tax imposed for the taxable year by section 531 (relating to accumulated earnings tax) or by section 541 (relating to personal holding company tax), *and any additional tax imposed for the taxable year by section 1351(d)(1) (relating to recoveries of foreign expropriation losses)*, shall not be considered tax imposed by this chapter for such year.

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Subchapter B—Computation of Taxable Income

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PART II—ITEMS SPECIFICALLY INCLUDED IN GROSS INCOME

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SEC. 80. RESTORATION OF VALUE OF CERTAIN SECURITIES.

(a) GENERAL RULE.—In the case of a domestic corporation subject to the tax imposed by section 11, if the value of any security (as defined in section 165(g)(2))—

(1) which became worthless by reason of the expropriation, intervention, seizure, or similar taking by the government of any foreign country, any political subdivision thereof, or any agency or instrumentality of the foregoing of property to which such security was related, and

(2) which was taken into account as a loss from the sale or exchange of a capital asset or with respect to which a deduction for a loss was allowed under section 165,

is restored in whole or in part during any taxable year by reason of any recovery of money or other property in respect of the property to which such security was related, the value so restored (to the extent that, when added to the value so restored during prior taxable years, it does not exceed the amount of the loss described in paragraph (2)) shall, except as provided in subsection (b), be included in gross income for the taxable year in which such restoration occurs.

(b) REDUCTION FOR FAILURE TO RECEIVE TAX BENEFIT.—The amount otherwise includible in gross income under subsection (a) in respect of any security shall be reduced by an amount equal to the amount (if any) of the loss described in subsection (a)(2) which did not result in a reduction of the taxpayer's tax under this subtitle for any taxable year, determined under regulations prescribed by the Secretary or his delegate.

(c) CHARACTER OF INCOME.—For purposes of this subtitle—

(1) Except as provided in paragraph (2), the amount included in gross income under this section shall be treated as gain from the sale or exchange of property which is neither a capital asset nor property described in section 1231.

(2) If the loss described in subsection (a)(2) was taken into account as a loss from the sale or exchange of a capital asset, the amount included in gross income under this section shall be treated as gain from the sale or exchange of a capital asset.

(*d*) *TREATMENT UNDER FOREIGN EXPROPRIATION LOSS RECOVERY PROVISION.—This section shall not apply to any recovery of a foreign expropriation loss to which section 1351 applies.*

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PART VI—ITEMIZED DEDUCTIONS FOR INDIVIDUALS AND CORPORATIONS

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SEC. 166. BAD DEBTS.

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(*g*) *SPECIAL RULE FOR SMALL BUSINESS INVESTMENT COMPANIES.—Notwithstanding section 165(g)(1) and subsection (e) of this section, subsections (a), (b), and (c) of this section shall apply in the case of a taxpayer which is a small business investment company operating under the Small Business Investment Act of 1958 to a debt incurred by a small business concern which is evidenced by a convertible debenture acquired pursuant to section 304 of such Act. Any loss sustained by such a company from the sale or exchange of such a convertible debenture shall be treated as a bad debt to which the provisions of subsections (a), (b), and (c) apply.*

[(*g*)](*h*) CROSS REFERENCES.—

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SEC. 175. SOIL AND WATER CONSERVATION EXPENDITURES.

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(c) DEFINITIONS.—For purposes of subsection (a)—

(1) The term "expenditures which are paid or incurred by him during the taxable year for the purpose of soil or water conservation in respect of land used in farming, or for the prevention of erosion of land used in farming" means expenditures paid or incurred for the treatment or moving of earth, including (but not limited to) leveling, grading and terracing, contour furrowing, the construction, control, and protection of diversion channels, drainage ditches, earthen dams, watercourses, outlets, and ponds, the eradication of brush, and the planting of windbreaks. Such term does not include—

(A) the purchase, construction, installation, or improvement of structures, appliances, or facilities which are of a character which is subject to the allowance for depreciation provided in section 167, or

(B) any amount paid or incurred which is allowable as a deduction without regard to this section.

Notwithstanding the preceding sentences, such term also includes any amount, not otherwise allowable as a deduction, paid or incurred to satisfy any part of an assessment levied by a soil or water conservation or drainage district to defray expenditures made by such district [which, if paid or incurred by the taxpayer, would without regard to this sentence constitute expenditures deductible under this section] *for purposes described in the first sentence of this paragraph, or made by such district to acquire machines, buildings, land, or any easement over land, or to relocate roads or powerlines or other obstructions, in connection with such purposes.*

(2) The term "land used in farming" means land used (before or simultaneously with the expenditures described in paragraph (1)) by the taxpayer or his tenant for the production of crops, fruits, or other agricultural products or for the sustenance of livestock.

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Subchapter G—Corporations Used To Avoid Income Tax on Shareholders

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PART II—PERSONAL HOLDING COMPANIES

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SEC. 542. DEFINITION OF PERSONAL HOLDING COMPANY.

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(c) EXCEPTIONS.—The term "personal holding company" as defined in subsection (a) does not include—

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(8) a small business investment company which is licensed by the Small Business Administration and operating under the Small Business Investment Act of 1958 and which is actively engaged in the business of providing funds to small business concerns under that Act. [This paragraph shall not apply if any shareholder of the small business investment company owns at any time during the taxable year directly or indirectly (including, in the case of an individual, ownership by the members of his family as defined in section 544(a)(2)) a 5 per centum or more proprietary interest in a small business concern to which funds are provided by the investment company or 5 per centum or more in the value of the outstanding stock of such concern.]

This paragraph shall not apply if—

(A) at any time during the taxable year, any principal shareholder owns directly or indirectly (including, in the case of an individual, ownership by the members of his family as defined in section 544(a)(2)) a 10 percent or more proprietary interest in a small business concern to which funds are provided by the small business investment company or 10 percent or more in value of the outstanding stock of such concern; or

(B) at any time during the taxable year, the small business investment company owns (or the small business investment company and one or more of the principal shareholders of such company own) directly or indirectly (including, in the case of an individual, ownership by the members of his family as defined in section 544(a)(2)) in the aggregate a 50 percent or more proprietary interest in a small business concern to which funds are provided by the small business investment company or 50 percent or more in value of the outstanding stock of such concern. This subparagraph shall not apply if the small business investment company establishes that—

(i) the proprietary interest in or stock of the small business concern owned in the aggregate by the small business investment company and its principal shareholders in

excess of the ownership limitation described in this subparagraph is the result of an acquisition by the small business investment company of a proprietary interest in or stock of such small business concern; and

(ii) the primary purpose of the acquisition and retention of such excess proprietary interest or stock is to prevent a substantial decrease in the value of the proprietary interest, stock, or evidence of indebtedness of such small business concern owned by such small business investment company before the acquisition described in clause (i).

For purposes of this paragraph, the term "principal shareholder" means, with respect to any small business investment company, a shareholder owning directly or indirectly (including, in the case of an individual, ownership by the members of his family as defined in section 544(a)(2)) 10 percent or more of the value of the outstanding stock of such small business investment company. If a principal shareholder or a small business investment company has an option to acquire stock of a small business concern, such stock shall be considered owned by such shareholder or company if, but only if, the effect is to make a principal shareholder exceed the percentage limitation described in subparagraph (A), or the small business investment company and its principal shareholders in the aggregate exceed the percentage limitation described in subparagraph (B). An option to acquire such an option, and each one of a series of such options, shall be considered an option to acquire stock. Outstanding securities of a small business concern which are convertible into stock (whether or not convertible during the taxable year) shall be considered as outstanding stock if, but only if, the effect of the inclusion of all such securities is to make a principal shareholder exceed the percentage limitation described in subparagraph (A), or a small business investment company and its pincipal shareholders in the aggregate exceed the percentage limitation described in subparagraph (B). In determining stock ownership for purposes of this paragraph, a shareholder of a small business investment company shall not be considered as owning any proprietary interest in or stock of a small business concern by reason of his ownership of stock of such small business investment company.

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Subchapter N—Tax Based on Income from Sources Within or Without the United States

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PART III—INCOME FROM SOURCES WITHOUT THE UNITED STATES

Subpart A—Foreign Tax Credit

SEC. 901. TAXES OF FOREIGN COUNTRIES AND OF POSSESSIONS OF UNITED STATES.

(a) ALLOWANCE OF CREDIT.—If the taxpayer chooses to have the benefits of this subpart, the tax imposed by this chapter shall, subject to the applicable limitation of section 904, be credited with the amounts provided in the applicable paragraph of subsection (b) plus, in the

case of a corporation, the taxes deemed to have been paid under sections 902 and 960. Such choice for any taxable year may be made or changed at any time before the expiration of the period prescribed for making a claim for credit or refund of the tax imposed by this chapter for such taxable year. The credit shall not be allowed against the tax imposed by section 531 (relating to the tax on accumulated earnings), against the additional tax imposed for the taxable year under section 1333 (relating to war loss recoveries) *or under section 1351 (relating to recoveries of foreign expropriation losses)*, or against the personal holding company tax imposed by section 541.

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Subchapter P—Capital Gains and Losses

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PART IV—SPECIAL RULES FOR DETERMINING CAPITAL GAINS AND LOSSES

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SEC. 1243. LOSS OF SMALL BUSINESS INVESTMENT COMPANY.

In the case of a small business investment company operating under the Small Business Investment Act of 1958, if—

[(1) a loss is on convertible debentures (including stock received pursuant to the conversion privilege) acquired pursuant to section 304 of the Small Business Investment Act of 1958, and]

(1) a loss is on stock received pursuant to the privilege of converting convertible debentures acquired pursuant to section 304 of the Small Business Investment Act of 1958, and

(2) such loss would (but for this section) be a loss from the sale or exchange of a capital asset,

then such loss shall be treated as a loss from the sale or exchange of property which is not a capital asset.

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Subchapter Q—Readjustment of Tax Between Years and Special Limitations

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PART VII—RECOVERIES OF FOREIGN EXPROPRIATION LOSSES

Sec. 1351. Treatment of recoveries of foreign expropriation losses.

SEC. 1351. TREATMENT OF RECOVERIES OF FOREIGN EXPROPRIATION LOSSES.

(a) ELECTION.—

(1) IN GENERAL.—This section shall apply only to a recovery, by a domestic corporation subject to the tax imposed by section 11, of a foreign expropriation loss sustained by such corporation and only if such corporation elects to have the provisions of this section apply with respect to such loss.

(2) TIME, MANNER, AND SCOPE.—An election under paragraph (1) shall be made at such time and in such manner as the Secretary

or his delegate may prescribe by regulations. An election made with respect to any foreign expropriation loss shall apply to all recoveries in respect of such loss.

(b) DEFINITION OF FOREIGN EXPROPRIATION LOSS.—For purposes of this section, the term "foreign expropriation loss" means any loss sustained by reason of the expropriation, intervention, seizure, or similar taking of property by the government of any foreign country, any political subdivision thereof, or any agency or instrumentality of the foregoing. For purposes of the preceding sentence, a debt which becomes worthless shall, to the extent of any deduction allowed under section 166(a), be treated as a loss.

(c) AMOUNT OF RECOVERY.—The amount of any recovery of a foreign expropriation loss is the amount of money and the fair market value of other property received in respect of such loss, determined as of the date of receipt.

(d) ADJUSTMENT FOR PRIOR TAX BENEFITS.—

(1) IN GENERAL.—That part of the amount of a recovery of a foreign expropriation loss to which this section applies which, when added to the aggregate of the amounts of previous recoveries with respect to such loss, does not exceed the allowable deductions in prior taxable years on account of such loss shall be excluded from gross income for the taxable year of the recovery for purposes of computing the tax under this subtitle; but there shall be added to, and assessed and collected as a part of, the tax under this subtitle for such taxable year an amount equal to the total increase in the tax under this subtitle for all taxable years which would result by decreasing, in an amount equal to such part of the recovery so excluded, the deductions allowable in the prior taxable years on account of such loss. For purposes of this paragraph, if the loss to which the recovery relates was taken into account as a loss from the sale or exchange of a capital asset, the amount of the loss shall be treated as an allowable deduction even though there were no gains against which to allow such loss.

(2) COMPUTATION.—The increase in the tax for each taxable year referred to in paragraph (1) shall be computed in accordance with regulations prescribed by the Secretary or his delegate. Such regulations shall give effect to previous recoveries of any kind (including recoveries described in section 111, relating to recovery of bad debts, etc.) with respect to any prior taxable year, but shall otherwise treat the tax previously determined for any taxable year in accordance with the principles set forth in section 1314(a) (relating to correction of errors). Subject to the provisions of paragraph (3), all credits allowable against the tax for any taxable year, and all carryovers and carrybacks affected by so decreasing the allowable deductions, shall be taken into account in computing the increase in the tax.

(3) FOREIGN TAXES.—For purposes of this subsection—

(A) any choice made under subpart A of part III of subchapter N (relating to foreign tax credit) for any taxable year may be changed,

(B) subject to the provisions of section 904(b), an election to have the limitation provided by section 904(a)(2) apply may be made, and

(C) notwithstanding section 904(b)(1), an election previously made to have the limitation provided by section 904(a)(2)

apply may be revoked with respect to any taxable year and succeeding taxable years.

(4) SUBSTITUTION OF CURRENT NORMAL TAX AND SURTAX RATES.—For purposes of this subsection, the normal tax rate provided by section 11(b) and the surtax rate provided by section 11(c) which are in effect for the taxable year of the recovery shall be treated as having been in effect for all prior taxable years.

(e) GAIN ON RECOVERY.—That part of the amount of a recovery of a foreign expropriation loss to which this section applies which is not excluded from gross income under subsection (d)(1) shall be considered for the taxable year of the recovery as gain on the involuntary conversion of property as a result of its destruction or seizure and shall be recognized or not recognized as provided in section 1033.

(f) BASIS OF RECOVERED PROPERTY.—The basis of property (other than money) received as a recovery of a foreign expropriation loss to which this section applies shall be an amount equal to its fair market value on the date of receipt, reduced by such part of the gain under subsection (e) which is not recognized as provided in section 1033.

(g) RESTORATION OF VALUE OF INVESTMENTS.—For purposes of this section, if the value of any interest in, or with respect to, property (including any interest represented by a security, as defined in section 165(g)(2))—

(1) which became worthless by reason of the expropriation, intervention, seizure, or similar taking of such property by the government of any foreign country, any political subdivision thereof or any agency or instrumentality of the foregoing, and

(2) which was taken into account as a loss from the sale or exchange of a capital asset or with respect to which a deduction for a loss was allowed under section 165 or a deduction for a bad debt was allowed under section 166,

is restored in whole or in part by reason of any recovery of money or other property in respect of the property which became worthless, the value so restored shall be treated as a recovery of property in respect of such loss or such bad debt.

(h) SPECIAL RULE FOR EVIDENCES OF INDEBTEDNESS.—Bonds or other evidences of indebtedness received as a recovery of a foreign expropriation loss to which this section applies shall not be considered to have any original issue discount within the meaning of section 1232 (a)(2).

(i) ADJUSTMENTS FOR SUCCEEDING YEARS.—For purposes of this subtitle, proper adjustment shall be made, under regulations prescribed by the Secretary or his delegate, in—

(1) the credit under section 33 (relating to foreign tax credit),

(2) the credit under section 38 (relating to investment credit),

(3) the net operating loss deduction under section 172, and

(4) the net capital loss carryover under section 1212(a),

for the taxable year of a recovery of a foreign expropriation loss to which this section applies, and for succeeding taxable years, to take into account items changed in making the computations under subsection (d) for taxable years prior to the taxable year of such recovery.

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Subtitle F—Procedure and Administration

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CHAPTER 62—TIME AND PLACE FOR PAYING TAX

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Subchapter B—Extension of Time for Payment

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SEC. 6167. EXTENSION OF TIME FOR PAYMENT OF TAX ATTRIBUTABLE TO RECOVERY OF FOREIGN EXPROPRIATION LOSSES.

(a) EXTENSION ALLOWED BY ELECTION.—If—

(1) a corporation has a recovery of a foreign expropriation loss to which section 1351 applies, and

(2) the portion of the recovery received in money is less than 25 percent of the amount of such recovery (as defined in section 1351(c)) and is not greater than the tax attributable to such recovery,

the tax attributable to such recovery shall, at the election of the taxpayer, be payable in 10 equal installments on the 15th day of the third month of each of the taxable years following the taxable year of the recovery. Such election shall be made at such time and in such manner as the Secretary or his delegate may prescribe by regulations. If an election is made under this subsection, the provisions of this subtitle shall apply as though the Secretary or his delegate were extending the time for payment of such tax.

(b) EXTENSION PERMITTED BY SECRETARY.—If a corporation has a recovery of a foreign expropriation loss to which section 1351 applies and if an election is not made under subsection (a), the Secretary or his delegate may, upon finding that the payment of the tax attributable to such recovery at the time otherwise provided in this subtitle would result in undue hardship, extend the time for payment of such tax for a reasonable period or periods not in excess of 9 years from the date on which such tax is otherwise payable.

(c) ACCELERATION OF PAYMENTS.—If—

(1) an election is made under subsection (a),

(2) during any taxable year before the tax attributable to such recovery is paid in full—

(A) any property (other than money) received on such recovery is sold or exchanged, or

(B) any property (other than money) received on any sale or exchange described in subparagraph (A) is sold or exchanged, and

(3) the amount of money received on such sale or exchange (reduced by the amount of the tax imposed under chapter 1 with respect to such sale or exchange), when added to the amount of money—

(A) received on such recovery, and

(B) received on previous sales or exchanges described in subparagraphs (A) and (B) of paragraph (2) (as so reduced),

exceeds the amount of money which may be received under subsection (a)(2),

an amount of the tax attributable to such recovery equal to such excess shall be payable on the 15th day of the third month of the taxable year following

the taxable year in which such sale or exchange occurs. The amount of such tax so paid shall be treated, for purposes of this section, as a payment of the first unpaid installment or installments (or portion thereof) which become payable under subsection (a) following such taxable year.

(d) PRORATION OF DEFICIENCY TO INSTALLMENTS.—If an election is made under subsection (a), and a deficiency attributable to the recovery of a foreign expropriation loss has been assessed, the deficiency shall be prorated to such installments. The part of the deficiency so prorated to any installment the date for payment of which has not arrived shall be collected at the same time as, and as part of, such installment. The part of the deficiency so prorated to any installment the date for payment of which has arrived shall be paid upon notice and demand from the Secretary or his delegate. This subsection shall not apply if the deficiency is due to negligence, to intentional disregard of rules and regulations, or to fraud with intent to evade tax.

(e) TIME FOR PAYMENT OF INTEREST.—If the time for payment for any amount of tax has been extended under this section, interest payable under section 6601 on any unpaid portion of such amount shall be paid annually at the same time as, and as part of, each installment payment of the tax. Interest, on that part of a deficiency prorated under this section to any installment the date for payment of which has not arrived, for the period before the date fixed for the last installment preceding the assessment of the deficiency, shall be paid upon notice and demand from the Secretary or his delegate. In applying section 6601(j) (relating to the application of the 4-percent rate of interest in the case of recoveries of foreign expropriation losses to which this section applies) in the case of a deficiency, the entire amount which is prorated to installments under this section shall be treated as an amount of tax the payment of which is extended under this section.

(f) TAX ATTRIBUTABLE TO RECOVERY OF FOREIGN EXPROPRIATION LOSS.—For purposes of this section, the tax attributable to a recovery of a foreign expropriation loss is the sum of—

(1) the additional tax imposed by section 1351(d)(1) on such recovery, and

(2) the amount by which the tax imposed under subtitle A is increased by reason of the gain on such recovery which under section 1351(e) is considered as gain on the involuntary conversion of property.

(g) FAILURE TO PAY INSTALLMENT.—If any installment under this section is not paid on or before the date fixed for its payment by this section (including any extension of time for the payment of such installment), the unpaid portion of the tax payable in installments shall be paid upon notice and demand from the Secretary or his delegate.

(h) CROSS-REFERENCES.—

(1) Interest.—For provisions requiring the payment of interest at the rate of 4 percent per annum for the period of an extension, see section 6601(j).

(2) Security.—For authority of the Secretary or his delegate to require security in the case of an extension under this section, see section 6165.

(3) Period of limitation.—For extension of the period of limitation in the case of an extension under this section, see section 6503(f).

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CHAPTER 66—LIMITATIONS

Subchapter A—Limitations on Assessment and Collections

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SEC. 6503. SUSPENSION OF RUNNING OF PERIOD OF LIMITATION.

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(f) EXTENSIONS OF TIME FOR PAYMENT OF TAX ATTRIBUTABLE TO RECOVERIES OF FOREIGN EXPROPRIATION LOSSES.—The running of the period of limitations for collection of the tax attributable to a recovery of a foreign expropriation loss (within the meaning of section 6167(f)) shall be suspended for the period of any extension of time for payment under subsection (a) or (b) of section 6167.

[(f)] *(g)* CROSS-REFERENCES.—

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CHAPTER 67—INTEREST

Subchapter A—Interest on Underpayments

SEC. 6601. INTEREST ON UNDERPAYMENT, NONPAYMENT, OR EXTENSIONS OF TIME FOR PAYMENT, OF TAX.

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(j) EXTENSIONS OF TIME FOR PAYMENT OF TAX ATTRIBUTABLE TO RECOVERIES FOR FOREIGN EXPROPRIATION LOSSES.—If the time for payment of an amount of the tax attributable to a recovery of a foreign expropriation loss (within the meaning of section 6167(f)) is extended as provided in subsection (a) or (b) of section 6167, interest shall be paid the rate of 4 percent, in lieu of 6 percent as provided in subsection (a).

[(j)] *(k)* NO INTEREST ON CERTAIN ADJUSTMENTS.—

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REVENUE ACT OF 1941

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TITLE VI—NONESSENTIAL FEDERAL EXPENDITURES

SEC. 601. NONESSENTIAL FEDERAL EXPENDITURES.

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[(e) There is hereby authorized to be appropriated, the sum of $10,000, or so much thereof as may be necessary, to carry out the provisions of this section.]

(e) There is hereby authorized to be appropriated for each fiscal year such sum as may be necessary to carry out the provisions of this section.

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