
RECIPROCAL PRIVILEGES OF FREE IMPORTATION TO MEMBERS OF THE ARMED FORCES OF OTHER NATIONS

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

REPORT

[To accompany H. R. 5086]

The Committee on Finance, to whom was referred the bill (H. R. 5086) to accord privileges of free importation to members of the armed forces of other nations, having considered the same, report favorably thereon with amendments and recommend that the bill as amended do pass.

I. HOUSE BILL

SECTION 1. RECIPROCAL PRIVILEGES OF FREE IMPORTATION TO MEMBERS OF THE ARMED FORCES OF OTHER NATIONS

The purpose of the first section of this bill is to extend to members of the armed forces of any foreign country on duty in the United States, its Territories or possessions (of whom there are now less than 600) exemption from duties and internal-revenue taxes imposed upon or by reason of the importation or withdrawal from warehouse of articles, for the official use of a member of the armed forces of a foreign country, or for the personal use of himself or any member of his immediate family. The exemption is conditioned upon reciprocal treatment being accorded to members of the armed forces of the United States (of whom there are now approximately 7,100 serving in foreign countries other than occupied territory) and members of their immediate families.

Personnel of the armed forces of the United States and members of their immediate families are in most, if not all, cases accorded exemptions by the foreign country in which they are stationed comparable to those provided in the bill, but the continuation of such privileges is jeopardized by the termination on June 30, 1948, of a wartime statute (Public Law 635, 75th Cong., 56 Stat. 462) limited to members of the armed forces of the United Nations stationed in this country.

Subsection (a) of this section would exempt from duties and internal revenue taxes imposed upon or by reason of importation or withdrawal from warehouse (including taxes imposed by secs. 3350 and 3360 of the Internal Revenue Code upon articles coming into the United States from the Virgin Islands and Puerto Rico), and from all customs charges and exactions, imported articles which are—

(1) for the official use of persons who are on duty in the United States, its Territories, or possessions as members of the armed forces of any foreign country, or

(2) for the personal use of such persons or members of their immediate families.

This subsection contains a proviso that, when the Secretary of the Treasury shall find and officially advise collectors of customs that members of the armed forces of the United States, or members of their immediate families, are not being accorded reciprocal privileges by a foreign country, the privileges granted by the United States shall thereafter be accorded to members of the armed forces of such foreign country, or to members of their immediate families, only to the extent that similar treatment is being accorded by that country to members of the armed forces of the United States or members of their immediate families.

Subsection (b) of this section provides that the exemptions from duties, taxes, charges, and exactions shall be subject to compliance with such regulations as the Secretary of the Treasury shall prescribe, and subsection (c) provides that the act shall be effective as to articles entered for consumption, or withdrawn from warehouse for consumption, on or after the day following the date of its enactment.

The Secretary of Defense included this legislation in the legislative program of the National Military Establishment. The measure has been coordinated with the Departments of the Army, Navy, and Air Force, and with the Treasury Department.

The Department of State in a communication to the Secretary of the Navy recommended that legislation of this character be sought. The Bureau of the Budget has interposed no objection to its enactment.

II. FINANCE COMMITTEE AMENDMENTS

Your committee has amended the bill by adding the following new sections to grant certain extensions of time for tax purposes, and to provide certain administrative amendments designed to facilitate and improve the operations of the Bureau of Internal Revenue. These amendments do not provide for general tax revision since they do not change tax liability. The amendments have the approval of the Treasury Department and staff of the Joint Committee on Internal Revenue Taxation. The Treasury Department is particularly anxious that the administrative amendments be enacted as soon as possible.

SECTION 2. EXTENSION OF TIME FOR CLAIMING REFUND WITH RESPECT TO WAR LOSSES

This section extends to December 31, 1950, the time for filing claims for credit or refund with respect to war losses sustained in taxable years beginning in 1941 and 1942. A similar extension, provided last year, expires December 31, 1949. The treatment of war-loss recoveries

has been under study for several years and may require legislation. Until the treatment of recoveries is finally determined upon, the proposed extension for the taking of deductions seems appropriate.

SECTION 3. EXTENSION OF TIME IN THE CASE OF DISCHARGE OF INDEBTEDNESS

This section extends for 1 year the application of sections 22 (b) (9) and (10) of the Internal Revenue Code, which permit a corporation to exclude from income amounts attributable to discharge of indebtedness. The application of these two subsections was in 1947 extended to December 31, 1949, because it was considered that the whole problem of the tax treatment of income realized from the cancellation of indebtedness should be studied in connection with a general tax revenue bill.

SECTION 4. VERIFICATION OF RETURNS

This section gives the Commissioner authority to eliminate the oath in the case of corporate, fiduciary, partnership, estate, and gift-tax returns, and other returns or statements. The present law eliminates the oath in the case of individual income-tax returns and employment-tax returns. These changes will not only relieve the taxpayers of the burden of notarizing their returns but will expedite the processing by the Bureau of returns which might otherwise have to be sent back for compliance with the oath requirement.

SECTION 5. REPORTS OF COMPENSATION

This section would repeal section 148 (f) of the Internal Revenue Code. Under section 148 (f) the Commissioner is required to prepare an annual list, to be made available to the public, of compensation paid by corporations to all individuals whose compensation exceeds \$75,000. The list for 1946 included names of 964 individuals. The statutory requirement for the compilation of the annual list involves the examination of over 600,000 corporate returns, and represents an administrative burden which does not seem commensurate with the value of the information obtained. Much of this information is already available to the public through reports required to be filed with the Securities and Exchange Commission. Information with respect to salaries of corporate officers is required to be shown on corporate returns and is available to congressional committees under section 55 (d) of the Code.

SECTION 6. FAILURE TO FILE RETURN OR PAY TAX

At present, in the event of failure to file return or pay over the income tax withheld at source, section 1626 (c) provides that the addition to the tax shall not be less than \$10. There is no comparable provision with respect to the Social Security taxes and the Railroad Retirement tax. The Bureau of Internal Revenue is planning to combine administratively the income-tax withholding return with the return under the Federal Insurance Contributions Act. This combined form will result in some additional convenience for the employers and less expense for the Government. When these returns are

combined, it is desirable to have a uniform minimum addition for each of the two classes of tax.

However, the present \$10 minimum addition in respect to withholding appears to be high in relation to the many small amounts of tax, particularly under the Federal Insurance Contributions Act. Therefore, this minimum should be reduced to \$5 for withholding and should be adopted also as minimum for the other employment taxes. The provision has considerable advantage in that it compensates to some extent the expense of the deputy collector in going out and obtaining the return form.

Accordingly, this section would provide a minimum addition to the tax of \$5 for each employment tax (including the income tax withheld on wages).

SECTION 7. RETURNS AND PAYMENTS OF EXCISE TAXES

Many of the excise taxes are specifically required by statute to be returned on a monthly basis. The filing of the returns at less frequent intervals would reduce the administrative work in the collector's offices and ease the taxpayer's burden of compliance. With respect to certain excises, such as the admissions tax, the Commissioner has the authority to determine the period for which tax returns should be made. This section would give to the Commissioner similar authority with respect to those excises as to which monthly returns are now required by statute. This would permit the shifting from a monthly to, for example, a quarterly return basis for a particular excise tax.

In order to assure current collection of these excise taxes and in the interest of efficiency and protection of the revenue, the amendment would also authorize the Commissioner to require the use of Government depositaries as he may now do in connection with the payment of employment taxes.

SECTION 8. DELEGATION OF ASSESSMENT AUTHORITY

This section of the bill would grant to the Commissioner the authority to delegate to any officer or employee of the Bureau of Internal Revenue, including the field service, the power under sections 3640, 3641, and 3642 of the Internal Revenue Code relating to the making of assessments. This would permit assessment lists to be signed in the field by duly authorized officers and thus eliminate the administrative burdens and delays incident to the processing of all assessment schedules in Washington. The bulk of the work is handled in the field, and the proposed delegation to officers in the field would be consistent with the decentralized tax administration now in effect.

SECTION 9. CREDIT OR REFUND OF OVERPAYMENT OF TAX

This section would add to the Internal Revenue Code a provision authorizing the Commissioner of Internal Revenue to credit the overpayment of one class of tax against taxes of other classes then due. Such crediting is not now possible under the code. By recognizing the over-all tax liability of taxpayers, the amendment will facilitate the collection of taxes and expedite the adjustment of cases involving overpayments and underpayments of tax. This section would also

amend section 3772 to provide that the credit of an overpayment of any tax shall for the purpose of any suit for refund be deemed to be a payment of tax to the collector in office at the time the credit is allowed.

It would also amend section 3770 (a) (4) of the Internal Revenue Code to facilitate the making of abatements, credits, and refunds by raising the present limitation of \$1,000 to \$10,000 on the amount of abatements, credits, and refunds of internal revenue taxes which may be made by collectors, when so authorized by the Commissioner. Section 3770 (a) (4) was added by section 4 (c) of the current Tax Payment Act of 1943 when a large increase in the number of income-tax refunds was anticipated. The experience of the Bureau under this section in the making of credits and refunds in the field in income tax cases involving less than \$1,000 has been satisfactory. It would appear to be in the interest of administrative efficiency, without adversely affecting the revenue, to raise the limitation from \$1,000 to \$10,000.

SECTION 10. REPORTS TO CONGRESS OF REFUNDS

Section 3776 of the Internal Revenue Code requires the Commissioner to make report to Congress, at the beginning of each regular session, by internal-revenue districts and alphabetically arranged, of all refunds in excess of \$500. The preparation of the report imposes a considerable administrative burden which would be eliminated by repealing this provision, as provided by this section. During the fiscal year 1948 there were some 180,000 refunds in excess of \$500, the listing of which required the examination of some 30,000,000 returns.

Under present law (sec. 3777 of the Internal Revenue Code) the Commissioner of Internal Revenue is prohibited from making any refund or credit of income, estate, or gift taxes in excess of \$75,000 until 30 days after a report on such refund or credit is made to the Joint Committee on Internal Revenue Taxation. This requires the Commissioner to prepare a special report on each such case and imposes upon the joint committee the responsibility of examining each of these refunds and credits. This procedure involving reviews at various levels necessarily occasions considerable delay in the closing of cases and results in unnecessary and excessive interest charges. Such additional review and delay is not warranted in the smaller refund cases. Accordingly, the amendment raises the report requirement from \$75,000 to \$200,000. This would eliminate considerable work in the Bureau of Internal Revenue and would allow the staff of the joint committee more time to concentrate on the large refunds.

SECTION 11. COLLECTORS' SALARIES

Section 3944 (b) of the Internal Revenue Code imposes a limitation of \$7,500 on salaries of collectors of internal revenue. The position of Collector of Internal Revenue was administratively classified as grade CAF-14 under section 13 of the Classification Act of 1923, which places a maximum limitation of \$7,500 on salaries within the grade "unless a higher rate is specifically authorized by law." Collectors are now receiving the pay increases provided by section 405, Federal Employees Pay Act of 1945 and section 2 (a)

Federal Employees Pay Act of 1946. However, the \$7,500 limitation contained in section 3944 (b) prevents the position of collector from being reallocated beyond grade CAF-14.

Accordingly, the amendment would eliminate the \$7,500 limitation so as to permit collectors of internal revenue to be given compensation commensurate with the salaries paid other officers in the classified service such as, for example, internal revenue agents in charge, special agents in charge, technical staff heads, and division counsel.

SECTION 12. EXPENSES OF DETECTION OF FRAUDS

Under section 3792 of the Internal Revenue Code the granting of each informer's reward must be approved by the Secretary of the Treasury. To permit a simplification of administrative procedures, this section would amend section 3792 of the code to substitute for the requirement of approval of each reward by the Secretary a rule that such rewards are to be made by the Commissioner of Internal Revenue under regulations approved by the Secretary.

